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SPOTLIGHT
Savills Research

FROM VOLATILITY TO STABILITY

A Comprehensive Analysis of India's Construction Cost Trends



Preface

The construction industry is a crucial driver of economic growth in India, and understanding cost dynamics is imperative for stakeholders and policymakers. This study provides a comprehensive analysis of current and emerging trends in construction costs, shedding light on the industry's trajectory in a normalised setting.

India & the Influence of the Construction Industry

The construction industry in India is expected to have expanded by 9.6% in real terms in 2023, owing to the government's continued focus on infrastructure development, coupled with the ongoing commercial development boom in the country, with a surge in foreign investment to set up back-end offices / GCC (Global Capability Centers in India.

The construction sector is one of the largest contributors to India's GDP, comprising up to 8%. It encompasses a wide range of activities, including residential and commercial real estate development, infrastructure projects (such as roads, bridges, airports, and ports), industrial construction, and more. The combined output of these activities contributes significantly to the country's GDP and has become one of the largest employers in India, providing direct and indirect employment to over 45 million people.

According to the Ministry of Statistics and Program Implementation (MoSPI), the total gross fixed capital formation (GFCF) in India rose by 9.3% year-on-year (YoY) in the first nine months of 2023, while the construction industry's value-add grew by 10.5% YoY over the same period. As part of the financial

year (FY) 2023-24 (April 2023 to March 2024) budget unveiled in February 2023, the government increased its allocation for capital expenditure by 37.4%, compared to the revised estimates of the FY2022/2023 Budget.

Over the remainder of the forecast period, between 2024 and 2027, the Indian construction industry is expected to register an average annual growth of 5.9%, supported by investment in the transport, electricity, IT/ITES and industrial sectors. According to the Infrastructure and Project Monitoring Division (IPMD) of the MoSPI, as of November 1st, 2023, it was managing a pipeline of ~1,700 projects with an anticipated completion cost of circa. INR 29.1 trillion (\$362.8 billion).

Of the total projects, a capex spends equivalent to ~9% is allocated to developing spaces for IT/ITES growth infrastructure. The influx of FDI into infrastructure projects and real estate developments led to an increase in construction activities. This heightened demand for construction services and materials could potentially drive-up construction costs, especially if supply chain challenges persist.

Redefining Interior Fit-Out Costs: Trends and Influences in India's Construction Sector

In recent years, the construction industry in India has undergone significant transformations in terms of cost dynamics, particularly within the realm of interior fit-outs. Traditionally considered a secondary aspect of construction, interior fit-out costs have been taken centerstage due to surging demand for personalized and aesthetically pleasing interiors. This paradigm shift is underscored by a notable compounded annual growth rate (CAGR) of 9% over the past decade, signaling the sector's responsiveness to evolving consumer preferences and technological advancements in interior solutions. Several influential factors are shaping interior fit-out costs in India.

Chief among these is the skilled labour shortage, which has resulted in a substantial 15% increase in wage rates (YoY) in the past 22 months. This labour scarcity exerts significant upward pressure on costs, particularly in securing skilled artisans and craftsmen critical for interior work. The competitive demand for specialized skills further complicates the labour cost landscape. Beyond labour considerations, the choice of materials, intricacy of design, integration of technology and sustainability aspirations significantly influence interior fit-out costs. Material selection, in particular, can have a substantial impact, with fluctuations in material prices playing a pivotal role in cost dynamics.

The complexity of interior design, driven by evolving aesthetics and functionalities, adds another layer of complexity, often requiring innovative solutions to manage costs while delivering visually appealing and future-proof interiors.

To gain deeper insights into this evolving landscape, case studies of notable construction projects in India are instrumental. These projects span diverse sectors, including commercial offices, luxury residences, and hospitality establishments, offering a rich tapestry of interior fit-out cost dynamics. These case studies underscore the diversity of challenges faced and innovative strategies employed by industry leaders to effectively manage costs.



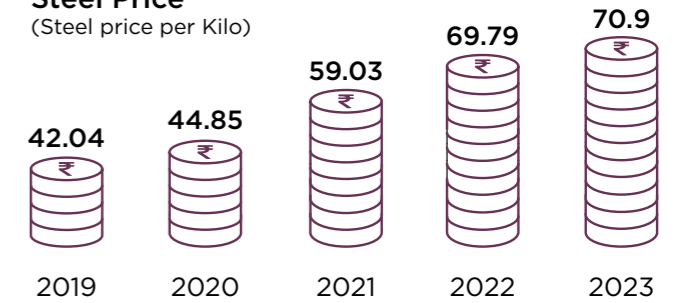
Factors Influencing Construction Costs

Construction Material Prices

Construction material prices, a cornerstone of project budgets, have displayed considerable volatility in recent months. Notably, steel, cement, and wood have experienced significant price increases. As of the latest available data:

Steel Price

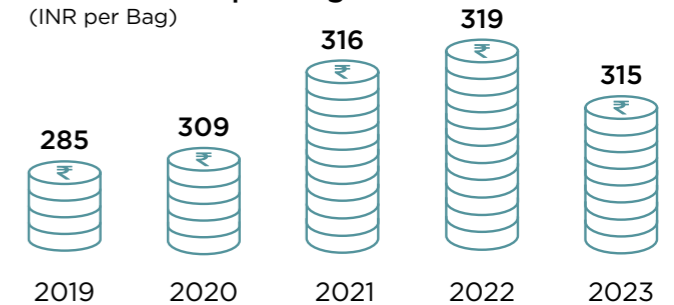
(Steel price per Kilo)



Steel prices have surged by approximately 18% in the past 15 months, significantly affecting the cost structure of construction projects.

Cement Price per Bag

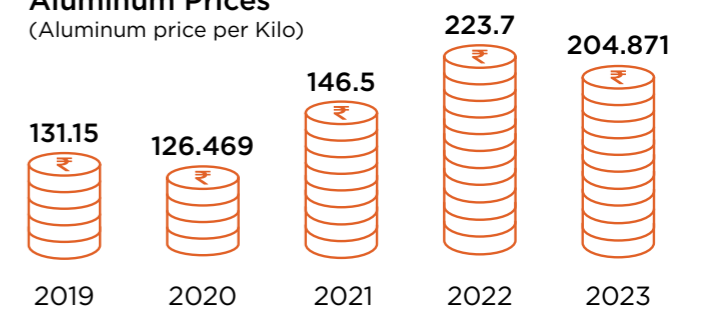
(INR per Bag)



Cement prices have seen a 12% increase, translating into elevated material costs for construction endeavours.

Aluminum Prices

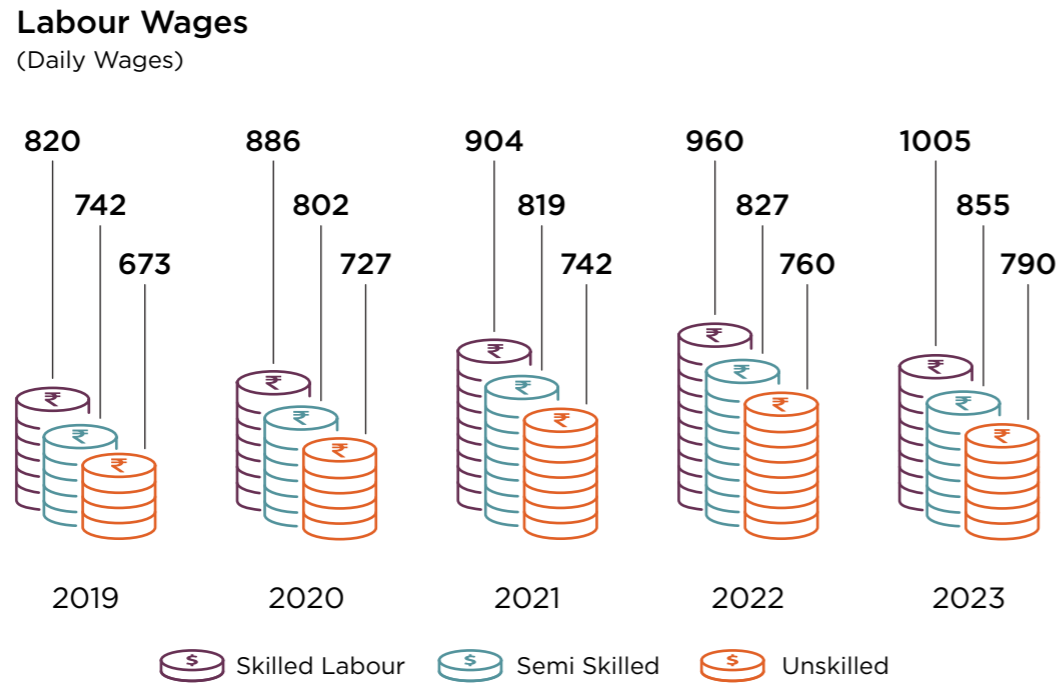
(Aluminum price per Kilo)



Average aluminum prices in India from 2019 to 2023 have seen fluctuations reflective of global and local market dynamics. However, the average fluctuation is a slight decrease owing to India's increasing role in global aluminum production and consumption, driven by the government's push for infrastructure development, particularly in green energy sectors. The average fluctuation, however, has been circa -0.7%.

Labour Costs Dynamics

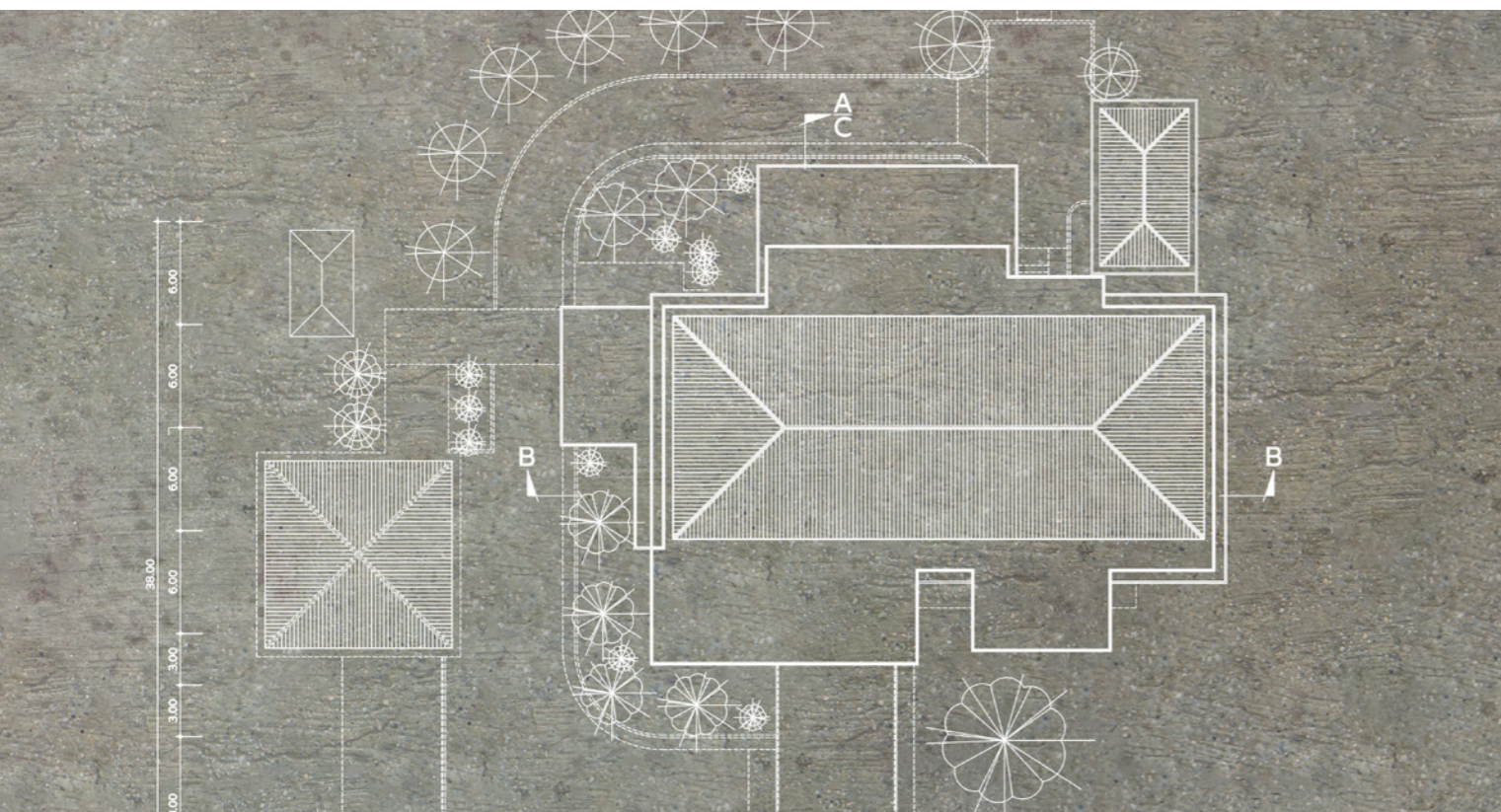
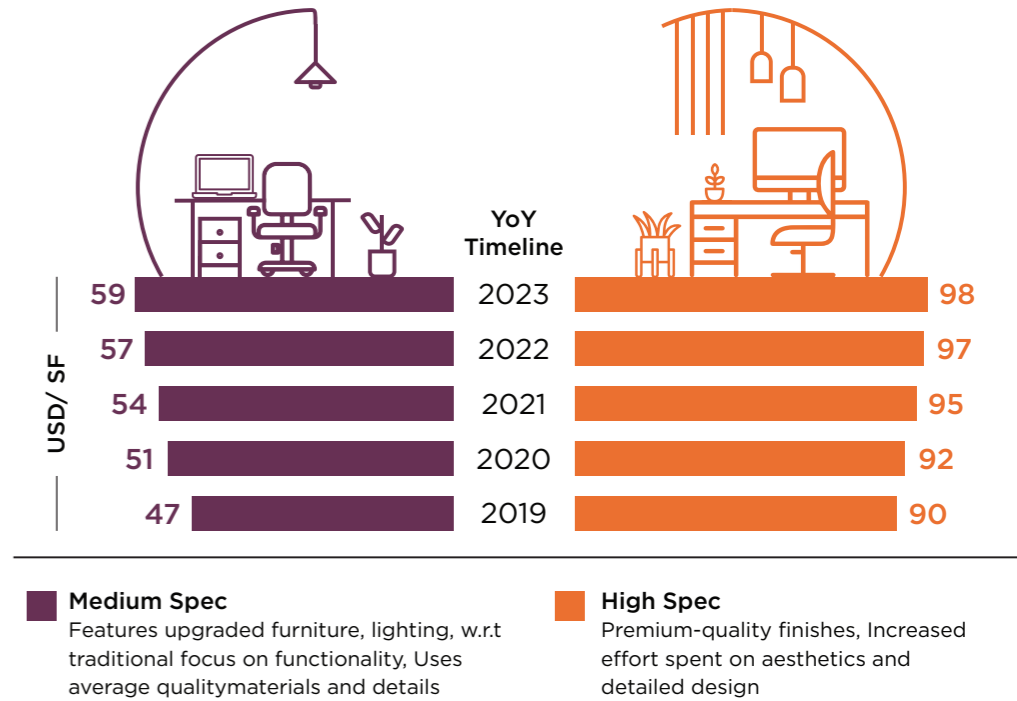
India has been experiencing rapid urbanisation, with a substantial shift of the population from rural to urban areas. This trend has led to increased demand for construction activity which has outpaced the availability of skilled labourers. The shortage of skilled labour in the construction industry has culminated in an approximate 15% increase in wage rates.



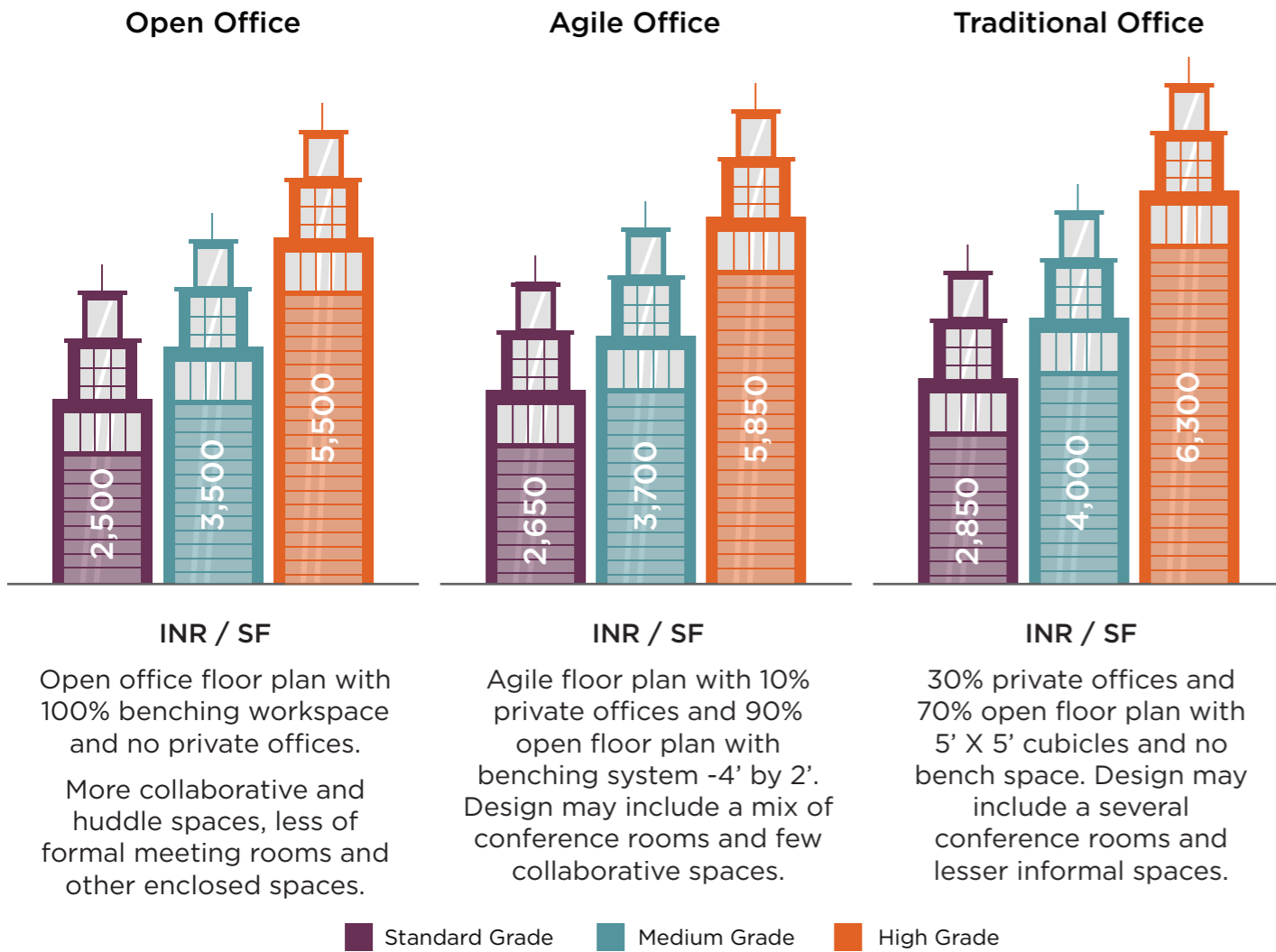
Shift of Interior Fit-Out Costs: A Five-Year Overview

The interior fit-out segment, once relegated to the sidelines, has undergone a transformative evolution. Over the past decade, it has experienced a compounded annual growth rate (CAGR) of approximately 9%. This robust growth is propelled by evolving consumer preferences, technological advancements and an increasing emphasis on sustainable interior solutions. As a result, interior fit-out costs have assumed a pivotal role, impacting project budgets and strategic considerations significantly.

The provided data outlines the evolving patterns of expenditure on fit-out projects over the past five years, with a specific emphasis on office spaces within the IT/ITES/Consulting industries across various regions of the country.



Interior Fit-Out Cost Trend 2023

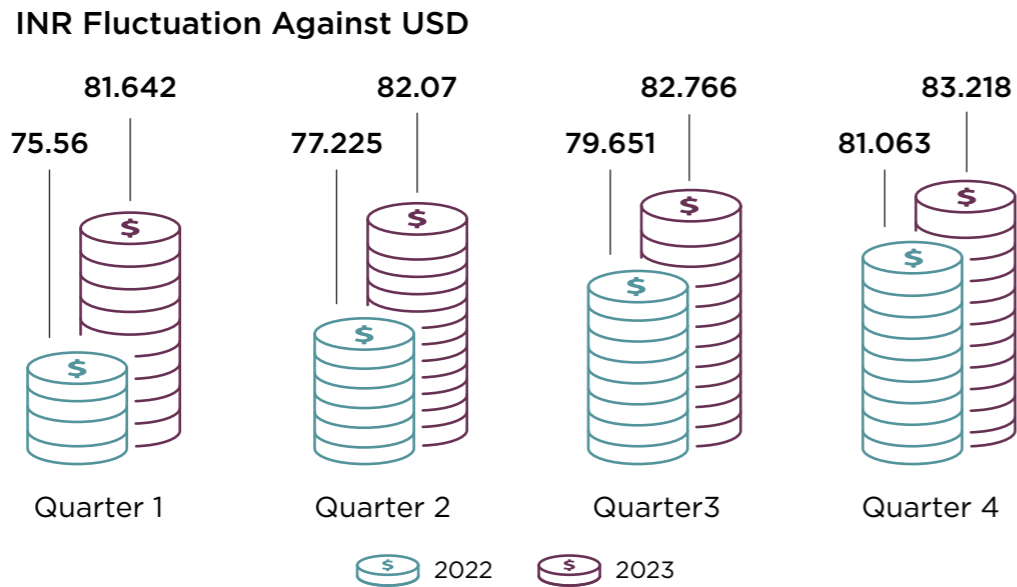


The Drivers of Cost Brackets

Design Ambitions	Standard	Medium	High
Civil & Interiors	Solid Partitions -90 mm Single glazing, Manual blinds Wallpaper/Paint finishes	Solid Partitions -120 mm Single glazing, Imported manual blinds High end material finishes	Solid Partitions -160 mm Double glazing, Motorized blinds Premium materials finishes
Raised Flooring	Indigenous & workstation area	Imported & for Workstation area	Imported & total carpet area
Carpet	Indigenous, < 20Oz / SQYD \$ 18 / SQM	Imported, 20 - 24Oz / SQYD \$ 25/SQM	Imported > 24Oz* / SQYD \$ 30 / SQM
Modular Furniture	Linear & Fixed < \$ 220	HAT manual / motorized \$ 375 - \$ 500	HAT motorized imported > \$ 700
Chairs	Ergonomic chairs, Indigenous make < \$ 200	Ergonomic chairs, Imported, \$ 400 - \$ 480	Ergonomic chairs, Imported, > \$ 530
Electrical & Luminaires	Indigenous luminaries No LMS	Non swappable breakers Indigenous luminaires, LMS for closed rooms	Hot swappable breakers, Imported luminaires LMS for office space
UPS System	Conventional 15 mins backup	Modular for workstations, Conventional for emergency backup 15min backup	Modular for workstations and emergency N+1 configuration, > 30 min backup
Networking Works	Lower specs CAT 6 Cables - 1 GBPS Office Network	Medium specs CAT 6A Cables - 10 GBPS Office Network	Higher specs CAT 6A Cables - 10 GBPS Office network & Server
Fire Protection System	MS pipes with welding	GI Pipes with welding	GSS, RRS, groove coupling, GI pipes
HVAC	HVAC low side distribution	N+1 configuration for critical areas	Thermo-diffusers, N+1 configuration for critical areas
CRAC Units for Hub Room	NA	N+1 Configuration	N+N Configuration

Foreign Exchange Fluctuations*

Foreign exchange (forex) fluctuations have introduced a layer of complexity and unpredictability into the construction industry. These fluctuations directly affect the costs of imported construction materials and equipment. Consequently, construction projects dependent on foreign-sourced materials experience variations in their budgets due to the shifting exchange rate dynamics.



Geo-Political Turmoil impacting Fuel Prices**

Geopolitical turmoil, like the Ukraine-Russia conflict, raises fuel prices, impacting construction costs in India. Higher fuel costs affect transportation, machinery operation and energy

expenses, potentially leading to elevated project bids. Additionally, inflationary pressures may increase raw material, subcontractor and labour costs. To manage these

challenges, construction companies should employ cost-effective strategies and prepare for possible contract adjustments during geopolitical events with significant cost impacts.



Mitigating the Impact

Mitigating the impact of construction cost fluctuation, especially in the context of interior fit-outs in India, involves a strategic approach to planning, procurement and execution. Here are several strategies tailored to managing cost fluctuations for interior fit-out projects:

1. Early Planning and Budgeting

Engage in early budgeting, identifying all spends which helps in setting realistic expectations and provides a buffer for fluctuations.

2. Flexible Design Solutions

Design flexibility allows for adjustments based on material availability and cost fluctuations.

3. Local Sourcing

Prioritise locally sourced materials to reduce transportation costs and. Local sourcing also supports the local economy and also reducing the carbon footprint.

4. Value Engineering

Continuous review of design and construction processes to identify opportunities for cost savings without sacrificing quality.

5. Long-term Supplier Relationships

Build and maintain good relationships with suppliers and contractors for more favourable payment terms, and reliability in supply, which can help mitigate cost fluctuations.

6. Use of Technology

Implement technology solutions like Building Information Modeling (BIM) for improved coordination, and optimal material usage, leading to cost savings and efficiency.

7. Transparent Communication

Open communication with stakeholders for regular updates on cost changes and collaborative decision-making can help manage expectations and make necessary adjustments in a timely manner.

8. Contractual Flexibility

Consider contractual clauses that address material price fluctuations, allowing for adjustments in project costs based on predefined indices or market rates.

9. Contingency Planning

Allocate a contingency budget to cover unexpected costs due to price fluctuations. A contingency of 5-10% of the total project cost is commonly recommended, depending on the project's complexity and risk profile.



Implementing these strategies requires a proactive and informed approach to project management, with a focus on flexibility, efficiency

and strong stakeholder relationships. By anticipating and planning for cost fluctuations, interior fit-out projects can be completed successfully, within

budget, and to the satisfaction of all parties involved.

Building for Tomorrow: Optimising ROI through Sustainable Fit-Out Construction in India

Incorporating inclusion and sustainability considerations at the design stage of a project can significantly impact operational expenditure (OPEX) by initially investing in higher capital expenditure (CAPEX). Here's a brief overview of how this approach can yield cost savings and enhance return on investment (ROI), particularly focusing on fit-out construction in India:



1. Energy Efficiency

Designing with sustainability in mind allows for the integration of energy-efficient systems and technologies. Incorporating features such as efficient lighting, HVAC systems and insulation can reduce ongoing energy consumption, thereby lowering utility bills and operational costs by 20%. While these upgrades may require a higher initial investment, the long-term savings on energy bills can offset the upfront costs within 5 years.

3. Material Selection

Opting for eco-friendly materials during the fit-out construction phase can increase CAPEX by 10%. Various implementations have shown that the overall OPEX reduces by 15% as these materials offer durability and lower maintenance requirements, resulting in reduced repair and replacement expenses over time. Additionally, using locally sourced materials can lower transportation costs and support the local economy.

In India, where environmental regulations are increasingly stringent and awareness of sustainability is growing, integrating green practices into construction projects can yield

In summary, while incorporating sustainability features in the design and construction of fit-out projects may entail higher initial costs, the long-term operational savings,

2. Water Conservation

Sustainable design often involves implementing water-saving measures such as low-flow fixtures, rainwater harvesting systems and efficient irrigation methods. By reducing water consumption, operational expenses related to water usage and maintenance are decreased by 30% and these savings contribute to the overall ROI within 4.5 years.

5. Regulatory Compliance and Incentives

Many regions, including India, offer incentives, tax benefits or certification programs for sustainable construction practices. By meeting or exceeding regulatory standards for green building certifications such as LEED (Leadership in Energy and Environmental Design) or GRIHA (Green Rating for Integrated Habitat Assessment), project owners can qualify for financial incentives or tax breaks, enhancing the ROI of sustainability investments.

significant returns. Moreover, as the market becomes more competitive, buildings with green certifications often command higher rental rates and property values, further enhancing the

improved asset value, regulatory incentives and positive environmental impact collectively contribute to a compelling ROI. Therefore, prioritising sustainability at the outset can lead

4. Improved Indoor Air Quality

Incorporating sustainable design practices can enhance indoor air quality through better ventilation systems, non-toxic building materials and adequate daylighting. Better indoor air quality leads to healthier and more productive occupants, leading to a 10% reduction in absenteeism and a 5% increase in productivity.



financial benefits of sustainability. A WELL certification can help convey that the owner values their occupants and their experience in the built space.

to both financial and environmental benefits over the lifecycle of the building.

Future Outlook***

The outlook of interior fit-out construction costs in India is shaped by a confluence of trends, including the push towards sustainability, the integration of technology, the demand for flexible and wellness-oriented spaces, and the challenges posed by fluctuating costs and labour shortages. With a projected compound annual growth rate (CAGR) of 7.9% from 2023 to 2030 globally, and an expected growth rate of 8.81% during 2024-2032 for the Indian interior design market specifically, the sector is poised for significant growth. This growth is underpinned by a variety of factors, from urbanisation and modernisation demands to the evolving needs of a post-pandemic workforce seeking more adaptable and health-focused work environments.

As India continues to urbanise and modernise, the demand for innovative interior design solutions is set to rise, offering substantial opportunities for businesses that can adapt to these changing landscapes. Yet, success in this dynamic market will require more than just keeping pace with trends. It will necessitate a deep understanding of the unique challenges and opportunities presented by the Indian market, from navigating fluctuating costs to addressing the skilled labour gap. As such, the future of the interior fit-out sector will belong to those who can blend innovation with efficiency, sustainability with functionality, and design excellence with cost-effectiveness. In this context, the future outlook for interior fit-out construction costs in India is not just a matter of economic forecasting but a reflection of the industry's capacity for resilience and innovation in the face of evolving global and local pressures. As we look towards a future marked by rapid change and uncertainty, the interior fit-out industry in India is poised to play a pivotal role in shaping the built environment. By embracing sustainability, prioritising wellness, and leveraging technology, the sector can not only navigate the challenges ahead but also contribute to a more sustainable, productive, and aesthetically pleasing future.

Sources

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[***https://www.coherentmarketinsights.com/market-insight/interior-fit-out-market-6113](https://www.coherentmarketinsights.com/market-insight/interior-fit-out-market-6113)



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