BTY GROUP

Market Intelligence

Q4 2007

BTY Group's Market Intelligence newsletters analyze industry trends to provide our clients with insights about the current and future building markets in British Columbia, Alberta, Saskatchewan, Ontario and Quebec. We offer this market intelligence as part of our mission to provide knowledge to build with.

Construction Escalation Defies Economic Slowdown

The impact of the U.S. credit crisis is continuing to ripple through the North American and global economies. BTY believes that it will temper construction demand enough for pricing trends to weaken in most major centres. Since each region has a different mix of factors – both regional and international – that drive price increases, we expect to see different provinces experiencing different rates of escalation. Across Canada, however, price increases will remain well ahead of the general rate of inflation.

This moderation in escalation rates promises to provide a welcome (and overdue) relief from the increases of the past few years and to usher in a period of greater stability in the construction market. While prices will remain historically high and subject to swings in commodity prices, overall they will be more predictable. This, in turn, will help maintain a healthy level of investment in both the public and private sectors of the industry. The exceptions will be Alberta and a resurgent Saskatchewan, where high demand for construction will keep rates in double digits.

What is Driving Escalation Rates in Canada?

Although each region has its own, unique set of factors, all are affected by common escalation drivers, including:

- Oil prices are expected to remain high, probably reaching record levels;
- Strong immigration and in-migration means more construction demand;
- Prime lending rate expected to remain in normal range with the annual average rate near 6% through 2011
- Canadian economy expected to remain strong relative to U.S., whose weakening economy will have little impact on the construction sector
- Canadian dollar is expected to remain at or close to par to the U.S. dollar, reducing the cost of imported materials
- Infrastructure renewal and development, much of it through public-private partnerships.

2007 BC Escalation Higher than Expected

British Columbia experienced a higher-than-expected escalation rate in the 10% range for 2007. Among the reasons for this level of increase were:

- The continued strength of BC's residential market, which kept demand for labour (and therefore labour costs) high. Robust population growth and continued optimism helped keep demand for new housing high, with the expected slowdown in residential construction still yet to arrive;
- The rise of the price of oil to US$100 a barrel, which has tended to drive up input price increases across the board, from transportation to materials costs.

National Escalation Forecast - Selected Provinces

ALBERTA

Alberta remains Canada's growth leader in almost every economic category, with only the natural gas industry experiencing difficulty due to North American oversupply.

- Continuing oil sands construction in major centres such as Fort McMurray will result in higher local escalation rates than forecasted for Edmonton or Calgary
- Canada's fastest growing population with 72,300 new residents in 2006/2007, driving buoyant residential housing market
- Growth in government capital expenditures for hospitals, schools and roads
- Strong expansion in non-residential development, especially offices

BRITISH COLUMBIA

Although several major infrastructure projects are about to end and forestry is slumping due to the U.S. home-building slowdown, British Columbia's construction outlook is very positive.

- Mining and oil and gas growth
- BC has the second fastest provincial population growth, with 48,600 new residents in 2006/2007, driving buoyant residential housing market
- Ongoing infrastructure projects such as Sea to Sky Highway, the Bennett and Pitt River Bridges, and major expansions at Kelowna, Vernon, Surrey Memorial and Royal Jubilee Hospitals
- Higher construction costs, due to smaller contractor pool; fewer suppliers and global procurement involving offshore transportation
- Right behind Metro Vancouver will be areas experiencing very strong investment growth from Alberta, such as southeastern BC, the Okanagan, and the Peace Region

SASKATCHEWAN

The strong performance of Saskatchewan's economy is drawing workers back to their home province. For the first time in many years, Saskatchewan recorded an inter-provincial population gain, with overall year-over-year population growth almost matching national average of 1%.

- Strong resource base in energy, uranium, potash and agriculture
- Uranium and potash at record prices in last two years; high prices expected to continue
- Substantial increases in housing starts and house prices in Regina and Saskatoon reflect province's good economic health

ONTARIO

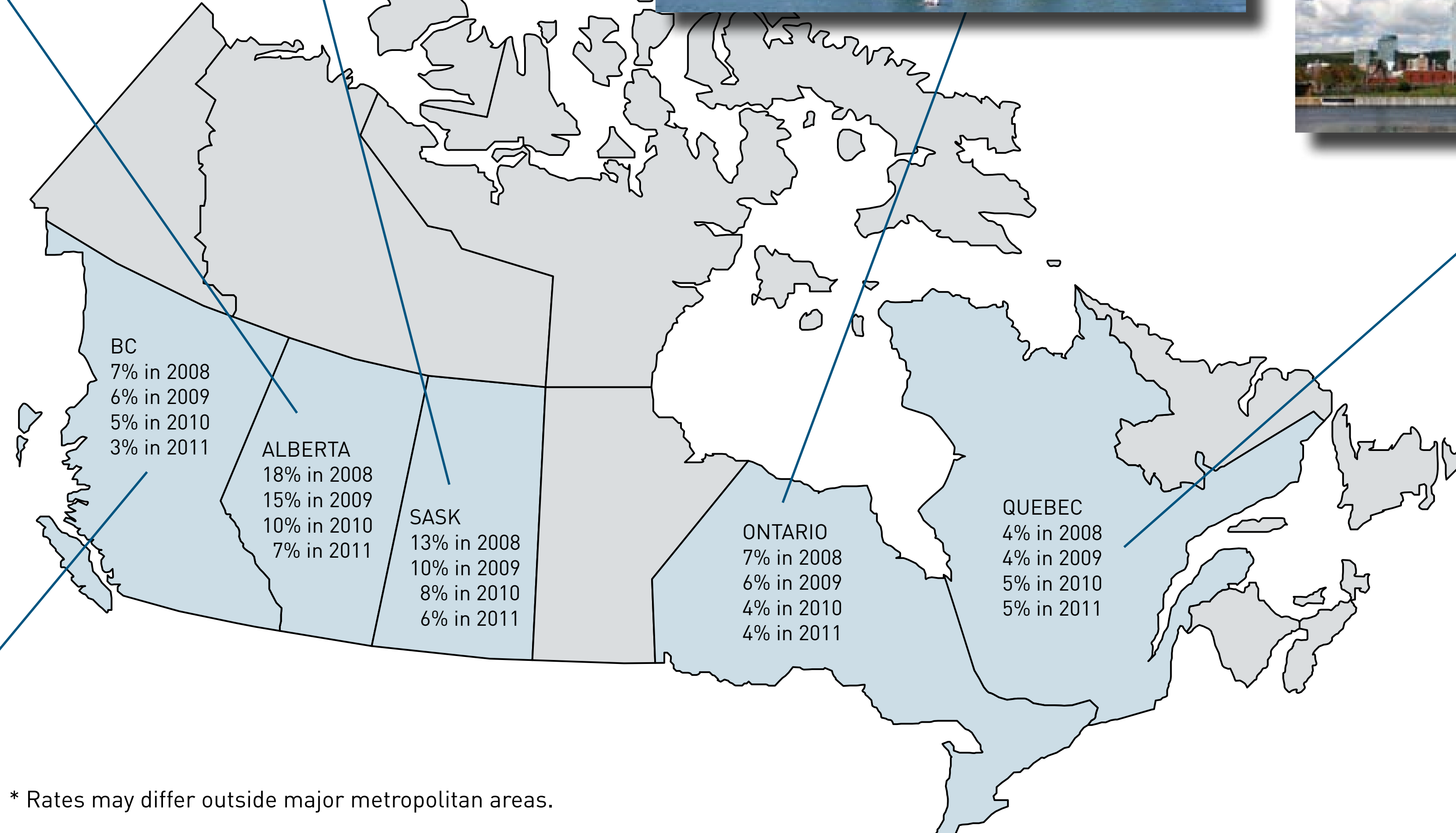
While Ontario battles manufacturing job losses, it still has a large population base and service sector, Toronto's financial centre, federal government activity in Ottawa and knowledge-based expertise centred in academic communities. They all help drive growth.

- Replacing aging infrastructure major factor in supporting construction industry,
- Continued development of wind power projects and expansion of nuclear power production
- Larger contractor and labour pool, lower construction costs
- Continued population growth, by 98,533 (0.8%) in 2006/2007; attracted 48.5% of all immigrants to Canada
- Some smaller markets with major projects, such as Sudbury and Thunder Bay, will experience higher escalation while others such as Windsor will be relatively flat

QUÉBEC

Construction will power the economy with government spending on energy and health major drivers as economic uncertainty dampens residential and private investment.

- Commitments to hydro and wind power projects totalling $30 billion; impact to be felt starting in 2009
- $4 billion+ Eastmain 1-A hydroelectric power project started summer 2007
- St. Lawrence ports proposed as sites for major new LNG (liquefied natural gas) terminals
- Two mega hospital projects in association with two major Montréal universities scheduled for 2009 start-up
- Proposed tax cuts will help stimulate consumer and business spending
- Continued population growth of 49,774 (0.7%) in 2006/2007



* Rates may differ outside major metropolitan areas.

We would like to acknowledge and thank:

- **ICBA (Independent Contractors and Businesses Association)**
  www.icba.bc.ca
- **cm2r Inc**
  www.cm2r.com
- **Groupe TEQ**
  www.groupeteq.com

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2008 Construction Unit Rates

Project Type		British Columbia	Alberta	Saskatchewan	Ontario	Quebec
Residential Care Facilities	$/m²	2600 - 3100	2700 - 3200	2300 - 2800	2100 - 2600	1900 - 2400
	$/sq.ft	242 - 288	251 - 297	214 - 260	195 - 242	177 - 223
Hospitals	$/m²	5200 - 5700	5500 - 6000	5000 - 5500	5100 - 5600	5000 - 5500
	$/sq.ft	483 - 530	511 - 577	465 - 511	474 - 520	465 - 511
Research Laboratories	$/m²	5500 - 6500	5900 - 6900	5300 - 6300	5500 - 6500	5200 - 6200
	$/sq.ft	511 - 604	548 - 641	492 - 585	511 - 604	483 - 576
Teaching Laboratories	$/m²	4800 - 5500	4900 - 5600	4600 - 5300	4800 - 5500	4500 - 5200
	$/sq.ft	446 - 511	455 - 520	427 - 492	446 - 511	418 - 483
High-rise Residential	$/m²	2900 - 3700	3000 - 3800	2700 - 3600	2100 - 3300	2000 - 2600
	$/sq.ft	269 - 344	279 - 353	251 - 334	195 - 307	186 - 242
Low-rise Condominiums	$/m²	1500 - 1800	1500 - 1800	1400 - 1700	1400 - 1700	1400 - 1700
	$/sq.ft	139 - 167	139 - 167	130 - 158	130 - 158	130 - 158
Townhouses (Wood Frame)	$/m²	1800 - 2100	1200 - 1500	1200 - 1500	1200 - 1500	1200 - 1500
	$/sq.ft	167 - 195	111 - 139	111 - 139	111 - 139	111 - 139
Shopping Centres	$/m²	1900 - 2400	2000 - 2500	1900 - 2400	1500 - 1900	1300 - 1700
	$/sq.ft	177 - 223	186 - 232	177 - 223	139 - 177	121 - 158
Office (High-rise)	$/m²	2300 - 3000	2800 - 3500	2100 - 2700	1900 - 2600	1800 - 2500
	$/sq.ft	214 - 279	260 - 325	195 - 251	177 - 242	167 - 232

BC Escalation Rate Forecast

BC experienced a record year in 2007 for spending on non-residential building construction. Last year's total was $5.9 billion, up 13% from 2006. Credit Union Central BC (CUCBC) is forecasting that real investment in this category will remain near the current level through 2009, edging down 1.3% in 2008 and increasing by 2.2% in 2009.

CMHC projects that BC's total housing starts will top 33,000 units in 2008. That would exceed the 10-year average for the sixth consecutive year, but represent an 8.1% decline from 2007. Rising construction costs, high land costs and labour supply shortages will continue the shift in home construction away from single detached homes to multiple family projects.

Like Canada's, BC's escalation rate increase will vary by region. Metro Vancouver and the Lower Fraser Valley, including Abbotsford, will see the strongest increases in escalation. Affordability issues in Metro Vancouver are seeing people move further into the Lower Fraser Valley and are spurring an increase in multiple residential housing types.

A Tale of Two Towers

To illustrate the influence of local factors on construction costs, we have compared the recent costs ($/sq.ft.) of building similar luxury, high-rise residential/mixed-use projects in Vancouver and Toronto.

In this example, a similar project constructed in Vancouver costs approximately 13% more to build due to factors such as size of contractor pool, labour availability and proximity of material supply.

Trade	Vancouver	Toronto
General Requirements	19	18
Site Work	11	11
Concrete	75	54
Masonry	3	4
Metals	3	2
Wood & Plastic Construction	10	13
Thermal & Moisture Protection	4	7
Doors & Windows	56	45
Finishes	35	44
Specialties	3	4
Equipment	13	11
Furnishings	10	15
Conveying Systems	13	12
Mechanical	55	32
Electrical	21	21
Management Fee	10	9
Total	**$341/sq.ft.**	**$302/sq.ft.**

bty.com
+T: 604.734.3126
+F: 604.734.3136
2288 Manitoba Street
Vancouver, BC
Canada V5Y 4B5