

## Province's construction costs to keep heading skyward, says industry group

*Double-digit increases through 2007 put pressure on development budgets and major project aspirations*

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Escalating costs will continue to be a way of life for B.C.'s construction industry in the foreseeable future, according to Canadian cost and project management consultancy, **BTY Group**.

Its research shows that construction costs jumped 10 to 11 per cent in 2005 and will increase another 11 per cent this year and 10 per cent in 2007 before tapering off to nine and eight per cent, respectively, for 2009 and 2010.

BTY points to increased construction volumes, a shallow contractor and labour pool and rising prices of materials as key reasons for the industry's cost pressures.

Those pressures recently forced Vanoc to overhaul the capital budget for its 2010 Olympics venue construction projects and seek an additional \$110 million from the federal and provincial governments. The \$55 million request to each government includes a contingency allowance of \$26 million.

Vanoc had already previously identified \$85 million in venue cost reductions. The venue budget is now an estimated \$580 million, 23 per cent more than the \$470 million budgeted in the bid book submitted to the **International Olympic Committee**.

But it's not just Olympics-related projects feeling the squeeze.

**Anthem Properties** recently shelved its Bambu condominium project in Victoria and issued refunds to buyers, even though 90 per cent of the 161-unit development had been sold. Anthem CEO **Eric Carlson** cited a skilled labour shortage, higher construction costs and site issues as the reasons for placing the development on hold.

"It's my understanding that to some extent it was a project that grew a little stale between the time the initial numbers were put together and the time they went out to tender," said **Vancouver Regional Construction Association** president **Keith Sashaw**.

He added that owners who have done their due diligence and move quickly from conception to tender are in a better position now to anticipate increases because the industry has been dealing with higher costs for the past year.

But ballooning construction costs in B.C. are more a reflection of the true price of building projects, said **Independent Contractors and Business Association of B.C.** president **Philip Hochstein**.

"The '90s were so devastating to the industry in that construction prices were being subsidized by a reduction in trades people's wages and in a lack of contractor profits," he said. "We're in a bit of a catch-up phase."

Hochstein said consumers were living in a construction costs "fantasy land" during the '90s.

"Instead of prices rising gradually throughout the 1990s, we're facing sticker shock now," he said.

Hochstein added that contractors' profit margins have yet to return to the levels of the late '80s.

He said higher construction costs are resulting from a combination of upward pressure on wages after decades of declining incomes, higher material prices and declining labour productivity. Construction labour productivity, Hochstein said, has fallen by 30 per cent since the late '80s, primarily because of the influx of new workers entering the rapidly expanding industry.

"You couldn't grow as quickly as we did without having a hit on productivity. We're training our way out of that," said Hochstein. "But in the short term, we need more skilled people to help train and mentor all these new trainees."

The ICBA is asking the federal and provincial governments to alter the mix of immigrants coming into Canada and encourage more trades applicants through a streamlined immigration process, he said.

"In 2003, of all the immigrants that came to Canada, only six per cent were in trades."

To deal with the labour crunch, his members are being more selective about who they work for and are saying no to new projects to bid on because they do not have the staff to support it, said Hochstein.

"They're at capacity and what they're trying to do is avoid making commitments that they can't fulfil because of a lack of both management and trade expertise."

B.C.'s construction industry has grown from a workforce of approximately 110,000 in 1990 to over 160,000 today. From 2004 to 2005, the cost of the various construction trades increased anywhere from three to five per cent for landscaping to 20 to 25 per cent for roofing and concrete formwork.

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