



British Columbia
Construction Roundtable
Building our construction network

COST ESCALATION AND INFLATION IMPACTS TO BC CONSTRUCTION PROJECTS

BCCR Roundtable November 22, 2022

Event Objective

To support open and collaborative dialogue between owners, consultants, general contractors, sub-contractors, material suppliers and others in the construction industry, on the challenges we are facing and how we can best work together to respond.

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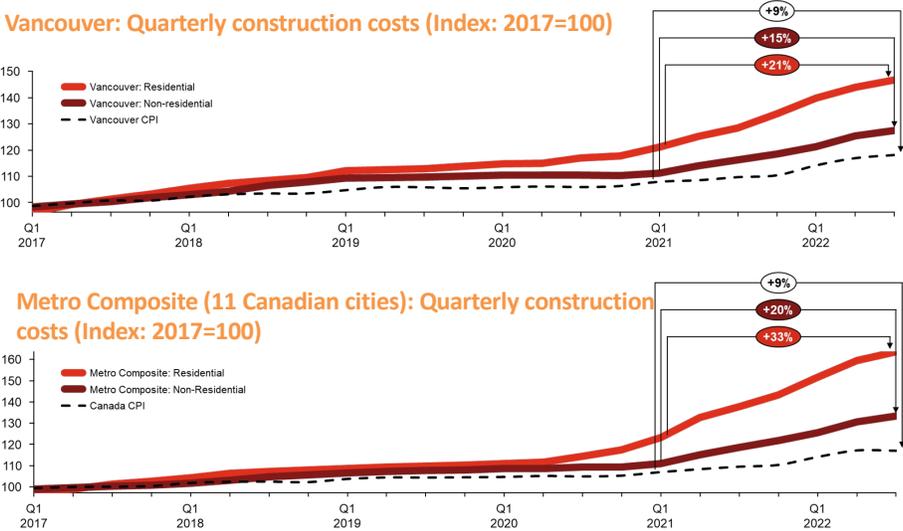
Event Overview

The current high rate of construction cost inflation, not seen for many decades, is a significant challenge facing all participants in the construction industry. Over the past year, the general inflation rate in Canada has risen rapidly, from 1% to 7.7%, a 40-year high. The increase is not driven by just a few categories but is broad-based and has gained momentum over the past year, and is particularly acute in the BC construction industry, with rates as high as 15% experienced over 2021 for non-residential construction.

A confluence of factors is driving current markets and pricing. They include:

- Quantitative easing over the past two years and an economic stimulus for recovery.
- A large pipeline of major infrastructure and residential build projects.
- Shortages of raw materials and supply chain issues related to ongoing COVID disruptions around the globe and sanctions arising from Russia’s invasion of Ukraine.
- Energy cost increases due to reduced global oil and gas supply.
- Labour market wage increase pressures in response to the cost-of-living increases and skilled labour shortages.

Where we are: Indices of Vancouver’s construction costs in the residential and non-residential construction markets



Source: Statistics Canada. Table 18-10-0135-01 Building construction price indexes, by type of building; Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

Event Format and Participation

Introductory presentations from Ben Martin, Vice President of Finance and Risk Management at Ledcor, Sarah Lemon, Category Manager – Major Projects & Construction, Strategic Sourcing and Contracts Management at TransLink and Alex Francis, Director, Economics and Policy at PwC; followed by facilitated round table conversations to encourage cross industry dialogue.

Event held on November 22, 2022, from 4:00 – 7:00 pm at the Vancouver Club. Figure 1. lists breakdown of participant expertise.

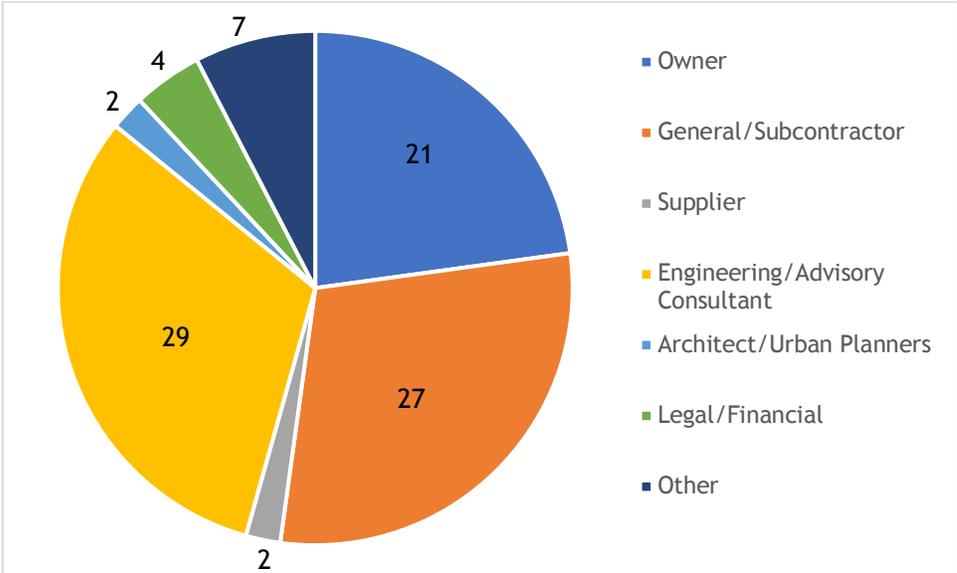


Fig. 1. Event Participant Breakdown

Key Themes and Topics Discussed

Contracting/Delivery Models:

- Owners are encouraged to recognize it’s not a ‘one size fits all’ concerning delivery model selection and that they can improve consultation/market sounding with the industry to inform a delivery model decision through timely and meaningful conversations with general contractors, sub-contractors and suppliers.
- Perception from some that owners are slow to embrace new methods and that sharing risk is not well understood by all owners. Others acknowledge that there

has been a shift in the last 12 months, with local owners more open to considering more collaborative delivery models.

- Opportunity identified to incorporate indexing for inflation/escalation in contracts, although specific examples of successful implementation are elusive.
- Observation that lots of different collaborative models are being implemented by owners (alliance, CMAR, progressive DB, IPD) without consistency and that it would be better for owners in the industry to align and thereby improve understanding and predictability for contractors and consultants.

Collaboration:

- Opportunity for more collaboration between owners and contractors, through tangible behaviours and actions, as opposed to 'lip service.'
- Opportunity for more collaboration between contractors and suppliers to ensure end-to-end awareness of supply chain issues and opportunities.
- Opportunity to recognize the value of shared understanding and implement structured education around collaborative delivery methods (as opposed to 'on-the-job' learning).

Labour:

- General shortages observed across all sectors of the industry, driven in part by a wave of retirements, with a less experienced workforce moving up to more senior positions. Need more coaching and mentorship from those with experience remaining.
- Perception of a lack of interest from the younger generation to enter trades.
- Hypothesis that the high cost of living is spurring the younger generation to move out of the region, and observation that while consultants and owners can work remotely (e.g., from home, from other areas), contractors cannot.
- Opportunity to look at automation and pre-fabrication to reduce on-site labour requirements.
- Opportunity to support a shift in the construction culture to make the industry more inviting for women and minorities.
- Labour shortage means consultants and contractors are wondering if they can deliver the projects in hand. Balance this with the potential of projects being

cancelled by Owners and wondering if they will have enough work. The industry could go either way.

- Training programs are being set up for trades by BCIB.
- Observation that we need accurate and consolidated forecasts of labour requirements to meet them.

Materials:

- High escalation in steel, plastic and high-voltage electrical equipment has been observed.
- Opportunity to leverage suppliers and their knowledge of the entire supply chain early in design to minimize supply chain risks/uncertainties (proactive planning and design choices).
- Opportunities through collaborative models to pre-order and store critical path materials/products to eliminate supply chain availability and price risk.

Bidding, project cost and project uncertainties:

- Contractors who are/were locked into fixed-price contracts, which were awarded pre-COVID, are in a very difficult position.
- High volatility and rapidly changing cost estimates, with owners expending far more effort to update estimates more frequently.
- During the time it takes to get a project from inception to construction, things are changing so much that the dollar value approved is often inaccurate/inadequate, and the whole approval process must be redone.
- With high volatility and unanticipated events, e.g., concrete strike, atmospheric river, how can contractors bid fixed prices for medium to long-term jobs, e.g., 2-5+ years? How can owners set a realistic budget with governance bodies accountable to them?
- Seeing increased project cancellations and schedule delays to contract awards.
- Observation that contractors are more selective in bidding, focusing on pursuing collaborative projects/owners
- Observation of higher expectations from owners on consultants identifying innovative value engineering ideas and implementing them to generate cost savings, not necessarily with additional compensation for extra efforts involved.
- Opportunity for owners to streamline the process to minimize the time from receipt of a bid to contract award to minimize escalation risk/exposure.

Participant quotes:

“Flood relief showed a wartime mentality where different organizations came together quickly to solve issues. We need more of this, but it needs to be formalized.”

“We must shift focus from protecting legal rights under existing contracts to finding solutions for project stakeholders.”

“If the product is not available in the market due to global supply chain issues, money won’t fix the problem.”

“We need more dialogue between industry stakeholders and more events like this; we are too busy with day-to-day work and less connected than before.”

“Standard contracts aren’t necessarily bad, but collaborative contract models are good to drive the best behaviours from all for a win-win outcome.”

“Labour, material and profit margins all relate to cost risk. Open contract models share cost risk instead of amplifying the effect of risk.”

“Help each other, learn together, teach together”



Acknowledgements:

We would like to thank our moderator Neil Murray representing the event sponsor BTY and the following volunteer table facilitators who helped make the event a success:

- Rick Berg, General Manager, Ledcor
- Steve Fleck, Executive Vice President, Chief Practice & Project Officer – Stantec
- Bradley Gunnlaugson, Regional Director, Pomerleau
- Steve Hobbs, Vice President, Project Delivery, McElhanney
- Jesse Percy, Director, Design Build, Carlson Construction Group
- Ian Rokeby, Principal, CJI
- Christoph Rufenacht, Vice President Airport Development and Asset Optimization at Vancouver Airport Authority
- Ken Tanner, Vice President of Operations at Flatiron Construction



What's next?

Planning is underway for the next cross industry round table discussion to further explore some of the key themes raised at this session, including 'construction labour – challenges and opportunities' and 'alternative delivery models – successes, challenges and opportunities' planned for Spring 2023.

Our construction cost escalation roundtable event sold out in record time, so be sure to watch out for the invitations and sign up early to secure your participation in “conversations that matter”.

Membership and Event Sponsorship

If you are not currently a member of the BC Construction Roundtable, you can sign up at <https://www.bccr.net/join-us>.

Membership benefits include reduced registration at monthly breakfast sessions, seminars and other BCCR events and invitations to Member Only events. The monthly breakfast sessions allow you to network with colleagues and make new acquaintances in a relaxed environment. And if you can't attend a regular breakfast session, you can send a colleague in your place for the member rate! Regular memberships are \$375; we also offer a reduced rate of \$200 for those Under 40.

The BC Construction Roundtable invites individuals, companies, and organizations to sponsor monthly breakfast sessions and/or social events. These events are open to members of the BC Construction Roundtable, guests and non-members. You can find more information on sponsorship fees and benefits at <https://www.bccr.net/sponsor>.