

# Hanscomb

## NEWS UPDATE

### Escalation Watch

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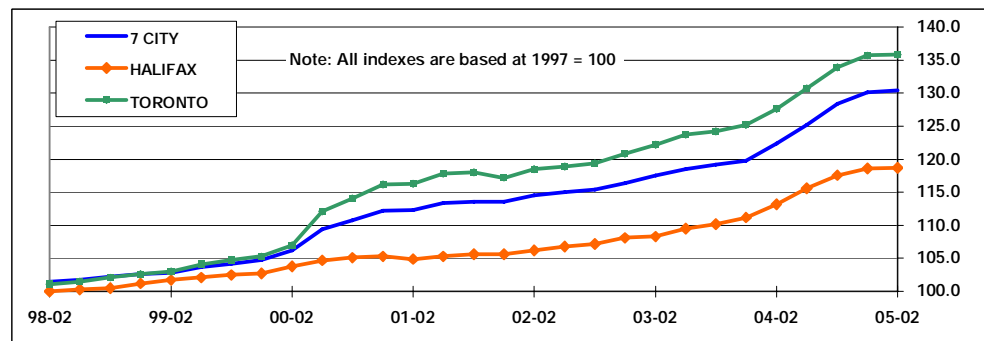
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The mid-February 2005 Non-residential Construction Price Indices are now available from Statistics Canada. Indices for the second quarter of 2005 should be available in mid-August.

Nationally, the composite price index has risen from 122.4 to 130.4 or 6.5% over the same period in 2004. The vast majority of this annual increase was felt in the second and third quarters of 2004 (Q2 at 2.3% and Q3 at 2.6%). Fourth quarter growth was reported at 1.3%, about half the average of the two prior quarters, and the first quarter of 2005 was almost flat at 0.2%. Results for the second quarter of 2005 will be important in confirming the national growth trend.

First quarter 2005 results for each of the seven cities in the survey are generally in line with the apparent national trend. Halifax, Montreal, Ottawa and Toronto all reported almost no change in the first quarter of 2005. In the west, Calgary, Edmonton and Vancouver showed moderate increases of 0.6%, 0.9% and 0.7% respectively. In all cases, the quarterly increases were down from those reported in the last quarter of 2004.

Expressed annually, Halifax at 4.9% has the lowest growth rate. At the opposite end of the country, and the growth spectrum, is Vancouver at 8.5% year over year.



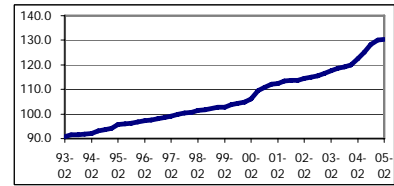
The source data used to prepare the charts in this newsletter is drawn from Statistics Canada's Construction Price Statistics publication – catalogue 62-007-XPB. Specifically, we used table 5.1 – Non-residential Building Construction Price Indices.

More information about this and other construction related indices published by Statistics Canada are also available on line at [www.statcan.ca](http://www.statcan.ca)

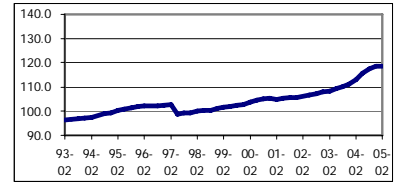
- Paul Westbrook

# STATISTICS CANADA NON-RESIDENTIAL CONSTRUCTION COST INDICES, IN EACH CITY 1997 = 100 (Cat. No. 62-007-XPB)

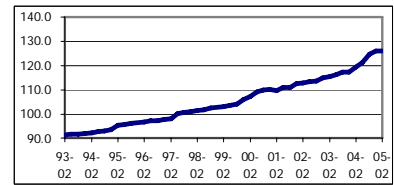
COMPOSITE 7 CITY	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	116.4	117.6	118.5	119.2	119.8	122.4	125.2	128.4	130.1	130.4
Year / Year					2.9%	4.1%	5.7%	7.7%	8.6%	6.5%
Quarterly		1.0%	0.8%	0.6%	0.5%	2.2%	2.3%	2.6%	1.3%	0.2%
Q. Cumulative	0.0%	1.0%	1.8%	2.4%	2.9%	5.2%	7.6%	10.3%	11.8%	12.0%



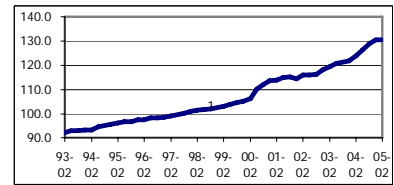
HALIFAX	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	108.1	108.3	109.5	110.2	111.2	113.2	115.6	117.6	118.6	118.7
Year / Year					2.9%	4.5%	5.6%	6.7%	6.7%	4.9%
Quarterly		0.2%	1.1%	0.6%	0.9%	1.8%	2.1%	1.7%	0.9%	0.1%
Q. Cumulative	0.0%	0.2%	1.3%	1.9%	2.9%	4.7%	6.9%	8.8%	9.7%	9.8%



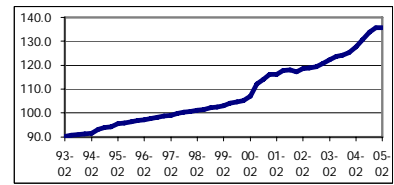
MONTREAL	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	114.9	115.4	116.1	117.3	117.4	119.4	121.3	124.7	126.0	126.0
Year / Year					2.2%	3.5%	4.5%	6.3%	7.3%	5.5%
Quarterly		0.4%	0.6%	1.0%	0.1%	1.7%	1.6%	2.8%	1.0%	0.0%
Q. Cumulative	0.0%	0.4%	1.0%	2.1%	2.2%	3.9%	5.6%	8.5%	9.7%	9.7%



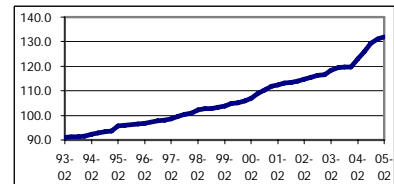
OTTAWA	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	118.1	119.4	120.7	121.3	121.8	124.0	126.3	129.0	130.4	130.5
Year / Year					3.1%	3.9%	4.6%	6.3%	7.1%	5.2%
Quarterly		1.1%	1.1%	0.5%	0.4%	1.8%	1.9%	2.1%	1.1%	0.1%
Q. Cumulative	0.0%	1.1%	2.2%	2.7%	3.1%	5.0%	6.9%	9.2%	10.4%	10.5%



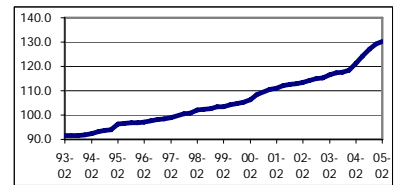
TORONTO	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	120.8	122.2	123.7	124.2	125.2	127.6	130.7	133.9	135.7	135.8
Year / Year					3.6%	4.4%	5.7%	7.8%	8.4%	6.4%
Quarterly		1.2%	1.2%	0.4%	0.8%	1.9%	2.4%	2.4%	1.3%	0.1%
Q. Cumulative	0.0%	1.2%	2.4%	2.8%	3.6%	5.6%	8.2%	10.8%	12.3%	12.4%



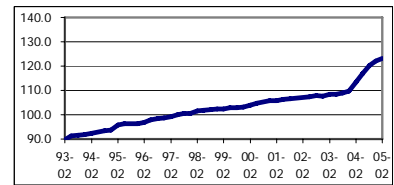
CALGARY	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	116.7	118.5	119.5	119.7	119.9	123.0	126.1	129.4	131.1	131.9
Year / Year					2.7%	3.8%	5.5%	8.1%	9.3%	7.2%
Quarterly		1.5%	0.8%	0.2%	0.2%	2.6%	2.5%	2.6%	1.3%	0.6%
Q. Cumulative	0.0%	1.5%	2.4%	2.6%	2.7%	5.4%	8.1%	10.9%	12.3%	13.0%



EDMONTON	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	115.2	116.6	117.4	117.7	118.3	121.3	124.2	127.2	129.2	130.3
Year / Year					2.7%	4.0%	5.8%	8.1%	9.2%	7.4%
Quarterly		1.2%	0.7%	0.3%	0.5%	2.5%	2.4%	2.4%	1.6%	0.9%
Q. Cumulative	0.0%	1.2%	1.9%	2.2%	2.7%	5.3%	7.8%	10.4%	12.2%	13.1%



VANCOUVER	2002	2003				2004				2005
	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb	Mid-May	Mid-Aug	Mid-Nov	Mid-Feb
Index	107.6	108.4	108.3	108.9	109.7	113.5	116.8	120.2	122.2	123.1
Year / Year					2.0%	4.7%	7.8%	10.4%	11.4%	8.5%
Quarterly		0.7%	(0.1%)	0.6%	0.7%	3.5%	2.9%	2.9%	1.7%	0.7%
Q. Cumulative	0.0%	0.7%	0.7%	1.2%	2.0%	5.5%	8.6%	11.7%	13.6%	14.4%



# COST PLANNING RISK MANAGEMENT

In any estimate there is the potential for variation. In construction cost planning, variations can be attributed to three primary sources:

- Incomplete, incorrect or misinterpreted design information;
- Cost escalation;
- Changes during construction.

The major objective of any construction cost plan is to arrive at a realistic and achievable 'bottom line', a total that an owner or manager can confidently carry into his project pro formas. The problem, then, is to address the risk of estimating variations within the cost plan, above the bottom line. The solution is to identify a contingency sum to absorb the costs of estimating variations without affecting the total.

The effective use of contingencies in construction cost planning requires a clear understanding of estimating risks in both a project specific and general construction market sense. The appropriate level of contingency is dependent on the amount of information available, knowledge of the design team's methods and philosophy, the timing of estimate preparation relative to the project design and construction schedule, and the anticipated complexity of the actual construction work. Contingency assessment for a construction estimate is therefore divided into three distinct categories:

- Design and Pricing Contingency
- Escalation Contingency
- Post Contract (Change Order) Contingency

The amount of total contingency carried will obviously vary dependent on project type and its point of progression through each stage of the design process, but the overall goal remains constant - to provide a realistic estimate of construction cost with a fixed and reliable bottom line.

## Contingency Amounts

Although the amount of contingency appropriate for a particular estimate will vary from project to project there are some general guidelines to follow. The con-

tingency should reflect the type of project, it's relative complexity, geographic location, current and anticipated market or bidding conditions, amount of design information available, printed or oral, the estimator's experience and familiarity with the design team etc. and represent a consensus of all parties to the project.

The Design and Pricing Contingency will be highest at the beginning of the design stage when the amount of information available to the cost planner is minimal. As the design proceeds, and decisions regarding the project's massing and materials are made the requirement for this contingency will reduce. At time of bid, when the documentation is 100% complete, there should be no further need of this contingency. For most new projects at the programming stage a design and pricing contingency of 10% should be adequate. The amount by which the contingency is reduced as the design advances must directly correspond to an increase in accuracy and detail of design information. Often, decisions to reduce the design and contingency too soon in the design process do not solve cost problems, just postpone them.

The Escalation Contingency will address anticipated changes in construction costs due to fluctuations in market conditions during the interval between cost plan preparation and project bid. Forecasting construction cost escalation rates is a complex undertaking requiring careful assessment of a continually changing construction market. As these changes are at best difficult to predict, the escalation contingency should be monitored regularly and adjusted as required.

Finally, the determination of the Post Contract Contingency (Change Order) Contingency must take into account the expected degree of difficulty to be encountered on site. Generally, renovation work presents more problems during construction than new work.

Careful and realistic contingency assessment is fundamental to the construction cost planning process. Properly used, contingencies afford owners and design professionals alike a measure of flexibility with a project budget to effectively manage building costs during design and construction.

## Contingency Guidelines for New Construction

	Schematic Design	Design Development	Contract Documents	Tender & Award
Design	7.5 to 10%	5 to 7.5%	1 to 5%	0 to 1%
Escalation	as required by prevailing market conditions			
Post Contract	generally 1.5 to 3% for new building construction			

## HANSCOMB ANNOUNCEMENTS

### Hanscomb's Hamilton Office and Staff News

As noted in our Winter 2005 Newsletter, details regarding Hanscomb's Hamilton Office will be available in the coming months. In the interim, please do not hesitate to call 905-525-5777, or email, hamilton@hanscomb.com, for more information.

In addition to Hanscomb's continued developments in Ontario, the practice would like welcome CIQS Fellow, Mr. David Ranta, and Scheduler, Ms. Fara Golresan to the firm's Winnipeg Office. Less than a year old, the Office's continuous growth in Manitoba has led to numerous opportunities for the firm and its staff and will result in Isaac Gwendo, who is currently working in the firm's Ottawa Office, relocating to Winnipeg this summer.

Hanscomb would also like to wish continued success to Ian McCallum with his recent move to the firm's Office in Dubai and congratulate Asnake Tiruneh in attaining his Professional Quantity Surveyor and Professional Engineer designations.

### World Wide Office and Service Contacts

Vancouver	Peter Moore	(604) 685-1241
Edmonton	David Crane	(403) 234-9490
Calgary	David Crane	(780) 426-7980
Winnipeg	David Crane	(204) 775-3389
Toronto	Paul Westbrook	(416) 487-3811
	Dale Panday	
Hamilton	Susan Neil	(905) 525-5777
Ottawa	Art Maw	(613) 234-8089
	Grant Mercer	
Halifax	Ray Murray	(902) 422-3620
St. John's	Wayne Fitzpatrick	(709) 722-0505
Abu Dhabi	David Hancox	971-26262461
Dubai	Stephen Keigwin	9714-3244557
Muscat	Steve Bale	968-24481664
Doha	Ron Butler	974-4673808
Applied Research	Jason Gallant	(416) 487-3811
Value Management	Paul Westbrook	(416) 487-3811
Loan Monitoring	Ray Murray	(902) 422-3620
	David MacKay	(416) 487-3811
Mech./Elec. Services	Al Wright	(416) 487-3811

## SERVICES

### Cost Planning & Control

- Quantity surveying
- Construction cost planning
- Construction cost estimating
- Master plan cost estimating
- Construction claims analysis
- Bills of quantities
- Bills of materials
- Replacement cost estimates
- Final accounts preparation

### Value Management

### Applied Research

- Life cycle costing
- Cost/benefit analysis
- Construction price indexing
- Cost research
- Cost publications
- Risk analysis

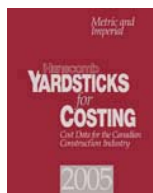
### Project Loan Monitoring

### Feasibility Studies

### Time Management

- Design scheduling
- Construction scheduling
- Schedule analysis

### Litigation Support



### 2005 Hanscomb Yardsticks for Costing

The 2005 edition of Hanscomb's Yardsticks for Costing is ready and will be shipping soon. To order your copies, please contact RSMMeans, 1-800-334-3509.

[www.Hanscomb.com](http://www.Hanscomb.com)