China City Spotlight 2020

Most of the Chinese metropolis’ ranking as the least expensive cities for construction globally. Thus, there is an upward trend for both Tier 1 and Tier 2 China markets in this year’s International Construction Costs Comparison.

The data indicates that China is one of the most affordable markets for construction with Beijing ranking 83rd, Shanghai 88th, Hangzhou 91st, Chengdu 93th, Guangzhou 94th, Wuhan 95th and Shenzhen 96th.

Economic and Sustainable Growth

The Chinese economy slowed down over 2019, largely the result of the trade war with the United States. GDP growth was 6.1% in 2019, down from 6.6% the year before. Despite an interim trade agreement with the US being put in place at the beginning of 2020, US tariffs and sanctions were expected to continue to place a drag on the Chinese economy in 2020.

The government’s commitment to conserve resources and reduce greenhouse gas emissions are driving the construction market to become more sustainable. Policies regarding environmental protection are tightening and will continue to impact the price of major building materials, increasing uncertainties in construction costs.

Impact of COVID-19

China is the first country to face a COVID-19 lockdown, which resulted in a widespread demand and supply shock. Forecast shows the growth is expected to contract to around 5.5% in 2020. Start from the end of March, the post-disaster recovery work and reconstruction of China has been going on smoothly, even though, the depth of the slowdown will depend on the speed at the global economy bounces back as well. The Chinese government will likely continue stimulating the economy by investing in infrastructure, and there will be growth in both logistics and data centers. The residential sector will contract as a result of a tightening of policies on home sales and mortgage lending.

Digitalization in China

Technology is one of the core emerging opportunities in the Chinese construction industry. China’s preparation for 5G is well underway, as it enters the third phase of 5G testing while the government has officially reserved considerable contiguous spectrum for 5G purpose. The remarkable growth of China in the international stage has demonstrated the country’s determination to become a global leader in the digital space.
The Arcadis International Construction Costs Comparison 2020

In this year’s report, Arcadis is dealing with twin challenges: addressing the short-term crisis of COVID-19 and the longer-term, but equally urgent, impacts of climate change.

Once again, the comparison covers 100 of the world’s large cities across six continents. This year’s report builds on its strong heritage as the leading reference point for comparing the relative costs of construction in major cities around the world. This is one of the most expansive comparisons of its type.

This year, coverage has been extended to cities in Eastern Europe including Poland, Serbia and Montenegro. The main change to the index is that the cost of construction in cities is now relative to Amsterdam, instead of London. This change has no direct effect on the relative ranking of cities.

Factors influencing city rankings

Multiple factors influence a city’s position in the index. The main factor is the level of specification and quality, which can vary over time. For example, the costs of high-end hotels and residential buildings have increased significantly in cities such as London, reflecting a global market for luxury developments that only affects a small sub-set of the cities.

Comparing costs across countries such as the United States and the UK highlights that even when specifications are relatively similar, there is still plenty of scope for variation. Explanatory factors include the cost of labor, materials and other construction resources. Some countries with a fragmented construction supply chain will have many more levels of sub-contractors – each adding extra allowances for ‘on-costs’, including management, risk and profit. These additional layers of on-cost contribute to premiums in some locations.

Productivity is also an important consideration. Continental Europe has a very productive construction sector, which benefits from a focus on high levels of mechanization and the use of simple, effective construction techniques. Lower-cost, US markets also achieve relatively high levels of productivity compared to some higher-cost locations.

Finally, currency fluctuation and annual inflation will always play a role in determining the relative position of cities. Given recent dramatic changes in the value of global currencies, clients are advised to review currency movement before applying the published factors.

ICC 2020 Index - Asia

Indicative Tender Price Growth Forecast 2020

Asia Ranking | Global Ranking
---|---
Hong Kong | -3% | 1
Tokyo | 0% - 1% | 2
Macau | -2% | 3
Singapore | 0% - 2% | 4
Seoul | 1% | 5
Manila | 3% - 2% | 6
Beijing | 0% | 7
Shanghai | 0% | 8
Jakarta | 4% | 9
Hangzhou | 0% | 10
Bangkok | 1% | 11
Chengdu | 0% | 12
Guangzhou | 0% | 13
Wuhan | 0% | 14
Shenzhen | 0% | 15
Kuala Lumpur | 4% - 6% | 16
Mumbai | 2% - 3% | 17
New Delhi | 4% - 6% | 18
Bengaluru | 4% - 6% | 19

Tokyo | 0% - 1% | 3
Bengaluru | -2% | 7
Shenzhen | 3% - 4% | 11
Beijing | 0% | 12
Hangzhou | 0% | 13
Chengdu | 0% | 14
Guangzhou | 0% | 15
Wuhan | 0% | 16
Shenzhen | 0% | 17
Kuala Lumpur | 4% - 6% | 18
Mumbai | 2% - 3% | 19
New Delhi | 4% - 6% | 20

Index Base: Amsterdam = 100
Less costly to construct
More costly to construct

ICC 2020 RETHINKING RESILIENCE
Methodology

Arcadis developed its comparative cost comparison index for 100 cities, covering 20 building functions, based on a survey of construction costs, review of market conditions and the professional judgement from its global team of experts. Ranges of indicative prices for each building function are collected for each city. Low and high range costs are converted into US Dollars (USD), normalized and indexed against the price range for each building type for Amsterdam, where Amsterdam = 100. Average low and high index ranges are calculated for each city based on the 20 building types.

The data was collected between December 2019 and February 2020.

Costs used to calculate the index are based on buildings delivered to local specification standards, meeting both functional requirements and quality expectations. As a result, while the index compares the relative costs of delivering the same building functions in a city, it also reflects the different levels of quality expectation reflected in a specification.

The index does not take into account purchasing power parity. The construction cost data used in this index is current as of Q1 2020. The exchange rates used to calculate the index were current on 13th February 2020.

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