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## Impact of rising construction material cost on real estate sector

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“Use the best possible materials, and reveal the quality of those materials and the craftsmanship of their assembly.”

The construction industry is one of the most significant industries that support the economic development of a nation. The construction sector impacts socio-economic expansion development in developing countries by contributing substantially to their gross domestic product (GDP). As a result, it is critical for the construction industry to understand the role of building materials costs in completing projects on time. Building materials cost can actually comprise half (50%) of the total cost of all projects executed by the construction industry. Furthermore, the cost of building materials is influenced by supply and demand, as well as quality, quantity, time, place, buyer, and seller during the construction process. Currency exchange, material specifications, inflation pressure, and the availability of new materials in the country are some other additional factors. Generally, the total cost of executing a construction project is hugely affected by improper material handling on the construction site, and all this impacts the quality and time scheduled for a project to be completed.

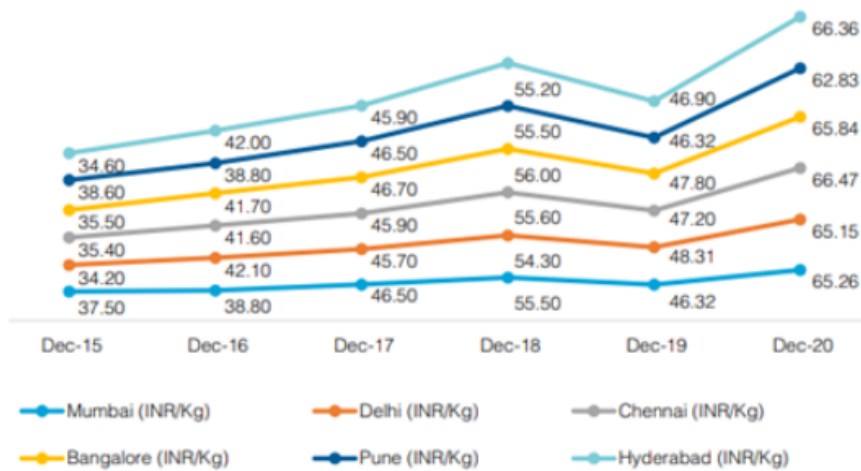
Building construction materials play a pivotal role in building as a substantial input in the project development. The constant rise in the price of building materials poses a significant challenge to the construction industry's ability to deliver projects of high quality and on time. The fluctuating market value for building materials tends to cause high project risk to all stakeholders like suppliers, contractors, and clients involved in the construction production. The demand for housing of all types, combined with inflation and constrained monetary supply, has posed a significant challenge to the construction industry's cost of building materials. Therefore, improving sustainable housing delivery within budgeted time, cost, and quality expectations, as well as taking into account stakeholder satisfaction and building material costs, is essential. Sustainability is defined as development that meets the demands of the current generation without compromising the future generations. Therefore, to achieve the Sustainable Development goal, there is the need for a significant reduction in the cost of construction. As building materials contribute up to 50% of the cost of construction, there is a need to consider the factors which will minimize the excess cost of building materials.

The Indian real estate sector has constantly been the second largest employer for both skilled and unskilled workers in the country. Last year, the pandemic brought a lot of challenges to the industry. Homebuyers took advantage of low mortgage rates and developer incentives in Q4 FY21, reviving the demand for residential real estate. Residential sales in this quarter recovered more than 90% in volumes as recorded in 2020, across the top seven cities. But there are some roadblocks limiting developers today – the skyrocketing prices of construction materials and labour shortage.

Post the onset of the pandemic, the sector has adapted various modifications to stay afloat. At a time when real estate was in recovery mode from the onslaught of the first wave of Covid-19, the second wave emerged, compounding the challenges manifold, with a steep jump in prices of key raw materials like steel, cement, solid blocks, nails, binding wires, and plywood. This was due to various factors like restrictions on manufacturing and shortage of supply. According to industry sources, the increase in prices of these items has been as much as 100% in some cases, when compared to last year. For developers, this has limited their capacity to offer any discount to their customers. Since January this year, as a result of an increase in the prices of resin and polymers, there has been an increase of about 15% in the prices of piping and insulation materials. According to JM Financial Institutional Securities, All India cement prices in April were up 6%, on an average quarter-on-quarter.

According to a survey conducted by CREDAI, the surge in prices of construction raw materials like steel and cement has contributed to a more than 10% increase in construction costs for developers. The survey also highlighted that following the second wave of the pandemic, most customers postponed their purchase decisions due to various financial constraints and liquidity crunch, further adding to the difficulties for developers. The key metro cities facing the brunt of construction costs include Ahmedabad, Bengaluru Chennai, and Hyderabad.

In the past month, primary steel prices have risen exponentially. 95% of India's exports of iron ore went to other countries, possibly pressurizing domestic demand, resulting in a price increase 3 times more than before. Steel accounts for around 12-15% of construction costs, thus this rapid increase in rates hurts both contractors and developers. According to the Confederation of Real Estate Developers' Association of India (CREDAI), the primary rates of construction essentials like 8 mm and 16 mm TMT steel bars, which were Rs.41,700 and Rs.47,000 per tonne during February 2020, increased to Rs.57,500 and Rs.55,000 per tonne in June 2021. As per industry reports, domestic steel prices are high, due to the increasing cost of iron ore and its strong demand from both domestic and export markets like China and other countries. Moreover, its production halted as government-mandated steel plants to divert oxygen for medical purposes, amidst the challenges faced, during the second wave of Covid.



Prices in 2020 varied depending on the conditions, with rates rising after lockdown due to supply and availability concerns, and then rising again in recent months, prompting the establishment of a price regulator for the industry, signaling cartelization. Crude oil has escalated in the recent past hitting an all-time high of nearly \$50 per barrel on the last day of December 2020, which is inflating costs of raw materials used in the manufacturing of materials like cement, paints, glass, plastics, PVC pipes and rubber towards the tail end of the year.

The construction industry is wrestling with the consequences of the pandemic. While the first half of the year 2020 was in lockdown followed by the preparation for recommencement of works with changed procedures, the second half was all about the adaption to change and inflation induced by decisions of the past. Material rates, labor rates, supply chain, project timelines, procurement strategies, contractual obligations, health and safety procedures, site logistics, and employee well-being all have had to be revisited, restructured, and or reorganized.



The Covid-19 pandemic affected society. It has affected the society as well as the economy of every country. Due to pandemic the cost of health care measures was also raised drastically in order to keep their labours, employees safe in the field.

Real estate developers say they may be unable to reduce prices or offer promotions further due to the unprecedented raw material price increase, even though sentiments remain muted due to the pandemic. In this industry, keeping an eye on the escalating cost of construction supplies is critical. As the demand for construction materials rises, so will the supply and demand for those commodities. However, construction material costs do not have to force your organization to compromise on quality or design. By implementing new technologies and design processes you can increase the efficiencies of your construction crew. You can lower labor costs and increase productivity by reducing waste and reducing the number of materials you purchase. The bottom line is that being proactive in reducing construction material prices will benefit other aspects of your business budget. You can balance your expenses while improving the capabilities of your company, which is a win-win for your managers, laborers, and clients.

The Government's encouragement for a better developed and digitized India is another key driver in the growth of the new construction ecosystem and is believed to bring about 'new heights'. The increased budget towards infrastructure and schemes such as housing for all using advanced construction methods is likely to boost India's existing construction portfolio. The industry is anticipated to emerge stronger and more resilient in this coming year, as the worst has been left behind with a bright future ahead, with new beginnings, new possibilities, and new optimism.