Where Do We Go From Here?

Addressing Project Cost Control In Healthcare Projects

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PRESENTER **SPOTLIGHT**

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PRESIDENT

Susan Neil is President at Hanscomb, an independent consulting Quantity Surveying firm specializing in the cost planning and control of major infrastructure projects across the country. With a vast and distinguished 37-year career at Hanscomb, Susan has led Hanscomb's Healthcare services and expanded its portfolio across the country. She has extensive involvement in preparing, analyzing, and controlling costs for healthcare infrastructure and Public Private Partnership (P3) developments. She is a Board Member and Past President of the Canadian Association of Consulting Quantity Surveyors (CACQS).

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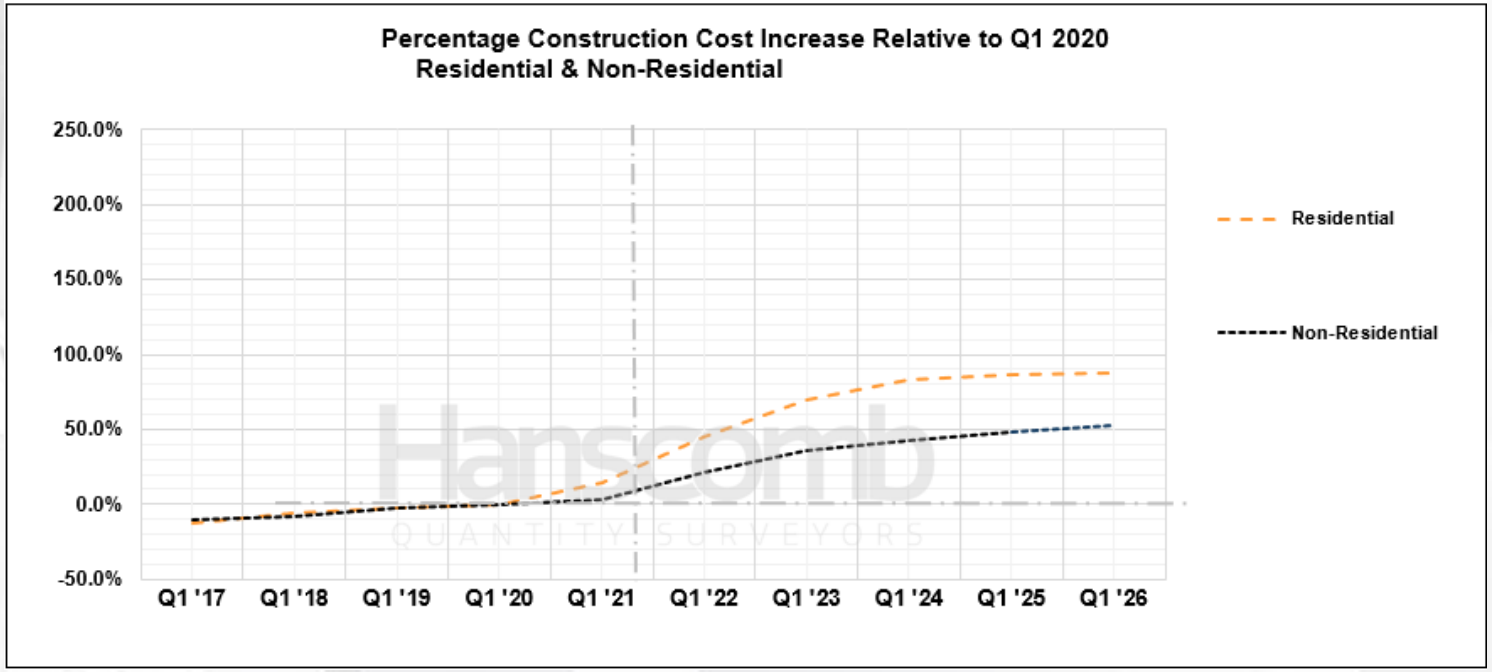
AN OVERVIEW OF HEALTHCARE COST TRENDS

1. Unprecedented Construction Cost Increases
2. Why are Hospitals Costs Escalating so High?
3. Challenges
4. Where do we go from here?

1. UNPRECEDENTED COST INCREASES

Residential & Non-Residential (compared to Q1 2020)



Building Construction Indices (BCPI) for Toronto per Statistics Canada

- Residential & non-residential construction costs up significantly since 2020
  - Prior to 2020, annual increases kept pace with inflation
  - Since 2020
    - ~52% for non-residential
    - ~88% for residential construction
  - Residential outpaced non-residential due to unprecedented housing demand and a sharp rise in lumber
  - Lumber prices stabilized, but the residential market was reset at higher price points

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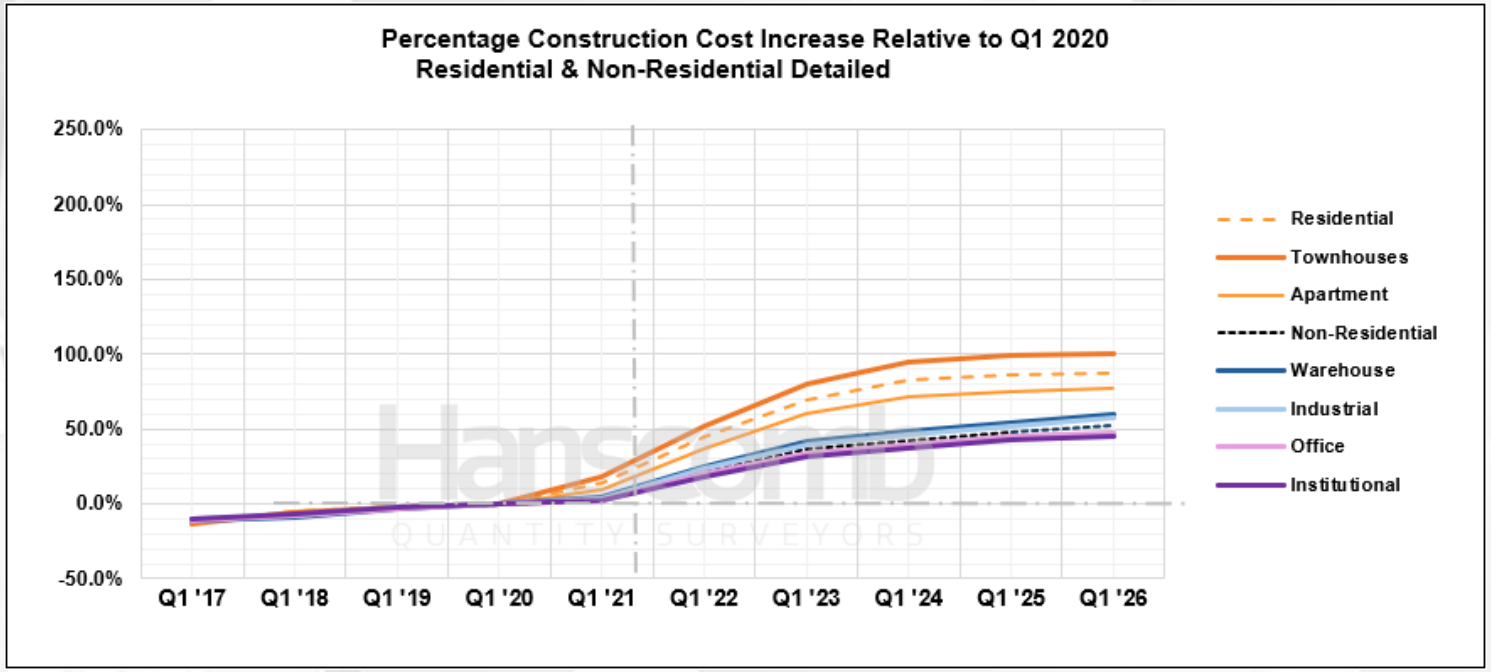
1. UNPRECEDENTED COST INCREASES

By Major Building Types (compared to Q1 2020)



Building Construction Indices (BCPI) for Toronto per Statistics Canada

- Analysis by major building types for residential & non-residential construction costs demonstrates the same trend
  - Hospitals fall under the non-residential institutional category along with education
  - Statistics Canada does not track hospital costs specifically
  - Hanscomb's Yardsticks for Costing published annually by RS Means, tracks hospital costs
  - Analysis shows that for hospitals, the cost trend is quite different (next slide)

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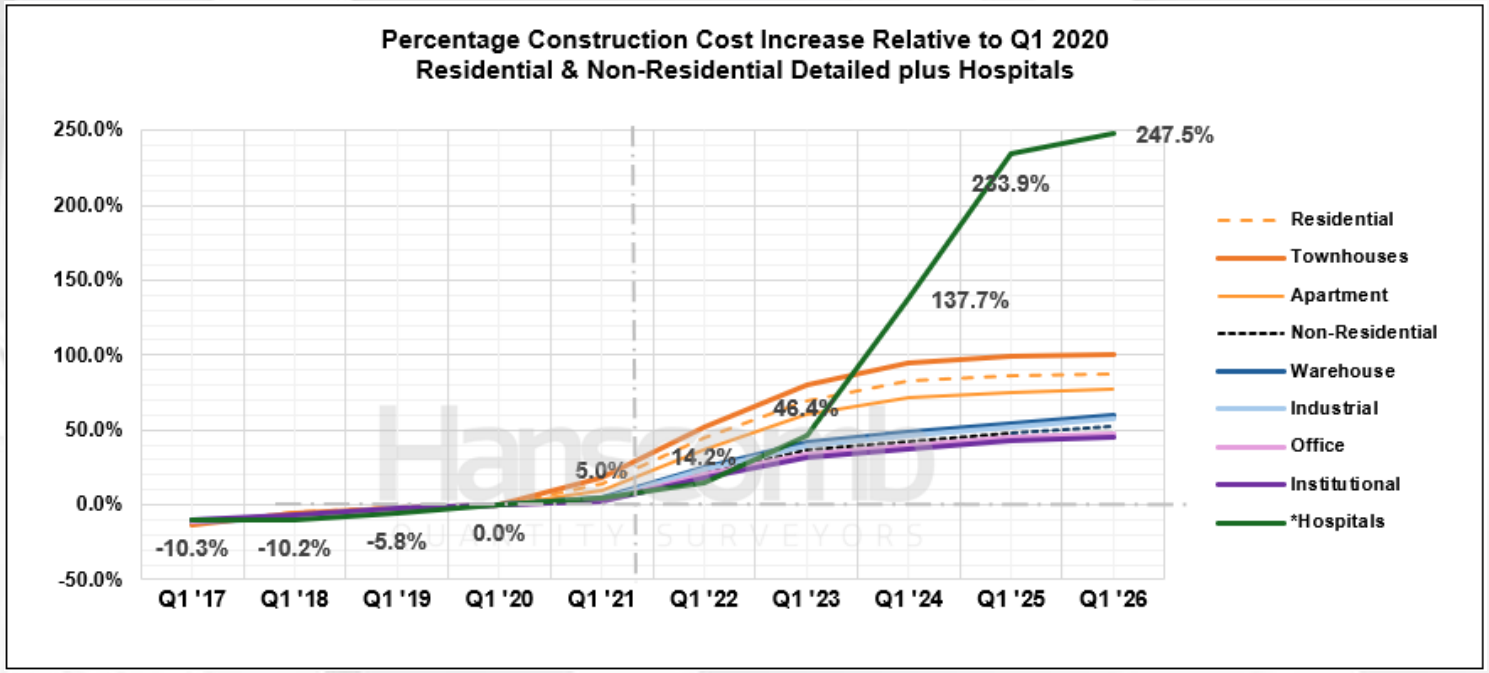
1. UNPRECEDENTED COST INCREASES

*Hospitals (compared to 2020)



Building Construction Indices (BCPI) for Toronto per Statistics Canada
*Hospital trends based on Hanscomb's Yardsticks for Construction

- Hospital costs have outpaced standard building types
  - Prior to 2020, hospitals generally kept pace with institutional projects
  - Hospital costs require resets or periodic adjustments for changes in codes, standards and best practices
  - Dramatic hospital construction cost increases became evident around 2023, but likely started earlier, with the market taking time to reveal it
  - While the graph represents Toronto costs, the trend is similar across the country

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2. WHY ARE HOSPITAL COSTS ESCALATING SO HIGH?

- Market Conditions
- Hospitals are Getting Bigger
- Hospitals are Getting More Complex
- More and Better Elements in the Same Space
- Construction Schedules are Extending

2. WHY ARE HOSPITAL COSTS ESCALATING SO HIGH?

Market Conditions

- ❑ Inflation (~20-21% from 2020-2026)
- ❑ Increased interest rates, impacting capital and financing
- ❑ Labour shortages, with some labourers never returning after the pandemic
- ❑ Recruitment for trades may never bridge the gap
- ❑ Supply chain disruptions during the pandemic interrupted again by global unrest
- ❑ Difficulties securing firm pricing at time of tender, increasing risk and impacting escalation
- ❑ More recently, tariffs have created instability in the markets
- ❑ Market saturated with large infrastructure projects in healthcare and other sectors
- ❑ Nation-building projects may redirect resources away from a limited pool of bidders for healthcare

2. WHY ARE HOSPITAL COSTS ESCALATING SO HIGH?

Hospitals are Getting Bigger

Why?

- ❑ Aging infrastructure requires the replacement of older wings / buildings / whole hospitals
- ❑ Replacing same program with no growth may double area due to changing space standards
- ❑ National Building Code increased wheelchair turning radius from 1.5 to 1.7 m (may reach 2.1 m)
- ❑ Corridors are getting wider to accommodate AGVs
- ❑ Hospitals often have one chance for approval and funding, so they ask for as much as possible

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What is the Cost Impact?

- ❑ Bigger projects limit competition and drive up costs
- ❑ Few contractors and subtrades can meet bonding and insurance requirements
- ❑ Sometimes, the largest contractors and subtrades form JVs or retain subs – who's left to bid?
- ❑ Few M&E contractors can build big hospitals – not ideal when M&E makes up 50% of the cost
- ❑ Changing space standards (i.e., accessibility) may impact standard structural grids

2. WHY ARE HOSPITAL COSTS ESCALATING SO HIGH?

Hospitals are Getting More Complex

Why?

- ❑ Technology is advancing exponentially
- ❑ Redundancy of mechanical and electrical systems is more predominant
- ❑ Increasing requirements for Green Standards, Sustainability and Carbon Reduction
- ❑ Shift to building electrification
- ❑ Accommodations for generational transitions in technology competence complicate design

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What is the Cost Impact?

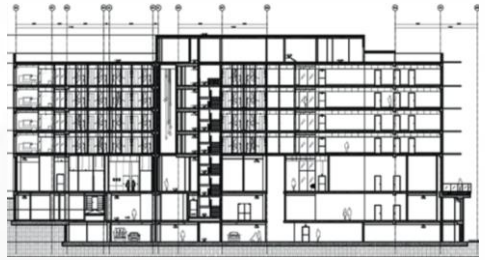
- ❑ A limited pool of M&E contractors reduces competition and raises costs
- ❑ More technology is being included in the construction contract, regardless of funding guidelines
- ❑ Attempts to “future-proof “ hospitals are complicating and making buildings more expensive
- ❑ Exponential advances in technology outpace most “future-proofing”

2. WHY ARE HOSPITAL COSTS ESCALATING SO HIGH?

More and Better Elements in the Same Space

Why?

- ❑ Inpatient rooms are generally all private with a dedicated washroom and handwash sink
- ❑ Program areas include a greater proportion of items (i.e., sinks, patient lifts, data outlets, etc.)
- ❑ Quality standards are increasing with less standardization
- ❑ Floor-to-floor heights are increasing the vertical elements of hospitals
  - ➢ Inpatient units, once 4.3 m high, are trending +4.5 m high
  - ➢ Podiums, once 5.0 m high, are trending +6.0 m high
  - ➢ Mechanical floors, once 6.0 m high, trending +7.0 m high



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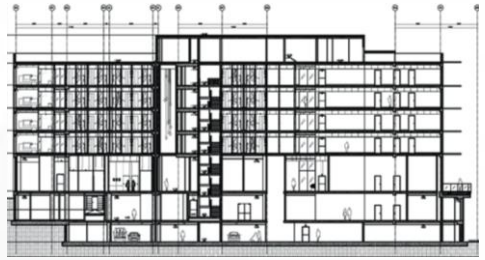

What is the Cost Impact?

- ❑ Costs increase with less standardization and more varied elements
- ❑ As floor heights increase, the costs for columns, shear walls, exterior cladding, partitions, piping/HVAC, electrical wiring/lighting, and other components also increase
- ❑ As the proportion of items increases, the cost of that space increases, and it takes longer to construct

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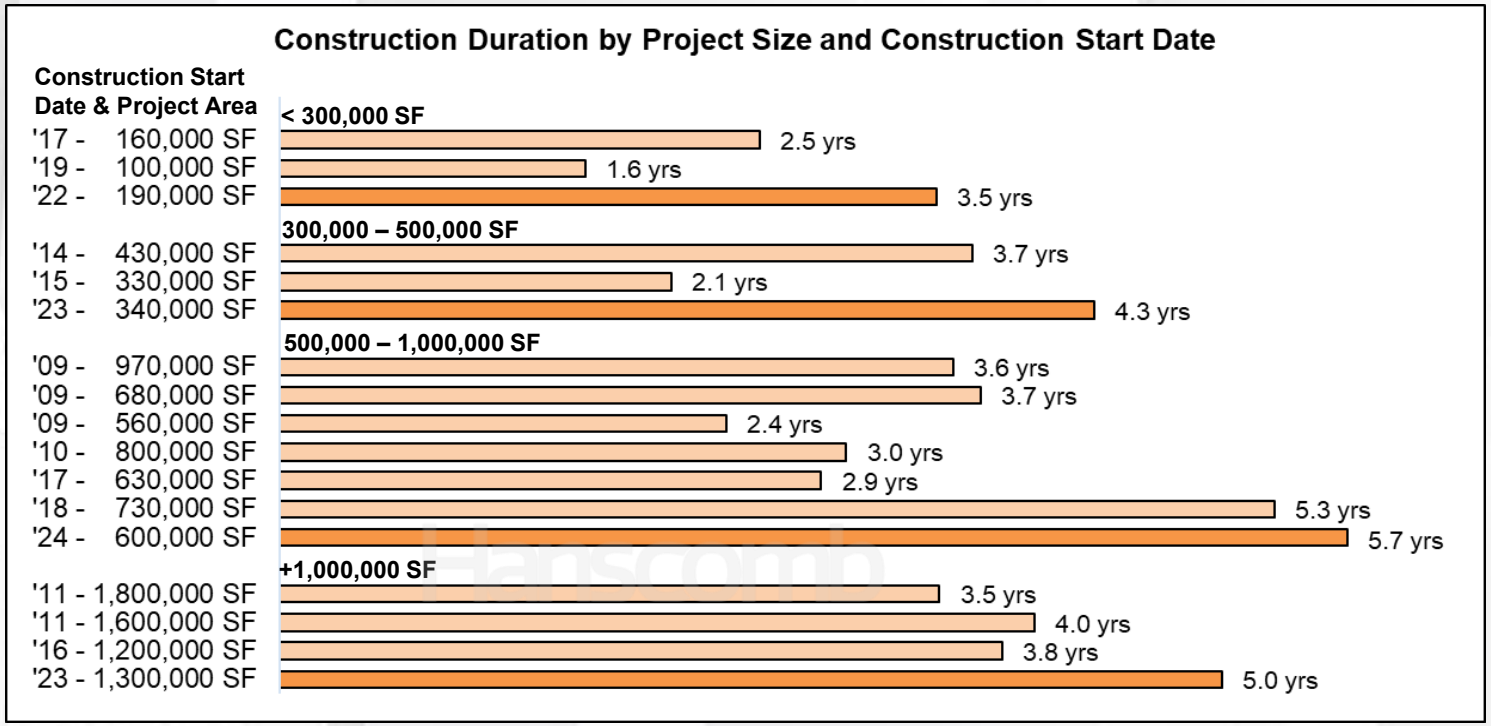
2. WHY ARE HOSPITAL COSTS ESCALATING SO HIGH?

Construction Schedules are Extending



- Construction durations have been lengthening, especially for projects over 500,000 SF
  - For example, in 2011, it took less than 4 years to build 1.8 M SF
  - More recently, it is taking closer to 5 years to build a 1.3 M SF hospital and almost 6 years for a 600,000 SF project
  - For all size groupings, the trend is showing more time to build the same or less space

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- ❑ A limited labour pool that can work on hospital projects
- ❑ Increasing infection control measures

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What is the Cost Impact?

- ❑ Time is money
- ❑ Escalation increases for projects in a market where firm pricing upfront is not possible
- ❑ General conditions increase with extended timelines for supervision, temp utilities, etc.

3. CHALLENGES

Historical Cost, Scope and Schedule Data is Less Reliable

- Benchmark rates have been reset – you can't rely on escalating previous project budgets
- While inflation has impacted costs, there are other factors:
  - Reduced competition
  - Extended schedules
  - Increased standards and best practices
  - Bigger, better and more complex design
  - Advances in integrated technology are growing – plan your vision early
  - Carbon quantification and carbon reduction strategies
- Project statistics have changed because of code, standards and best practices
- Hospitals have a heightened "sector" premium for standard products

3. CHALLENGES

Larger Facilities are Costing More per Square Foot

- Rising costs for larger facilities are counterintuitive
  - A decade ago, building bigger brought efficiencies in costs and schedule
  - Since 2020, hospitals have started experiencing the opposite
  - Fewer contractors elect to bid or can bid on the large projects
  - MOH is requiring that projects be phased to reduce project size and attract more bidders

Approximate Hospital Area	Construction Rate Range Based on Current Market
<300,000 SF	$1600 - 1900/SF
300,000 - 500,000 SF	$1900 - 2400/SF
500,000 - 1,000,000 SF	$2000 - 2600/SF
+1,000,000 SF	$2200 - 2700/SF

3. CHALLENGES

Procurement

- Reduced competition is demanding alternative, alternative procurement models
- Industry is testing collaborative procurement (Progressive, IPD, Alliance, etc.)
- Collaborative approaches demand experienced partners, limiting those who can participate
- It is difficult to assess “value for money or investment” when the benchmark appears to be based on recent mega projects with limited to no competition
- Make sure your team is equal in knowledge and experience to engage in a meaningful way with your private sector partner
- Ensure that there is oversight, not only of dollars but of quantities on a project
  - Quantities are the best way to monitor & control scope and costs, regardless of the market
  - Without quantities, there is no frame of reference for your project or ability to benchmark

3. CHALLENGES

Approval

- Business Cases produce a Master Plan vision for a hospital site(s), but the window of opportunity for government interest and approval is small
- Reduced competition is demanding smaller “first asks” through a phased Master Plan approach
- Even if the first phase is approved, there is NO guarantee that subsequent phases will be approved
- Often, the first phase of a project does not address clinical needs, but instead infrastructure and parking
- Hospitals are faced with tough decisions on how to “sell” their project to government and their Board while trying to meet patient needs and attract medical staff

4. HOW DO WE BUILD FROM HERE?

PANEL DISCUSSION

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Thank you

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