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Evolution of Condominium Market in Sri Lanka: A Review and Predict

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Abstract

In the country's growth, real estate sector has played a key role. When considering the residential real estate sector in Sri Lanka, it includes the different types of properties such as single houses, storied houses, annexes, twin houses, lined houses, condo/apartment units and so on. Among them, condominium as a quite type of property shines in modern Real Estate industry particularly in Colombo where there is a booming trend in the sector at present. It is not something just happen suddenly. The current upward trend in residential condominium sector took a long period of evaluation. In fact, it is nearly 6 decades long. In 60's and 70's the government launched housing apartment projects as a strategic measure to solve the burning housing issues of low and middle-income communities in Colombo where lands are limited in supply. During the last few decades, this type of properties; apartments/flats/high-rise housing solutions have been developed under different projects at different scales. Accordingly, it has been evolved throughout the succeeding decades along with the gradual change of human needs and wants and the socio-economic backdrop of the country. It can be graphically presented as "from housing apartments/flats" into "housing schemes" and then into "residential condominiums" which is a fully market-based product. Currently, there are over 900 apartment complexes in the country having over 15, 000 residential units while another 200 condominium projects are in pipe-line with over 13,000 residential units. They are going to be completed within the next three-four years to come. Among that bulk, 90% of condominiums are located within Colombo and its suburbs. Through this evolution of the Condominium sector in Colombo, a prime market for "vertical growth" has been emerged and the private sector has become the main actor in the market. Under this backdrop, this paper aims to identify the patterns of evaluation of the condominium sector in Colombo and to analyze the current trends and to predict the future of the sector in Colombo.

Keywords: Condominium Market, Housing, Land Market, Property Development, Real Estate Sector

Introduction

The real estate sector is one of the most significant sectors that contributes toward the socio-economic growth of a country. The residential real estate sector as the most visible real estate asset classes, the entire country has 5,207,740 number of occupied housing units and among that bulk 84.8% belong to single houses category. (Department of Census and Statistics, 2012). Accordingly, the most popular housing type in Sri Lanka is single houses.

When considering the condominium category, it is quite different in nature and defined as a form of absolute ownership of individual apartment units with co-ownership (by percentages) of common areas, such as land, corridors, hallways, stairways, lobbies, recreation rooms, porches, rooftops, and any outdoor areas at the ground of the buildings (https://en.wikipedia.org/wiki/List_of_house_types, accessed on 28th February 2018). Accordingly, a condominium property affords dual ownership, that is, individual ownership of the unit designed for independent use and joint ownership of common elements or all areas that do not form part of the condominium unit.

The condominium concept is a widely spread property type and provides a better solution for urban housing issue where the land is limited and the population is rising so the demand. (Anthoniz and Perry, 2015). When turning to the Sri Lankan context, the condominium development has been in existence for more than 60 years (Wijeyeweere,2004). This paper reviews that history at stage wise up to the present and predicts the future context too.

Evolution of Sri Lankan Condominium Market

When explaining “the evolution of the condominium sector” in Sri Lanka, it can be identified under four eras as follows,

Era 1-Condominiums before 1980

In conjunction with the condominium development initiative in Sri Lanka, it goes back to the 1950's. Basically, most of the condominiums were low-rise and does not have laws to govern or regulate. At the time, they became known as “Flats” or “Urban Housing Schemes” and government was the foremost developer. Actually, they provided housing with very basic facilities such as water, electricity, sewerage systems, stairways and etc. (Wijeyeweere,2004).

The Condominium Property Act No. 12 of 1970 was the first legislation and it was repealed and replaced by the Apartment Ownership Law No. 11 of 1973 (otherwise known by its short title “Apartment Ownership Law”) embodying

the current law for registration of multi-story properties capable of being divided into separate units. Further, this law has been subsequently amended by several acts in 1982, 1999, 2002 and 2003 to meet the existing challenges appear in those years regarding condominium properties (Edirimane, 2006).

Further, the government realized the need to maintain the low and middle-income residential flats/condominiums, the common amenities and element in a good state of repair. This need gave birth to the Common Amenities Board. It was formed by Act No.10 of 1973 and amended by Act No: 46 of 1982 (Wijeyeweere, 2004).

With the establishment of the National Housing Development Authority (NHDA) in 1979, so many multi-story developments were constructed within that era namely Armour's Street H/S, Torrington Flats, Maligawatta Flats, Bambalapitiya Flats, Soysapura Flats, Anderson Flats, etc. Most of them were constructed in urban areas to accommodate government servants as well as to meet the low- and middle-income base housing requirements in urban areas.

Era 2- Condominiums in 1980-2000

Considering the level of development taken place during this era, it can be discussed under two sub-eras as follows,

1980-1990

Due to the Sri Lankan Civil War, most Tamil people were vacated their hometowns in Jaffna and drastically moved for settlements mostly in Wattala and Wellawatta areas where they found their own communities most. Even though in Wattala area got much vacant land, it is not the case in Wellawatta area. As a result, the most viable option was to go for high-rise developments as it could be able to accommodate more in the fairly small land plot. Gradually private sector developers were entered into these kinds of developments and consequently, the high-rise developments become mushrooming fast. Really, they were just basic/standard apartment units which provide a place to live mostly for migrated Tamil communities from the North. Further, required finance for those developments was pumped from Tamil expatriates who lived in Europe and the West (US, UK, Canada, Italy, Australia). Also, the relatives of local Tamils who live in those countries have financially supported their relatives to purchase condominium units in Colombo.

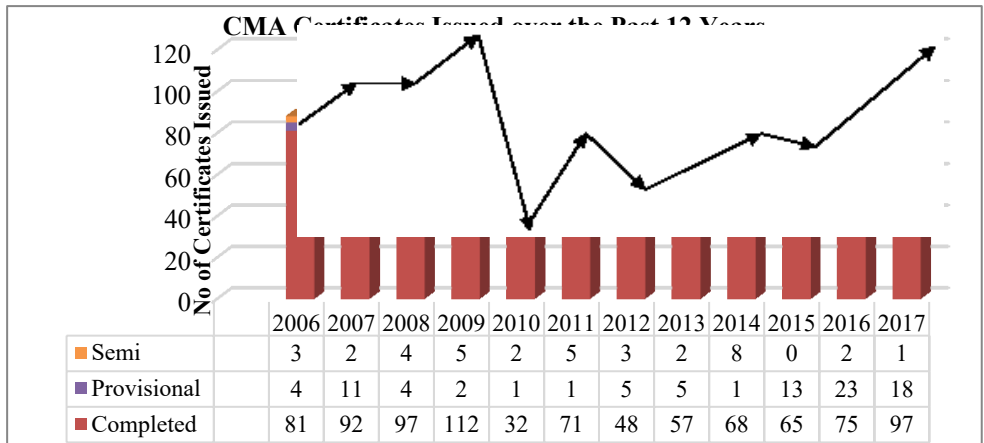
1991-2000

It was almost a continuation from the previous era but it was gradually moving into upper middle and high-end residential users' segment. Most of the development was undertaken by private sector developers. Those condos become more formal with modern facilities and services, particularly with a branding. Accordingly, the first high-rise luxury condominium property in this category was the "Royal Park" located in Rajagiriya which was completed in 1994. The developer was Kiangnam Constructions and it built to cater to the high-end demand in the city. In all aspects, it was the landmark high-rise residential condominium development in the country and it consisted of 24 floors and 240 units with so-called luxury facilities and services. The second high-rise luxury development is Crescat Residencies located in the heart of Colombo city which was completed in 1998 consisting of 24 floors and 150 units (Anthoniz and Perry, 2015). Indeed, these developments have emerged as the best solution to accommodate ever-growing housing demand in the City for most segments.

Era 3 - Condominiums in 2001-2020

With the establishment of the Condominium Management Authority in 2005 under the Act No 24 of 2003, it became the main agency which governs the condominium properties. Correspondingly, that Law shall apply to any building or buildings having two or more stories on alienated land, held as one land parcel capable of being subdivided into parcels, and to any building or buildings having only one storied on the same land capable of being subdivided into parcels, ("Condominium Property"), any building proposed to be or in the process of being erected on alienated land, held as one land parcel and which shall be capable of being subdivided into parcels ("Provisional Condominium Property") and any partly completed building in which there are more than one completed condominium parcels fit for human habitation shown in the registered Provisional Condominium Plan ("Semi Condominium Property"). Figure 1 shows that certifications issued for Completed, Provisional and Semi Condominiums by the Authority over the past 12 years.

Figure 1: CMA Certificates Issued from 2006-2017



Source: Condominium Management Authority, 2018

As per the above graph, the highest number of certifications issued for Complete Condominiums (112 numbers) has been recorded in 2009. There was a gradual increase over 2012-2017 time period. Further considering the supply of condominium units during 2006-2017, there are 895 numbers of certified completed properties and 15,483 numbers of condominium units in the bulk as at 2017. Therefore, data revealed that there are a growing supply and effective demand in the condominium market over the past 12 years in Sri Lanka.

When considering the private sector developers who engaged in condominium development, it can be identified different types of developers. Some leading developers are focused on the development of Luxury type condominiums within the Colombo city limits (Ex: Indocean Developers, John Keells Holdings). Some developers are to cater to upper- middle and middle-income people (Ex: Prime Lands, Blue Ocean Residencies, Home Lands, Blue Mountains). Basically, they are focused on development of condominium properties in periphery of Colombo and suburb and can be considered as the secondary level developers. Besides, there are some developers to facilitate the lower middle-income population. Basically, their developments lie out of Colombo suburbs and provide low budget apartments. (Ex: Gampaha Development Company (Pvt) Ltd). In addition, the involvement of individual developers in this field also can be identified as an emerging trend in this industry.

Era 4 - Condominiums beyond 2020 & way forward

Currently, there are over 900 apartment complexes in the country having over 15,000 residential units while another 200 condominium projects are in pipeline with over 13,000 residential units to come. They are going to be completed within the next three-four years to come (2020-2022 year). Indeed, this evidence confirms that the developers have moved to high rise condominium developments with more units to accommodate more people within a single plot of land. Furthermore, 90% of ongoing condominium developments are located within Colombo District and rest (10%) is in outer Colombo District. Accordingly, it has started to dominate the entire Colombo cityscape. Further considering the dispersion of ongoing condominium developments, over 50% of those projects are concentrated within Colombo City limits and the rest are distributed within the suburbs of Colombo.

Further elaborating major ongoing luxurious condominiums in Colombo city limits, there are numerous projects namely Altair, The Residence at Colombo City Centre, Cinnamon Life, The Residence at One Galle Face, Prime Residencies, Ward Place, Capitol Twin Peaks, Astoria, etc. Thus, the concepts of vertical living have been brought forward and becoming popular. Actually, this happens because the residents can enjoy the convenience of having the facilities at their doorsteps.

Further expounding ongoing condominiums in Colombo's Suburbs, there are also having numerous projects such as Prime Residencies-Mahabage, Fairway Urban Homes- Koswatta, C M Tower-Dehiwala, Lotus Garden-Athurugiriya, Access Residencies-Thalawathugoda, 96 residencies-Sri Jayewardenepura Kotte, Orchid Apartment-II-Malabe etc. Indeed, those are erected to cater for Middle income and Upper middle-income population, where they represent the 1/3rd of Colombo condominium market prices.

On the other hand, there is an emerging trend of tourism destination-based condominium development in Sri Lanka. For examples, The Beach Front-Uswetakeiyawa, Fairway-Galle, The Beachfront-Balapitiya. Further, Galle, Unawatuna, Weligama, Jaffna, Pasikuda, Trinco, Negombo areas have been identified as emerging destinations for the condominiums along with the development of tourism industry. Example for an upcoming condominium in outer of Colombo suburbs is the Oceanfront, Galle. So, day by day, condominium development spread out of Colombo and there is no reverse seen in this industry.

Conclusion & Recommendation

Thus, the condominium living is becoming the only solution to increasing urbanization in areas like Colombo, the fastest growing city where the land is in short supply. Actually, this living style is very interesting whereas it uses the so-called limited resource “land” effectively and efficiently. Further, as a good investment vehicle in the real estate market, it is high time to think about the way forward for the sustainable living. So, the following recommendations are brought forward to ensure a healthy condominium industry in future,

- ✓ Regeneration of existing condominiums and flats in the outdated state with the vision of the future plan.
- ✓ Promote sustainable green concepts/features in future condominium development in line with global condo trends.
- ✓ Ensure value for money and elimination super profit scenarios to promote condos among the most who wish to live in apartments accordingly built up effective demand.
- ✓ Find more pragmatic approach from both the Government and the Private sector to promote condo living in Urban areas and suburbs (Private Public Partnership).
- ✓ Maintain the quality of design & construction with strong commitments for industry compliance to ensure sustainability and public trust.
- ✓ Wipeout bottlenecks in the approvals process of planning agencies and funding process of financial institutions to promote condo developments and also promote potential buyers.
- ✓ Fortify the existing legal structure that governs the condos in order to ensure sustainability & credibility with hassle-free industry environment.
- ✓ Develop a proper basis for categorization of the condominium as the super luxury, luxury, semi-luxury and accordingly pragmatic pricing model & ethical marketing mechanism.
- ✓ Carry out pragmatic research and development by professional and academics to support developers to identify potential destinations and demand drivers, innovations and value additions to ensure quality development and value for money and so on.

Further, this review could be used as an eye-opener for policymakers, industry specialists, academics, professionals and others who interested and responsible to ensure the quality, sustainable development and performances in the Sri Lankan condominium industry.

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