

DATE OF MEETING JUNE 27, 2022

AUTHORED BY PHIL STEWART, MANAGER, ENGINEERING PROJETS

**SUBJECT CURRENT CONSTRUCTION MARKET CONDITIONS**

## **OVERVIEW**

### **Purpose of Report:**

To provide Council with information on the current construction market conditions and the impact on capital projects.

## **BACKGROUND**

In the last few months there has been a dramatic shift in the local construction market. Fewer bids are being received and prices are significantly higher than expected. There are several factors that have converged to create this shift, but generally they can be summarized into three categories: increasing operating costs, supply chain issues and a skilled labour shortage.

Over the last few months, fuel costs have risen 30% - 40% due to global events and look to be continuing to go up as summer approaches. The price of fuel impacts construction costs in many areas such as equipment fuel, trucking and asphalt.

Many industries including the construction industry are still adjusting to the changes in the supply chain due to the COVID-19 pandemic. Delivery times are unpredictable and several projects have been delayed over the last year due to difficulty obtaining components. This leads to schedule uncertainty, projects taking longer than expected, and additional costs.

In addition to the global issues that are impacting our local construction market, there are other more local issues that are impacting prices and schedules.

The market is saturated with both public and private infrastructure work. Statistics Canada reported that the Nanaimo region was growing at twice the national average, being one of the five fastest growing communities in the country. This growth has come with corresponding development construction activity. The industry has been unable to expand operations to take on more work as there has been a shortage of skilled construction labour that has been building for some time. This shortage makes it difficult for companies to expand to take on additional work. Nanaimo is particularly seeing a shortage of concrete contractors to construct sidewalks and curbs.

## **DISCUSSION**

The construction market conditions have an impact on the City's ability to construct the projects planned for 2022.

Early in the year, Staff noted that there were too many projects to proceed with and several projects totalling \$2.5M were deferred as part of the budget process.

Fifteen projects have been put out to market since October of 2021. In a typical year, the bid price averages 10% - 15% below the project budget. This is intentional and allows for other costs outside of the contract and unexpected conditions during construction. This year the prices for the projects have averaged 30% above the budget. Understanding that this trend is likely to continue, there have been some adjustments to some of the major capital projects scheduled for 2022.

The Midtown Gateway Project has a budget of \$13.75M over 2022 and 2023. An analysis of the project costs and current market conditions showed that this project would have likely come in 10% - 20% over budget if the entire project went to market now. However, there are portions of the project that are time sensitive and cannot be delayed. The project has now been divided into two phases, Phase 2A & 2B (Phase 1 was completed in 2019 with the preload and reconstructed wetland). Phase 2A is more urgent and includes the removal of the preload and final ground compaction, installation of a critical section of the Midtown Water Supply that goes through the site, and other on-site underground utilities. The procurement for Phase 2A has recently been put out to market and will be the subject of a future Council report. Phase 2B will include the surface works, signal upgrades, and off-site utility upgrades, and will be tendered in 2023. The funding required for phase 2B will be updated in the future 2023 to 2027 Financial Plan.

The Midtown Water Supply Project has been expedited due to the current risk of the water supply network under Bowen Road and the Buttertubs Marsh. This project was the subject of a relevant budget adjustment in March of 2022. The City is moving forward with implementation of this important piece of infrastructure; however, given the market pressures and financial situation the amounts set aside for contingency may not be sufficient. For example, the section through the Midtown Gateway was completed as part of a separate and latter procurement, the costs for that modest section have increased considerably in the intervening timeframe. This will be outlined in a future Council report.

The Albert Street Complete Streets Phase 2 project is scheduled for 2022 and the replacement of the culvert requires work to be completed during late summer. In November of 2021, Council approved a budget increase of \$400,000 for the project. An analysis of the project costs and current market conditions indicate there would be limited response for this project due to the timeline of the in stream work and it would come in 20% - 30% over budget. One of the challenges with the project is that it requires construction during the "least risk" fish window (August 15 - September 15) to replace the Cat Stream culvert. At this time, it is anticipated that the project will be held for a winter tender with construction in 2023.

Terminal Avenue Phase 1 is a partnership between MoTI and the City of Nanaimo, and consists of utility upgrades, sidewalk upgrades and road rehabilitation between Esplanade and Commercial Street. Due to the traffic volumes, this project requires night work. Again, a review of the project costs and current market conditions indicate there would be limited response for this project, and it would come in over budget. At this time, it is anticipated that the project will be held until fall 2022 or early 2023 for construction in 2023 depending on market conditions.

In addition to the major projects listed above, approximately 3.5M dollars of other road and utility upgrade projects are being deferred from 2022 to 2023; some due to budgetary reasons and some due to other schedule delays.

## **CONCLUSION**

It is very clear that we are in a rapidly changing construction market and it is unclear at this time if the current market conditions are temporary or permanent. Staff have been in contact with other municipalities on Vancouver Island and the Vancouver Island Construction Association, and the conditions that we are seeing in Nanaimo are not unique and it is expected that the industry will remain busy and prices will be higher for the short term.

Deferment of several large projects that were planned for 2022 construction into 2023 will have an impact on 2023 projects, both the markets ability to deliver and Staff capacity. Staff have already begun the budget preparation process for the next financial plan and are reviewing project budgets and cost estimates with the current market conditions in mind. It may be that some of the deferred projects listed above will require additional funding for them to move forward. Staff will make adjustments to project budgets for the 2023 – 2027 Financial Plan and detailed discussions with Council will be a part of that process.

## **SUMMARY POINTS**

- Many issues have converged to impact Nanaimo construction market which is seeing reduced capacity and higher prices.
- The schedule of some of the City's capital projects has been adjusted to adapt to the market trends.
- The impacts of the market conditions will inform the budget development process.

## **ATTACHMENTS**

Attachment A – Construction Market Conditions Presentation

### **Submitted by:**

Phil Stewart  
Manager, Engineering Projects

### **Concurrence by:**

Poul Rosen  
Director, Engineering

Bill Sims  
General Manager, Engineering and Public Works

Laura Mercer  
Director, Finance