

**COST OF CONSTRUCTION UPDATE FOR THE YEAR 2024: POSITION  
OF SRI LANKA (COLOMBO) WITHIN THE ASIAN REGION**

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# **COST OF CONSTRUCTION UPDATE FOR THE YEAR 2024: POSITION OF SRI LANKA (COLOMBO) WITHIN THE ASIAN REGION**

## **ABSTRACT**

Sri Lankan construction industry contributes around 7-8 percent to the Gross Domestic Product (GDP) of the country. Construction activities often act as a reliable bellwether for the economic performance of a country. The severe economic downturn experienced in Sri Lanka during the past few years has adversely impacted the construction industry demand. However, the Sri Lankan construction industry reemerged during the year 2024, having gone through a challenging period of inflationary pressure, instability and disruption. In the current reformation backdrop of social, political and economic sectors, the Sri Lankan construction industry shows a mixed perception.

Despite the challenges, most of the local markets have maintained reasonably steady activity levels during the year 2024, with indications that demand for construction is now growing as investor confidence slowly starts to return. This study has been done to provide more cognitive information on the update of cost of construction in Colombo, Sri Lanka with year 2024 data (third quarter) in the above context.

Since this report is released at a critical juncture, as described above it is observed that the data varies within shorter periods. The report highlights that the position of the cost of construction of Colombo Sri Lanka among the other major Asian cities in August / September 2024.

Keywords: Cost of Construction, Inflation, Construction Materials, Investor, Asia.

## **1. INTRODUCTION**

This article updates the previous technical paper, published in the year 2023 in Technical Research Proceedings 2023 by the Institute of Quantity Surveyors Sri Lanka, titled as “Cost of Construction – Position of Colombo, Sri Lanka within the South Asian Region.”

The Sri Lankan economy shows a positive trend in coming out from the recession. An upward trend is expected of the Gross Domestic Product (GDP) of Sri Lanka in the year 2024, as the year 2022 GDP of US\$ 73.15 billion bettered by the GDP of US\$ 84.34 billion in 2023, in accordance with the literature. The Consumer Price Index (CPI) in 2024 has risen by 9% higher than in the year 2022. Over the last 24 months, the CPI changed from 153.6 to 200.7, suggesting that inflation is managed to a considerable level when compared to the years 2019/2020.

The behavior of the construction industry reflects the country’s economy and vice-versa, it is noticeable that the 7.3% of overall growth of the local construction industry has been predicted for the year 2024, in the literature but no confirmed published data yet. However, proposed SVAT system abolition, prior to any acceptable alternative in place, may discourage investments. Before operations are started in a built facility and prior to any income is generated, over 20% of final taxes are payable otherwise by an investor in addition to other taxes / levies in the process.

## 2. METHOD

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

1. Apartments high-rise
2. Offices
  - a. High-rise prestige
  - b. Up to 20 floors medium
3. Large warehouse distribution center
4. Large shopping center including mall
5. Neighborhood including supermarket
6. 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.

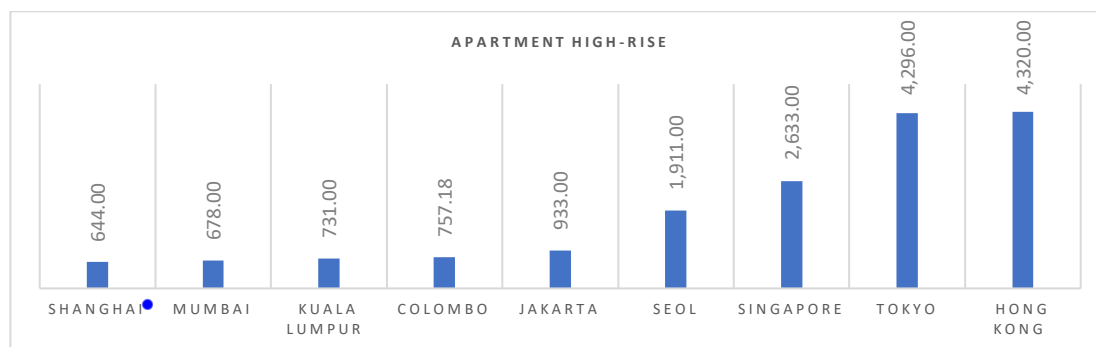
1. External work and landscaping,
2. Demolition,
3. Loose furniture,
4. Fittings and equipment,
5. Professional fees,
6. Legal and finance fees
7. Final taxes (VAT), and
8. Soil investigations.

The costs of construction in different cities in the Asian region except Colombo were obtained from the International Construction Market Survey 2024 published by Turner & Townsend, Construction Market Update 2024 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

Figure 1 to 7 below provide updates on the cost of construction in 2024 of various cities in Asia for the different building types. The construction costs of different cities have been converted to US\$. to enable uniform comparison.

**Figure 1:** Costs of construction (Residential) in US\$ per m<sup>2</sup> in ascending order.



**Source:** Turner & Townsend: International Construction Market Survey (2024).

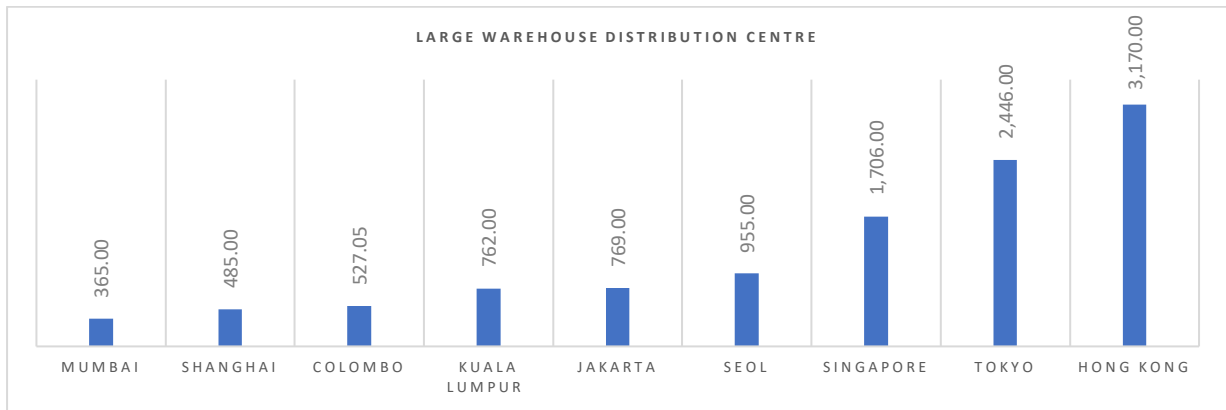
(\*Shanghai cost data may be verified further).

**Figure 2:** Costs of construction (Offices) in US\$ per m2 in ascending order



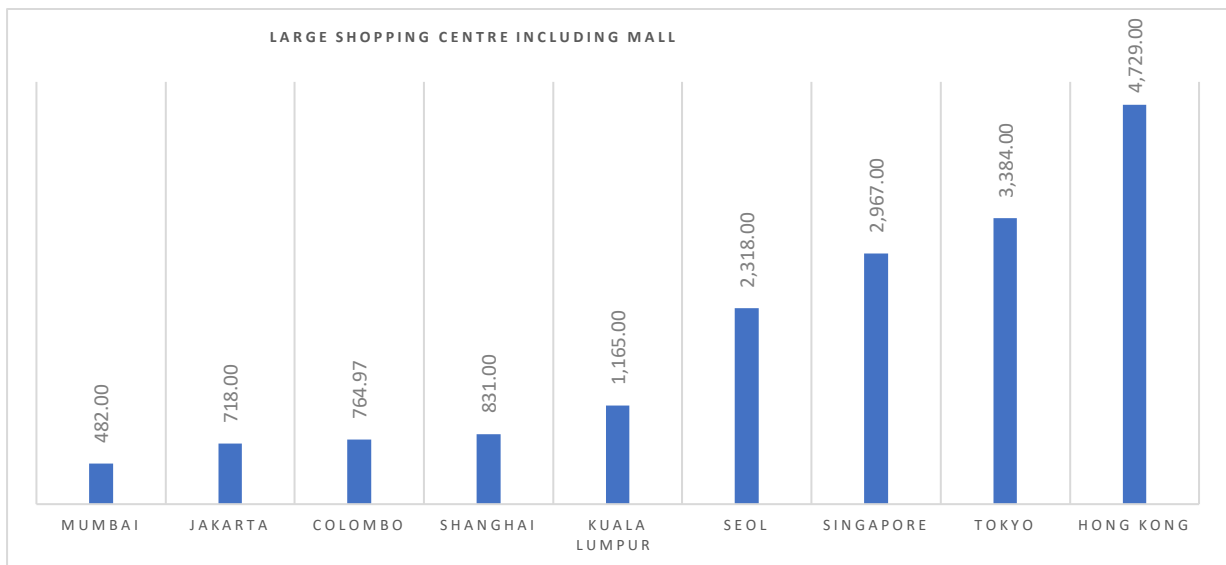
**Source:** Turner & Townsend: International Construction Market Survey (2024)

**Figure 3:** Costs of construction (Large warehouses) in US\$ per m2 in ascending order



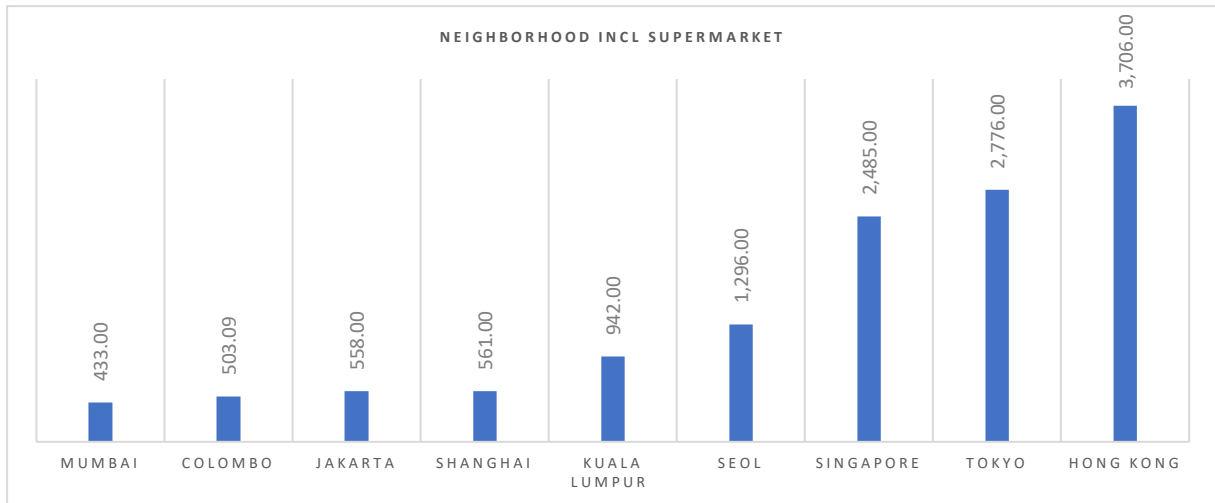
**Source:** Turner & Townsend: International Construction Market Survey (2024)

**Figure 4:** Cost of construction (Large shopping complex) in US\$ per m² in ascending order



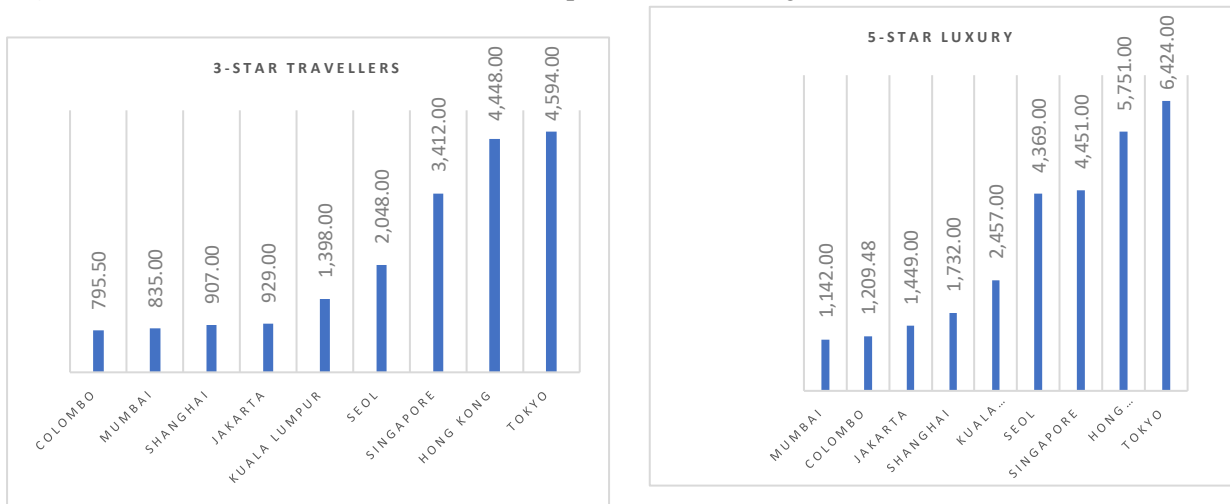
**Source:** Turner & Townsend: International Construction Market Survey (2024)

**Figure 5:** Cost of construction (Neighborhood including supermarket) in US\$ per m<sup>2</sup> in ascending order



**Source:** Turner & Townsend: International Construction Market Survey (2024)

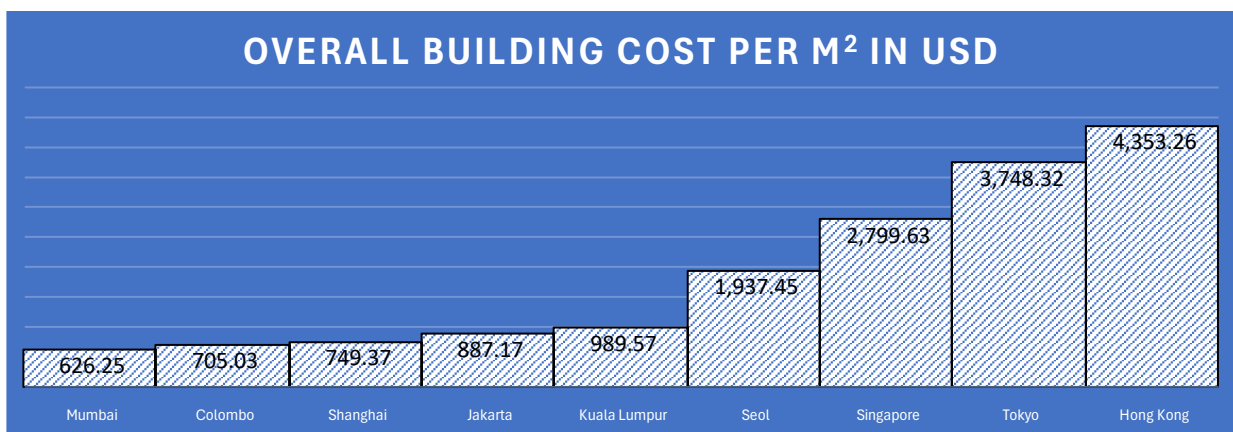
**Figure 6:** Cost of construction (Hotels) in US\$ per m<sup>2</sup> in ascending order



**Source:** Turner & Townsend: International Construction Market Survey (2024)

Figure 7 provides 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.

**Figure 7:** Overall cost of construction in US\$ per m<sup>2</sup> in ascending order



**Source:** Turner & Townsend: International Construction Market Survey (2024).

#### 4. DISCUSSION AND CONCLUSIONS

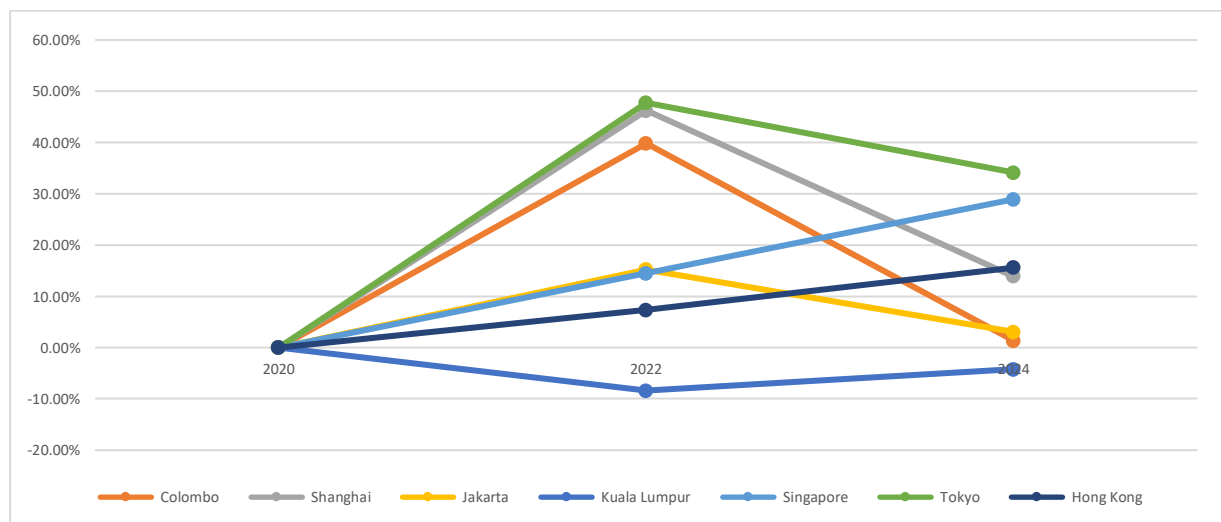
The construction industry of Colombo Sri Lanka shows an impressive positive growth rate and improved cost competitiveness within the selected cities in the Asian region when compared to the year 2022. Based on the Construction Industry Development Authority (CIDA) bulletin of construction statistics published in the year 2024, the major materials' average prices such as reinforcement steel, cement and concrete decreased by 35%, 24%, 15% respectively in 2024 when compared with the year 2022. In comparison to average prices with the peak prices in the year 2022, they dropped by 51%, 39%, 35% respectively for reinforcement steel, cement and concrete. Whereas the construction labour wages index in the year 2024 increased by 4% when compared with the year 2022. In terms of fuel prices, the average diesel price decreased by 35% from the prices of the year 2022. The average rate of USD conversion to local currency decreased by 9% and it's a drop by 19% from its peak in mid-2022.

As a result of the above behavior, overall cost of construction in Colombo, Sri Lanka changed its position from the 5<sup>th</sup> place to the 2<sup>nd</sup> lowest place while Mumbai stands as lowest in the region and lower by 11% than in Colombo. Further the residential building sector changed from 6<sup>th</sup> place to 4<sup>th</sup> lowest and the three star rated hotel buildings stands in the lowest position while the five star rated hotel buildings stands in the 2<sup>nd</sup> lowest position where it was in the 4<sup>th</sup> place as per year 2022 data. The cost of construction of the warehouses secured the same 3<sup>rd</sup> place in 2024 as well.

In addition to that, the position of the high-rise offices, medium rise offices and the shopping complex buildings including neighborhoods are in the 2<sup>nd</sup> lowest position while the shopping complex building itself secured the 3<sup>rd</sup> lowest position.

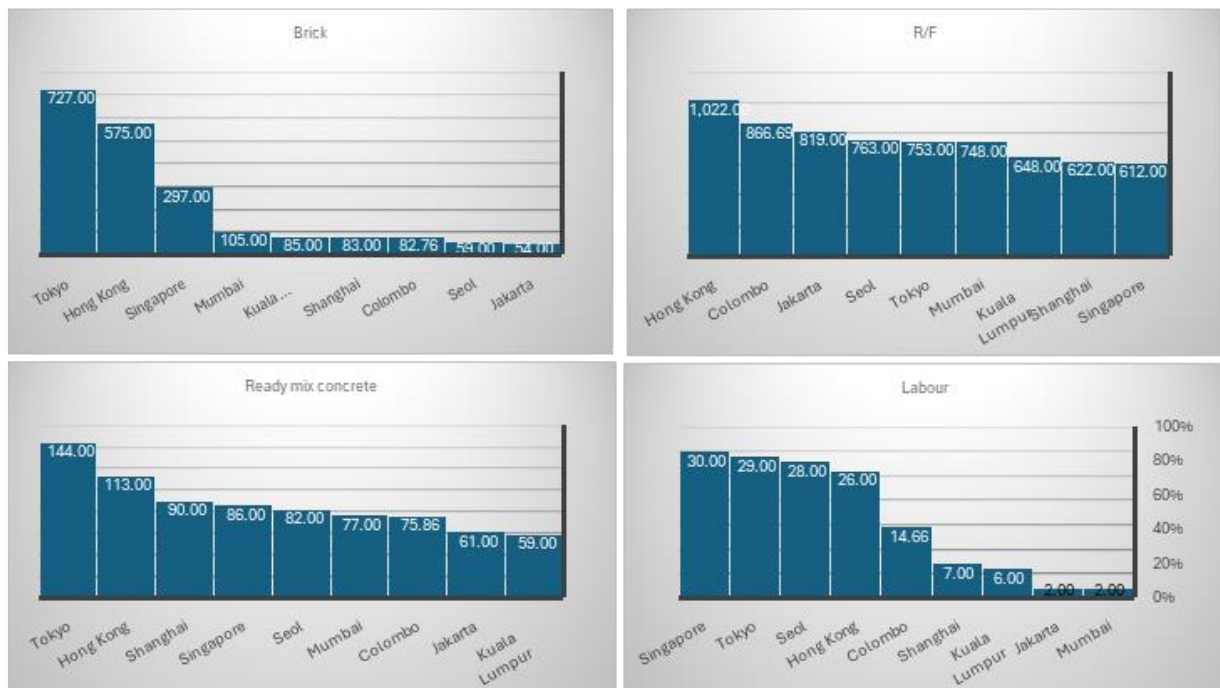
It would be better to have further verification of the source data taken for the cost of apartment construction of Shanghai city and labour costs taken for the Shanghai and Kuala Lumpur cities, when using them.

However, percentage deviation of the cost of construction until 2024, considering year 2020 as the base, can be illustrated as follows.

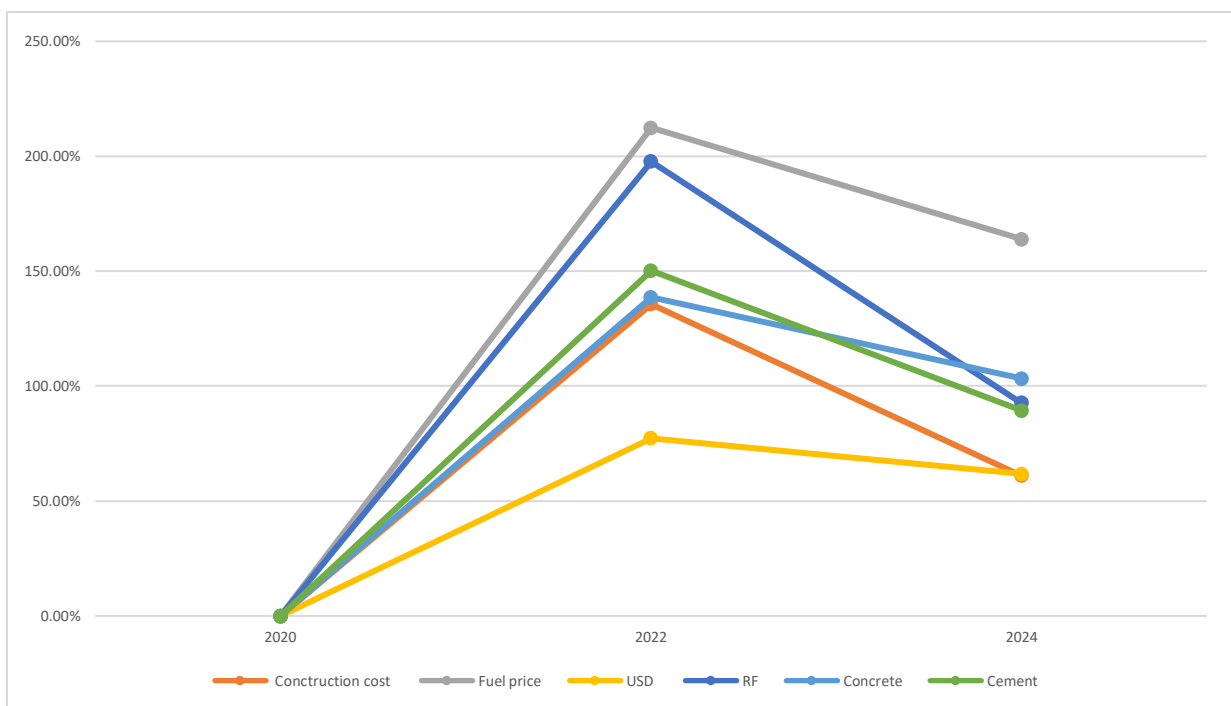


*(Noteworthy to see that some countries have not been negatively impacted by the COVID pandemic and therefore a further verification of data available may be necessary on same).*

It is evident from the above graph; the countries' behavior is different on the impacts due to various events during the period of concern. However, the behaviors of the prices of major materials and labour in Colombo Sri Lanka still shows comparatively higher values when compared with the other Asian countries as depicted below.



The relationship between the percentage deviation of the cost of construction in relation to fluctuation of prices of fuel, USD, reinforcement, concrete and cement until 2024, considering year 2020 as the base, can be illustrated as follows. Data are based on average annual, and not from peak.



Above information disclose a correlation of given variables and impact thereof on the cost of construction where Sri Lanka imports most of the construction inputs. The fluctuation of both exchange rate and fuel, would make multiple impacts on the price of other inputs across the value chain and thus varying level of fluctuations are evident for those other inputs.

Subject to further research this variance in levels may be contributed by import duties, taxes, levies, market conditions including oligopolies and price or markup manipulations.

In light of the slow performance of Sri Lankan real estate industry, construction material prices are projected to decline. Concurrently, influenced by the global economic environment, metal material prices may also be expected to fall. The price level within the construction market is anticipated to remain stable or experience a slight downward trend in the forthcoming year. At the time of writing this article, making the above prediction justified, the price levels of the overall construction cost and major materials showed further downward trend from the data date (3<sup>rd</sup> quarter of 2024) to mid-February 2025.

Sri Lanka expects major foreign direct investments in port city as well during and after year 2025. Within the port city the construction is exempted from import related duties and taxes while there are many other concessions on revenue taxes. Some experts say the regulations need changes to attract more investment though. However, as of now few projects are on the drawing boards and one main project has marked the commencement. With the authors experience, the cost of construction in port city Sri Lanka of leisure/hotel projects appears as US Dollars 1,000.00 per m<sup>2</sup> to 1,600.00 per m<sup>2</sup>, depending on the level of specification, nature and complexity of the projects.

Even if the days of double-digit construction inflation are over, this does not mean that the industry's challenges have been resolved. Repositioning construction industry as a vibrant and robust industry remains a challenge since many sub sectors in the value chain need further stimulus support. The oligopolistic material markets are too blamed for high price levels. Not only that the costs of finance remain comparatively higher than international markets, but the specification enhancements linked to low-carbon performance will also result in increased initial costs even if markets remain stable. Differential inflation and exchange rates also add complexity to the problem, while the impact of regulations and client expectations do contribute to it.

Sri Lankan construction industry investments would mainly be on tourism, housing, industrial and services (health, education, technological) sectors. The abandoned highway projects that are essential may be re-commenced in future. The light railway transport project planned, and Airport expansion too would be recommenced.

In view of the above, the industry's collective focus must be on designing and delivering projects efficiently on competitive time and monetary budgets. Improving law and order, governance and transparency (at policy level) will help doing business and conducive investment environment in Sri Lanka giving impetus to the local construction industry. Productivity-led design, efficient procurement systems, new construction methods, and contemporary and new technology adoption may be required (at industry level) to overcome endemic affordability challenges. Many experts opined that research and development culture should be inculcated amongst the other things for the construction industry to improve its efficiency and reduce the cost of inefficiency. Innovative materials, reduction of imports, making more value-added products, new technology adoption, training are mentioned in the general literature as key areas that industry stakeholders should focus (at sector level).

During the literature review, it was found that the local construction industry is largely fragmented (even globally). Particularly in Sri Lanka, there are various professional, stakeholder and semi government / government institutions, each making proposals to the government with no avail. Collective initiatives by all of them for improvements mentioned above may provide positive impacts at industry and sector levels with minimum essential support from the government, to offer competitive and convivial offer to investors in construction works.



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