

Market Intelligence

2009/2010

CANADA'S OLYMPIC YEAR

BTY Group's Market Intelligence newsletters analyze industry trends to provide our clients with insights about current and future building markets in British Columbia, Alberta, Saskatchewan, Ontario and Quebec.

Canadian Construction Costs Have Reached Bottom

Construction costs bottomed out in 2009 and will begin to slowly increase in 2010. The rapid recession-driven declines in costs in 2009 will turn around in 2010 and show more normal annualized industry increases by 2012.

In Ontario and Québec, major new infrastructure investments are leading the way in priming increased construction activity, whilst British Columbia and Alberta are experiencing a more competitive, less active construction environment following several years of record capital expenditure.

Leading the turnaround is expenditure through the federal government's \$40 billion infrastructure stimulus fund. Projects are now underway, infusing provincial economies and helping to support overall construction activity through 2010.

A projected resurgence in residential construction in 2010 – a prime driver of record cost escalation rates in 2007 and 2008 – will also initiate greater stability in the cost of construction.

Construction costs across Canada continued to decline through the end of 2009. However, long-term trends suggest that BC, Alberta, Ontario and Québec will all see the picture change in 2010. BC and Alberta will hit the bottom of the decline and will likely see a return of escalation increases of up to 2%.

In Ontario, the impact of significant Federal stimulus – with an anticipated end of the recession by the year end 2010 – will see escalation rates whipsaw from a range of -5% to -10% in 2009 to 0% in 2010, then 2% to 4% in 2011. Québec will be right behind with similar rates in 2010 and 2011.

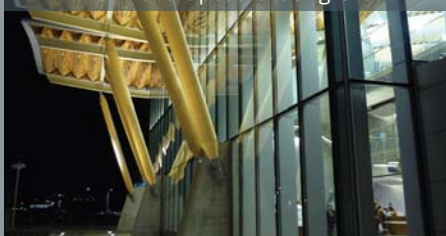
Future escalation rates from 2012 onward for these provinces will likely see minor annual increases of between 3% and 4%, more in keeping with historical norms.

Bleak economy leads to cost declines to date

Although each region has its own, unique set of factors determining construction costs, there are common reasons to explain why costs have declined or stagnated, including:

- A weak Canadian economy for most of 2009, with some recovery in the later part of the year;
- Oil prices hit a low in the first quarter of 2009 and are only now rebounding;
- Housing starts in 2009 were well below the record levels of recent years;
- A reduction in construction materials costs, reflecting a general fall in global commodity prices;
- A contraction in the construction workforce, but an increase in productivity;
- Greatly increased competition among contractors and suppliers for the available projects;
- A stronger Canadian dollar, lowering the cost of imported goods.

Richmond Speed Skating Oval



Whistler Sliding Centre



Vancouver Exhibition & Convention Centre



National Escalation Update – Selected Provinces

BRITISH COLUMBIA



2010: 0-2%
2011: 2-3%
2012: 3-4%
2013: 3-4%

What brought BC to the bottom

The downturn arrived in BC after a record level of mid-decade investment in construction. This activity had contractors geared up for large volumes of work, spurred by major transportation and institutional projects, including the Sea to Sky Highway, 2010 Winter Olympic venues, the Canada Line, Golden Ears Bridge, the Vancouver Convention and Exhibition Centre, multiple healthcare facilities, and near-record residential building.

- Total non-residential construction investment declined by 12% overall in 2009, partly led by lower costs.
- Investment in industrial construction led the decline with a 24.4% decrease, with commercial posting a 19.8% drop.
- Government fiscal stimulus spending spurred increased institutional investment, which recorded an 11.8% increase.
- Housing starts: 16,250 in 2009, down from 34,321 in 2008 and the lowest level since 2000. Rebound to 22,000 expected for 2010.

Costs should return to normal escalation rates by 2012

In response to the slowdown, the BC government has accelerated spending of almost \$14 billion in infrastructure investment projected through 2011. That spending, and a healthy major projects inventory of \$62.5 billion, cushioned the sharp declines in both residential and non-residential construction in 2009. Consistent annual construction cost escalation of 2-3% is likely to return by 2011. Projects planned or under construction include:

- \$700 million potential Evergreen transit project over three years,
- Highway 1 widening and Port Mann bridge twinning as part of Gateway Project now underway; projects run to 2013.
- Proposed windpower and green energy projects totalling \$3.78 billion.
- Major new institutional projects, including Children's & Women's Health Centre, Fort St. John Hospital, Prince George Cancer Centre, expansion at Surrey Memorial Hospital, and the new UBC Brain Health Centre.

ONTARIO



2010: 0-1%
2011: 2-4%
2012: 4-5%
2013: 3-4%

Infrastructure spending helping Ontario recover

In Ontario, record government commitments of \$32.5 billion to infrastructure programs are helping to offset recession-driven decreases in residential, commercial and industrial construction. The province will spend \$27.5 billion over the next two years, with an additional \$5 billion from the federal government for the largest two-year investment ever in Ontario's infrastructure. Ontario's Construction Sector Council projects that 70% of non-residential

stimulus investments will take place in 2010 and 2011.

- New housing starts for 2009 (48,675 units) and 2010 (50,000 units) much lower than 2008 (75,076 units).
- Transportation projects will receive the most funding over the next two years, at \$9 billion, followed by health care at \$7 billion, and education at \$4 billion.
- Infrastructure healthcare spending includes the \$1 billion Centre for Mental Health Project, Waterloo Courthouse, Bridgepoint Hospital and Women's College Hospital Redevelopment.
- The Knowledge Infrastructure Program will commit nearly \$1.5 billion for infrastructure projects at post-secondary institutions throughout Ontario.
- Hydro One will invest \$2.3 billion over three years on new transmission and distribution lines to tap into areas of the province where there is abundant potential for hydropower and wind generation.
- Continued development of wind power projects.
- Three luxury hotel/condo projects valued at \$1.2 billion now under construction in downtown Toronto for completion in late 2010 and 2011, and Union Station Redevelopment in 2010 for \$640 million.
- Investments in commercial property in the Greater Toronto Area are also rebounding, with a 46% increase in the third quarter (to \$1.3 billion) over the previous period.

National Escalation Update – Selected Provinces

SASKATCHEWAN



2010: 2-3%
2011: 3-5%
2012: 3-5%
2013: 4-5%

Positive growth expected to return in 2010

Due to greater than expected weakness in agricultural output, non-metallic mineral production and residential investment, Saskatchewan's GDP is projected to decline by 1.3% in 2009, but will rebound strongly in 2010 with a forecast 3.6% rise, according to RBC Economics. In 2008, the province recorded GDP growth of 4.4%. Even with the stronger outlook, the government is spending \$1.5 billion on infrastructure to support growth. A dramatic

decrease from 2008 through 2009 in the price of potash, the province's leading export, is a major contributor to the 2009 drop in GDP. A stronger global economy will mean increased demand for agricultural products, which bodes well for potash, and should push up prices for other key Saskatchewan commodities, including oil and uranium.

- 3,750 Housing starts in 2009, almost half the 6,828 starts in 2008, with a projected rebound to 4,150 in 2010.
- Strong increase in the value of industrial building permits, and a more moderate rise in commercial building intentions and institutional building plans.
- \$1.5 billion in 2009/2010 budget for stimulus package, with \$500 million targeted for education and healthcare residential projects.
- Province remains Canada's #2 oil producer; oil prices projected to rise in 2010.

ALBERTA



2010: 1-2%
2011: 2-3%
2012: 3-4%
2013: 4-5%

Government investment driving recovery

With the oil industry cancelling some \$200 billion in projects and residential housing in sharp decline – and expected to stay that way through 2011, government investment increased rapidly in 2009 and will continue in 2010, as the fiscal stimulus package is spent on various public infrastructure projects such as water, sewer, roads, hospitals and schools. RBC expects this surge to help Alberta's economy rebound in 2010 with a growth rate of 2.4%.

- Housing starts of 29,164 in 2008 fell to 16,900 in 2009, with a projected rebound to 18,250 in 2010.
- In-migration, Canada's highest in 2007-08, fell by an estimated 10% in 2009.
- Alberta had sharpest decline among provinces in spending on commercial construction in Q3 2009, dropping 13% to \$1.4 billion.
- Government capital expenditures expected to offset residential and commercial/industrial decline.
- Among them is a planned \$8.1 billion upgrade to the energy transmission grid that will be phased into service by 2012.
- Other major infrastructure investments include highways (\$1.4 billion for Anthony Henday Drive and \$1.4 billion for ongoing highway twinning), airports (\$1.1 billion announced for expansion at Edmonton and \$1.3 billion for a proposed new concourse in Calgary).

QUÉBEC



2010: 0-1%
2011: 2-4%
2012: 3-5%
2013: 4-5%

Public investment cushioning decline for Québec

Québec has had a lesser decline in residential construction than most other provinces. With public investment representing almost 70% of non-residential construction in 2009, and government commitments totalling \$8.9 billion in 2010-2011 for roads, municipal infrastructure, healthcare and education, the province's construction industry is cushioned from steeper declines experienced elsewhere.

- Residential construction decreased to 43,175 units in 2009 down from 47,901 in 2008, with a projected continued decline to 41,100 in 2010.
- Institutional building for hospitals and schools expected to grow by 10%.
- Two mega hospital projects in association with two major Montréal universities commenced in 2009-2010 to continue through 2014.
- Commitments to hydro and wind power projects totalling \$30 billion; impact will deepen through 2010.
- Rabaska LNG port on St. Lawrence approved and ready to start construction to receive first shipment in 2014.

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Cost Data Parameters Comparison – 2008 vs. 2009/2010



The comparisons below indicate the changes in construction costs, expressed in ranges, from mid-2008 to the current 2009-2010 levels. The data shown are indicative of general cost levels for typical projects of each type.

Project Type	British Columbia				Alberta				Saskatchewan				Ontario				Québec			
	2008		2009/2010		2008		2009/2010		2008		2009/2010		2008		2009/2010		2008		2009/2010	
	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft	\$/m ²	\$/sq.ft
Health Care																				
Residential Care	2518 - 2648	234 - 246	1994 - 2096	185 - 195	2875 - 3680	289 - 342	2500 - 3200	251 - 297	1926 - 2024	179 - 188	1834 - 1928	170 - 179	2420 - 2750	224 - 255	2200 - 2500	204 - 232	2293 - 2410	213 - 224	1994 - 2096	185 - 195
Ambulatory Care	4461 - 4689	414 - 436	4198 - 4414	390 - 410	4849 - 5099	451 - 474	4408 - 4635	410 - 431	3939 - 4142	366 - 385	3862 - 4061	359 - 377	4200 - 4725	391 - 439	4000 - 4500	372 - 418	4534 - 4767	421 - 443	4198 - 4414	390 - 410
Acute Care	5539 - 6042	514 - 562	5225 - 5700	485 - 530	6050 - 6600	562 - 613	5500 - 6000	511 - 557	4903 - 5349	456 - 497	4807 - 5244	447 - 487	5460 - 5880	507 - 546	5200 - 5600	483 - 520	5643 - 6156	524 - 572	5225 - 5700	485 - 530
Laboratories																				
Research Laboratories	5624 - 6216	522 - 577	5368 - 5934	499 - 551	5671 - 6955	586 - 686	5300 - 6500	548 - 641	5311 - 5871	494 - 546	5207 - 5756	484 - 535	5670 - 6405	527 - 595	5400 - 6100	502 - 567	5739 - 6345	534 - 590	5314 - 5875	494 - 546
Teaching Laboratories	4602 - 5086	428 - 473	4192 - 4634	389 - 431	4922 - 5885	487 - 556	4600 - 5500	455 - 520	4147 - 4585	386 - 426	4066 - 4495	378 - 418	4830 - 5565	448 - 517	4600 - 5300	427 - 492	4482 - 4955	417 - 460	4150 - 4588	386 - 426
Animal Research	7158 - 7912	665 - 735	6647 - 7347	618 - 683	7468 - 8254	694 - 767	6979 - 7714	649 - 717	6577 - 7270	611 - 675	6448 - 7127	599 - 662	5650 - 7406	525 - 688	5381 - 7053	500 - 655	7107 - 7856	660 - 730	6581 - 7274	611 - 676
High-rise Residential																				
Rental Units	2314 - 3068	215 - 285	2072 - 2664	192 - 247	2739 - 3521	255 - 327	2321 - 2984	216 - 277	2111 - 2713	196 - 252	2010 - 2584	187 - 240	2324 - 2989	216 - 277	2113 - 2717	196 - 252	2039 - 2621	188 - 244	1699 - 2184	157 - 203
Market Units Mid End Specifications	2638 - 3498	245 - 325	2355 - 3027	219 - 281	3113 - 4000	289 - 372	2638 - 3390	245 - 315	2398 - 3083	223 - 286	2284 - 2936	212 - 273	2642 - 3397	245 - 316	2402 - 3088	223 - 287	2317 - 2978	216 - 276	1931 - 2482	180 - 230
Market Units High End Specifications	3332 - 4418	310 - 410	2825 - 3633	262 - 338	3734 - 4801	347 - 446	3164 - 4069	294 - 378	2877 - 3700	268 - 344	2740 - 3524	255 - 327	3170 - 4077	294 - 380	2882 - 3706	267 - 345	2780 - 3575	258 - 332	2317 - 2979	215 - 277
Low-rise Residential																				
Rental Units	1647 - 2013	153 - 187	1273 - 1525	118 - 142	1554 - 1862	144 - 173	1274 - 1526	118 - 142	1338 - 1602	124 - 149	1274 - 1526	118 - 142	1210 - 1430	112 - 133	1100 - 1300	102 - 121	1253 - 1501	116 - 139	1044 - 1251	97 - 116
Market Units Mid End Specifications	1744 - 2132	162 - 198	1470 - 1760	137 - 164	1721 - 2062	160 - 192	1411 - 1690	131 - 157	1482 - 1775	138 - 165	1411 - 1690	131 - 157	1430 - 1650	133 - 153	1300 - 1500	121 - 139	1446 - 1732	134 - 161	1205 - 1443	112 - 134
Market Units High End Specifications	2131 - 2605	198 - 242	1861 - 2229	173 - 207	1887 - 2261	176 - 210	1547 - 1853	144 - 172	1624 - 1946	151 - 181	1547 - 1853	144 - 172	1760 - 2090	164 - 195	1600 - 1900	149 - 177	1831 - 2194	170 - 204	1526 - 1828	142 - 170
Townhouses (Wood Frame)																				
Rental Units	1305 - 1595	121 - 148	1092 - 1308	101 - 122	1332 - 1596	123 - 149	1092 - 1308	101 - 122	1147 - 1373	106 - 128	1092 - 1308	101 - 122	1210 - 1430	112 - 133	1100 - 1300	102 - 121	1074 - 1288	100 - 120	895 - 1073	83 - 100
Market Units Mid End Specifications	1405 - 1717	131 - 160	1176 - 1408	109 - 131	1499 - 1796	139 - 167	1229 - 1472	114 - 137	1290 - 1546	120 - 144	1229 - 1472	114 - 137	1320 - 1540	123 - 143	1200 - 1400	112 - 130	1157 - 1386	108 - 128	964 - 1155	90 - 107
Market Units High End Specifications	1550 - 1894	144 - 176	1273 - 1525	118 - 142	1665 - 1995	155 - 185	1365 - 1635	127 - 152	1433 - 1717	133 - 160	1365 - 1635	127 - 152	1540 - 1870	143 - 174	1400 - 1700	130 - 158	1253 - 1501	116 - 139	1044 - 1251	97 - 116
Shopping Centres																				
Strip Plaza	1237 - 1733	115 - 161	1076 - 1507	100 - 140	1322 - 1851	123 - 172	1130 - 1582	105 - 147	1096 - 1536	102 - 142	1054 - 1477	98 - 137	1296 - 1620	121 - 150	1200 - 1500	112 - 139	990 - 1387	92 - 129	861 - 1206	80 - 112
Enclosed Mall	2847 - 3713	265 - 345	2476 - 3229	230 - 300	3042 - 3966	283 - 369	2600 - 3390	242 - 315	2523 - 3291	234 - 306	2426 - 3164	225 - 294	1620 - 1944	150 - 180	1500 - 1800	139 - 167	2278 - 2970	212 - 276	1981 - 2583	184 - 240
Anchor/Department Store	2290 - 2847	213 - 265	1991 - 2476	185 - 230	2446 - 3042	227 - 283	2091 - 2600	194 - 242	2029 - 2523	188 - 234	1951 - 2426	181 - 225	1976 - 2325	184 - 216	1830 - 2153	170 - 200	1832 - 2278	170 - 212	1593 - 1981	148 - 184
Supermarket	1733 - 2167	161 - 201	1507 - 1884	140 - 175	1851 - 2314	172 - 215	1582 - 1978	147 - 184	1536 - 1920	142 - 179	1477 - 1846	137 - 172	1453 - 1860	135 - 173	1345 - 1722	125 - 160	1387 - 1733	129 - 161	1206 - 1507	112 - 140
Discount Store	1424 - 1980	132 - 184	1238 - 1722	115 - 160	1521 - 2115	142 - 197	1300 - 1808	121 - 168	1262 - 1755	118 - 163	1213 - 1688	113 - 157	1188 - 1404	110 - 131	1100 - 1300	102 - 121	1139 - 1585	106 - 147	990 - 1378	92 - 128
Office (High-rise)																				
Under 5 Storeys	1647 - 2013	153 - 187	1421 - 1701	132 - 158	1796 - 2149	167 - 200	1535 - 1837	143 - 171	1433 - 1716	133 - 159	1378 - 1650	128 - 153	1620 - 1944	150 - 180	1500 - 1800	139 - 167	1274 - 1526	118 - 141	1108 - 1327	103 - 123
5 - 10 Storeys	1966 - 2554	183 - 237	1752 - 2230	163 - 207	2214 - 2817	206 - 262	1892 - 2408	176 - 224	1767 - 2250	164 - 209	1699 - 2163	158 - 201	1728 - 2160	161 - 201	1600 - 2000	149 - 186	1572 - 2000	146 - 186	1367 - 1739	127 - 162
10 - 20 Storeys	2341 - 3041	217 - 283	1895 - 2411	176 - 224	2395 - 3047	222 - 282	2047 - 2604	190 - 241	1912 - 2433	178 - 226	1838 - 2339	171 - 217	1944 - 2376	180 - 220	1800 - 2200	167 - 204	1700 - 2163	158 - 201	1478 - 1881	137 - 175
20 - 30 Storeys	2528 - 3284	235 - 305	2179 - 2773	202 - 258	2753 - 3504	256 - 325	2353 - 2995	219 - 278	2199 - 2798	204 - 260	2114 - 2690	196 - 250	2160 - 2700	201 - 251	2000 - 2500	186 - 232	1955 - 2487	182 - 231	1700 - 2163	158 - 201
Roads - Paving																				
Metro Highway Lane (Paving 200-280mm)	\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane		\$/km Lane	
	1,848,000 - 1,998,000		1,696,000 - 1,846,000		1,751,000 - 1,848,000		1,668,000 - 1,769,000		1,027,000 - 1,126,000		1,004,000 - 1,093,194		1,702,000 - 1,846,000		1,664,000 - 1,797,000		1,643,000 - 1,763,000		1,609,000 - 1,727,000	
Non-Metro Highway Lane (Paving 200-280mm)	2,048,000 - 2,194,000		1,877,000 - 2,027,000		1,923,000 - 2,029,000		1,831,000 - 1,942,000		1,128,000 - 1,236,000		1,102,000 - 1,200,000		1,869,000 - 2,027,000		1,827,000 - 1,973,000		1,804,000 - 1,936,000		1,767,000 - 1,896,000	
Road Overpass Bridge Structure																				
	\$/m		\$/m		\$/m		\$/m		\$/m		\$/m		\$/m		\$/m		\$/m		\$/m	
Metro 4 lane road steel girder Overpass	37,798 - 47,099		36,865 - 44,956		29,985 - 38,119		28,632 - 36,386		36,079 - 43,622		34,297 - 41,732		35,324 - 42,971		33,244 - 40,647		34,790 - 43,089		34,033 - 41,162	
Non-Metro 4 lane road steel girder Overpass	41,502 - 51,715		40,478 - 49,362		32,924 - 41,855		31,438 - 39,952		39,615 - 47,897		37,658 - 45,822		38,786 - 47,182		36,502 - 44,630		38,199 - 47,312		37,368 - 45,196	

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