

Market Outlook of Construction post Covid-19

The first wave of the Covid-19 has caused immense disruption and the Indian construction industry which is the second largest industry after agriculture has been struck hard, with the supply chain and labour being distorted. In many ways, India's lock down was completely different to the western world and there was complete stoppage of construction sites.

While other sectors could have 'work from home' options and continue with their deliverables, the construction industry had no actual progress on ground. Extended lock down measures along with changes in business plans and financial viability of all 'under construction' projects created tremendous uncertainty. Reverse migration of work force led to acute resource shortage to complete urgent and pre-monsoon work and potential sub-contractor / contractor's inability to pay their supply chain clogged the whole wheel in the short to medium term period. In order to understand what the perceptions of the recovery of the industry in the near future are, Gleeds carried out a survey to assess the market outlook on the recovery of the construction industry.

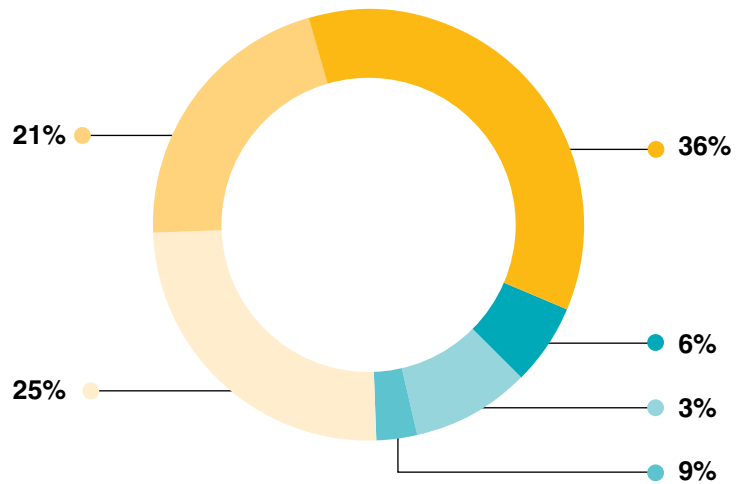
Participants across the industry pan India responded with their thoughts concerning various aspects of lock down situations, financial impacts on rates of material and labour, expected time to return to normalcy after completion of lock down, impact on project durations and expected changes in overall costs in medium to long term amongst others. The responses were tabulated and is reported below. The survey results are based on the 2nd Week of May 2020.



1. Survey Respondents

The survey respondents represented consultants, developers, contractors, designers, and end user clients

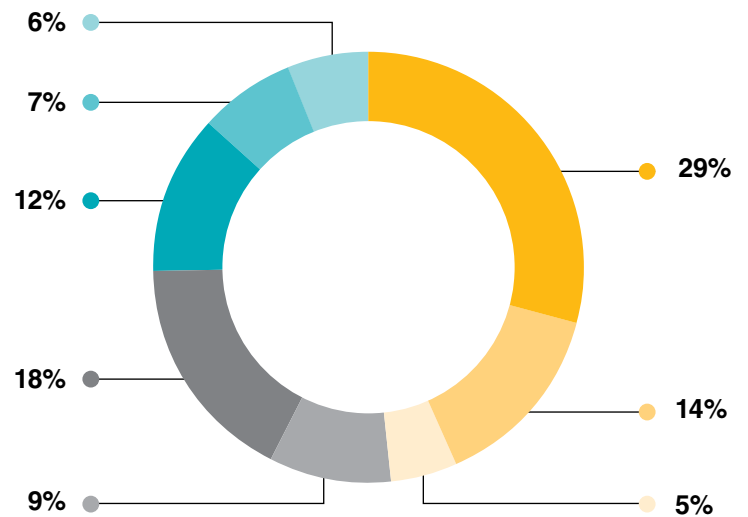
- Consultant
- Developer
- Contractor
- Designer
- End user clients
- Others



2. Sector Wise Prominence in the Industry

The respondents have a varied prominence in various sectors of the industry.

- Residential
- Hospitality
- Education
- Retail
- Office
- Industrial
- Healthcare
- Others



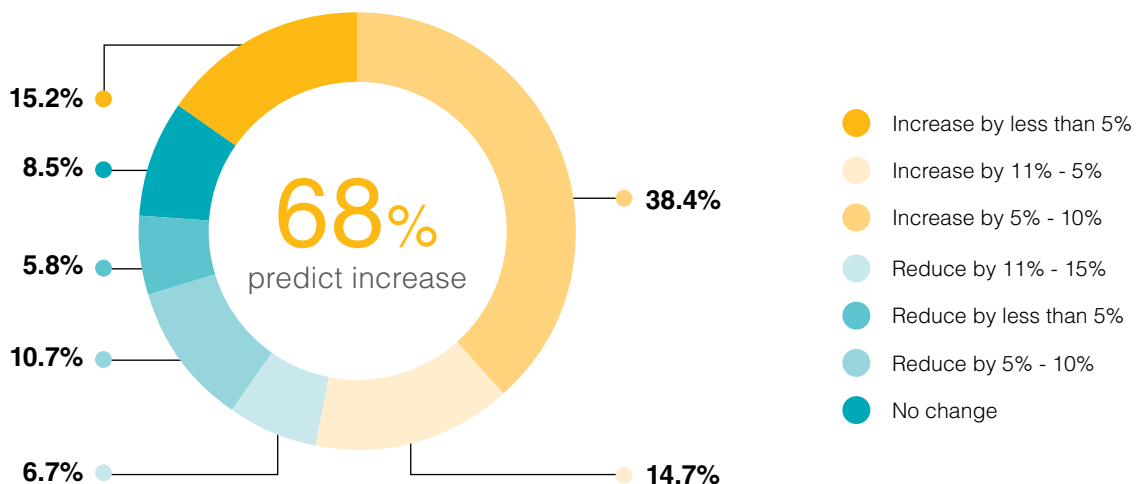


3. Cost of Construction

With the ongoing change in supply chain and migrant labour leaving the cities and abandoning construction sites, there is an inevitable change in construction costs. However, the extent of change is a varied opinion.

All respondents believe that the overall cost of construction will be affected, whether positive or negative.

When asked what gradient of change is expected in Cost of Construction (COC) once construction activities are normalized, 68% of the respondents indicate that the cost of construction will increase with majority of them believing cost of construction will increase by minimum of 5% to 10%.



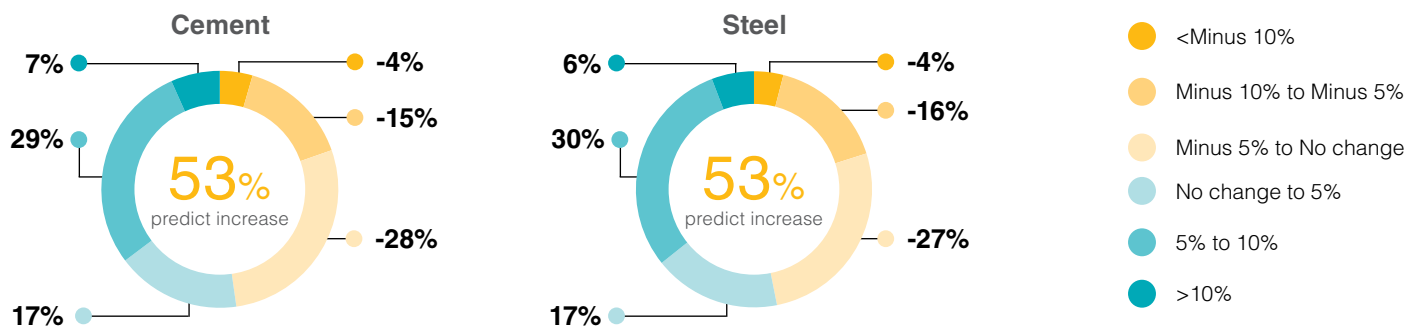
Anticipated Price Movement

All respondents believe there will be a change in cost of construction and the factors that are deemed to influence the cost of construction.

When asked what the impact on costs are for material, labour and contract components, the majority of the respondents believe in an increase in costs and are demonstrated below.

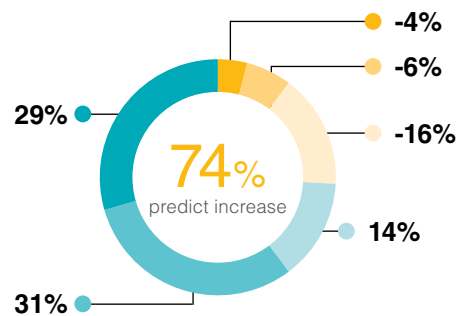
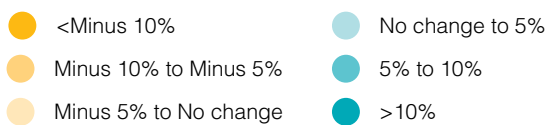
Cement and Steel

It is noted that 53% of the respondents believe there will be an increase and the overall increase is estimated to be 5%.



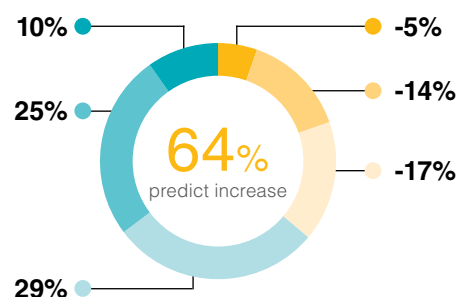
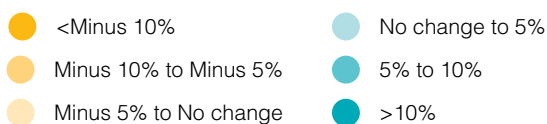
Labour

74% of the respondents believe there will be an increase in labour wages. Wages are estimated to go upto by 10% or more.



High-End Equipment (eg. Crane, Elevator, STP etc.)

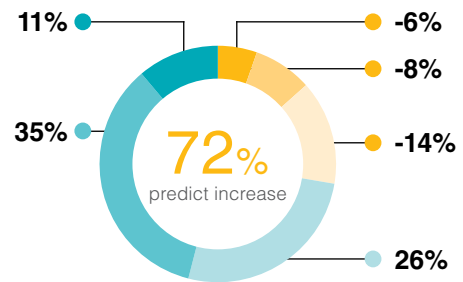
The cost of high-end equipment are expected to increase upto 5%, with nearly 64% of the respondents expecting an increase.



Delay in Transportation

The costs of materials as a result of delay in transportation will increase by 5% to 10% with 72% of the respondents indicating an increase in costs.

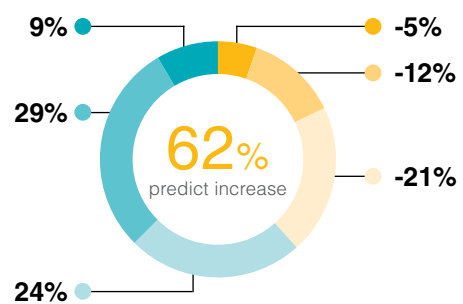
- <Minus 10%
- Minus 10% to Minus 5%
- Minus 5% to No change
- No change to 5%
- 5% to 10%
- >10%



Contractor's Preliminaries

The contractor's preliminaries will increase by 5% to 10% and 62% of the respondents believe in an increase in costs.

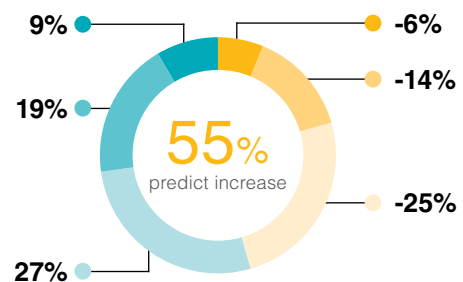
- <Minus 10%
- Minus 10% to Minus 5%
- Minus 5% to No change
- No change to 5%
- 5% to 10%
- >10%



Admin Costs

Admin costs are likely to increase marginally with 55% of the respondents indicating an increase.

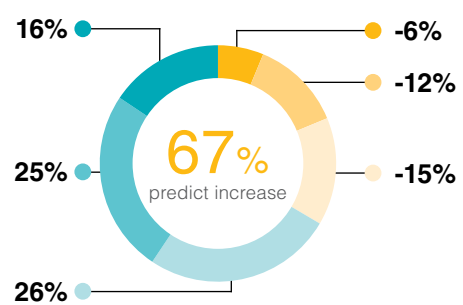
- <Minus 10%
- Minus 10% to Minus 5%
- Minus 5% to No change
- No change to 5%
- 5% to 10%
- >10%



Imported Material

67% of the respondents believe that the costs will increase. The increase of cost is likely to be 5%.

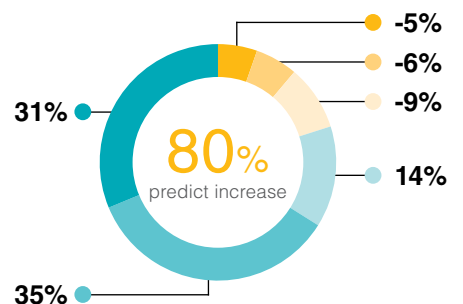
- <Minus 10%
- Minus 10% to Minus 5%
- Minus 5% to No change
- No change to 5%
- 5% to 10%
- >10%



Costs towards Health and Hygiene

Health and hygiene costs will increase to 10% and beyond. It is also noted that 80% of the respondents agree that costs will increase.

- <Minus 10%
- Minus 10% to Minus 5%
- Minus 5% to No change
- No change to 5%
- 5% to 10%
- >10%



4. Migrant Labour Exodus



The construction sector of India is the best representation of the informal workforce, which employs 36.12 million workers. Most workers migrate from smaller villages to bigger cities to look for work. With more demands from Real Estate sector / Infrastructure sector across India, the movement of workforce from hinterlands to metro cities have seen steady and natural growth.

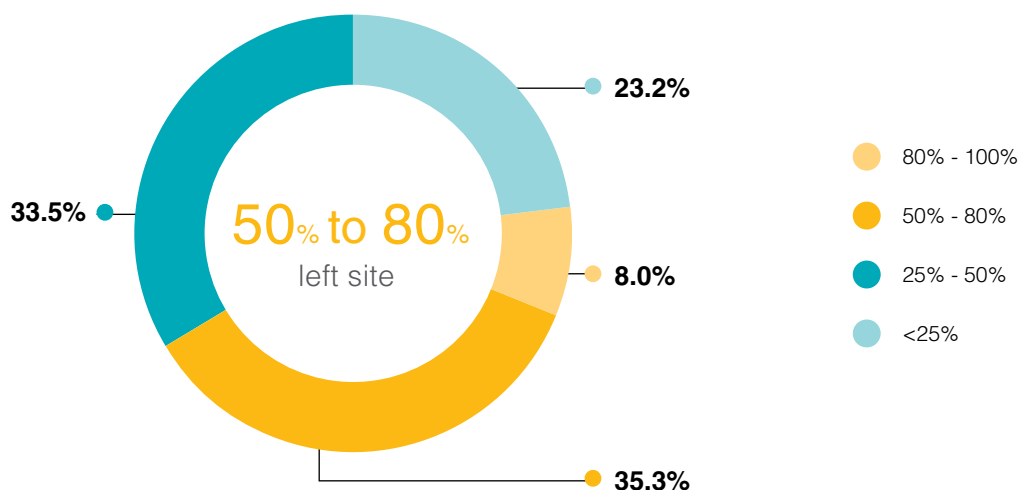
In the given situation of prolonged lock down, most migrant labour have fled the cities to reach their homes.

There have been some large Grade-A contracting companies that had retained some labour, at labour camps during the lock down, but post the relaxation of the rules, the labour have still returned home.

In our survey, when asked what percentage of labour left the sites at lock down, it is noted that 50% to 80% of the labour force left.

This industry undoubtedly will not be able to move forward without labour who carry out most of the significant work. Most works on site are un-mechanised and the skilled and un-skilled labour are very much indispensable for work progress. The repercussion on the industry is unknown. The productivity at sites are deemed to reduce considerably as a result of this labour crisis.

Migrant Labour left Sites at Lockdown

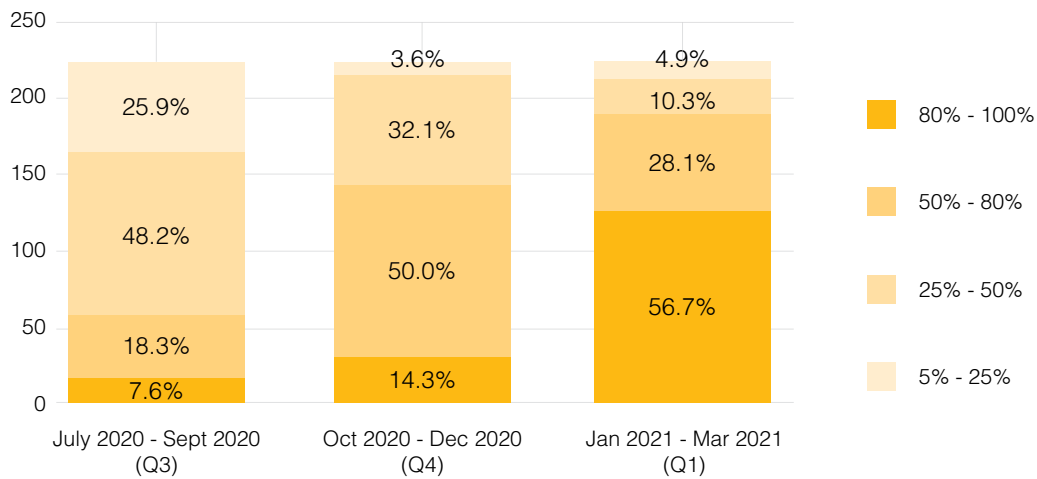


5. Return of Labour to Construction Sites

When asked to predict the return of labour to work at construction sites in the next 3 quarters post lock down, more than half the respondents are of the opinion that the total labour strength will only return in the first quarter 2021 and about 50% to 80% of the labour strength are predicted to return in the last quarter of 2020. The onlook for the 3rd quarter 2020 is slightly grim where the majority of respondents predict that only about 25%

to 50% labour strength will return to work at construction sites, while another quarter of the respondents believe that the return of labour force will be up to 25%.

Overall, all labour are more likely to return to work at construction sites in the 1Q2021, whilst most might return to project sites after Diwali in the 4Q2020.

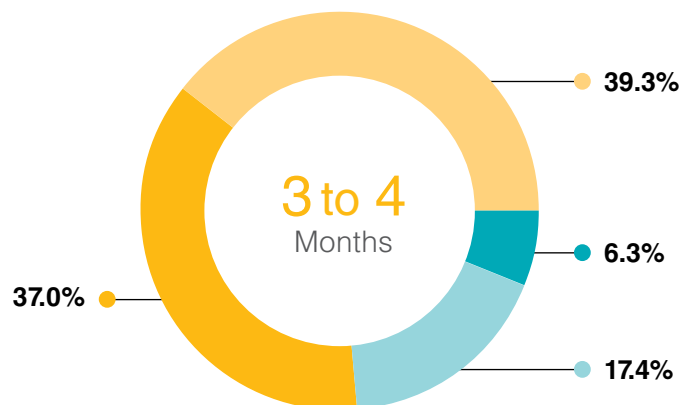


The return of labour does play a vital role in the future of construction and strategies and decisions might be made as and how situations pan out. The optimism of

the return in the future is still strong, considering the percentage of migrant labour is high and alternative work options for them maybe low.

6. Return to Normalcy

When asked about the return of 100% normalcy post lockdown, over three quarter of the respondents estimate a normalcy for 3 to 4 months and beyond.



The Future - Uncertain Times

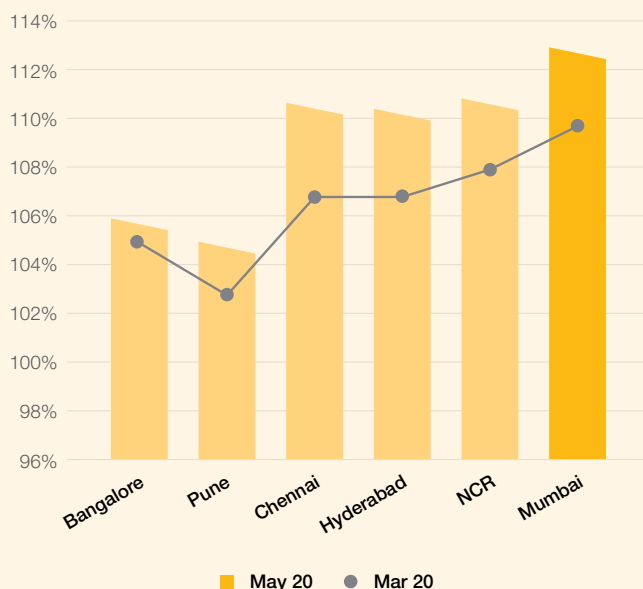
The survey suggests that there will be substantial increase in the Cost of construction of materials, associated transport, labour and equipment costs, impact of which will be more for new projects. With the country entering monsoon and the Government increasing social welfare allocation, the return of migrant labour to construction sites in the near future looks grim, with a complete return only estimated in the first quarter of the coming year 2021, provided there is no second wave of Covid-19.

Whilst a sense of normality is predicted at job sites only in the first quarter after the complete lift of lockdown, it may be noted that the tier 2 cities may achieve this earlier as the labour will be more than willing to work closer to their homes than in the urban cities where they faced hardship during the Covid-19 lockdown period.

With the social distancing norms and increased focus on hygiene and living conditions, there are expectations that the overall productivity norms will undergo a swift change, requiring additional labour strength than envisaged previously.

The future of real estate is still uncertain, however undoubtedly the present decisions and strategies are bound to shape the future of the industry. The priority now for business owners is to implement future proofing strategies and revamp designs of projects yet to be launched. The industry is looking to regain its foothold in the 4Q 2020 with a slower recommencement of existing projects.

Short term Impact: Initial cost hikes are expected in construction costs due to urgent works, material demand with limited transportation and extreme labour shortage. The cost index graph below, demonstrates this increase in cost of construction based on current material and labour prices between March 2020 and May 2020, if applied on a new construction project, for various cities.



Source: Gleeds survey results reported in this document and Gleeds project database.

Medium term Impact: In 3 to 4 months from now, costs are expected to stabilize with the prediction of labour returning to a safer work environment. The construction supply chain would organise itself and the pace of project delivery will pick up. Contractual disagreements which may have risen due to Covid-19 force majeure

conditions, are anticipated to be concluded in most of the projects and the industry will take a leap to overcome the impacts of lockdown.

Long term Impact: The industry will reset itself and look at various ways to optimize the way we construct in the future by re-looking at design protocols. The coming decade will see a propagation of construction technologies such as Building Information Management (BIM), Realty Capture, 3D printing and precast, the Internet of Things (IoT) based sensors and controls, amongst others. The project sites will see a push towards mechanized constructions, pre-fabricated and modular construction approach with standardised design, equitable contractual clauses and revised site operating procedures. For new construction projects, additional costs would be anticipated to account for labour, enabling of health and hygiene protocols at site and use of new technology and products, whilst there could be a reduction in base material prices as a result of lower demand. Considering both aspects, Gleeds believe that medium to long term construction cost impact is expected to be in the range of 5% to 7%.

While, there is no definitive rulebook on how things will pan out in this unprecedented situation, costs and programme will see a revolution and the changes will be mapped as we go along. Undoubtedly, people are the key to the restoration of the industry and with the employer intent revolving around the safety and wellbeing of the manpower they employ, a smooth transitioning into the new normal will be enabled. Humans as a race have survived the greatest of dangers and have always adapted to new ways of life. The current challenge will push us to reevaluate the way we have lived, worked and travelled in the past and prevail over adversity. A more people centric design approach would enable the human race to gain confidence to return to the 'new normal'.

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