



Vertical Living Beyond 2020

**Sri Lanka's future of vertical living.
Is the industry ready for it?**



		03		04	
		Regional Urbanization		Legal Framework	
<h1>Table of Contents</h1>					
Foreword	01				
Population Growth and Urbanization	02				
Land Distribution	04				
The Evolution of Vertical Living in Sri Lanka	06				
Determinants of Condominium Prices	15		16		22
			Industry Challengers		The Next Wave in the Condominium Market

Foreword

Improving economic activities in the urban cities of Sri Lanka, is posing challenges and opportunities such as, internal migration from rural areas to urban cities. The Government of Sri Lanka is expecting the urbanization rate to increase 3 - 4% per annum from now on, which has been negative during the 30 years of conflict and 0.3% during the five years post conflict.

As in every other business sector, the real estate industry is having to respond to the rapidly growing housing demand due to urbanization. With the increase in demand for urban land, horizontal living is becoming an expensive option, making vertical living an attractive alternative solution. It is now spreading its wings into outer peripherals of the cities.

In the light of this, we are delighted to share in this publication, highlights on Sri Lanka's evolving real estate market including trends of urbanization, land distribution, demand drivers, pricing determinants, legal framework and the concept of vertical living. We believe this publication would help illuminate Sri Lanka's future on vertical living.



Shiluka Goonewardene

Principal – Real Estate Advisory
KPMG in Sri Lanka

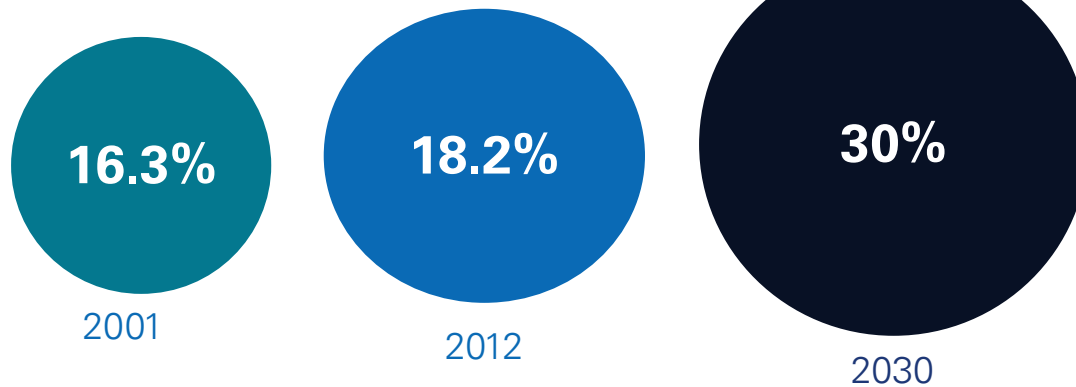
Population Growth and Urbanization

Sri Lanka needs 1.5 million housing units over the next 15 years according to the National Housing Policy- 1 million houses to accommodate the expected increase in population and 0.5 million houses as replacement for the current housing which is deemed unsuitable.

During the last 5 years Sri Lanka posted 0.3% of urbanization, whereas this has been negative during for 30 years since 1980 to 2010. The rapid developments in urban areas have created more economic opportunities and as a result, the Government of Sri Lanka is expecting the urbanization rate to further increase to 3 - 4% from 2015.

Trends of urbanization in Sri Lanka compounds the housing need further in urban areas.

Urban population (% of total population)

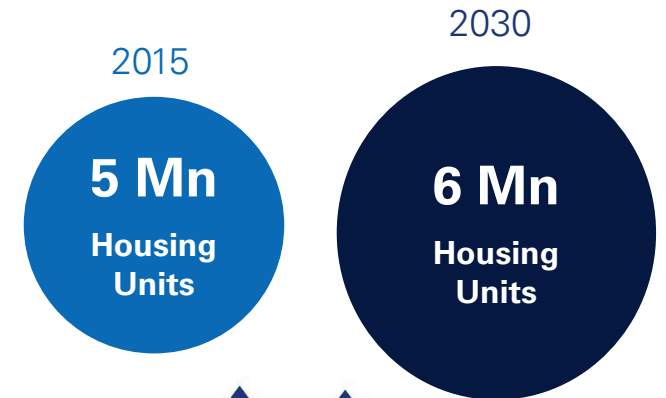


Source: National Housing Policy, World Bank Census and Statistics Department of Sri Lanka



24 Million

Sri Lanka's Expected Population by 2030



Regional Urbanization

Afghanistan
26%

Pakistan
38%

Nepal
18%

Bangladesh
33%

India
32%

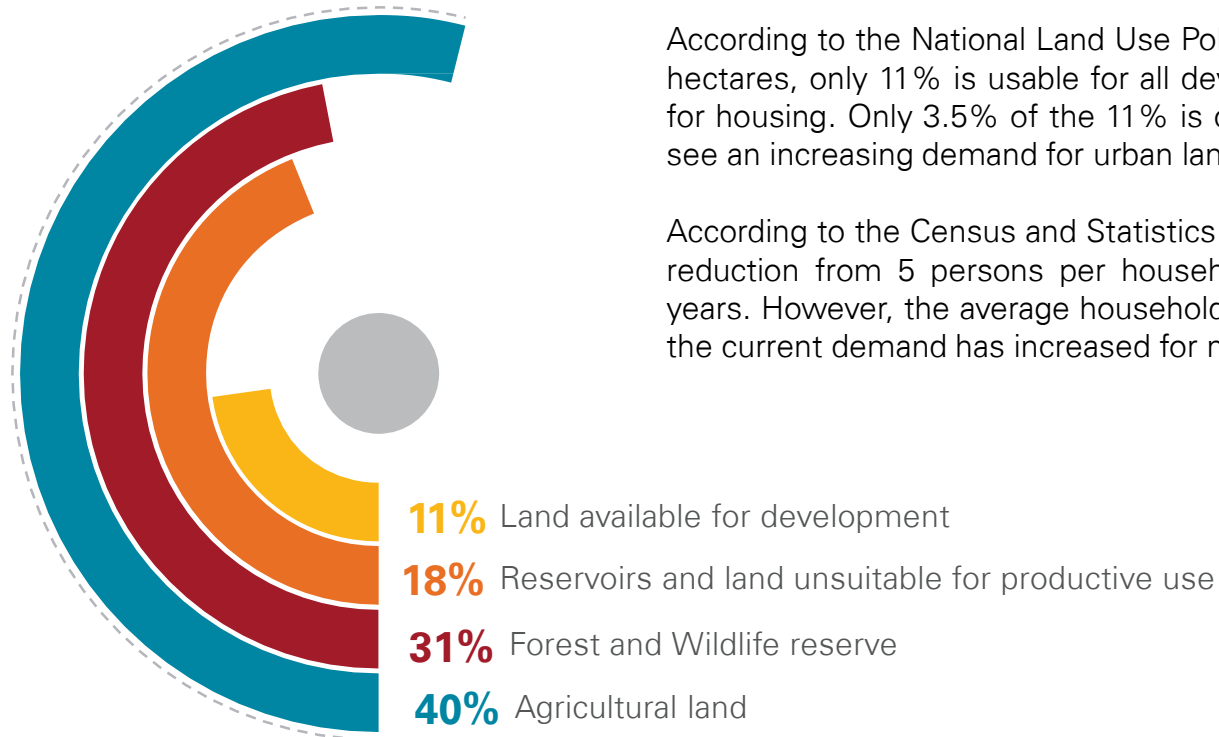
Sri Lanka
18%

Malaysia
73%

Sri Lanka has a low urbanization rate compared to other countries in the region

Source: 2013 World bank Database

Land Distribution 2013

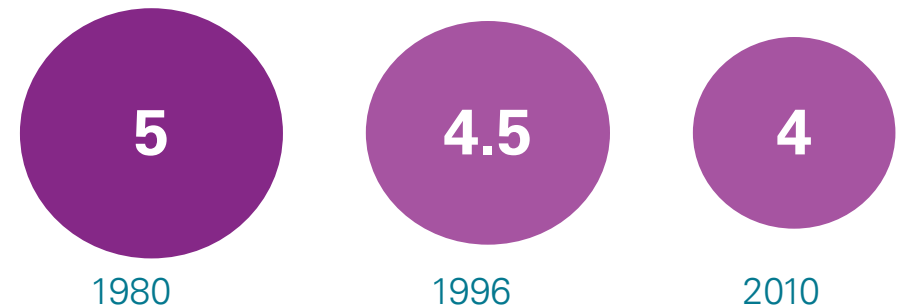


According to the National Land Use Policy, out of the country's total land area of 6.5 million hectares, only 11% is usable for all development purposes. This is for industrial as well as for housing. Only 3.5% of the 11% is considered as urban land. The rapid urbanization will see an increasing demand for urban land.

According to the Census and Statistics Department, the average household size has seen a reduction from 5 persons per household to 4 persons per household over the past 30 years. However, the average household size (sq ft) has been similar to the historical size, or the current demand has increased for more space per person.

Proper effective utilization of land is essential in meeting the rising demand for housing

Decreasing
Household size in Sri Lanka



Source: National Land Use Policy, Census and Statistics Department

Active interest in residential real estate by investors

There is an upward mobile community in Sri Lanka and their housing demands will continue to increase as long as Sri Lanka will develop economically and financially. When it comes to handling this housing demand, we need to do it responsibly because any form of development on land would cause a lot of damage to the environment: so we need to responsibly manage the resource of land.

Hemaka De Alwis
Managing Director
Fairway Holdings (Pvt) Ltd

An active interest in real estate investments was seen by both foreign and local investors .

Investments were made on prime blocks of commercial land and large scale greenfield developments for residential and leisure purposes.

The City of Colombo attracted many condominium projects targeting the upscale market predominantly focusing on the High Net Worth Individuals (HNWIs) and expats who bought property as investments.

The Evolution of Vertical Living in Sri Lanka

Establishment of
the Department
of National
Housing

1953

The concept of
vertical living was first
introduced in
Colombo with multi-
storied housing
schemes / flats mainly
focused on middle
income groups with
housing needs

1960

Establishment of
the Apartment
Ownership Act
and
The Common
Amenities Board
Act

1973

Private
investments in
condominiums

1990

Condominiums as a
new life style

2005

Concept of
Vertical Living
has expanded
beyond
Colombo

Today



Legal framework

Apartment Ownership Law No :11 of 1973

Apartment Ownership (Amendment) Act. No : 45 of 1982

Apartment Ownership (Special Provisions) Act No : 4 of 1999

Apartment Ownership (Special Provisions) (Amendment) Act No : 27 of 2002

Apartment Ownership (Amendment) Act No : 39 of 2003

Common Amenities Board Law No : 10 of 1973

Common Amenities Board (Amendment) Act. No : 46 of 1982


Common Amenities Board (Amendment) Act No : 24 of 2003

- There was no legal framework for ownership of condominium units during the time vertical living was introduced in the 1960s.
- At that time condominium units were rented by State.
- The Apartment Ownership Act was enacted in 1973, which enabled the preparation of Condominium Deeds.
- At the same time, in order to look after the management of the common elements in the condominium, the Common Amenities Board was established.
- The Common Amenities Board was renamed as Condominium Management Authority, in 2003.

Earlier people didn't know the powers of the Condominium Management Authority (CMA) which is a general body that has semi-judicial powers. The Apartment Ownership Act of 1973 describes the principles of the condominium and the Condominium Authority Act describes the management aspect. Currently, the CMA is taking steps to amend these Acts in consultation with all stakeholders, to meet the future challenges of the industry.

G. T. S. Perera

Legal Consultant, Condominium Management Authority
Sri Lanka



Next steps The Condominium Management Authority

The Apartment Ownership Law No. 11 of 1973 was amended by Act No. 39 of 2003. Before this amendment, most residents in Sri Lanka were not aware of the powers vested with the Condominium Management Authority (CMA) Law. However, at present, people are more concerned about the Provisions of the Apartment Ownership Law as well as the Condominium Management Authority Law 10 of 1973 as amended by 24 of 2003.

The CMA is empowered to control and administer the common elements of the condominium properties. It is also empowered to settle disputes among the residents of the condominium properties. In this regard, the CMA is given semi-judicial powers to settle disputes among the residents of the condominium properties according to Law.

At present, the CMA is taking further steps to amend both the Apartment Ownership Law and the Condominium Management Authority Law, to suit the needs of the stakeholders of the condominium properties. The CMA is also initiating to demolish the superannuated condominium buildings and construct new buildings in order to cater to the growing housing demand. In this process, the lifestyle of the low income residents will also be upgraded.

Source: The Condominium Management Authority

Demand Drivers for High Net Worth Individuals (HNWIs)

Rise in income levels of HNWI



The highest income quartile (richest 20%) accounts for 54% of the total income

Change in demographic factors

A shift in lifestyles



Low interest regime that encouraged high yielding real estate investments.



The HNWIs are among the main investors in the luxury apartments where they mostly invest for rental yields or for capital gains.

Source: Census and Statistics Department of Sri Lanka, Central Bank of Sri Lanka

Demand Drivers of Expatriates and Foreigners

Worker remittances growth

USD
3.3 BN

2009

USD
6.4 BN

2013



20% YoY to 2013

Growth in tourist arrivals

Growing HNWIs in the Asian Region wanting to buy second homes/holiday homes in Sri Lanka due to the fact that foreigners can buy condominiums freehold.

Opportunity for foreigners to buy condominiums on freehold

Source : CBSL Roadmap 2015, SLTDA



The Industry Developers

10-12
Medium scaled
developers

8
Foreign
developers

6
Other major
local developers

As the industry grows there is an opportunity for developers to grow; with seemingly fewer barriers creating an opportunity for entry of new developers too.

**2008 to 2014
supply in the
market
4,000 units**

**2015 to 2018
supply to the
market
3,800 units**

Current Price Levels (per sq.ft)

**Super Luxury
USD
230 - 385**

**Luxury
USD
115 - 270**

**Semi Luxury
USD
92 - 170**

The supply of condominium units is expected to increase from 670 per annum (2008-2014) to 950 per annum, over the period 2015-2018 indicating a growth of 42%.

The industry is still at an early stage with only a few developers and the industry is yet to see the entrance of bigger brands.

The Industry Developers

50%

Most developments in the city experience

80%

Known developments

Increasing demand



Positive
Price trend

Pre-construction sale ratio

The pre-sales percentage is high with reputed or known developers. However, for less known developers, pre-sales are low at the initial stages until such time as the brand is established. Therefore, a new entrant may require more capital than an established developer.

Determinants of Condominium Prices



Location



Facilities



Demand higher prices based on elevation



Super luxury Vs luxury condominiums

24/7 security/elevator/business centers, multi purpose business rooms, helipads



Condominium unit size

The development pipeline

By 2018

More than 3,800 units are expected to be added to the market by condominium developers.

2015 -2018

The supply is expected to increase from 670 per annum (2008 -2014) to 950 per annum indicating a growth of 42%.

The demand for condominiums in and around Colombo have led to an **increase in prices** of adjacent vacant lands.

Rising land prices along with increasing construction costs for high-rise buildings, have led to price escalations in the condominium market.

Industry challenges

Problems encountered by Condominium Unit Owners

Delays in condominium deeds transferred by developers.

Management Committee members with limited technical know-how on preventive maintenance, leading to most decisions made on costs.

Problems arising with community living (Eg: Privacy issues arising from lack of respect for each other).

Cash / Fund Management

Facility Management and Issues

A few facility management companies are operating in the industry and are concentrating only on the major developments.

Mid scale development is an untapped market segment by facility management companies.

Maintenance of high/medium rise buildings need special equipment.

Lack of technical knowledge in maintenance of equipment.

Issues faced by Developers and Constructors

Rising land prices

Rising construction costs

Shortage of skill labour

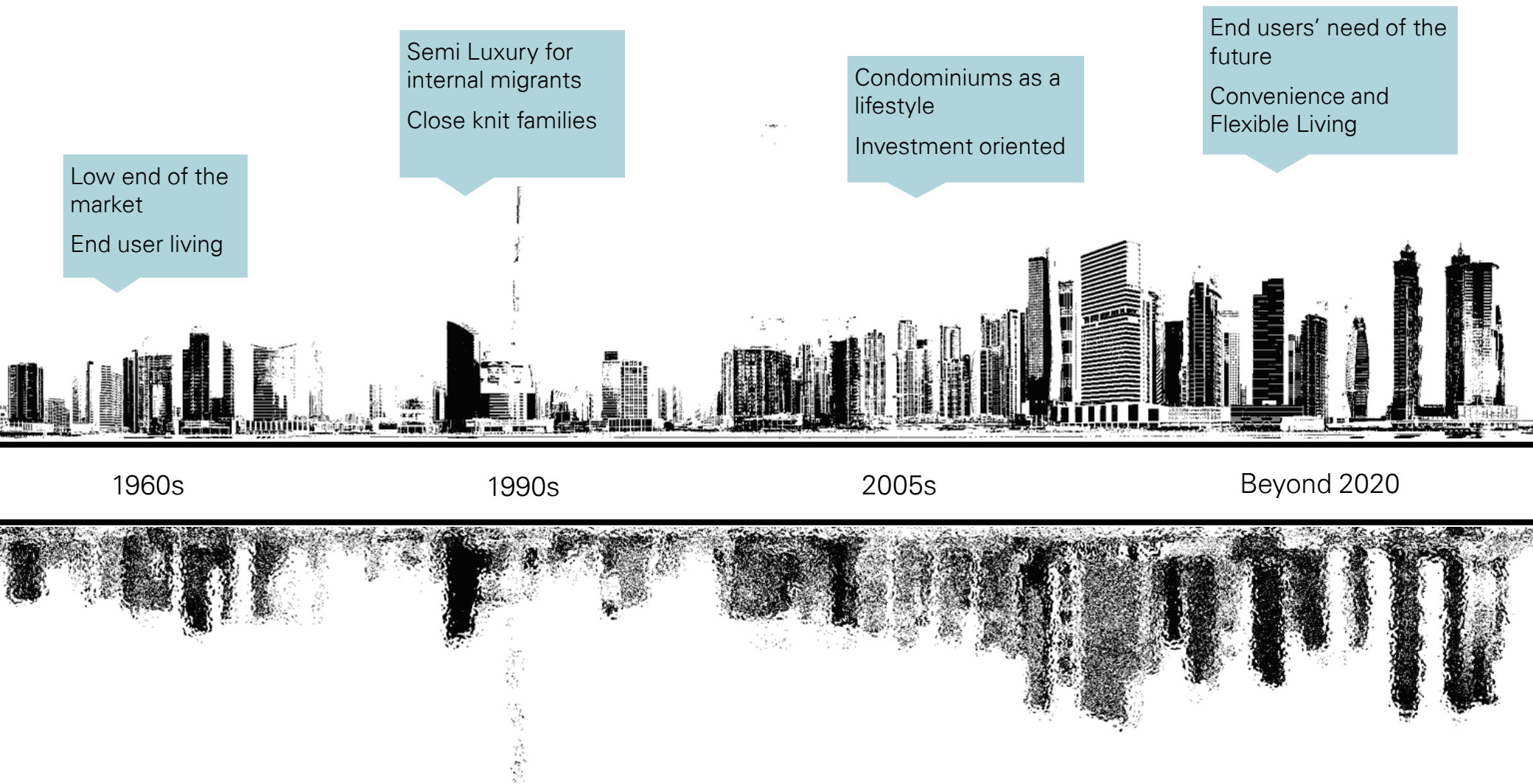
Regulatory issues

Delays in approvals from Authorities

Inadequate infrastructure such as sewerage facilities



Demand Shift



1960s

1990s

2005s

Beyond 2020

Low end of the market
End user living

Semi Luxury for internal migrants
Close knit families

Condominiums as a lifestyle
Investment oriented

End users' need of the future
Convenience and Flexible Living

Future Development Potential

Internal road connectivity has seen an improvement with the development of major expressways in Sri Lanka.

Increase in migration of population to peripherals of the exit/entry points of the expressways leads to potential future development.

Proposed key developments such as the monorail and the transport hub are expected to increase connectivity to outskirts with the city center.

This leads to higher urbanization and development potential to meet the growing demand within these areas.



Recap on the housing need

The current supply of housing stock is only a fraction of the requirement. Demand is far greater than the supply. Based on the rapid urbanization the current demand for urban housing units is to increase from 12,500 to 21,000 units.

Housing requirement
Estimated 100,000 units per annum

Urban housing requirement

Estimated 21,000 units per annum



Estimated 12,500 units per annum

This tremendous need for housing in urban areas may lead to an appreciation of land values in the urban areas putting more pressure on horizontal housing and making horizontal living expensive.

From horizontal living  to vertical living
 alternative option

Source: National Housing Policy, World Bank, Census and Statistics Department of Sri Lanka



Emerging New Demand Drivers

Increasing disposable income levels

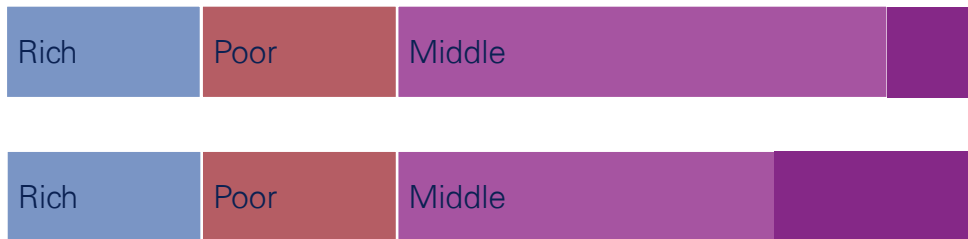
Increase in average monthly household income



60%

Middle income professionals, self employed and public sector employees

Income Distribution



Rise in per capita Income



Growth of upper middle class

With more than one income earner in the family, the monthly household income of the middle income group is rising



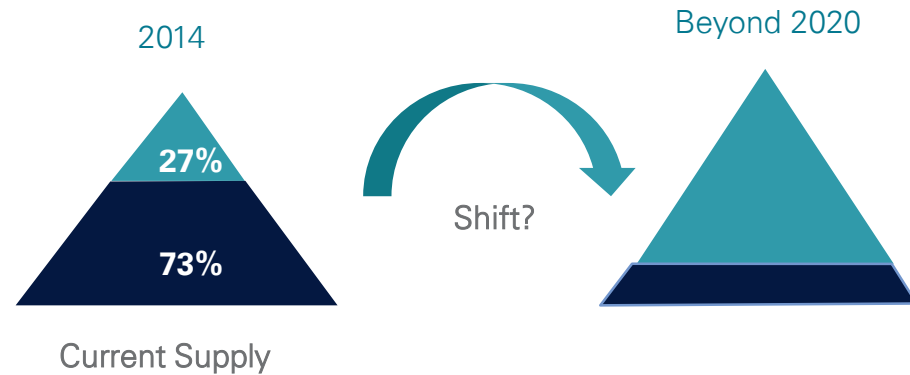
In a family where both partners are working, condominium living may be preferred due to convenience.

Increase in per capita income will make the migration from lower middle class to upper middle class, which in return results in higher disposal income and a tendency to change the current lifestyle. Hence, the demand for housing by the upper middle class will keep increasing. Currently, the supply to this sector is lagging and there is an opportunity for new developers to enter and cater to this segment.

Source: Census and Statistics Department of Sri Lanka, Central Bank of Sri Lanka

The Next Wave in the Condominium Market

The demand for semi luxury condominiums with affordable pricing will out number the demand for super luxury and luxury segments in the near future. Under this circumstance, developers should refocus on this change in demand and supply, and cater to more affordable condominiums in the market.





Vertical living is an attractive housing option in an emerging economy. The growing population, urbanization and scarcity of land leaves us with no option but to consider high-rise living. In this context is the market ready for the shift beyond 2020?

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