

# BACKGROUND

Following a good year for the real estate industry in 2016, 2017 witnessed the entry of more developments in the market that served to further strengthen the underlying positive sentiments that are associated with this asset class. Luxury apartments have continued to mushroom in all parts of Colombo city as well as in the suburbs and have been met with good demand at the upper-mid range levels.

However, the latter part of 2017 and Q1 2018 was tough-going for the Tier One developers who had to fight it out for a less-than-buoyant investor-buyer segment. Perhaps the defining feature of the market during the past twelve months has been the challenges faced by the top-end of the market where buy-to-invest customers have been dissuaded by high-interest rates, talk of 'over-supply' in the market and perhaps most worryingly, anticipated changes to government policy.

A case in point was the much anticipated introduction of VAT for new apartments which was to be introduced in April 2018. However, when the day arrived, it was announced that this policy measure will now be put on hold, indefinitely. Whilst there is still some uncertainty in the market, many developers managed to cash in during February and March 2018 as those on the fence rushed to sign their purchase agreements before April 1st when it was expected that the same apartment would cost 15 per cent more. Short-term relief, whilst being most welcome by the top-end developers, the worrying trend of government policy uncertainty remains a case for some concern.

On the positive side, the Port City continues to excite and the land reclamation stage remains well on schedule whilst some progress has been made on developing surrounding infrastructure like the proposed under-ground tunnel connecting Marine Drive. Likewise, the growth in tourism which has remained strong in recent months is a significant positive indicator for the future of the apartment market. Furthermore, Foreign Direct Investment (FDI) also posted impressive growth and recorded some US\$1.5 billion in receipts.

Whilst location remains the perennial primary factor for any new project, a sensible assessment of the market in terms of price, identification of target groups and demand growth corridor along with a risk assessment is now more important than ever given the dynamic infrastructure development setting and rising competition in the industry.

Since 2003, RIU has been monitoring the real estate market in Sri Lanka. With the RIU regional office based in Colombo for the past 15 years, we are the first company in the island to specialise in producing reports and consulting that leverages our local and international expertise on real-estate market commentary and forecasting.

Our **High- End Residential Apartments in Colombo Report**, now into the third edition, continues to closely monitor the Sri Lankan market by using a wide range of research tools that includes;

1. **Primary surveys**
2. **Database development and data analysis**
3. **One-on-one in-depth interviews with private sector and government officials**
4. **Focus Group Discussions**
5. **Area observation check lists and surveillance ( Case studies)**
6. **Desk research of available secondary data**

We hope you find this report to be useful as an accurate macro-economic review and analysis of the real estate market in Sri Lanka. Trust you will get in touch with us for your more specific needs.

**Roshan Madawela Founder & CEO RIU**

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