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Realtors retool pricing strategies amid rising cost of construction

Escalating construction costs are forcing real estate players to optimise their expenditures and readjust their pricing strategies to strike a balance between profitability and meeting customer requirements.

A recent JLL report stated that the overall construction cost in the country will experience an average increase of 6 per cent across various sectors in 2023–24 (FY24).

In the report 'Construction Cost Guide India: 2024', among the cities, Mumbai continued to be the most expensive city, with costs higher, while Chennai offers a more cost-effective option. The higher costs in Mumbai can be attributed to the increased prices of essential construction materials like cement, reinforced steel, structural steel, and stones.

"Businesses today are reassessing their real estate choices to optimise spending. While the exact impact of the pandemic on construction costs is still a topic of discussion, the general trend is evident: construction costs are on the rise. As a result, customer expenditure is expected to prioritise aspects that enhance the end-user experience. Understanding and effectively managing costs are crucial in maintaining budget control and delivering economically viable, high-quality projects," said Jipu Jose James, managing director (MD), project and development services, JLL India.

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Goel Ganga Developments has increased its real estate property prices by 5-7 per cent, implementing a strategic price hike. Despite this adjustment, the company assures that pricing modifications have been made to ensure maximum benefit for its customers.

“Even though higher pricing levels may be a factor for some of our buyers, we are sure that the desirability of our locations, appealing graphic designs, and quality reputation will lead to solid sales activity. Although the demand for housing has not yet bounced back from the pandemic in many of our markets, market conditions have significantly improved in recent quarters,” said Anurag Goel, director at Goel Ganga Developments.

Amidst “skyrocketing” material prices and labour costs, Gurugram’s 4S Developers underscored a “renaissance” in the real estate sector. Despite these challenges, prime locations retain their top-tier value and long-term viability, positioning finished products lucratively in the market.

“We are actively undertaking prudent expense management through strategic supplier negotiations, smart labour usage, and value engineering that cuts the excess without diminishing quality or design attraction. The greater our developed trademark, the more eager the distributors will become to offer us better material supply rates through bulk supply. The great financial stability serves as a lever to play aggressively during times of unforeseeable turbulence,” said Sanjoo Bhadana, MD of 4S Developers.

4S Developers said that, in line with the market situation, the company’s pricing has been adjusted to a range that considers the profitability and quality standards of its products.

“The new prices place our developments in a better price range relative to the reserve, materials, design, facilities, and attention to detail,” added Bhadana.

Gurugram’s realty developer, MRG Group, has adjusted its property prices to Rs 13,500 per square foot from Rs 10,000 per square foot.

According to the company, the move reflects market dynamics, property enhancement, and the overall value proposition.

“In analysing developers’ expenses, it’s imperative to consider the project’s scale and complexity. For instance, in a project totalling Rs 400 crore, construction expenses typically represent a significant portion. Labour costs, influenced by factors such as skill level, market dynamics, and regulatory requirements, constitute a substantial component. Balancing quality, efficiency, and compliance is paramount in optimising these expenses,” said Rajjath Goel, MD, MRG Group.

MRG Group aims to minimise expenses through technology, effectively streamlining operations and slashing overhead costs.

“By tightening our financial management and investing in areas that drive growth, we are strengthening our business resilience in the face of market fluctuations and ensuring sustainable success," Goel added.

Bengaluru-based Shriram Properties has reported an industry average selling price per unit increase of 5–6 per cent in Bengaluru and 3–4 per cent in Chennai.

"We are focused on moving up the price curve through portfolio enrichment and market price improvements. Our portfolio-level price improvements have been 7-8 per cent in FY24, and we expect 4-5 per cent annual improvement in the coming years as well. We believe in value engineering and strive to ensure that minimal impact is passed on to customers with respect to the increase in the cost of construction. We work on optimising our spending without affecting the quality," said Murali Malayappan, chairman and MD of Shriram Properties.