

1 Executive Summary

Saskatchewan has seen strong economic and population growth in the last decade. Since 2006, the province has been the fastest growing province in Canada based on real GDP growth. Against this backdrop of strong growth in the economy as a whole, the non-residential construction sub-sector has experienced even higher growth levels and an increasing share of the provincial GDP, along with sharp increases in non-residential construction costs.

The Government of Saskatchewan is committed to meeting a vision of sustained economic growth, responsible government and achieving better quality of life for all Saskatchewan people. Its core growth activities include: “the investment in the infrastructure required for growth”, and “ensuring the ongoing competitiveness of Saskatchewan’s economy”. It is in the context of these priorities that this study takes place, as it aims to support an improved understanding and ability for the government and key market players to ensure the ongoing competitiveness of Saskatchewan’s economy outlined as a core growth activity.

STUDY PURPOSE

The objective of this study is to develop an understanding of key drivers of non-residential construction costs in Saskatchewan, and their impact on economic development in the province. Study findings will form the basis for developing:

- An improved understanding related to how Saskatchewan cost drivers compare to other selected jurisdictions.
- An improved awareness of cost inflators to aid in managing cost increases.
- An improved understanding of key factors influencing decision making related to capital construction projects.
- An improved ability to design policies and programs to improve Saskatchewan’s competitiveness.

SUMMARY OF FINDINGS

Overall, non-residential construction costs in the province have faced exceptional yearly increases over the past decade, in line with increased economic growth and prosperity in the province, and driven mainly by shortages in skilled labour and specialized subcontractor availability and high concrete and aggregate costs, with contributing factors such as fuel surcharges that are driven to logistical realities within the province.

While the year-over-year increases in non-residential construction costs in Saskatchewan have been exceptional, the average non-residential construction costs in the province are currently more or less aligned with other provinces in Western Canada, placing these provinces as the more costly places for construction in the nation.

Our research found that the supply of skilled labour has been a particular challenge for the industry as it faces this exceptional increase in demand in Saskatchewan. Both the data analysis and the interviews (18 interviews across the industry in Saskatchewan and in other provinces) indicate that by far, the main driver behind year-over-year construction cost increases in the province is labour-driven.

Ten years ago, labour costs in the province were among the lowest in Canada, and while the yearly increases were exceptionally high over the past decade, these costs are today more or less aligned with

other Western Provinces. These costs have therefore brought Saskatchewan to a level that is comparable to its peers. As such, in absolute terms, labour costs in Saskatchewan today are close to the Western Canadian average.

Material costs are also contributing to higher construction costs in the province; however, these costs do not exhibit exceptional year-over-year increases. Generally, material costs in Saskatchewan have risen and fallen similarly to other jurisdictions, with the exception of two 'unique to Saskatchewan' costs: concrete and aggregate, and fuel. The limited supply of concrete and aggregate within the province has resulted in an inevitable hike in prices, in line with the exceptional demand. As for fuel costs, they are due to the logistical challenges with material transportation into the province, and these surcharges are embedded in construction costs throughout the supply chain.

While the overall competition in the sector has grown, this competition has not necessarily translated into construction cost decreases, given that the increased number of competitors in the market was often found to be relying on the same pool of limited specialized subcontractors and skilled labour. Skilled and specialized labour availability relative to demand in Saskatchewan is low, and incentives for labour relocation into the province are in competition with those from other provinces such as Alberta.

Based on an industry interview program and complementary statistical research, the key cost drivers in the non-residential construction sector in Saskatchewan are assessed as follows:

Major Drivers

- Labour rates: wage rate increases among the highest in Canada.
- Labour productivity: aging demographics, declining average experience levels, and sub trade supply and scheduling.
- Construction activity levels: Increasing activity, especially in major projects.
- Competition levels: Increasing competition from national/international contractors and increasing Public Private Partnership (P3) orientation changing the competitive landscape.

Other Significant Drivers

- Materials costs: Higher aggregate and concrete costs than in other jurisdictions.
- Supply management: Longer wait times, and reduced reliability of materials/equipment delivery.
- Construction methods: increasing use of expensive out-of-province labour and/or pre-fab construction.

Industry representatives indicated that public sector projects have tended to be less affected by increasing costs in terms of whether they proceed, and that they more typically have been delayed or re-scoped in response to increasing costs. On the other hand, the undertaking of private sector projects have tended to be more sensitive to construction cost levels, and a number of private projects have been cancelled or delayed due to increasing construction costs.

On balance, the industry consensus is that, while construction costs have increased significantly, they have not reached prohibitive limits, where there is likely to be a sudden crash in activity levels. The industry is forecasting slower to low increase in construction costs in 2014 and 2015 as demand for construction is foreseen to dampen, especially compared to record levels in 2012 and 2013.

With regard to future trends, the industry expects that the demand for non-residential construction projects is likely to remain strong into the future, but to feature a continued shift towards fewer, higher value, and larger projects. The result is expected to be an industry with similar overall construction

activity levels, but with a somewhat of a different landscape, notably in terms of project size and alternative approaches to procurement.

Year-over-year construction cost increases have been generally higher in Saskatchewan than in all other Canadian jurisdictions except Alberta. As a result, Saskatchewan has lost much of its previous construction cost advantage over many Canadian jurisdictions. However, while construction costs remain high in the province, any assessment of the attractiveness of the province for non-residential construction investment should also look at the entirety of the asset and its life-cycle costs, including land, and operation and maintenance costs. In this regard, Saskatchewan may still be among the most favourable locations for non-residential construction in Western Canada, with land costs being relatively competitive.

Despite the significant construction cost and scheduling pressures seen in recent years, our interviews indicated a consensus from both within and outside the province that few, if any, Saskatchewan projects have been relocated to other jurisdictions because of these pressures. This view reflects the location-specific nature of many of the non-residential projects undertaken in Saskatchewan, often relating to resource-based industrial projects and the associated commercial/institutional infrastructure projects.