

**COST OF CONSTRUCTION UPDATE FOR THE YEAR 2022:
POSITION OF SRI LANKA (COLOMBO) WITHIN THE SOUTH ASIAN
REGION**

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ABSTRACT

Sri Lankan construction industry contributes around 7-8 percent to the Gross Domestic Product (GDP) of the country. Even though construction activities often act as a reliable bellwether for economic performance of a country, the construction industry demand is fluctuated due to several factors. The Easter Sunday bomb attack, COVID-19 pandemic and economic downturn with political instability occurred in Sri Lanka within the period of 2019 - 2022 have adversely impacted the demand for construction. The said instabilities and resultant debt crisis have become critical factors which have negatively impacted the demand for construction. This study is to provide more cognitive information on the update of cost of construction in Sri Lanka with year 2022 data.

Keywords: *Cost of Construction, Covid 19 pandemic, Demand, Economic downturn*

1. INTRODUCTION

This article updates the technical paper published for the year 2018 in Focus Journal, Volume 10: Issue-01, March 2020 published by Institute of Quantity Surveyors, Sri Lanka, revising the published data of the article “Cost of Construction – Position of Colombo, Sri Lanka within the South Asian Region.” with the information for the year 2022. Notably, the COVID-19 pandemic and economic downturn with political instability occurred in Sri Lanka within that period. The said instabilities and resultant debt crisis pushed the country to an economic crisis and then to the extent of declaring bankruptcy. Accordingly, the construction industry also went into a crisis. The year-on-year contraction recorded in the construction industry from 2021 to 2022 is 20.9% as per the Central Bank Annual Report of Sri Lanka 2022.

In June 2023, with the International Monetary Fund’s debt restructuring programme, there is a slight improvement in tourism, some increase in foreign workers’ remittances to Sri Lanka, no considerable fuel shortages and no power cuts. However, the demand for construction and investor confidence is still weak as the substantial contraction of 20.9% may take a reasonable recovery period.

2. METHODOLOGY

This article represents the data selected from the typical constructions of the below categories and converted to a single currency of US\$, enabling easy understanding and visualising. However, a change in the exchange rate makes a huge difference. If the particular currency is strong compared to the base currency, the cost of construction will appear high.

1. Residential
 - a. Townhouses medium standard
 - b. Apartments high-rise
2. Aged care / affordable units
3. Warehouse/factory units – Basic
4. Hotels
 - a. 3 Star travellers
 - b. 5 Star Luxury

Moreover, the following cost elements have been excluded from unit rate calculations to make a uniform basis for comparison.

1. External works,
2. Landscaping,

3. Demolition,
4. Loose furniture,
5. Fittings and equipment,
6. Professional fees,
7. Legal and finance fees, and
8. Soil investigations.

The costs of construction in different cities in the South Asian region except Colombo were obtained from the International Construction Market Survey 2022 published by Turner & Townsend, Construction Market Update 2022 by Rider Lever Bucknull, and Construction Cost Handbook published by ARCADIS. The cost of construction in Colombo was prepared using the historical cost data available with the authors.

3. DATA ANALYSIS AND PRESENTATION

Tables 1, 2 and 3 below provide updates on the cost of construction in 2022 of various cities in Asia for the different building types. The construction costs of different cities have all been converted to US\$. to enable comparison.

Table 1: Costs of construction (Residential) in US\$ per m² and their rankings in ascending order

City /Country in the South Asian Region	Apartments high-rise		Townhouses medium standard	
	Cost (US\$)	Rank	Cost (US\$)	Rank
Mumbai	658.80	1	448.00	2
Shanghai	725.40	2	701.80	5
Ho Chi Minh City	741.50	3	485.00	3
Jakarta	1,009.90	4	592.00	4
Kuala Lumpur	1,122.50	5	302.50	1
Colombo	1,250.01	6	750.00	6
Manila	1,970.50	7	1,054.00	7
Singapore	2,215.80	8	2,363.50	8
Hong Kong	4,085.60	9	4,468.60	9
Tokyo	5,107.40	10	4,118.90	10

Source: Turner & Townsend: International Construction Market Survey (2022), Rider Lever Bucknull: Construction Market Update 2022 & ARCADIS Construction Cost Handbook (2022)

Table 2: Costs of construction (Industrial/warehouses) in US\$ per m² and their rankings in ascending order

City /Country	Construction Cost (US\$)	Rank
Ho Chi Minh City	416.50	1
Kuala Lumpur	497.50	2
Colombo	520.70	3
Shanghai	630.80	4
Mumbai	658.80	5
Manila	832.00	6
Jakarta	1,567.10	7
Singapore	2,880.60	8
Hong Kong	3,574.90	9
Tokyo	4,530.80	10

Source: Turner & Townsend: International Construction Market Survey (2022), Rider Lever Bucknull: Construction Market Update 2022 & ARCADIS Construction Cost Handbook (2022)

Table 3: Cost of construction (Hotels and Resorts) in US\$ per m² and their rankings in ascending order

City /Country	3 Star travellers		5 Star Luxury	
	Cost (US\$)	Rank	Cost (US\$)	Rank
Mumbai	856.40	1	1,119.90	1
Jakarta	940.30	2	1,556.60	3
Shanghai	1,017.20	3	1,892.40	4
Colombo	1,017.45	4	1,325.25	2
Kuala Lumpur	1,275.00	5	2,310.00	7
Manila	1,374.50	6	1,863.50	5
Ho Chi Minh City	1,596.50	7	1,994.00	6
Singapore	3,028.30	8	3,840.80	8
Hong Kong	4,213.20	9	5,362.30	9
Tokyo	5,148.60	10	7,208.10	10

Source: Turner & Townsend: International Construction Market Survey (2022), Rider Lever Bucknull: Construction Market Update 2022 & ARCADIS Construction Cost Handbook (2022)

Table 4 gives updates for the overall cost of construction of each city as the mean value of the costs of construction of the different categories of buildings.

Table 4 Overall cost of construction in US\$ per m² and their rankings in ascending order

City (Country)	Construction Cost (US\$)	Rank
Kuala Lumpur	946.94	2
Mumbai	720.78	2 1
Ho Chi Minh City	948.56	3
Shanghai	961.98	4
Colombo	972.63	5
Jakarta	991.68	6
Manila	1,313.78	7
Singapore	2,486.06	8
Hong Kong	4,042.00	9
Tokyo	4,128.10	10

Source: Turner & Townsend: International Construction Market Survey (2022), Rider Lever Bucknull: Construction Market Update 2022 & ARCADIS Construction Cost Handbook (2022)

4. DISCUSSION AND CONCLUSIONS

According to the costs of construction in Sri Lanka for the Year 2022, as detailed in Section 3, there had been a sharp increase in construction costs due to the economic crisis in the country due to import restrictions, resultant material shortages, fuel price hikes, and substantial increase of freight charges. Hence, the prices of a large variety of materials in December 2021 went up by more than 100%, and in the latter part of the Year 2022, some materials went up by more than 200%, such as glass, steel products, and PVC products.

On the other hand, the countries in the region have been recovering from COVID-19 and have shown some positive economic growth. This construction cost comparison shall be understood in that context.

Even in such adverse conditions, the Sri Lankan construction cost remained competitive as per the above information. The construction cost in Colombo is the fourth lowest in the South Asian region (Table 4). Even though the Sri Lankan construction industry primarily consists of significant imports for building services trades and new technologies, the Colombo construction prices became comparatively higher than in Mumbai, Jakarta and Ho Chi Minh City. The import dependency is comparatively low in those countries than in Sri Lanka due to the possession of many raw materials. Those economies are much more integrated with the global supply chain as well when compared to Sri Lanka. That could be a reason for the comparatively low construction costs recorded in those countries.

In order to reduce the costs of construction in Sri Lanka, it is required to get integrated into the global supply chain to make value-added products in the country and innovate suitable local materials to reduce the import component. In addition, waste minimisation, use of recycled materials and productivity improvement must be implemented.

Overall construction cost increase is now contributed by the VAT 15% and the cascading effect of the Social Security Contribution Levy (SSCL) through the entire supply chain. As per the authors' practice experience, the aggregate impact may be about 6%, the high-interest impact of about 8%, corruptive and tardy systems would impact about 5%, and inefficiency about 5%. These are totaling 24% except the VAT. Hence, proper research shall be conducted to find out the above percentages as the same are from the practice experience of the writers to have a general idea about the subject.

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