



COVID 19 IMPACT ON REAL ESTATE MARKET IN SRI LANKA

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Abstract

The Real Estate Market of Sri Lanka consists of diverse income sectors and cash flows into the country. Covid 19 has been a dramatic change to the overall market in the global and Sri Lankan industries. Accordingly the paper has been clearly defined the significance of the Covid impact towards the Sri Lankan Real Estate Sector. Global changes, demand and supply gap, negative and positive growth impacts have been discussed with detail explanations to the Sri Lankan real estate sector. Impact of the Easter attack continued by the Covid 19 pandemic to the Sri Lankan markets also have been described with residential, leisure related, retail space, office space and logistics sectors with diverse measurements. Government backups, funding sources, concessions have been elaborated accordingly to the global recessions and Sri Lankan industries.

Introduction of the report detail the drop in the tourism activities, Chinese, Indian and European closure of markets, restrictions of visa which led to hold real estate activities. Global, Sri Lankan status were compared with economic, industrial, sector wise performance and impact due to direct and indirect Covid 19 related concerns. Discussion disclosed present and past records related to the sector and major consideration was allocated to industry wise performance. Further developments of the private sector and government major projects also discussed along with the current trends and future prospects of the real estate industry.

Key Words: Covid-19 Impact, Economy, Global Changes, Real Estate, Sri Lankan Market

1.0 Introduction

The Covid 19 pandemic affected the Sri Lankan Economy in a massive scale, while the authorities were expecting a growth of the economy with the expansion in many industries. The government focused on the industries like tourism, apparel and real estate to generate more employment opportunities and income to the country. The Easter attack made a huge concern to the Sri Lankan economy by declining the tourism arrivals after April 2019. In 2018, Sri Lanka was able to attract over 2.2 million visitors with a record of 4.4 USD Billion earnings in tourism industry (BBC, 2019). Further involved infrastructure development of the country is largely based on developments related to the tourism sector. Major portion of the income of the country is derived from tourism industry and after the Easter Sunday attack the involved stakeholders, authorities, foreign investors and businessman's were managed to overcome the income considering the future prospect of the business growth. Resumed the operation and development of the major apartments, hotels, resorts, infrastructure development with the expectation of future growth by the next years. Expansion of the Sri Lankan economy boosted after the civil war of the country and real estate was a major sector with a huge developments. Further impact of tourism through high end projects such as Port City, Waterfront, high ways, shopping malls, apartments were increased the demand of the real estate by creating a huge turnover in the industry.

First Covid 19 Patient was found in Sri Lanka in January 2020 and weeks later the 700+ cases were reported. At present the country just overcome from the fourth wave as per WHO classifications. Government of Sri Lanka (GoSL) with health and armed forces implemented restrictions on travel to encourage social distancing to control the outbreak. Real estate is defined as a land with improvements in any form for a profitable cause. Natural or manmade under residential, commercial, industrial, raw land and special use (CHEN, 2021). Pandemic hold the financing capacity of the financial institutions due to the declining trend of revenue in the real estate sector. Hotels, Rented property, Commercial buildings were just kept without being used. Only residential property had the occupancy of the existing customers. Involved stakeholders in the real estate had to face diverse challengers to retain the income and the survival due to the Covid 19 Pandemic.

Many organizations also have converted their working model to a remote working structure. The lease/rent agreements of the buildings are not renewed by some of the clients at the end

of the period due to the business limitations and due to the remote work concept. Most of the investors and workers involved in the real estate major projects were affected by the travel concerns, further with the global restrictions on the imports limitations and with the increased cost of the construction materials.

1.1 Impact on Real Estate Market

1.1.1 Global Impact

Global economy is expected to hit a recession due to implemented restrictions due to the Corona Virus control. Asian Development bank forecast the global Gross Domestic Production to decline by 2.2% to 4.8 % due to the overall economic downtrend. Fitch anticipate 1.9% downtrend in the international markets and estimate to return to pre virus level by the end of 2021 for the European countries and USA (worldbank, 2021). Due to the limitations for foreign nationals and closure of airports most of the new developments have been hold by the developers. Sri Lanka is a country which developed their property market mainly based on the foreign investments has a vast impact due to Covid-19. Development of apartments and hotels contributed to Sri Lankan job market and economy which led to survival of different industries and stakeholders as an income.

1.1.2 Local Impact

The impact and the recovery is based on the spread of the Covid 19 virus, and at the moment has a considerable death rate and number of patients daily. Economic conditions are not very stable and government has regulated imports to control the stability of rupee and retain the dollar reserves. Locally the operations of the hospitality industry has been granted permission to conduct the operations under the supervision of government authorities in a limited capacity.

1.1.3 Real Estate

In Sri Lanka Diverse sectors are involved for the contribution of the real estate which is considered under several sub categories. Leisure, Retail Space, Office Space, Residential

Markets and Logistics and Ware house can be classified as key main segments in the real estate market. Even in globally some of the countries managed to control Covid successfully like Australia and New Zealand with high end restrictions and controls. Real estate was the mainly effected sector with the hospitality industry due the limitations of occupancy in the buildings, residents, commercial properties, hotels and several other real estate involved sectors. GoSL was given concession rate loan schemes and moratorium loan scheme for the effected business parties to overcome and retain the business operation even in limited operation. Restrictions were allocated with minimum standards to run the businesses and not completely shut down the operations. Further financial tax recessions, tax cut downs also proclaimed sustainability of business. Hospitality sector was managed by converting large scale hotels to quarantine centres, further transport sector to deliver food items, restaurants to conduct delivery services in a minimum number of employees for retain the overall business segment.

2.0 Empirical Review on Real Estate Sector during Covid 19 Pandemic

2.1 Leisure Related Real Estate Market

Leisure sector was largely effected by closing of international airports and travel restrictions due to the Covid 19. Recovery is based on emerging of hospitality sector with tourism income and occupancy of local and foreign tourists. 2.3 million Tourists arrivals were recorded in the year 2018 and the number reduced to 1.9 million tourist arrivals in 2019 (SLTDA, 2019). Opening of international borders and airports are the key requirement for this solution. Indian tourists recorded 18.6% which is the largest proportion of total arrivals, UK and China 10.4% and 8.8% respectively. By March 2020 due to the enforced travel constraints, issuing of visa, closure of airports overall tourist arrivals declined by 70.8%. Expenses were reduced by the management of companies by reducing the number of staff, reduction of salaries. Even the top leading hotel chains, conglomerates, restaurants, all the effected sectors declined expenses due to limited income capacity. However some of the hotels were converted to quarantine centres and managed to overcome the recession for a limited period.

2.2 Retail Space Market Related Real Estate.

Spending in the market has been declined with a drastic impact. Shopping malls, retail stores, clothing shops, textile have been reduced due to reduction of tourism. Further travel restrictions, negative economy, reduction of the income has been effected almost every industry except for few sectors. Health concerns have been scared the people to go out and spend, further government restrictions , declining of income has been effected to existing and new business sectors in a larger scale. Majority of the office spaces were vacated and the existing spaces with the customers charged 25% to 50% rent due to no functional business. Essential services with e-commerce and home delivery services benefited at this point.

2.3 Office Space Market

The outbreak made diverse impacts for corporates and retail services in related to office functions. Leading corporates were able to sustain due to their cash flow. However the short term lease rentals were not paid on time and agreements were expired without being renewed due to negative performance. Landlords of the buildings had to offer more than 50% discounts to retain the tenants due to vulnerability of the economy. Long term lease rentals also occurred similar impact and tenants demanded for recessions due to loss of business. However supermarkets such as Cargills, Keells Super, Arpico, health sector channels and some retail chains with delivery made progressive profitability (Dissanayake & Ratnasothy , 2020). Most of the businesses have reshaped their business models with Covid 19 (PWC, 2020).

Small and medium level corporates had the vast impact and most of their office spaces were vacated even after providing concessions on rent due to discontinuation of business operation. Further even the restrictions lifted the remained limitations and health concerns were positive enough to keep the people with limited interactions.

2.4 Residential Market

Impact from the residential market is less compared to the other sectors due to Covid 19 pandemic. Hospitality is the main sector which is affected. Vacated homes are not in a position to rent for a considerable time due to the travel restrictions and existing customers

were within the apartments and houses for a long time. Sales visits, inspection of properties were not possible and most of the people managed the existing places wherever they were.

Domestic demand for the housing units were not as expected with the growing population and the estimations due to the pandemic. The decreased spending capacity increased due to the negative economic conditions of the people and there were only few options left with people to move for new places. Infrastructure development and facilities were not developed and landlords maintained as it is due to volatile market conditions with higher negotiations.

Even though the county expected to reach a higher number of apartments in the construction industry and hospitality industry, everything was declining and stopped due to Limited cash flow, financial concerns and funding issues. Hospitality sales were reduced from the Easter attack which happened in April 2019 and continued with the pandemic to a larger scale of loss with the negative cash flow of the country (Asian Development Bank, 2021). Even though the government tried to regain the improvement in the hospitality market through different concessions and comforts to industries they were not in a proper stable approach to perform well due to the huge gap of the income from the previous time to prevailing condition. Apartments and most of the residential property of the upscale market remain closed due to the negative issues in the market.

2.5 Logistics and Warehousing

Global transactions were limited and the majority of the business transactions conducted only for the essential services. Global supply chain description restricts activities in the main harbor ports as well as the airports.

Sri Lanka also had to close down the airports and restrict the harbor activities to control the virus. Sri Lanka consists of large imports from China and India and other countries even though Limited exports were recorded. As per the export Development Board, garment sector exports records 82% decline, which is USD \$333 Million in April 2019 and in only USD\$58 Million in April 2020 (Wang, 2021). Further overall GoSL has been restricted the imports in a large scale which is mainly effected by the vehicles , spare parts , pesticides , chemicals , electronic items and several other sectors due to the currency issue in the Country (CHEN, 2021).

3.0 Discussion

Sri Lanka has been effected by the Covid 19 pandemic in a larger scale. Foreign income of the country has been declined as well as the dollar reserves. Economic downtrend of the country reflects 3.3% in 2018, 2.3% in 2019, -3.6% in 2020, and 4% (estimation) in 2021 as per the World Bank estimations (International Monetary Fund, 2020). Imports and exports have been restricted in the local and international market and the drop has been recorded 62% as per the export board data. Sri Lankan economy consists a larger proportion through the tourism sector income and derived services which attached with the real estate industry (worldbank, 2021). Development of the housing projects, apartments, rent incomes, commercial properties are based on developed transport, travel and tourism companies, hotels and restaurant as a combined economical hub.

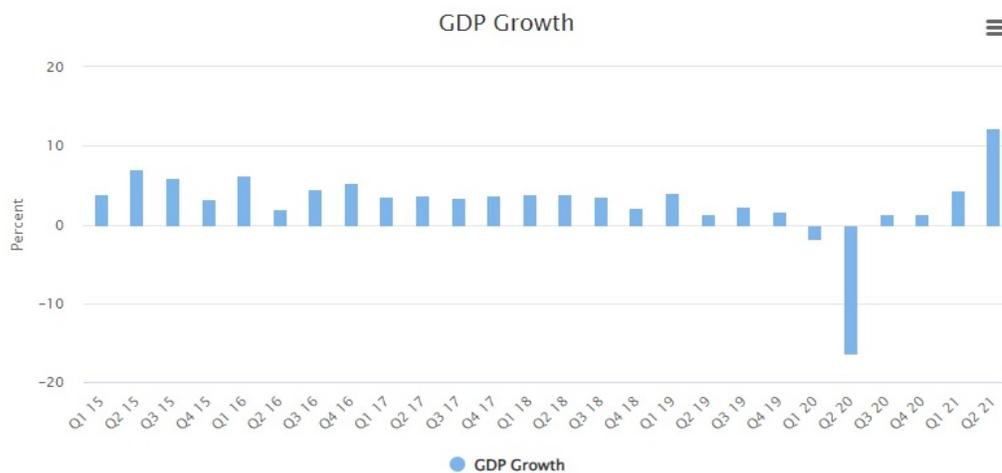


Figure 1 : GDP Growth of Sri Lanka

Source: (Central Bank of Sri Lanka, 2021)

There are foremost sectors in the real estate which combine with the Covid Impact. Leisure related businesses, retail spaces, office spaces, Logistics and warehouses got largely effected due to the declining trends of the cash flows due to negative impact on income and spending capacity of the Sri Lankan people (James, 2014). Businesses were struggled to overcome the cash flow deficit and managed to retain their place in the 1st wave of the pandemic with the recession loans and moratorium facilities. However during the first wave government imposed Island wide curfew and control the Covid Virus Spread. Chinese and Indian records the highest number of arrived tourists during the 2019 and this figures declined by 70% in the 2020 due to the Covid-19 Pandemic. GoSL took the necessary tax reductions and provided

the possible extensions for the tax payments to sustain the business sectors (statista.com, 2021). Due the impact of the Easter Attack the real estate had some vulnerability in the country since 21st April 2019. That impact got deteriorated from the closure of airports, harbors, closure of borders and imposed travel restrictions worldwide.

Landlords were helpless and tenants negotiated for better discounts for the monthly rent income (Hongyong, 2020). Short-term leases and agreements were expired. Banks could not conduct their operations due to the closure of Land registry to register the mortgages and deeds. New purchases of property was not possible and also registration of lease agreements as well.

Urban councils and municipal councils were not conducted their services in the lock down periods and after lifting of restrictions limited number of employees worked in the government offices. Acquiring a new property, house, rent required legal consent through the land registry with extracts and several other legal documents for the purchase. However the residential properties are the lowest effected sector of the real estate due to the pandemic of Covid 19.

Apartments and real estate development is a significant area which is directly related to the real estate market (Asian Development Bank, 2021). Many giant property development projects could not complete their projects on time. Further major shopping malls in Colombo and other developments also directly connected to the real estate, since people purchase new places as an investment, business requirement or residential purpose (www.worldbank.org, 2020). Developed apartment projects in the Colombo held due to funding issues of the investors. Negative cash flow of the world market impacted the local market in larger scale. Business revenue declined, operational cost curtailed and jobs were streamlined by reducing the spending capacity due to Covid Impact.

4.0 Conclusion

Sri Lankan market exports declined from January to December 2020 from 16.98% compared to the previous year. In 2019, US \$11,940 and in 2020 reflects as US \$ 9,912. Major exports such as Apparels (US\$ 4.4 Billion), Tea (US\$ 1.2 Billion) recorded a decline of 21% and

9.6% respectively compared to the previous year (International Monetary Fund, 2020). Economic down trend in the local market happened due to the global impact of Covid 19 and particularly the European market.

Even the first wave was controlled by the curfew and restrictions, second and third waves impacted several industries with a negative growth and cash flow. This impact started to the real estate industry with the Easter attack and worsened by the Covid 19 restrictions. Further real estate industry is mainly effected by Hospitality sector since the country has done huge investment in diplomatic and private sector by expecting a growth in the hospitality sector (worldbank, 2021). Waterfront, Mega shopping malls, Port City are some of the examples of developed infrastructure and real estate. Shangri-La, luxury apartments also part of the developments which got effected due negative growth.

In Sri Lanka the real estate sector consists of five sub categories. Those are leisure related, Retail, Office space, residential and ware house and logistics. Hotels and resorts were highly effected and leading hotels converted to quarantine centres to manage the business with limited capacity. Medium and small scale hotels had no option for survival except for government tax concessions, moratoriums and concession rate loans by government. Retail and office space had the similar impact and landlords had to offer major discounts to due to no profitability of the spaces (Williamen, 2015). Longer lease rentals survived while short terms leases and agreements expired with overdue payments. Spending capacity of the people declined and very limited new land and property purchases recorded. Government institutions were closed like urban councils and land registry by discouraging the public to seek new property.

Exports and imports were curtailed due to the international local barriers, travel restrictions, border terminations and close of ports and air transport. Ware house and logistics sector regularly recorded negative growth by declining the exports. Exports in Apparel, Tea and electronics made a dramatic decline while imports had to curtail by the GoSL to retain the dollar reserve and stability of the volatile rupee. GoSL implemented restrictions on imports. Residential real estate market is the lowest impacted compared to other real estate sectors. Due to the limited spending, job cut down residential rentals also had to reduce by the landlords due to the higher negotiations of the tenants.

Since the Real Estate market is highly relying on few other sectors, the growth of the real estate market is correlated to the growth of the highlighted sectors.

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