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QUANTITY SURVEYORS

Cost Escalation Advisory

The Role of the Quantity Surveyor

The fundamental role is to ensure that the budget and cost reports created are as close to the actual cost of construction as possible, taking into consideration all known factors as well as understanding many of the outlying unknowns that could affect costs, such as cost escalation.

Our secondary role is to deliver independent reporting to our design partners to ensure that the actual costs of construction never exceed the available funds developed from the budgets and cost reports Hanscomb creates.

Our tertiary role is to advise our design partners and clients on other related matters such as project scheduling, life cycle costs and procurement strategies to name just a few value added services.

Ultimately, our overall role is that of a trusted advisor.

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Hanscomb's Input to the Industry

For the last 65+ years Hanscomb has been involved in the overall construction and development market providing direct costing advise and numerous publications for the industry as a whole regarding all aspects of construction costs.

We are always in contact with the construction industry and can gauge the market in terms of labour, materiel, capacity and risk with the goal of providing relative cost certainty at every step of development.

Through our ongoing regular research, we prepare numerous annual construction cost publications including 40+ years of 'Hanscomb's Yardsticks for Costing' and quarterly escalation reports covering 11 major Canadian metropolitan centres.

Furthermore, we have many clients who specifically approach us for applied research, especially in the area of cost risk, such as Metro Vancouver, the Province of British Columbia and Public Works & Government Services Canada, to name just three.

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The ‘Normal’ Scale of Cost Escalation 2010-2020

For the years between 2010 and 2020, British Columbia had seen a steady increase in construction costs anywhere from 2.4% to 2.8% annually, caused primarily to the general migratory growth of the population and a robust residential demand.

During this decade, the BC construction market enjoyed many benefits of a diverse global market-place helping to temper material supply costs against a more rapidly increasing demand for skilled labour which peaked in 2017 with a 15-year high.

Demand remained high primarily due to record low interest rates which had the strongest impact in the residential construction market, which also impacted all other construction markets as capacity was being absorbed as quickly as it expanded.

This ‘hangover’ from the recovery of the 2008 financial crisis was prolonged with these additional factors. It seemed that there was no real end to growth under a seemingly constrained escalatory influence but there were signs that this could not hold.

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2020 and the Pandemic

The first indications that there was going to be a major public health problem came late in 2019 with the discovery of a new, virulent Corona Virus, since named COVID-19.

In 2020, rapid increases in infection rates, hospitalizations and deaths to which motivated most developed nations public health sectors to enact rigorous protocols to limit the spread of the virus until suitable treatments and immunization were widely available.

Initially, the largest impact on the construction industry saw a rapid drop in the workforce and massive extensions to project schedules. Unlike many industries, the construction industry quickly developed protocols which dampened the effect of gathering restrictions.

However, even though generally the construction industry found many ways to meet this new challenge, not all those construction support industries (a.k.a. suppliers) could say the same. Signs indicated that bigger issues lay ahead.

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Supply Chain Fragility

In a vast global marketplace, COVID-19 exposed a major weakness of this system which was to last much longer than the pandemic itself. The efficient supply of a global marketplace assumes a robust supply chain demonstrated to be more fragile than originally believed.

In 2020, the supply chain was disrupted in the shipping industry with a labour shortage primarily in trucking and marine conveyancing. However, this propagated into longer handling times due to COVID-19 protocols within ports and intermodal sites.

Later in 2020, the slower processing of goods through the ports and intermodal sites created extraordinary pressure on the availability of shipping containers, hence that developed into a chronic critical shortage as well.

Finally, manufacturers were suffering from the triple impact of critical shortages in commodities due primarily to the pandemic, their own skilled labour shortages and the shipping woes that the entire world economy was dealing with.

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Political Instability

Coming to a peak in 2021, the overall political instability in some of the largest economies in the world began having a measurable effect on the cost of doing business in general.

The effects of political polarization tends to create imbalances in the manufacturing sector will lead to restrictions in manufacturing capacity (i.e. 'Buy American' effect), access to commodities and the flexibility of a migrant labour pool.

Political polarization will often span beyond national boundaries creating blocks of ideologies and political instability that regularly influence the free movement of goods and services, usually resulting in more shortages and higher costs.

Finally, political inequities and instability will also tend to favour one side of a global market over another which will have an inflationary pressure on the economy as a whole.

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Conflict in Europe and Beyond

At the end of 2021 the UK took the unprecedented step of leaving the European Union which is commonly known today as Brexit. This event is still sending economic and political waves globally which has had an inflationary measure on most costs.

Beginning in 2014 but truly ramping up in 2022, Russia's invasion of Ukraine has cause seismic cost increases in key energy commodities and foodstuffs.

Developing friction between China and most of the developed world around their occupation of islands in Southeast Asia continues to grow. This has been destabilizing shipping for some time now.

Finally, the latest response to China around Taiwan and the Chinese 'One China' policy is suggesting there may be more conflict to come, but likely on a measured scale.

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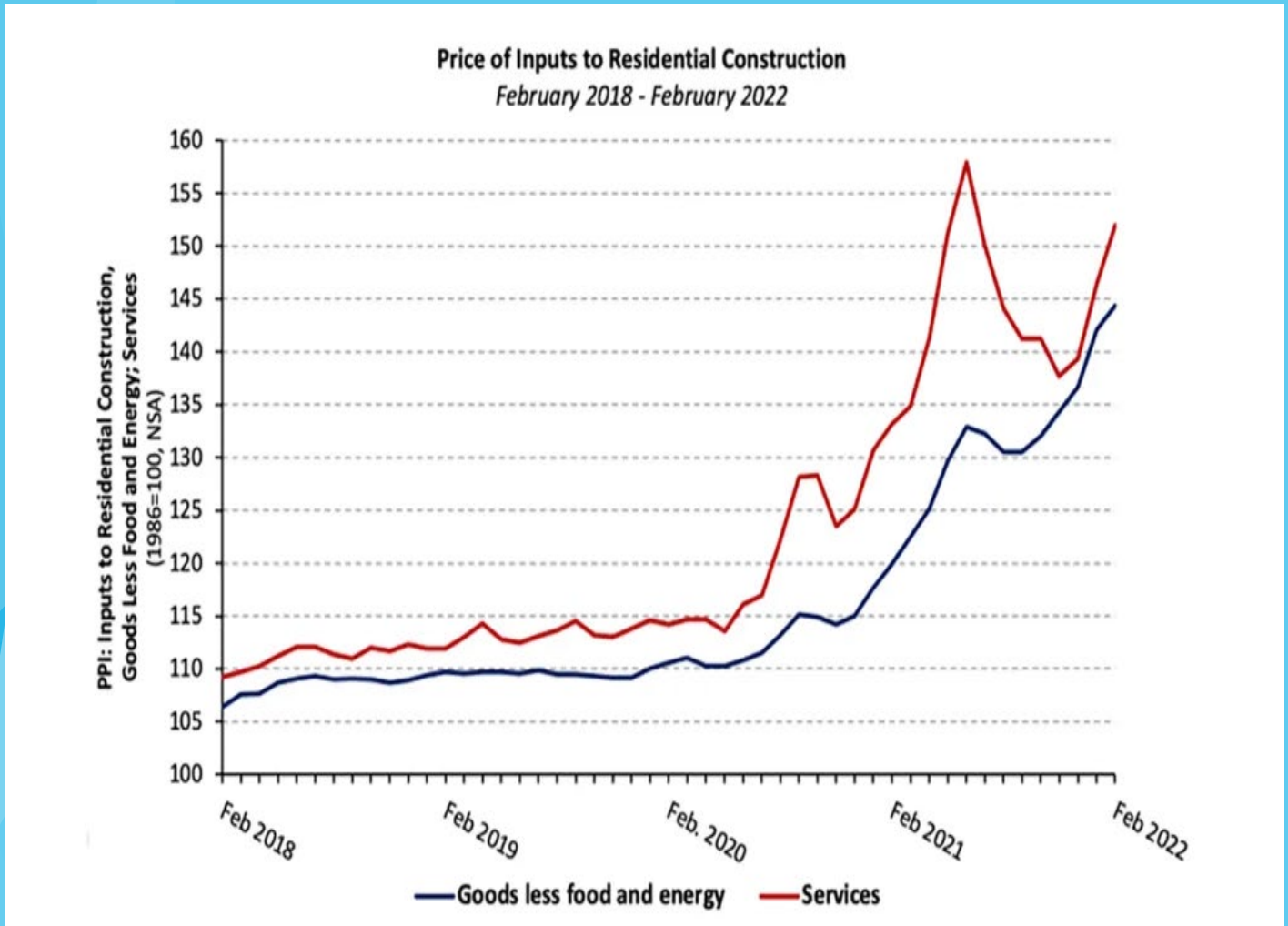
Price Inputs in Residential Construction



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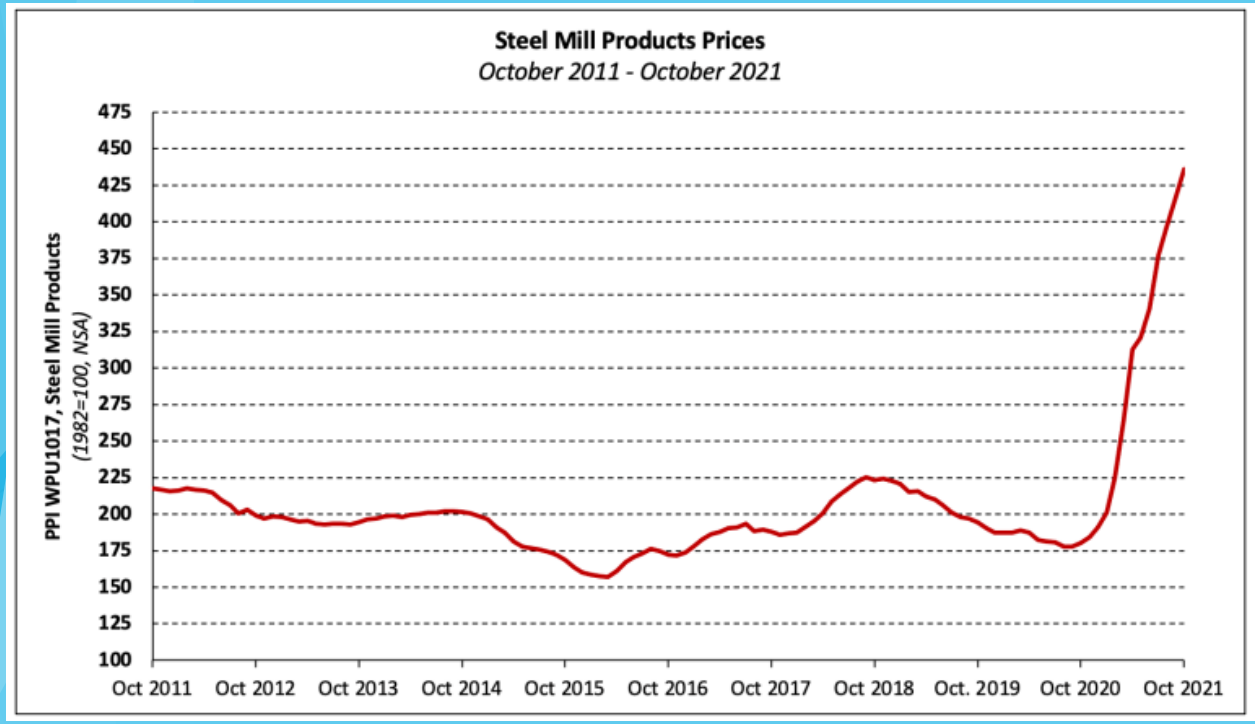
Steel



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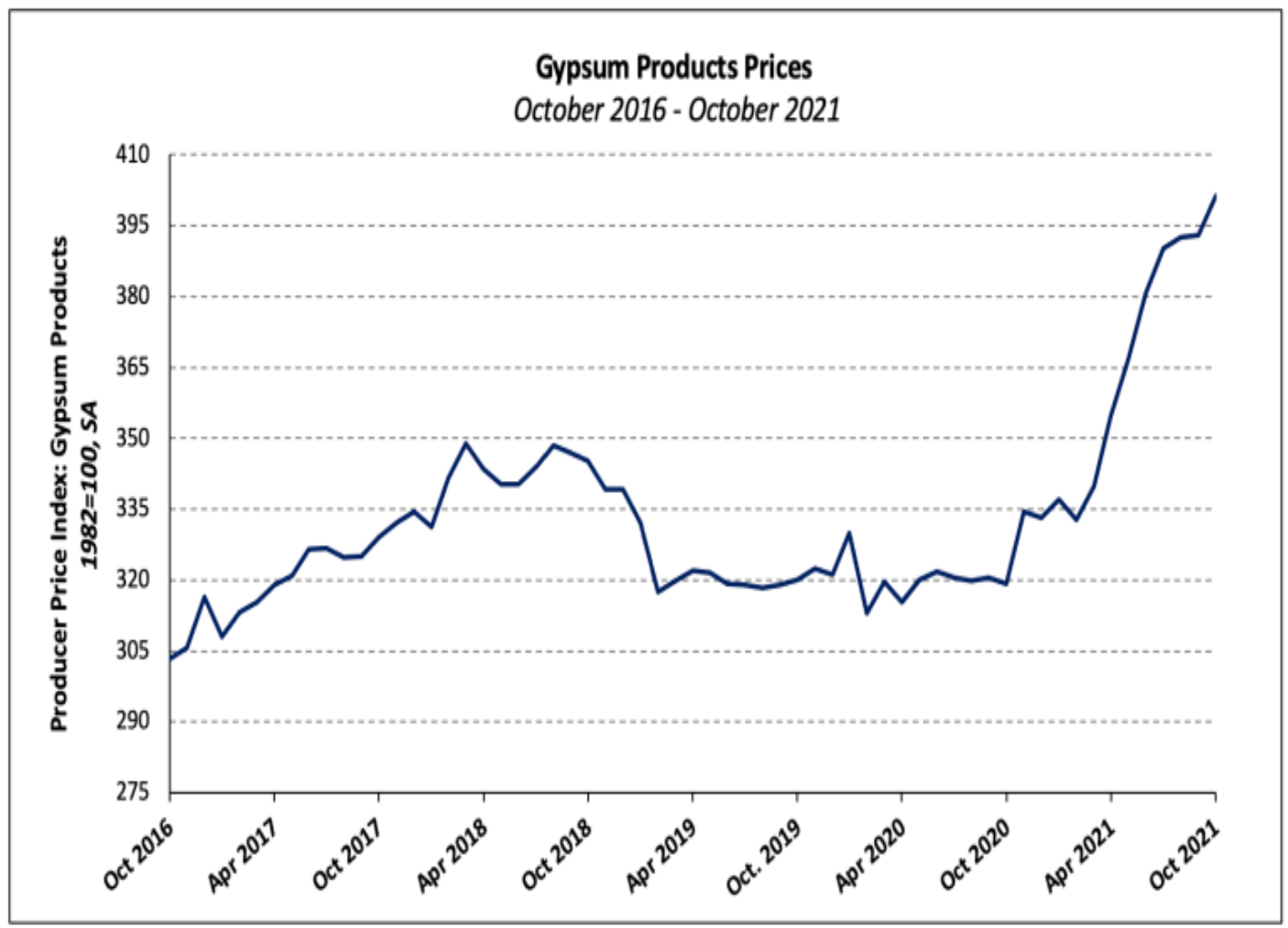
Gypsum



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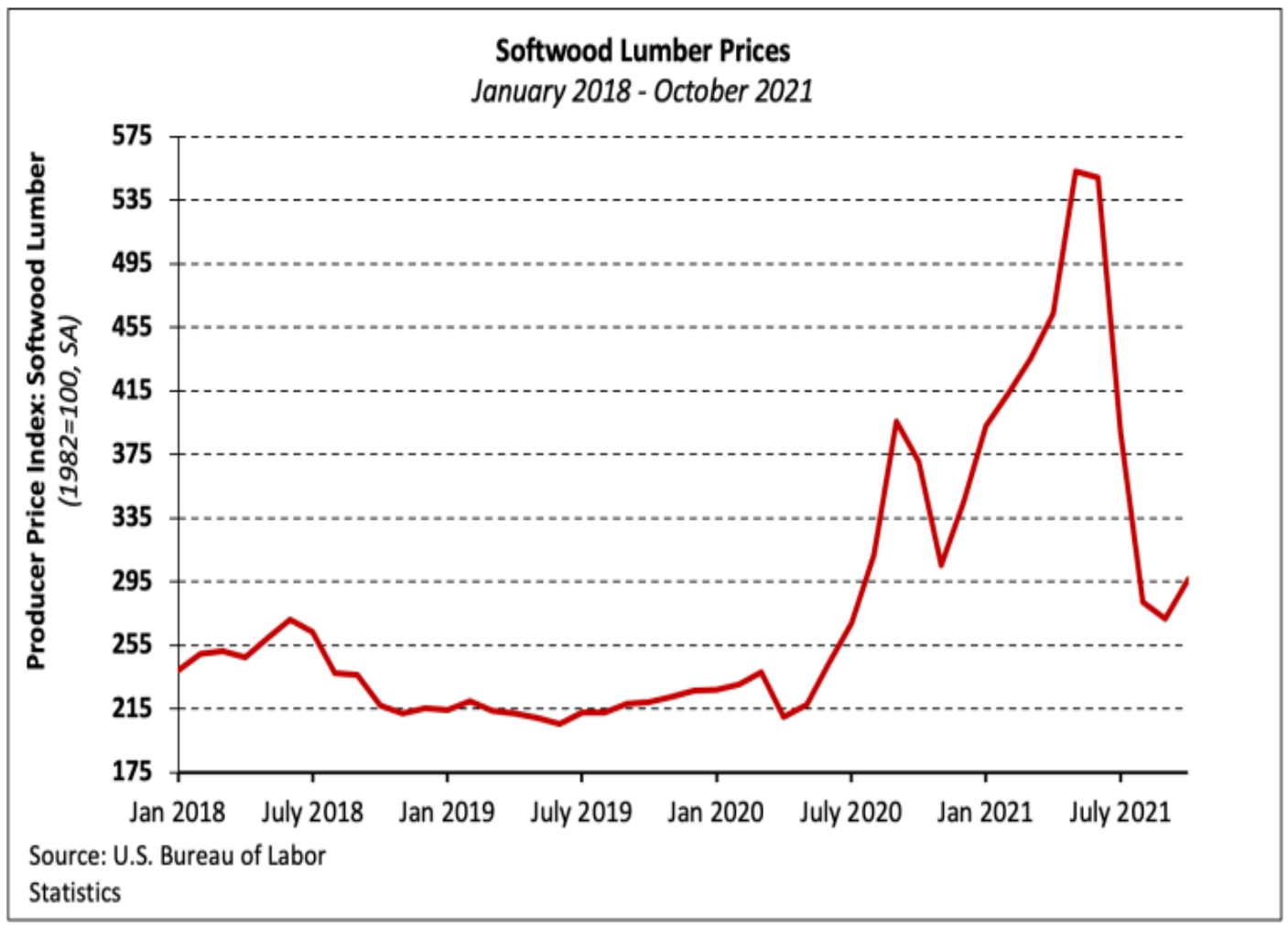
Lumber



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Prediction

In 2022, 2023 and 2024 we suggest that products heavily linked to petrochemicals, an increase of 10% to 20% annually in materials is likely.

Global situations will likely restrict the availability of specific commodities such as metals and wood.

Interest rates will add costs for contractors of all sizes as increasing the cost of doing business.

Skilled labour shortages will remain for at least to the end of 2023 until interest rates have the effect of dampening the economy and bringing costs down.

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Opportunity

- Diversify your supply chains.
- Build stronger networks within the flooring industry.
- Be ready to carry core inventory.
- DON’T PANIC!

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Questions and Answers