

Condo construction hammered by rapid rise in costs

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Construction costs in Canada are expected to soar in 2021, with Toronto leading the way thanks in part to booming prices for the materials and labour that go into high-rise buildings.

The 2021 forecast by real estate data and consultancy company Altus Group expects overall construction costs in the Greater Toronto Area to rise by 5 per cent, though the final increase could fall in a range of 3 per cent to 6 per cent. No other major city is expected to face rises as rapid, though Vancouver could see a 2 per cent to 4 per cent increase to its already high construction costs.

“At the rate we’re going it’s going to be the highest cost increases [for high-rise] since 2018, when for high-rise projects costs increased 10 per cent in Toronto in one year. I don’t think we’ll get there, but we’re going to be higher than at any other point since 2015,” said David Schoonjans a senior director in Altus’s Cost & Project Management group.

For 2021, Altus predicts costs for building high-rises in Vancouver will remain the highest in the country (between \$340 and \$360 per square foot on the high end for buildings between 12 and 60 storeys) with the Greater Toronto Area in second place (prices get a little lower between \$315 and \$380 per square feet). High-rise buildings in those two centres are on average \$75 more per square foot than every other major metro area in the country. For example, Montreal is the next largest major metro area and its costs range between \$250 and \$270 per square feet on the high end.

The price differentials between Vancouver and Toronto and the rest of Canada persist in low-rise wood-frame construction as well, though all prices in this building category are between \$60 and \$100 per square feet cheaper. What’s striking is that it costs the same per square foot to build a 12-storey building in Calgary as it does to build a single-family detached home in Vancouver (\$265 per square feet). Altus’s data are based on its own consulting on 1,300 projects in 2020.

“Legacy things, prepandemic things, like demand pressures, are still there. Now we’ve added on top of it pandemic things,” Mr. Schoonjans said. “It has disrupted global supply chains and made commodities very volatile. For developers, it’s not good enough to know their total cost

of their building is “X” per square feet; they need to go deeper and understand ‘Who are my trades?’ If they are not down in the weeds, they could have some difficulties.”

Andrew Pariser, vice-president with industry group RESCON (Residential Construction Council of Ontario), said some of the cost shocks were outside the typical big three inputs – wood, concrete and steel – such as a recent nationwide shortage in furnace and air conditioning units. “Our supply chain is global and in the U.S., the Texas freeze has had a big impact as well,” he said. Daikin Industries Ltd. has a US\$400-million manufacturing plant outside Houston that makes just about every Goodman, Daikin and Amana air conditioner sold in North America. It was shut down when the state’s electrical grid collapsed during a February cold snap.

“What that triggers is ... the larger trades and builders think, ‘I better stockpile,’ and they surge their typical orders,” said Paul De Berardis, director of building science and innovation at RESCON. The result was that heating and cooling units became even more scarce. Disruptions like these can rock a supply chain for months.

High demand for some building trades was already an issue before the pandemic. One of the main stress points has been formwork, a catch-all term that refers to the trades that are needed for concrete construction. Formwork costs can make up to 25 per cent of the total cost of building a high-rise, according to Mr. Schoonjans, and since 2015, formwork costs have doubled.

“Formwork probably has added on \$15 to \$20 a square foot, for the entire building cost,” he said “That would equate to \$17,000 per condo,” to a roughly 800 square foot unit.

With formwork, Mr. Schoonjans said, “that supply problem isn’t easily solved. “It’s a very local industry; they are not big national companies. And the major part of their input is labour. You can’t snap your fingers and have a new journeyman, today.”

Added to which, the wholesale price of the plywood needed for concrete formwork has reached new highs – up 65 per cent since January, 2020, amid a wider lumber shortage that has impacted all builders.

“Pretty much any wood product – hardwood and softwood – all that stuff has gone up significantly. Any type of hardwood species – for stairs, flooring or trim – some of the increases have been astronomical, from 30 to 40 per cent to 200 to 300 per cent,” Mr. De Berardis said.

Steel is needed for construction in everything from rebar for structural concrete to ductwork for HVAC systems and raw iron ore costs are up more than 60 per cent since early 2020, according to the World Bank. It found that rising demand for steel in China (which accounts for two-thirds of the world’s seaborne ore trade) collided with production problems in major exporters such as Brazil. The World Bank predicted prices could come down 2 per cent throughout 2021, presuming Brazil’s rampaging COVID-19 outbreaks can be contained.

And that points to another issue: Some of these shortages might be ameliorated, but the costs may stay high. “Costs can be rather sticky coming down,” Mr. Schoonjans said. In 2018, a record number of condo projects in the GTA were cancelled because developers had sold their units years earlier at prices that would not pay for increased costs. Mr. Schoonjans says there’s a concern that could happen again, but even more broadly, he wonders if these costs will be met with consumer resistance to ever-higher prices for new condos.

“The industry has been saved by rapidly rising prices, but if cost increases begin to outpace the price increases ... that’s the risk and challenge ahead,” Mr. Schoonjans said. His concern is not just with the ability of builders to be profitable, but with being able to build anything. “You can’t solve the housing crisis without building houses.”