



# CONSTRUCTION COSTS REACH HISTORIC HEIGHTS

Over the past decade, we have never experienced such a spike in the costs of construction materials. The impact on the real estate sector is ineluctable, compromising the sector's possibilities for growth. But this goes beyond our shores, with international experts estimating that this worldwide phenomenon will lead construction costs to the highest spike in 50 years.

## IMPACT ON THE LOCAL MARKET

The effects of this rise are multi-faceted and may include:

- High variation costs which might not be covered by bank loans given that financing depends on capacity of the borrower to repay;
- Incomplete buildings, which might increase the risk exposure of banks if the financing comes from loans they gave and it puts them at the mercy of higher recovery costs;
- The decrease in demand for new construction projects, which will have a debilitating impact on the construction industry;
- The rate of growth on the supply of bare land diminishing considerably, which puts at stake proposed residential parcelling or even increased the difficulty in selling existing plots;
- The rate of appreciation going down significantly with the existing bare land available, as there is a direct correlation between construction costs and land acquisition; and the more challenging prospect of using sales evidence to value bare land and this will open up the possibility of properties being sold outside the scope of sales evidence with an "imposed price."

# WHAT ARE THE CAUSES OF SUCH A RISE?

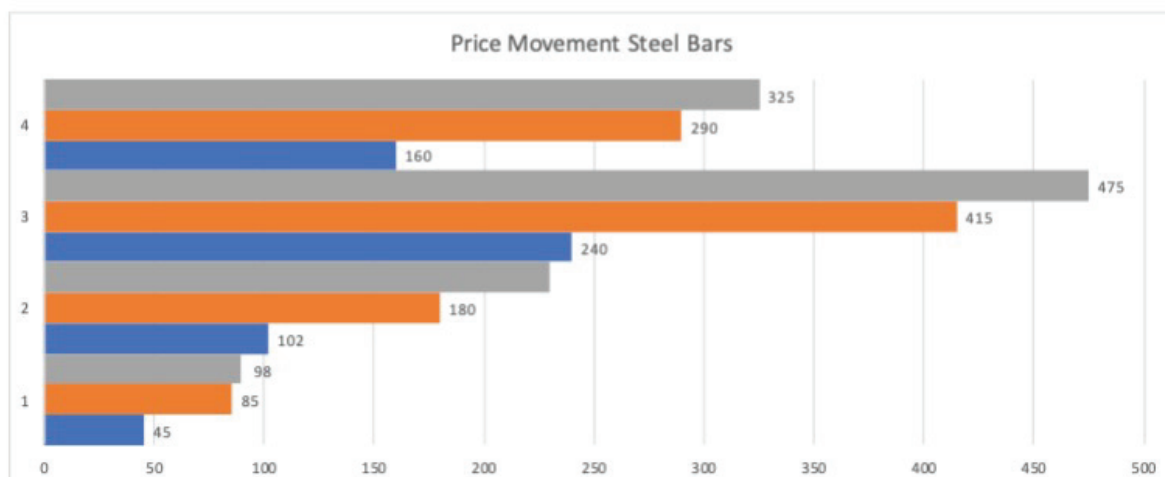
The rise in price is a direct consequence of supply chain issues, a galloping inflation and most importantly, labour shortages.

The Covid-19 pandemic coupled with the various lockdowns put pressure on the supply chain. There were ports unable to process the loading/unloading of materials, causing a bottleneck. There were containers remaining in the port over a long period and there was a shortage of containers that had the effect of increasing freight prices.

The inflationary pressure is also problematic. Based on reliable sources, the inflation rate in Mauritius rose to 10.7% in March 2022 from 9% in the previous month. This is the highest inflation rate since September 2008 at the height of the financial crisis.

To emphasise the impact of this trend, we are going to show the effect on the price of steel in the table below, given that it is an essential component in construction.

Details	Price Rs			% Increase Since Jan-20
	Jan-20	Sep-21	Mar-22	
Steel Bars 1/4	45	85	89	98
Steel Bars 3/8	102	180	230	125
Steal Nars 1/2	240	415	475	98
Steel Bars 10 ML	160	290	325	103



This is just one of many examples of how the costs of construction material have increased as a direct consequence of the pandemic over the last two years.

The prices of other key construction materials have evolved during the same period ranging from January 2020 to March 2022:

<b>Rock sand 04</b>	<b>61%</b>
<b>Rock sand 02</b>	<b>57%</b>
<b>Cement</b>	<b>46%</b>
<b>Aluminium Bar 1009</b>	<b>100%</b>
<b>Single Core Electrical Cable 1.5 MM</b>	<b>216%</b>



The cascading effect of the prices highlighted above will be that the price increase will be passed on automatically to consumers, investors and builders. With the growing uncertainty and the prevailing inflation rate, it is practically impossible to make a reliable forecast of what the future holds for the construction and real estate industries.

If we must dig into the reasons for this spike, we could start going more in depth into the significant demand and supply issues together with the limited distribution as a result of inflationary pressure.

The other crucial factor plaguing the prices of construction materials is linked with producers being heavily impacted by work stoppages and decreasing productivity as a result of varying health protocols and restriction.

Finally, the issue of shipping containers contributed to the issue as well. Even if production increases, the materials cannot be loaded. In certain strategic ports, there is still a large number of containers waiting to be processed and we cannot exclude the risks of material damages or even expiry that may add to the shortages.

Our resilience in these trying times can only do so much in these unprecedented times. We need the authorities to act decisively, without vested interests.



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