

CAPITAL REGIONAL DISTRICT

STAFF REPORT TO THE HEALTH FACILITIES PLANNING COMMITTEE MEETING OF WEDNESDAY, MARCH 17, 2004

SUBJECT:

Increasing cost of construction in the Capital Regional District

BACKGROUND:

This report is to inform the Committee regarding the extent of recent increases in the cost of construction in the Capital Region.

In February, 2004, the Vancouver Island Health Authority (VIHA) shared with District staff information¹ from local construction cost consultants (quantity surveyors) documenting construction cost increases for the past six years in the Capital Region.

DISCUSSION:

Since 2002, there has been growing concern by both VIHA and Health Facilities Planning staff regarding the rising cost of construction for health facilities in the Capital Region.

According to information received by VIHA, the level of pricing for institutional construction began to move upward in mid-1998 and increased steadily year-to-year to 2002 as shown in Table 1. The rate of increase leveled in 2002 before moving upward exponentially in 2003.

Table 1. Per Annum Increase in Construction Pricing in the CRD

Year	1998	1999	2000	2001	2002	2003
% Increase	+ 3%	+ 4%	+ 5%	+ 6%	+ 6%	+ 16%

Source: TBKG - Professional Quantity Surveyors, February 13, 2004

According to this information, since 1998 construction prices appear to have increased by 40%, with the last two years accounting for just over half (22%) of the total increase. Forecasts for the next 12 months (to the first quarter of 2005) indicate a further increase between 10% and 20% and average annual increases of as much as 7.5% per annum beyond 2005 until conditions change in the construction market.

In the opinion of one quantity surveying firm, the increasing rate of construction cost could eventually affect the economic viability of new development resulting in a downturn in new projects and falling construction cost levels. Until then however, the immediate future will likely see continued cost increases.

¹ Letters from TBKG Professional Quantity Surveyors, February 13, 2004 and Beacon Construction Consultants, February 13, 2004

Factors contributing to increased construction costs include:

- A high volume of new institutional construction currently in progress
- An increased shortage of skilled construction trades personnel
- Shortages of construction materials
- Application of stringent infection control regulations for health facility construction

As shown in Table 2 and Attachment 1, the average value of institutional building permits in the District has generally been increasing for the past five years (\$117,507 in 1998 to \$367,477 in 2003). The past year (2002-2003) has seen a 6% decrease in the number of institutional building permits but a 77% increase in the average permit cost. Fewer projects but substantially higher values per project. It is unlikely that the level of institutional project complexity explains the higher values. Instead, the higher average permit values are more likely a reflection of the generally higher cost of construction in this market segment.

Table 2. Average Value of Institutional Building Permits in the CRD (1993 – 2003)

Year	Amount (\$M)	Building Permits		Average Permit Value	
		No.	Variance (%)	Average Value	Variance (%)
1993	\$ 128.33	335	N/A	\$ 383,075	N/A
1994	\$ 40.97	347	4	\$ 118,069	(69)
1995	\$ 94.67	442	27	\$ 214,186	81
1996	\$ 24.70	352	(20)	\$ 70,170	(67)
1997	\$ 48.10	354	1	\$ 135,876	94
1998	\$ 39.60	337	(5)	\$ 117,507	(14)
1999 *	\$ 128.00	334	(1)	\$ 383,234	226
2000	\$ 42.67	316	(5)	\$ 135,032	(65)
2001	\$ 67.21	331	5	\$ 203,051	50
2002	\$ 71.57	345	4	\$ 207,449	2
2003	\$ 119.43	325	(6)	\$ 367,477	77

Source data: CRD Regional Planning Services

* Note: Increase in 1999 is likely due to the single large permit for the Royal Jubilee Hospital (approx. \$80M in value)

A shortage of skilled construction trades is a major factor contributing to the higher cost of construction. Increased training of personnel is being addressed through provincial programs² but this will take a number of years to produce a noticeable increase in the availability of trades personnel. While the number of new construction projects remains constant, skilled labour will likely remain in demand with construction prices reflecting demand.³

The past year has seen substantial increases in the cost of construction materials including lumber, board products, drywall, insulation, glass and steel. These increases appear to be continuing due to increased demand for materials both nationally and internationally.⁴

² British Columbia – *Industry Training Authority Act* – overseeing implementation of new industry training model.

³ "Major Shortage of Skilled Workers Hammers Lower Mainland Businesses", G. Mercer, Vancouver Sun, August 29, 2003

⁴ "The Price of Steel Lowers Boom on Construction" S. Simpson, Vancouver Sun, February 24, 2004.

The implementation of new, more stringent, infection control regulations for hospital construction further adds to the cost of construction in District health facilities.⁵

The increased cost of construction is not restricted to the CRD. Other areas of the province are also seeing similar increases creating challenges for public sector agencies attempting to undertake construction projects with pre-2003 budgets.⁶

Over the past 12 to 18 months VIHA has seen substantially increasing costs for their construction projects. Many of those projects have capital budgets established and approved before May, 2003. Some of these projects are now faced with having their scope of work reduced to remain within budget. Alternatively, some projects are being deferred in order to release funding to higher priority projects faced with budget pressures.

Until the construction market cools, through reduced demand and/or increased availability of trades and materials, the District can expect to see continued high costs for construction of health care and other institutional facilities in the Capital Region.

RECOMMENDATION:

That this report be received for information.

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Jeremy Tate, Director
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Comments of the Director of Finance:

Comments of the Executive Director:

⁵ "Construction-related Nosocomial Infections in Patients in Health Care Facilities", Health Canada, July 2001

⁶ "Construction Costs Way Up", D. Carrigg, Vancouver Courier, January 26, 2004