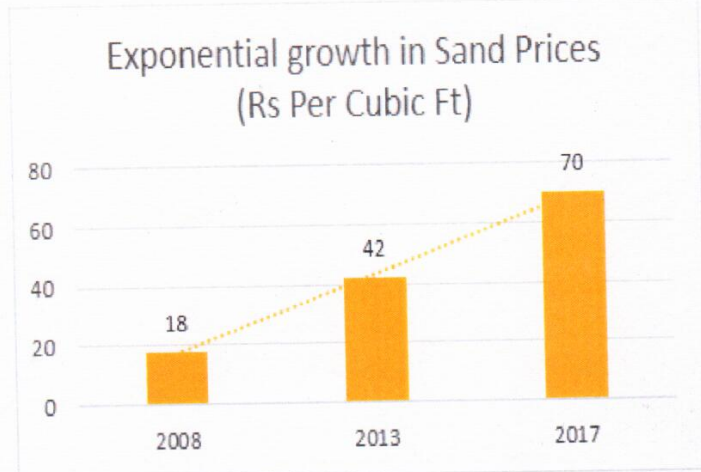




*Sand prices have soared by a whopping 300 percent in the last one decade. The unflinching impact on property prices has caused realtors to worry. The developer fraternity cite an appreciation in cost of other raw materials such as cement and steel as major hindrances for timely project completions.*

The impact of the Real Estate (Regulation and Development) Act 2016 on property prices has been debated for long. While it is expected to have a long-term effect on property rates, what is immediately causing construction cost to hike is the soaring price of sand. Several cities have cited the growing sand cost as a major hurdle in timely completion of residential projects. Chennai seems to be the worst hit with sand prices doubling in the first quarter of 2017 due to shutting down of multiple quarries. Cement, iron, steel and coal are several other raw materials that have reportedly witnessed a price hike owing to multiple economic factors; inflation being one.

Talking about the impact of a hike in sand prices, Ajay Jain, Executive Director - Investment Banking & Head Real Estate Group Centrum Capital Limited, says, "The increase in sand prices has delayed several projects. Due to the ban on riverbed sand mining, the availability of sand in the market has reduced drastically. The ever-increasing demand for sand by the industry, topped with limited supply, has pushed up sand prices by a large margin. M-sand is increasingly being adopted to reduce the financial strain and to keep the projects on schedule."



The hike in sand rates may seem insignificant to push property rates up. However, experts say, sand alone makes up 8-10 percent of the total construction cost. Hence, a close to 300 percent hike in its price over the last one decade has had a major bearing on the overall cost of a housing project. Explaining the same, Jain, adds, "If the cost of construction is Rs 2,000 per sq ft, the cost of sand alone will be around Rs 160-200 per sq ft."

#### What has led to a hike in sand prices?

The cities/regions that are the most impacted by the rising costs are those which do not have access to regions where sand is easily available. In such areas, sand has to be transported from neighbouring states which adds new costs such as transportation and commission. There are many cases where state governments have banned lorry operators from entering the state borders which leads to smuggling of sand at very exorbitant rates.

#### Which have other raw materials witnessed a price hike?

Inflation has spared no raw material used for construction. This precisely explains the rising cost of real estate over the last few years. Jain avers, "Along with sand, steel prices have increased by Rs 2,000 per tonne, resulting in a cost of Rs 40,000 a tonne. Other construction materials such as cement, iron ore and coal have also seen an increase in prices. Coal and iron ore have increased from Rs 300 to 500 per tonne. In 2014, price of cement was around Rs 300 per bag and has noticed a continuous increase of Rs 3 per bag month-on-month. By October 2016, the price of per bag of cement was around Rs 330, while the current market rate is in the range of Rs 350 to 370 per bag, depending upon the cement manufacturing company."

The overall hike in the cost of individual raw materials has undoubtedly left a significant impact on real estate pricing. With inflation on the rise, the trend in each industry is expected to continue. Experts say, in order to keep a check on exponential price rise in real estate, the government needs to curb inflation and other macro factors which are making raw materials expensive. One solution suggested to regulate raw material prices is to include the allied industries under the Real Estate (Regulation and Development) Act. Although no plans have been pronounced regarding the same, no one knows what the future entails.