BRSL-7(1)-23

Built-Environment-Sri Lanka - Vol. 07, Issue 01 : 2006

Factors Affecting Condominium Development In Sri Lanka

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Abstract

The contribution of private developers in condominium development in Sri Lanka has increased due to higher demand and increased profit. Condominium development takes place with the intention of disposing apartments in the future. The developer has to make several decisions in advance regarding the future. The degree of uncertainty inherent in future decisions can be mitigated by gathering as much reliable information regarding the variables in the decision environment. The aim of the study was to grasp a sound knowledge about the condominium profile in Sri Lanka with reference to many factors that help property developers' decision whether or not to invest in a Condominium project The study has analysed the composition, density, selling prices, occupancy rates and general factors affecting the demand and supply of condominiums in Sri Lanka.

Introduction

Property development is the process of enhancing the value of real estate by making physical changes and the improvements there to through the application of capital and entrepreneurial skills by a property developer (Ramachandra, 2001). Property development is known as a commercial development, which consists of the real estate transactions to land subdivisions, commercial developments, industrial developments, infrastructure developments, public utilities, environmental developments and so on (Crowe & Cadman, 1978).

Condominium is a western life style of living, brought into urban area of eastern countries due to the lack of serviced land and increasing population density (Siniti, 1990). Condominium is described as a building or structure of two or more units, the interior space of each unit being individually owned and balance of property being owned in common by the owners of individual units (Kowshala, 2002). Thus, a condominium is a form of home ownership in which individual units of a larger complex are sold or rented. These units may be renovated apartments, townhouses or even commercial warehouses. Contrary to popular belief, the word 'condominium' does not apply to the type of unit itself, but the legal ownership arrangement (Wimalaratne, 2005).

Those who purchase units in a condominium technically own everything from their walls inward. All of the individual homeowners have shared rights to most common areas, such as the elevators, hallways, pools and clubhouses. Maintenance of these areas becomes the responsibility of a condominium association. Every owner owns a share of interest in the condominium association, plus an obligation to pay monthly dues or special maintenance fees for larger maintenance problems.

In Sri Lanka the apartment ownership Act no 11 of 1982 provided for registration of multi storey properties to separate ownership in to individual units. However, lack of management aspects in the law resulted in an amendment in 2003. Government controls the condominium development through zoning and planning regulations to avoid haphazard development within the city.

The Condominium Management Authority (CMA), which began its operations in 2005, is a regulatory body that puts forward necessary conditions and issues, certification of condominium, provisional condominium certification or semi-condominium certification after inspecting the site and the plan, which should meet the CMA specifications. The Common Amenities Board (CAB) Law No. 10 of 1973, which was amended as Condominium Management Authority Act No. 24 of 2003, has stipulated an effective plan to control, maintain, manage and administer around 500 public and private sector condominiums built throughout the country.

As previous research reveals (for example, see Mureeth, 2003; Sarvathas, 2005) that developers' activity in the condominium development involves several activities such as purchase of unutilized land or land with existing building and its development; introduction of infrastructure facility; construction of apartments and disposal to the prospective buyers or let it for rent. Thus, marketability and financial considerations play an integral part of determination to utilize the condominium. However, there is no proper research study carried out in Sri Lanka that reflects key factors that affect condominium development. This gap is addressed in this study and the next section describes the research methodology.

Research Methodology

The main aim of this study was to grasp a sound knowledge about the condominium profile in Sri Lanka with reference to many factors that help property developers' decision whether to invest or not in a condominium. This aim was achieved through several objectives such as identification of the types of condominiums with their dispersion; exploring general demand and supply factors that affect condominiums; exploring key factors in current condominiums; and, identifying areas that need improvements in current developments.

The study primarily carried out a literature survey to identify key issues related to condominium property development. Following this, a survey among condominium developers and occupants was carried out to meet the aim of the study. The data was mainly collected through questionnaires that were distributed among property developers and residents of Condominiums to identify demand and supply of condominiums from both view points. Sixteen property developers were interviewed and thirty-five condominium projects of these developers were subjected to the study. Out of 50 randomly distributed questionnaires among residents, 39 questionnaires were successfully completed which corresponds to a 78% response rate. In addition, interviews were conducted with governing authorities of Condominiums and other statutory authorities such as Condominium Management Authority and Colombo Municipal Council. The study was limited to Colombo and suburbs area where most of the condominiums exist.

Condominium Development In Sri Lanka

This research reveals that due to lack of land availability in Colombo metropolitan area and due to the convenience in buying a condominium rather than constructing a house, there is a significant demand for the condominiums in Sri Lanka. Customers are encouraged to buy a condominium due to several factors such as modern facilities and aesthetic appearance; good locations with easy access to city centres; affordable prices compared to buying a land and constructing a house in such a location; time not wasted on construction supervision; secured parking facilities; flexible payment schemes offered by the developers; prestige value; and, secured and peaceful neighbourhood. Thus, more and more property developers tend to invest in condominium projects compared to other types of developments. In addition, less risk and high profits encourage developers to invest in this type of development. As the survey revealed, in Sri Lankan context almost all such developments go on pre-sale before completion of construction. The discussion of survey results bins with the identification of types of condominiums available in Sri Lanka.

Type of condominiums available in Sri Lanka

Types of the condominium available in Sri Lanka mainly depend on facilities offered such as swimming pool, gymnasium, restaurant; and, finishes and fittings used such as bathroom fittings, floor tiles, wall tiles, floor

Table 1 : Condominium Types Classification

FACILITIES	TYPE		
24 hour security	Super Luxury		
CCTV & Intercom System with panic button for emergencies	Super Luxury		
Fire Protection and Detection System	Super Luxury		
Garbage Disposal Systems	Super Luxury		
Elevators	Super Luxury		
Hot water Geysers	Super Luxury		
MATV Connection	Super Luxury		
Children' Play area	Super Luxury		
Vehicle Park	Super Luxury		
Private Balconies	Super Luxury		
Air conditioned Apartment blocks	Super Luxury		
Swimming Pool	Super Luxury	Luxury	
Restaurant and Bar	Super Luxury	Luxury	
Gymnasium	Super Luxury	Luxury	
Laundry	Super Luxury	Luxury	
Central Gas supply system	Super Luxury	Luxury	
Children's Pool	Super Luxury		
Games Room	Super Luxury		
Convenience Stores	Super Luxury		
Video Centre	Super Luxury		
Changing and meal room for drivers	Super Luxury		
Walking Track	Super Luxury		
Squash Court	Super Luxury		
Salon	Super Luxury		
Sauna	Super Luxury		
Standby Generator	Super Luxury		
Service Elevator	Super Luxury		
Three-tier security system	Super Luxury		

finishes, wall finishes, electrical accessories. Depending on the level of these facilities developers categorise condominiums into three major categories; namely, super luxury, luxury and semi-luxury as given in Table 1. In addition to above categories, serviced apartments that are rented for specific time periods, especially for foreigners who visit Sri Lanka for business matters, exist in Sri Lanka in the form of mixed developments.

Following this classification, the research further explored how condominiums are dispersed in Colombo region.

Dispersion of condominiums in Colombo region

Colombo region is identified in wards as specified by Colombo Municipal Council. Figure 1 illustrates the total number of new condominium constructions started after the year 2003 in the Colombo region.

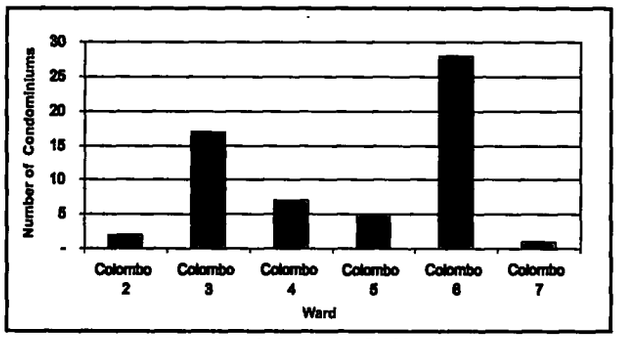


Figure 1: Condominiums in Colombo city Limit

According to the figure large number of condominiums are being built in Colombo 06. Main reason for this huge demand of condominiums in Colombo 6 is from Tamil emigrants from countries such as Canada, New Zealand and England. Another major ward having condominiums due to the convenient locations in the heart of the Colombo, comparative availability of bare lands and easy access to any place is Colombo 03.

Figure 2 illustrates the number of condominium constructions started after the year 2003 in Colombo suburbs.

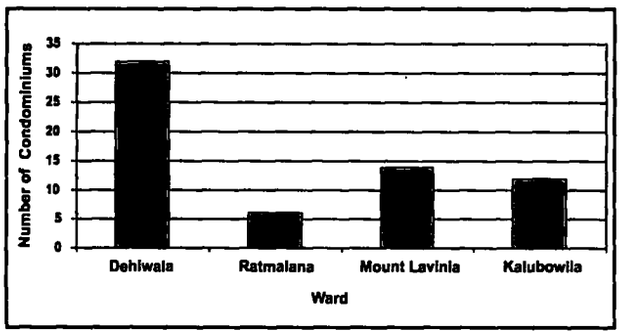


Figure 2: Condominiums in Colombo Suburbs

According to the figure, a large number of condominiums are built in Dehiwala, Mount Lavinia and Kalubowila due to the easy access to the Colombo city center.

Table 2 illustrates the composition of condominium projects with respect to different types of condominiums. These figures were taken according to the statistics available with the selected developers regarding their completed projects within last five years, ongoing projects and pipeline projects (five years ahead). This proves that most of the clients have demanded super-luxury and luxury condominiums instead of semi-luxury condominiums recently.

Table 2: Composition of total Condominium Projects

Type of condominium	Completed Projects In %	Ongoing Projects In %	Pipeline Projects In %	Total
Super luxury apartments	33	38	29	100
Luxury apartments	48	40	12	100
Semi Luxury apartments	100	0	0	100

Occupancy rate is an important factor that can be used as a parameter to measure the demand for condominiums. In order to analyse the occupancy rate, projects were divided as completed and on-going. Accordingly, almost all the considered completed projects had an occupancy rate of more than 75%. This shows the high demand for condominiums within the last five years. On-going projects again showed a high occupancy rate which was more than 70% in nine out of twelve projects. Among the on-going projects, the occupancy rate of luxury apartments is considerably higher than super-luxury apartments.This, indicates a higher demand towards the luxury categoryis shown in the future. The next section describes general factors that affect demand and supply of condominiums as revealed by property developers in Sri Lanka.

General factors that affect demand and supply of condominiums

Basically the factors, which affect the demand for Condominiums, can be categorised as natural factors and customer-related factors while factors that affect supply of condominiums can be discussed under developer-related factors and external factors like government action.

Location, growth of population and environment can be grouped under natural factors. Mostly condominiums are built in central locations with good access to facilities such as workplaces, hospitals, schools and transport. The demand for condominium is increased by both natural and migratory growth in population. The migration may be in the form of village to town or town to metropolitan area or war-affected area to peaceful area. Environment is another factor that affects condominium demand. Especially, in a country like Sri Lanka, condominiums are built in coastal areas to offer better sea views.

In terms of customer-related factors, level of income; infrastructure facilities; continuous maintenance and other services; and, modern architecture affects the demand. For example, higher income leads to higher expectation in the standard of living. As discussed above, infrastructure facilities offered by condominium developers has a direct effect on the demand. In addition, after sale services with regular maintenance are influencing factors on condominium demand. To compete in the condominium industry, developers tend to offer modern architectural features to increase demand for their developments.

In relation to developer-related factors that affect supply of condominiums, resources and financial availability; timely approvals; level of competition are key factors. Availability of resources both economical and of high quality is very important in condominium development. Further, availability of finances is a major factor considering the risk of the project. Pre-sales have significantly solved this issue. However, new developers face problems on raising finance through presale due to lack of popularity. In normal circumstances, approval should be given within eight weeks if the developer provides all necessary information required by authorities. However, in reality this rarely happens in Sri Lanka and the developers have to wait three to six months to get the approvals. The competition among developers is high especially in the condominium industry in Sri Lanka.

Government influence in terms of policies, incentives and zone management significantly affect condominium supply. In property development, Government acts as a policy maker and the key regulatory authority. For example, Government's fiscal and monetary policies will affect developer's profit and thereby the supply. Especially, concessions offered by the Board of Investment (BOI) affect developers in supplying condominiums. New condominiums are governed by the condominium act recently established in Sri Lanka. Approvals need to be obtained for construction from the relevant statutory authority be they municipal councils, urban councils or Pradeshiya Sabhas. Further, approvals from Urban Development Authority (UDA) are required to construct condominiums in a particular area. In addition, special approvals may be required from Central Environment Authority (CEA); Electricity Board (CEB); National Water Supply and Drainage Board (NWS&DB); and Condominium Management Authority (CMA).

The next section looks into current condominiums development in Colombo region to identify various factors that affect in marketing a condominium.

Factors affecting current condominiums in Sri Lanka

Developers should have a better understanding about clients' perception and their requirements in marketing a condominium. Prior residence of the occupants in condominiums is a key factor for a developer to get a better understanding about the target group before starting a development. Figure 3 illustrates the data collected through this research regarding the prior residencies of the occupants in condominiums.

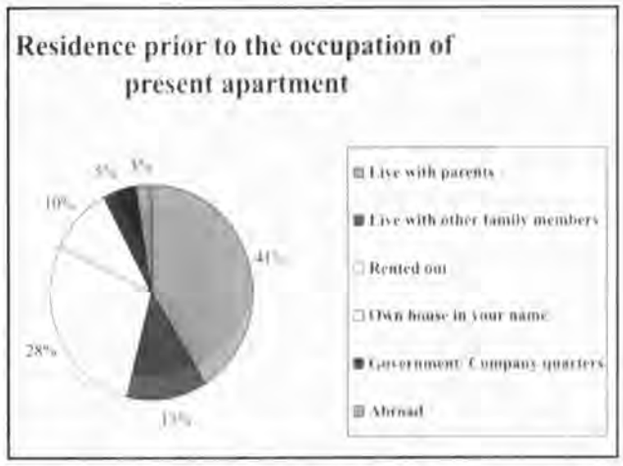


Figure 3: Prior Residencies of the Occupants

According to the research findings the largest population of condominium residents previously lived with their parents. The second largest are from rented out houses, which is around 28% from the total population. Only 10% have moved from their own houses due to better locations. In addition, there are people who come for short-term visits to Sri Lanka rented out apartment blocks temporary.

Client's mode of purchase is another critical factor for a developer to decide on selling prices, loan facilities and interim payment schemes. Figure 4 depicts different modes of purchases by current condominium residents.

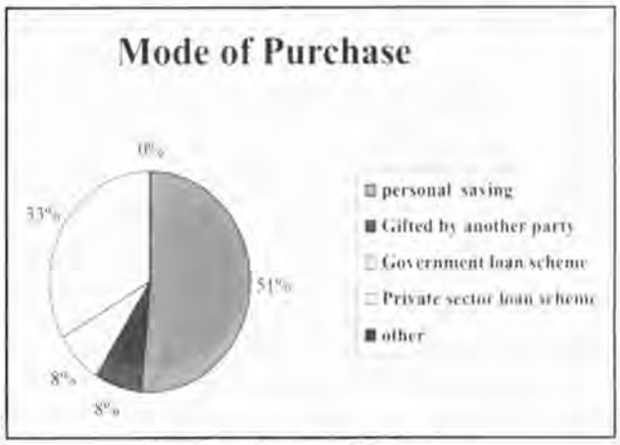


Figure 4: Modes of Purchases

According to the data collected the most popular mode of purchasing is from personal savings which is 51% from the total population. The second largest is private sector loan schemes and it accounted for 33% from the population. Some use combination of these methods to purchase apartments and the most popular combination is through personal savings and private sector loan schemes. Other methods are not very popular among clients and not frequently used in purchasing apartments.

Income is the key factor, which decides the purchasing ability of the client. Figure 5 illustrates the sources of income of the present occupants in the apartments.

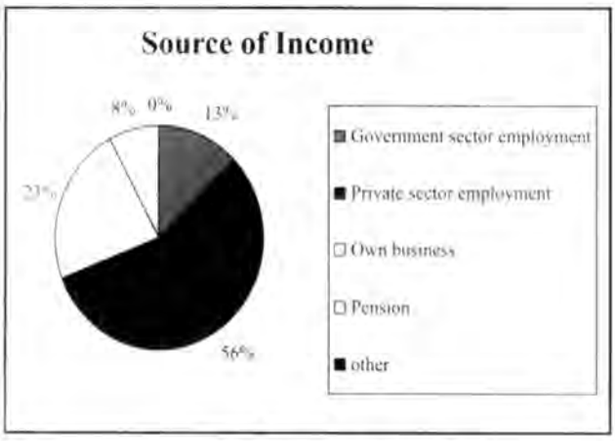


Figure 5: Sources of Income

More than half of the total population who live in condominiums are in private sector employment.A significant proportion of them own their own businesses and it is approximately 23% from the total population. Other two categories cover only one fifth of total residents hence play a very insignificant role.

Clients consider number of factors when purchasing an apartment. Out of them some are very significant while others are negligible. Through this research clients indicate price, location, quality and aesthetic appearance as very important factors and financial facilities, after sales services provided by the developer and prestige value as important (see Figure 6).

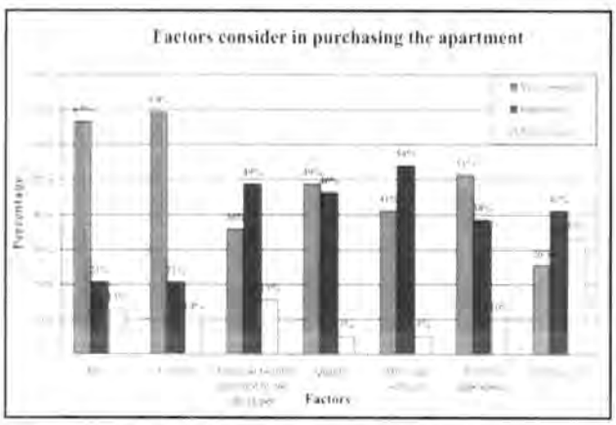


Figure 6: Factors Considered in Purchasing

According to the research findings price and location are the foremost factors considered by the client when purchasing an apartment. Over two third of the residents accept these two factors as very important. Around 36% of the respondents consider financial facilities provided by the developer as a very important factor when purchasing an apartment. Over 95% of clients look for high quality apartment blocks. After sales services provided by the developer is another important area where developer should pay attention. Around half the population agree that aesthetic appearance is a very important factor. One third of the respondents state that prestige is not relevant for them to stay in apartments. Similar findings were received through a survey done from developers point of view (see figure 7).

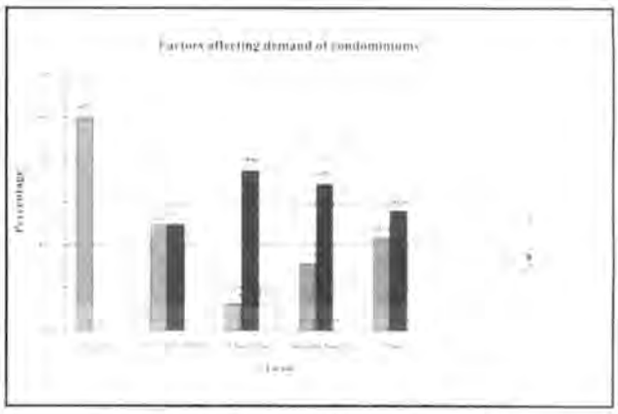


Figure 7: Factors affecting Demand

According to this survey, all the developers believe that location is the most important factor for demand of condominiums. This can be seen by the 100% rating by the developers as very important. Next, developers believed facilities offered are very important to attract more customers. Floor area, security and price were also identified as considerably important factors by developers in catering customer demand.

The research further explored areas that need more attention as identified by current occupants in condominiums.

Areas that need improvements in current condominiums

There can be areas, which have not fulfilled clients' satisfaction. According to the collected data more than 90% of the residents believed that maintenance facilities, moving facilities and parking area should be improved in current apartments. Further, residents mentioned that gymnasium/ swimming pool and circulation area/ facilities require improvements. By providing all these facilities developer can enhance the satisfaction of the client.

In addition to the facilities, residents raised their concerns over services offered by developers. For example, garbage disposal was a key problem faced by current occupants, especially, when residences are located in between the boarder of two municipal councils. Also, some occupants complain that their garbage is not cleared on a regular basis. Some developers have not allocated an adequate space or a proper place for garbage disposal. For example, in some places, direct access to garbage holes was absent; thus, collectors have to come inside which interferes with the privacy and affects the security of the residnts Occupants noted that some premises have poor lighting and ventilation because of improper designing. Further, residents had experienced problems of low water flow.

Also, in some premises, the Water Board is issuing one bill for several units, which creates problems when paying bills. Moreover, some occupants were experiencing frequent power cuts while some faced problems of frequent power fluctuations. According to some occupants, meter boxes were not accessible as they were fully closed and locked by the developer.

Conclusion

Condominiums are becoming very popular among developers nowadays. Before starting a development project, developer needs to carryout a development appraisal to choose between available alternatives and go for the best possible selection. By conducting a field survey with the aid of questionnaires and interviews with developers this study identified critical factors in relation to condominiums in Sri Lanka, especially from client's perspectives.

Most significant factor for a customer to select an apartment is the location. If the condominium is located in the city, the demand for it will increase rapidly. Another important factor to concern is the facilities provided by the developer. Most developers provide swimming pool, gymnasium, restaurant, car parks for the condominium.

In terms of general demand, almost all the developers interviewed emphasised that there is a high demand for their projects and that their projects were very successful. This can be again proved by high occupancy rates for completed as well as for ongoing projects. According to research, it was identified that the new trend is for super-luxury apartments where five years ago it was for the semi-luxury apartments. But most condominiums available in Colombo Metropolitan area are luxury apartments.

Future developers need to consider present issues and concerns in current condominium projects. For example, initial design of properties should be able to catch the adequate natural lighting and ventilation, and where necessary, sufficient mechanical plant and equipments should be accommodated within the building. Further, attention should be paid for regular maintenance of those facilities. Irregularity of supplying services such as electricity, water, communication, and security is noted as other considerable issues that need to be properly addressed by the property developers in managing properties. The worst issue faced by almost all the property holders is the lack of proper waste and soil disposal systems. Thus, improvement in new infrastructure facilities by the local and municipal authorities is essential in this regard. The development of other recreational facilities and basic facilities is significant in any property. Further, the attention should be paid for sustainable designs especially eco-friendly solutions.

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