

## Through the roof

The total cost of building houses in Victoria has more than doubled since 1995, says a new study that tracks labour and material prices

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Everyone knows what it costs to buy a house in Victoria these days -- one quick whip through the MLS web pages will reveal those figures in detail. But what does it cost to build one?

Consumers smarting from high house prices can take some comfort in knowing that in this robust housing boom, builders face big-ticket price increases as well.

The same house that cost a builder \$233,614 to construct in 1995, would cost \$579,510 to build today -- an increase of almost 150 per cent over an 11-year span.

Those numbers come from a cost analysis conducted by Victoria's chapter of the Real Estate Institute of Canada. In nearly every year between 1965 and 1999, the institute, along with construction insiders, tracked material and trade costs on a model of a typical single family home in an exercise that they call "The Guinea Pig House." Existing only on paper, the Guinea Pig House study was retired in 1999, but resurrected this year.

The 1965 sample home was a cookie-cutter one-level rancher. Now, the sample house has multiplied into a set, comprised of ranchers, two-level homes and a split-level, located from Victoria to Nanaimo.

Gary McInnis presided as moderator at the institute's recent presentation of this year's Guinea Pig House results to real estate agents, appraisers, builders, property managers, home inspectors, insurance agents and mortgage brokers. McInnis is a real estate agent, a former builder and past president of the Victoria Real Estate Board.

Rising land costs are but one piece of the puzzle that drives prices upward, said McInnis.

"It used to be that land took up about 20 per cent of your final retail costs," said McInnis. Lot values have climbed well above that figure.

Wayne Davis, partner in Bayridge Builders Ltd., recalled that only two years ago, lot costs in Colwood's Royal Bay ran at \$120,000. When a home was built on that lot, it would sell for approximately \$350,000.



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"It used to be that land took up about 20 per cent of your final retail costs," says Gary McInnis, a former builder and past president of the Victoria Real Estate Board who is now a real estate agent. A new study shows that construction costs today are more than double what they were for an equivalent house in 1995 and a big chunk of the increase is attributable to land costs.

"But now, lots aren't \$120 (\$120,000); they're \$260,000," said Davis, "and we're getting \$600,000 for the house. That's getting close to 50 per cent of our cost."

Residential designer Nigel Banks points out that consumer expectations contribute to high construction costs. Items that once were found only in high-end custom homes are increasingly appearing in mid-range "spec" houses. More buyers are asking for granite counters, ceramic and hardwood floors, solid-wood cabinetry, state-of-the-art wiring, sound systems, stone veneers and bathrooms that meet design standards that used to be seen only in spas.

McInnis agrees. "We used to think a soaker tub was a big deal. Now if it doesn't have an electronic capacity for changing the jets, a stereo and headset, well shucks, it's a little plain."

New-home buyers' wish-lists extend beyond the fashion factor. They're also looking for durable products.

Davis says that the estimates in the institute's cost analysis are at the low end. "When you put all these things into a house, you arrive at a higher cost. The Guinea Pig House is just a stripped-down version of what the customer really wants today."

When the first sample house was studied in Victoria in 1965, a typical rancher was built for \$12 a square foot. That number slowly inched upward until 1973 when it jumped from \$21.72 to \$26.57 in 1974. Construction costs continued to climb until 1990 when they topped out at \$79.56.

Then the bottom fell out of the market and construction costs plunged to \$72.73 per square foot in 1992 and hit ground at \$64.18 by 1995.

The soft housing market at the time kept wages low and many tradespeople either left the province or hung up their toolbelts and looked for other forms of work.

Between 1995 and 1999, construction costs increased modestly from \$64.18 to \$69.67. But by January 2006, the per-square-foot price tag jumped to \$131.97 for a basic rancher.

Until this year, the institute had not studied a model in Victoria, so no interim figures between 1999 and 2006 are available.

The institute's organizers now intend to take the pulse on residential construction costs annually.

While presenting this year's figures, McInnis advised his audience to sprinkle some salt on the Guinea Pig House estimates.

"We could spend a whole bunch of time thrashing over an average price," said McInnis, "but I don't believe there's anything about the construction industry in this part of the world that is typically average."

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#### GUINEA PIG HOUSE HISTORICAL COSTS

Historical timeline shows the increasing per square foot construction costs for a bungalow.

1965: \$12

1970: \$15.46

1975: \$29.42

1981\*: \$45.63

1985: \$51.94

1990: \$79.56

1995: \$64.18

2006: \$131.97

\* No figure available for 1980

#### GUINEA PIG HOUSE 2006 COST SUMMARY

Rancher-style home

In Victoria

Size: 1,950 square feet

Total cost: \$280,825

Per-square-foot cost: \$144.01

In Nanaimo (single home on strata lot)

Size: 1,403 square feet

Total cost: \$146,756

Per-square-foot cost: \$101.21

Rancher average per square foot cost, January 2006: \$131.97

Two-level house

In Victoria

Size: 3,492 square feet

Total cost: \$579,510

Per-square-foot cost: \$165.95

In Nanaimo (single home on strata lot)

Size: 1,809 square feet

Total cost: \$156,684

Per-square-foot cost: \$84.96

Two-level average per square foot cost, January 2006: \$112.13

Note: Costs are exclusive of builder profit, management fees, interest charges, real estate commissions and provincial property transfer tax. Also excluded are estimated values for the builder's profit (\$25,000), management fee (\$5,000), G.S.T. (7 per cent), interest charges (\$6,000) and real estate commission (variable).

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