



Real talk Estate

COVID 19: The Next Wave of the Real Estate Growth in Sri Lanka

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Department of Estate Management and Valuation
University of Sri Jayewardenepura
Sri Lanka

The Next Wave of the Real Estate Growth: Moderator's Note



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Real Estate Talk is a prominent feature of the International Conference on Real Estate Management and Valuation (ICREMV) hosted by the Department of Estate Management and Valuation (DEMV), the University of Sri Jayewardenepura along with its respective collaborative partners.

Covid-19 has changed the way how people live, work, relax, gather for social interactions and so on. Markets are tumultuous and at a significant level of upheaval. Digital platforms influence substantively in shaping the human world. The clear boundaries we conventionally demarcated for real estate use; residential, commercial, office, leisure, likewise have become fuzzy. Occupants are most likely to seek renewed forms of built up spaces in the wake of **“new health and amenity consciousness”** in the post pandemic new normal. In the light of this background, the Real Estate Talk 2021 held a cross sector panel discussion on the theme of **“The Next Wave of Real Estate Growth in Sri Lanka”** to depict the Covid-19 impact on the Real Estate sector in Sri Lanka and how it needs to be resolute in the new normal.

The panel consisted of the following dignitaries:

- ◆ **Architect Russell Dandeniya**, The President, Sri Lanka Institute of Architects
- ◆ **Mr. Namal Peiris**, Chief Executive Officer, International Construction Consortium (Pvt) Ltd.
- ◆ **Plnr. E.A.C. Piyashantha**, Deputy Director General, Urban Development Authority (UDA)
- ◆ **Dr. (Ms.) Nishani Wickrmaarachchi**, Senior Lecturer, Department of Estate Management and Valuation, USJP
- ◆ **Ms. Yamuna Jayaratna**, Director – Sales & Marketing, Port City Colombo

The inquiry of the Real Estate Talk 2021 was particularly into:

- How transformation requirements of space occupants would reform the demand in the real estate markets in the new normal?
- ◆ how different uncertainties that Covid-19 triggered would cultivate new opportunities in the real estate markets?
- ◆ What are the new adaptations in the next wave of real estate supply in different schemes of things?
- ◆ How the new forms of technology would be integrated into the real estate supply?
- ◆ Would Colombo Port City be a catalyst to attract Foreign Direct Investment and a key determinant of the real estate market performance in Colombo?
- ◆ To what level the planning interventions are in support of correcting the real estate industry in Sri Lanka to be better, cleaner, fairer in next wave to come?
- ◆ What does the local and international research and scholarly works inform us about the next wave of real estate growth?

This document summarizes the reflections of the panelists among which the key highlights uncovered were;

The research worldwide showcases that the real estate market prices have been hard hit due to the Covid-19 pandemic at times of its first and second wave, yet the sector has been soon recovered from that downturn. The zoom poll in which the participants of the webinar were engaged highlighted their opinion that the Real Estate Market in Colombo is recovering at a slow phase whilst a substantial level of investments has been made in purchasing bare lands. Participants in the poll were professionals in the real estate sector.

Covid-19 together with import restrictions have put the labour intensive construction sector in Sri Lanka and its supply chains at a vulnerable position, causing high-frequent price fluctuations. However, projects such as high and medium income housing, IT facilities, university building expansions, water supply, irrigation, highways etc. undertaken by large scale contractors shown to have the resilience to continue the construction process amidst these challenges.

The government seemingly mobilising the real estate sector in Sri Lanka to draw foreign direct investments and local investments from the high net worth communities. The markets will mostly likely be set in a combination of regulations and de-regulation policies. The next wave of real estate growth will experience an increase in the supply of state lands most for income producing property and, many projects that are currently in pipeline.

Integration of technology and improved communication are the positive influences that Covid-19 had brought for the construction sector in Sri Lanka. The residential and office sector is predicted to have major demand resets in terms of its scale and design. Information technology, telecommunication, built environment which is sensitive to the environmental concerns of time, flexibility of space to be adapted to different uses will be fixed to the upcoming value propositions of the real estate sector stronger than before.

Colombo Port City will be placed as the flagship real estate project to mussel and steer a new wave of real estate growth in Sri Lanka with a 15 billion USD investment. Inter-regional cooperation will certainly benefit the Sri Lankan real estate sector in the next wave of growth.

However, Sri Lanka should soon strengthen the real estate market with data to avoid experiencing the present Knightian uncertainty; absence of accurate and quantifiable knowledge about the possible occurrence as opposed to the presence risk in the real estate market.



Real Estate Outlook Amidst Covid-19: A Review of Scientific Work

The scholarly findings on real estate outlook amidst Covid-19 were presented by Dr. N. C. Wickramaarachchi. According to her, in general, the scholarly findings observed a dropdown in the volume of transactions and a decline of the prices and rentals in housing, commercial and office markets.

“ ...Certain growth trends were observed”

A shrinking demand for office spaces, mortgage applications and city center stores, was prominent in many countries. In fact, certain growth trends were observed such as, increasing demand for spacious houses enabling telework for learning and working, rising in e-commerce marketing, promoting re-developments in the obsolete/ or converting the use of emptied buildings, flexible/ short term lease agreements, increase demand for space in the peripherals, short term investments strategies, and promotions in Work from Home (WFH) and IT-based developments.



Dr. (Ms.) N. C. Wickramaarachchi

Senior Lecturer
Department of Estate Management & Valuation
University of Sri Jayewardenepura

Extracting scholarly findings, Dr Wickramaarachchi pointed out that no sales had been reported during the lockdown period in the Wuhan residential market where the Covid-19 first emerged. The transactions commenced immediately after the lockdown noting a reduction of housing prices in the areas closer to the epicenter (close to the seafood market) while observing a rise in the peripheral areas.

At the same time, a corresponding increase in the demand for housing was also noticed in the peripheral areas.



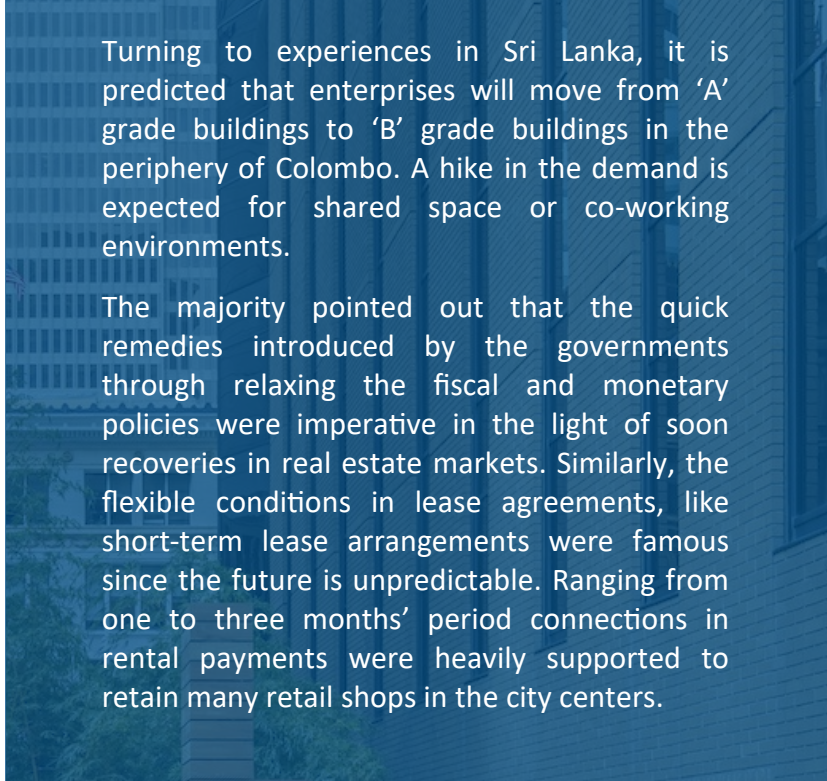
A view from the USA noted a drastic drop-down in home sales and a corresponding decrease in the prices. However, an immediate recovery is observed (“V” shape curve) within a short period.

In Turkey, it is observed that a significant dropdown in home sales, while a growth had been noted approximately within one month period.

Looking into Australia, a similar drop down has been noticed in housing prices, and a quick upward trend has been experienced.

In Italy, a rising demand for three-room apartments providing space to live and work was evident. Furthermore, residents had been unsatisfied living in apartments. There were many obsolete properties in the City centers and the government had taken immediate actions to renew them for better purposes.

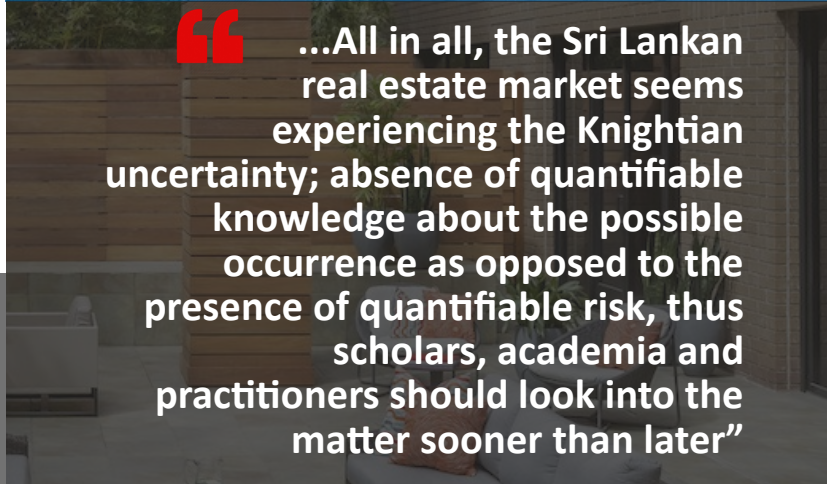
A considerable amount of office properties were vacated in Middle East countries and the planning authorities had decided to transform them for various other purposes.



Turning to experiences in Sri Lanka, it is predicted that enterprises will move from ‘A’ grade buildings to ‘B’ grade buildings in the periphery of Colombo. A hike in the demand is expected for shared space or co-working environments.

The majority pointed out that the quick remedies introduced by the governments through relaxing the fiscal and monetary policies were imperative in the light of soon recoveries in real estate markets. Similarly, the flexible conditions in lease agreements, like short-term lease arrangements were famous since the future is unpredictable. Ranging from one to three months’ period connections in rental payments were heavily supported to retain many retail shops in the city centers.

“ ...All in all, the Sri Lankan real estate market seems experiencing the Knightian uncertainty; absence of quantifiable knowledge about the possible occurrence as opposed to the presence of quantifiable risk, thus scholars, academia and practitioners should look into the matter sooner than later”



“ ...Turning to experiences in Sri Lanka, it is predicted that enterprises will move from ‘A’ grade buildings to ‘B’ grade buildings in the periphery of Colombo”

Research has further emphasized that in the new normal, employees often prefer to come to offices three days per week. Therefore, predictions are such that both WFH and physical presence in the offices may occur in a hybrid manner.





Mr. Namal Peiris

Chief Executive Officer

International Construction Consortium (Pvt) Ltd

Mr. Namal Peiris expressed his view that “the construction industry is vulnerable to impacts of the unfavourable situation prevailing locally and globally. However, the country is fortunate to have plenty of projects on high and medium-income housing, IT facilities, university building expansions, water supply, irrigation, highways, etc. in the later stage of the design and tender process coming to the market very soon and more in the pipeline.

When looking back at earlier experience on waves, it started happening in 2012-2013 after ending the civil war and results were experienced in 2015-2016. As a result, an attractive annual growth was evident in the construction sector and a boom was apparent in luxury residencies, affordable housing, office buildings, hotels, mega infrastructure projects, etc.

“There are both opportunities and challenges generated due to Covid-19 pandemic situation in the construction industry”

As he highlighted, one such key benefit is improved communication and technological skills, in terms of online money transfer, material ordering, factory inspection via online platforms, being interactive with each other during WFH period, monitoring and reviewing staff performance, etc.

Second, the interest rate coming down to one digit is beneficial. As their cost of capital is low, instead of saving their money in banks, people tend to invest in real estate buying bare lands, apartments, etc. On the other hand, contractors will obtain working capital at a low cost, thus, they can go for capacity building and make initiatives for innovations and new developments.

Bottlenecks in the Construction Sector

The construction industry in Sri Lanka being labor-intensive, certainly experience a loss of production as well as labour productivity. Keeping labourers healthy and safe from the virus, taking precautions, looking after infected labourers, labour retaining, maintaining social distance, etc. were challenging.

Sourcing materials was another huge challenge faced as the supply chain got badly affected by restrictions imposed on imports. Foreign exchange restrictions also led to adverse impacts, for instance, the process of establishing letters of credit is much delayed. Due to exchange rate fluctuations, fixing prices to imported goods has also been a challenge and as a practice, suppliers tend to increase the price and keep a safety margin to cover up additional costs.

Construction During the Pandemic in Sri Lanka



“ ...Currently, the charges have tripled in both local and global contexts.”

Moreover, the discussion highlighted some inherited issues in the construction industry in Sri Lanka. Although the use of local raw materials is encouraged, appropriate regulations for that are unavailable and proper systems of ascertaining the quality and to control price are not in place. This leads to frequent price hikes, supply shortages, environmental damage, etc. It is essential to control the construction costs to make investing in real estate affordable for potential investors.

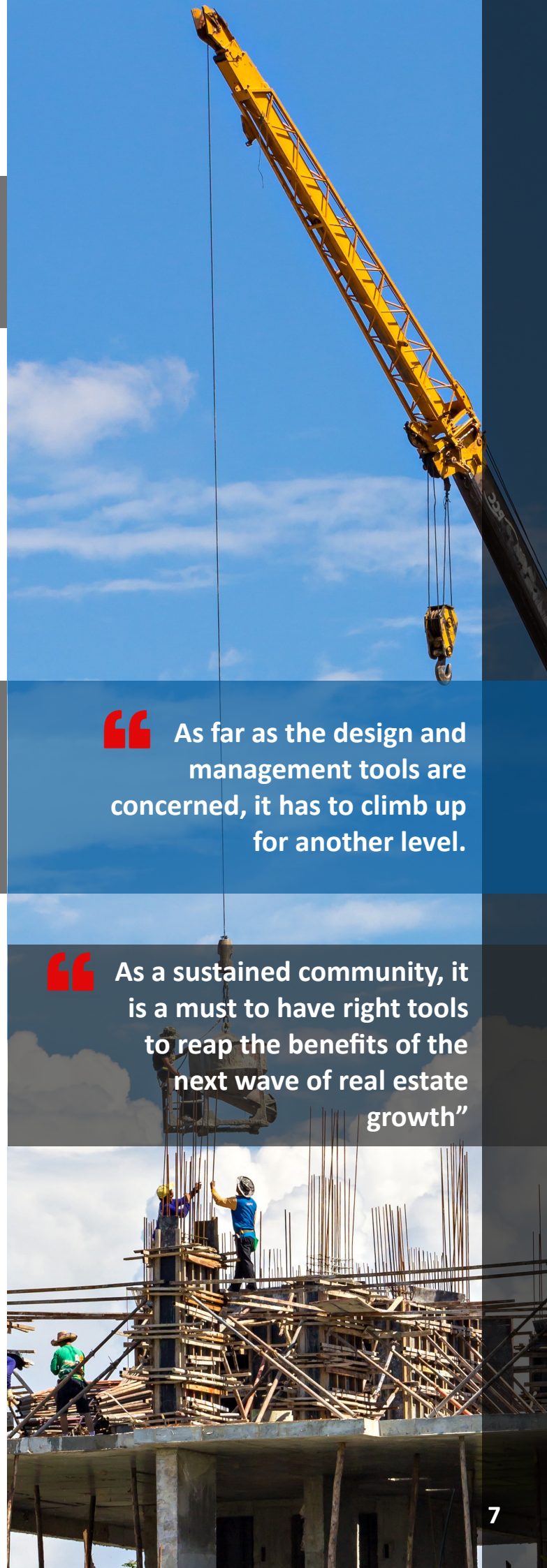
“ ...Non-sustainable usage of the resources can lead to a scarcity; accordingly, the prices will go up leading to an increase in cost of construction.”

As summed up comments, Mr. Peiris stated that the relevant authorities should understand these circumstances and necessary actions should be taken and he appreciated the steps taken by the Urban Development Authority (UDA) towards improvements by maintaining their regulatory framework in the right direction.

The industry cannot work at the equilibrium where it had been before Covid-19. A boom can be expected. Many changes in terms of technical advancements, management, design for manufacture, modular construction or PPVP (Precast Volumetric Construction) have to be implemented.

“ As far as the design and management tools are concerned, it has to climb up for another level.

“ As a sustained community, it is a must to have right tools to reap the benefits of the next wave of real estate growth”



Resetting Real Estate with Covid-19



Arch. Russell Dandeniya
The President
Sri Lanka Institute of Architects

Architect Russell Dandeniya expressed that the next wave of the real estate sector is also unpredictable due to prevailing uncertainties; “Currently in Colombo, lot of office spaces are vacant and available for rent.”

He further stated that most people will tend to have their offices at home similar to the past practices where, in many houses, a room was allocated as an office room and for studies. In the near future, there is a possibility of altering the floor plans in houses with an added quarantine room with all accessible amenities”.

“...As a nation, Sri Lanka has to look within this uncertainty for the most opportunities it provides.

His perception of the required changes to the real properties especially building designs and associated infrastructure is that real properties may require modifications with required new air conditioning systems. The acoustic condition has become an important item than ever before where one can have a zoom meeting room with an

online connectivity. As per his opinion, instead of thousand people working in one particular office, hundred people working in ten decentralized offices would be the ideal situation in near future. Further, the shift basis working hours will lead to exploring convertible, easy, flexible co-working spaces. Individual shops and boutique shops will gain the lead with private sort of mini-markets flourishing instead of high scale densely visited supercenters.

In addition, Architect Dandeniya emphasized that the real estate sector in Sri Lanka has various inherited issues such as limitations in the planning approval procedure and land disputes as barriers to the development of the sector.

Architect Dandeniya proposed “The Great Reset in the Built environment/ Real Estate” as a solution to address prevailing issues and he further emphasized that Covid-19 is a great reset in every aspect in building a better world with sustainable economic

“The Great Reset in the Built environment/ Real Estate is the solution”

“Apartments, individual houses, and hotels, offices, etc. may require modifications”



recovery after this pandemic situation. Sri Lanka possesses all the required components for a reset even during this unstable economic situation.

He further stated that “Sri Lanka should move ahead with the service sector development as there are a lot of potentials. It is highly required to be sturdy in planning the infrastructure, telecommunication, power, vaccination programme, etc. In the meantime, resolving the disputes prevailing at construction sites is also essential.

Sri Lanka always looks at lands for investors to come up with proposals instead of land sales local professional, real estate entrepreneurs and local banks to get together and could seek investors via design proposals as appropriate value additions for projects and creating continuous Sri Lankan business forums with potential investors. Local real estate champions should explore more to find proactive opportunities specially overseas to bring foreign revenue. Accordingly, rather than focusing only on the strategy of getting investors to Sri Lanka, in future, the top thirty business entities in Sri Lanka should explore how they can get foreign inflows by participating proactively in overseas business opportunities”.

Future Real Estate should be more generous and people-centric, rather than focusing merely on earning profits as future economic constraints of the middle-income group and their diminishing buying power will be taken over by the high-income group.

“ An easy planning approval process and investor friendly environment are essential for the growth of the real estate”

As a nation, it is high time to revisit the long legal process of land disputes to overcome related issues and challenges and to clear almost all lands making them available for investors. Planning approval should be efficient as well as effective, making them automated would be ideal without the involvement of government officers. Further, an anonymous speedy planning process should be established to reduce corruption as well as delays.

In addition, promoting data accessibility via websites of government official institutions such as the Urban Development Authority (UDA) would save time, money and energy while generating various benefits to many parties through inculcating such mechanism in the system.

Even though various challenges have been faced, people in Sri Lanka simply forget every scar of the past and they are very positive about a speedy recovery. In that case, Sri Lanka is a very robust and resilient nation.

“ After this recessionary period, with the government support by the capital investment, the real estate sector in Sri Lanka can reach a growth again up in an unprecedented status”



Interventions of Urban Development Authority for the Revival of the Real Estate Sector in Sri Lanka



PInr. E. A. C. Priyashantha
Deputy Director General
Urban Development Authority

PInr. Priyashantha stated that “Despite the Covid-19 pandemic situation, the government has introduced various measures to boost investor confidence in the Sri Lankan Real Estate Industry. The main aim of these reforms is to attract much-needed Foreign Direct Investments (FDI). In September 2021, Urban Development Authority (UDA) introduced new Planning and Building Regulations to encourage Real Estate Developers”. Under these regulations, UDA has introduced Zone Factor, which fosters development where infrastructure facilities are mostly available by providing fairer and higher plot coverage”.

He further mentioned that “The new Planning and Building Regulations have duly recognized the contribution of built environment professionals and play an essential role in regulation. Especially in terms of land subdivision, issuing building permits and the Certificate of Conformity.

Greening the Real Estate Development: The Role of Government

The UDA has also introduced Green Rating System to ensure a sustainable built environment and issues Green Building Certificates under three categories Platinum, Gold and Silver. The new UDA regulations have also introduced post permit follow-up and observation reporting due to many complaints from adjoining property owners when a real estate developer builds an apartment or a commercial building.

“One-Stop-Shop for real estate developers to get necessary approvals from one location”

Additionally, the UDA has established One-Stop-Shop for real estate developers to get necessary approvals for their development projects from one location. As a result, the real estate developers only need to apply through the UDA, where the UDA will coordinate in getting necessary approvals within a reasonable period.

The one-stop-shop will significantly reduce the time taken for processing the application, provide high transparency through the online application system, fewer complexities for developers, provide an advanced monitoring system, and finally promote investments.



“UDA plans to introduce investor development clusters”

UDA plans to introduce investor development clusters and has identified a land base of more than 700 acres and is planning to release those to the market in near future. The investment model for such developments includes public-private partnership projects and leasing developable land on annual or 30, 50 or 99 years depending on the development's cluster and investment size.

On the other hand, the Government has heavily invested in highways and housing projects despite having capital restrictions. For example, the UDA expects to commence around 12,000 housing units, and the Ministry of Highways has commenced the 3rd Stage of Central Highway and 1st phase of Ruwanpura Highway.

“Massive investments by the Government in developing amenities and other infrastructure facilities will significantly impact the real estate sector in the coming two to three years”

At the same time, the Colombo Port City project has opened 270 ha of land available for investment. Furthermore, the Government has adopted policies to reduce lending rates to support the booming real estate sector in Sri Lanka. He believes the depreciation of the rupee and the rising inflation also contribute to the inflow of investments into the real estate sector since real estate act as a hedge against inflation.

On a final note, the Deputy Director General, UDA mentioned that Real Estate Sector contributed to more than 16% of the GDP of Sri Lanka, and amidst the Covid-19 pandemic situation, it has further increased by 5%. It is expected that the pandemic situation may prevail for another two to three years. However, Sri Lanka needs to plan the real estate sector for another 20 to 30 years focusing on the country's development to have a thriving real estate sector like Singapore and other developed countries.





Colombo Port City & Real Estate Investment Prospects

Ms. Yamuna Jayarathna was of the opinion that in looking at the next wave of real estate, especially in the context of Port City, it is vital to look at emerging trends globally and the key drivers of demand and the changing paradigm that will impact demand in the context of the Port City. She further mentioned that it is vital to drive regional and international demand into Sri Lanka in terms of demand for real estate. For example, currently, in the luxury real estate segment, the main demand drivers for residential properties come from the Sri Lankan high net worth community and non-resident Sri Lankan community.



Ms. Yamuna Jayarathna
Director Sales and Marketing
Port City Colombo

“...Investment opportunities that Port City provides in Sri Lanka are well-placed to capitalize on the next wave of real estate that is taking place globally”

However, with emerging trends and opportunities, Sri Lanka has a compelling value proposition with Port City and takes on the international market and competes with the best markets operating in the region. Further, she believes that with the entire value proposition, Port City brings together within Sri Lanka’s first special economic zone, world class infrastructure, a robust investor-friendly legal framework supported by first world administrative practices. These investment opportunities in Sri Lanka are well-placed to capitalize on the next wave of real estate that is taking place globally.

She further mentioned that “In terms of Port City, one must not only think about the national demand but also focus on global demand as its influence goes beyond the national boundaries”. She highlights that one must carefully pay attention to what is happening globally, what is driving demand, and decision-making when it comes to investment in real estate. She firmly believes that the port city is very well placed to drive the next wave of real estate development in Sri Lanka.

Ms. Jayarathna stated that the next wave of real estate growth is a topic with much relevance to Port City. The Port City Project is the latest that brings into the industry and essentially drives this next wave. As a synopsis of the investment, the entire committed investment for land reclamation, breakwater construction, and horizontal infrastructure is 1.4 billion US dollars.

The project company has already invested or completed the investment of approximately 1.2 billion US dollars. This is the largest Foreign Direct Investment (FDI) Sri Lanka has attracted so far. However, for Port City to realize its master-planned city, it must attract further estimated investment of 13.5 billion US dollars into real estate. Accordingly, the total expected investment for Port City to become a reality is estimated at 15 billion US dollars. In terms of the project size, the entire extent is 269 hectares, and out of the total extent, the developable land area is 179 hectares. Almost 91 hectares form common areas within the city. The total built area that is envisaged to come through the vertical construction is expected to be 6.3 million square meters.

This would be built in the four leading real estate asset classes being residential, office, retail and hotel. Residential would take the central stage that 50% of the real estate envisaged to be built within the Port City would be residential property.

Around 25% of the total real estate envisaged to be built within the Port City would be commercial space. Retail would be 14%, and hospitality would be 6%.



Primarily focusing on the service sector would be of paramount importance, especially absorption of commercial space, because there is a clear positive correlation between the absorption of commercial real estate space and the service sector's growth. The country must ensure to have a type of balance between regulation and de-regulation.

“ Sri Lanka must improve inter-regional cooperation ”

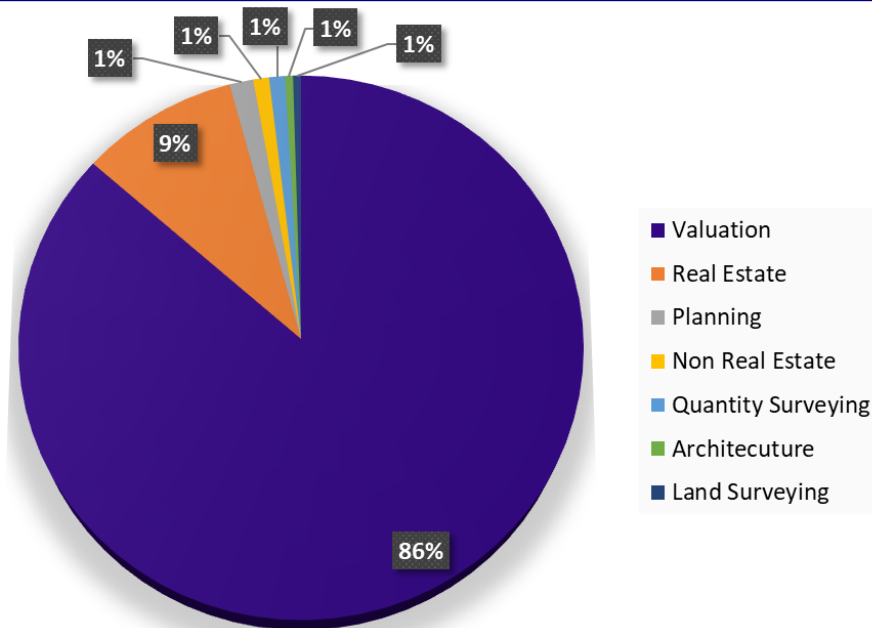
Ms. Jayarathna is on the strong viewpoint that Sri Lanka must ensure a more excellent way of doing business and develop greater investor confidence in the country in the macroeconomic sense. The country must also be careful not to get stuck in the middle-income range. Furthermore, Sri Lanka must improve inter-regional cooperation because, as per the study already conducted by the Asian Development Bank, in 2050, Asia is reclaiming or becoming the centre of the global economic hub. Therefore, in the long term, inter-regional cooperation within the region will gradually support the development of Asia, and Sri Lanka will benefit from being in a significant location within the region.

“ For a successful future wave of real estate growth in Sri Lanka, it is essential to position Sri Lanka as a multi-services hub and drive high-value growth sectors ”

“ Port city would be built in the four leading real estate asset classes; residential, office, retail and hotel ”

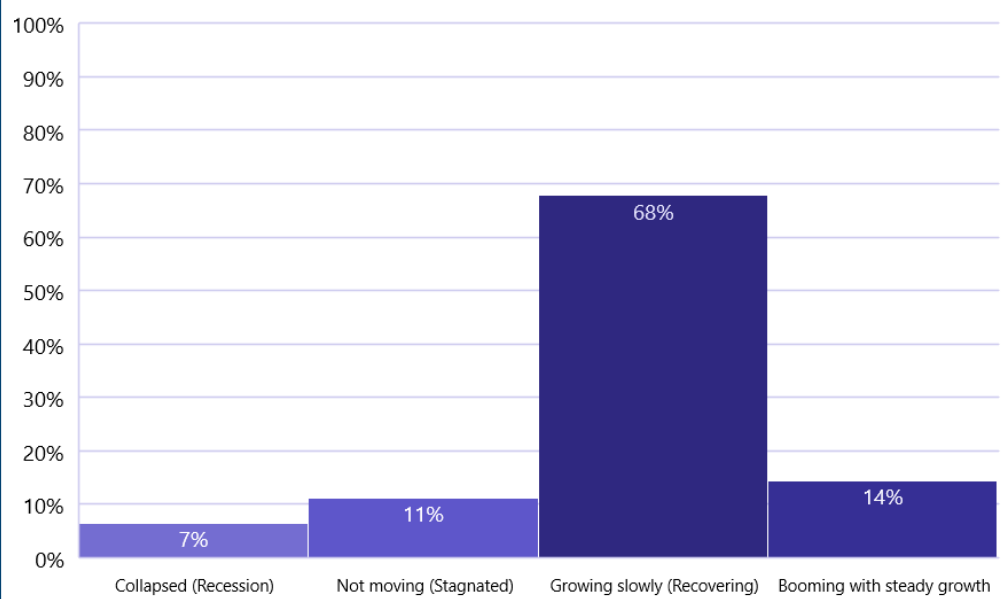
Webinar Participants' Opinion on the Colombo Real Estate Market 2021

Poll #01: Area of Specialty of Participants

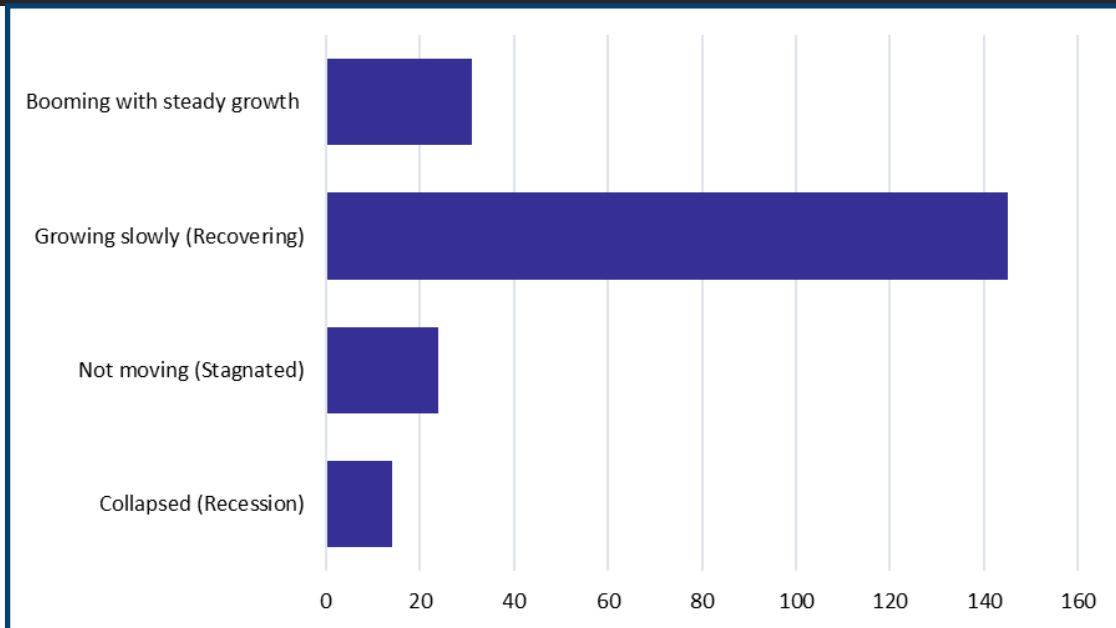


No of Participants to the Survey (n) - 216

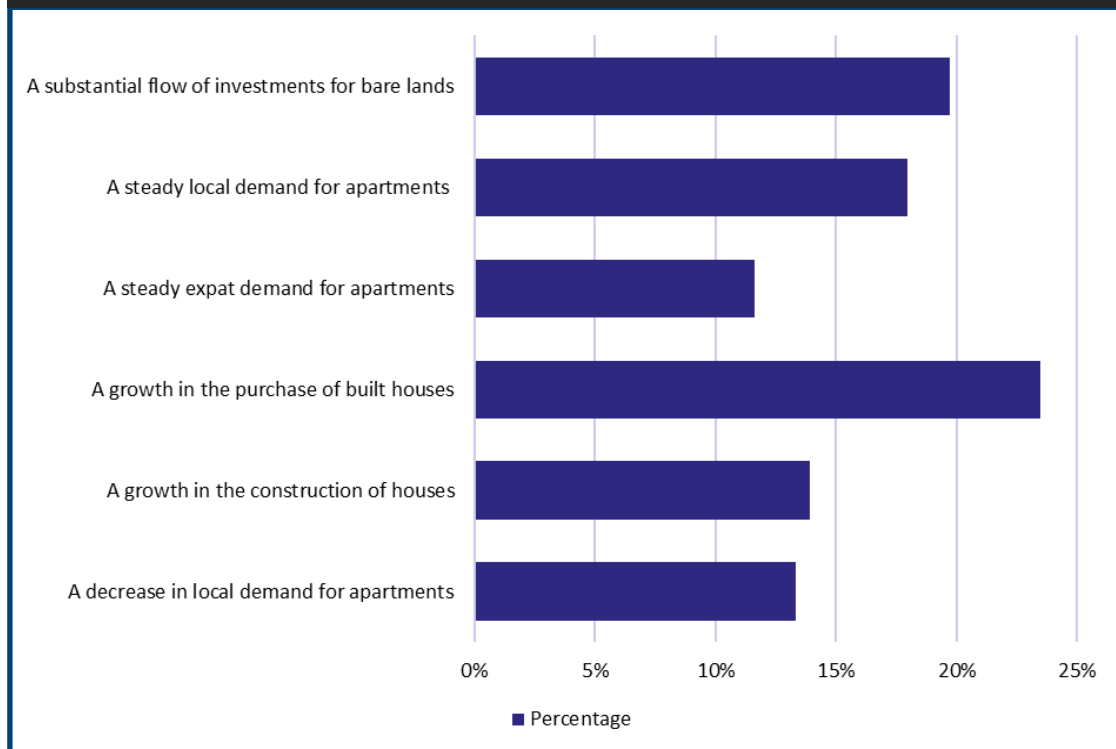
Poll #02: Participant's Opinion on the Current Commercial (Income-producing) Real Estate Sector in Colombo



Poll #03: Participant's Predictions on the Commercial (Income-producing) Real Estate Sector in Colombo for 2022-2023



Poll #04: Participant's Opinion on the Current Experiences of the Residential Sector in Colombo





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