

EXECUTIVE SUMMARY

With the post-war economic development of the country since 2010, the vertical living or apartment industry has been achieved dramatic growth over the last decade. During the years 2018 and 2019, the apartment industry was a widely spoken topic in the minds of the economists, researchers, investors, customers, academics and so on due to its nature of unexpected behavior of apartment industry demand-supply mismatch, skyrocketing apartment, and land prices and major collapse of apartment developers due to mismanagement and unethical practices. In the past, there have been many national and international research and surveys on the apartment industry on different topics: apartment industry bubble, factors affecting apartment industry sustainable developments and apartment industry analysis so on. However, the growing interest of the apartment industry due to its economic significance and recent incidents pave the path to a survey to determine the future of the apartment industry of Sri Lanka.

The construction and engineering industries play a pivotal role in the Sri Lankan economy. Since the end of the three decades long armed civil conflict in 2009, the construction industry has shown a bright start for its growth. During the last decade, the construction industry showed an unprecedented development with the sophisticated infrastructure facilities, hotels, apartments contributing a year to year development of the industry. Mainly, the Sri Lankan construction market run by both local and foreign players. In the recent past periods of 2018 and 2019, the construction industry has faced substantial liquidity issues, and some of the construction companies went bankrupt in the year 2019. Industry turbulent was mainly due to the lack of government support, increased material and labor costs, high-interest costs, delay of government in making payments for completed projects, and some other tax regulatory issues such as imposing VAT on apartment sales. In the Sri Lankan construction industry, there are many new entrants to the market with the end of 30 years of the civil war of the country. New foreign entrants have also increased due to the implementation of high-profile infrastructure projects, luxury apartments, and other projects such as electricity, water, etc. As a result of the new entrants, the competition in the market is increased significantly, and some of the enterprises with low financial muscels and less expertise went bankrupt in the recent past.

There have been many empirical studies that provide appealing insights or knowledge of the apartment industry. Those literature have examined the apartment industry bubbles as

a part of the real estate cycle, proxies of financial institutions, credit expansions, and economic fundamentals. Apartment industry booms have regularly transpired throughout the world economy, leaving extremely agonizing busts and financial disasters in their wake. The behavior of the apartment market or industry depends on many micro and macro-economic factors that should be analyzed over the period, before concluding as to whether there are bubbles in the industry or not.

The survey was expected to carry out to determine the future of the apartment industry of Sri Lanka based on key eight variables, determined through comprehensive perusal of literature, which are considered to be contributing factors of the future apartment industry. The study was carried out through the developed operationalization centered to those variables. A represented sample of employees selected from the construction and engineering companies who are above the executive level considering the practical limitations. The questionnaire was designed in a form of six Likert scales that included strongly disagree, disagree, somewhat disagree, somewhat agree, agree and strongly agree and excluded neutral. In addition, conducted five focus group discussions to add different views from industry-related individuals. Accordingly, the mixed-method is selected which includes quantitative and qualitative methods to collect data with the view to increase the reliability and validity of the survey.

The findings of the survey revealed that there is an excessive supply of the luxury apartments category which could result in unsustainable future for luxury segment of the apartment industry of Sri Lanka. However, during the focus group discussion, it was revealed that there is an over-supply of luxury apartment, and at the same time there is a shrink in the demand due to tax regulations issues and overall economic downturn in the country. However, existing over-supply can be iron out if Sri Lankan developers can attract foreign investments. Another major finding was the inflated prices charged by the developer of the apartment making use of the prominence of the location, proximity, floor level and many other factors. It was also found that the regulations related to money laundering in apartment industry is weak and involvement of the public officer with corruption has badly impacted the industry. Accordingly, the result of the survey saws that variables of the study framework are highly influential to the sustainability of the apartment industry of Sri Lanka, and it requires to take corrective measures to ensure a sustainable future of the industry.