

Impact of civil war on residential condominium supply in Colombo city

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Impact of civil war on residential condominium supply in Colombo city

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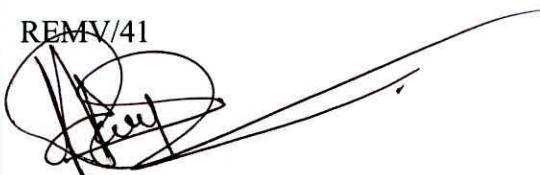


The work described in this dissertation was carried out under the supervision of Mrs. J Edirisinghe, Senior Lecturer, Department of Estate Management and Valuation and any report on this has not been submitted in whole or in part to any university or any other institute for another degree/examination or any other purpose.

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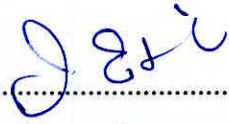
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Hereby, I certify that Mrs. T.H.Damith wickrama Hewage, (GS/M.Sc/REMV 3393/08) duly completed the research titled “The impact of civil war on residentialcondominium supply in Colombo”, under my supervision and recommended to submit for the evaluation.



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CHAPTER ONE

Introduction

1.1. Introduction

The civil war in Sri Lanka which commenced in 1983 had already claimed 100,000 lives. It ceased in the year 2009 affecting the country's economy severely for 30 years.

At that time the Sri Lankan economy suffered from terrorist activities. War has influenced economic history profoundly across time and space. Causes for conflicts can often be related to variations in socio-economic development between individuals, ethnic communities and geographical locations (Narman, Vidanapathirana U (2005)). A systematic exclusion of certain sections of the population in less affluent countries can be related to the globalisation process (Hoogvelt 2001). According to the Narmand and Vidanapathirana (2005) explains external factors for conflicts are often closely interwoven into internal ones, such as:

- Uneven regional structures, often as part of the colonial heritage, but also accentuated by post-independence policies - as the present neo-liberal open economic policy.
- Exclusion and marginalization. Besides pure sociological dimensions to exclusions there can be broader socio-political factors such as absence of democratic rule from a wider point of view. It can also be the manner in which emerging elites use their position for personal benefit.
- Cultural, religious, racial and ethnic variations.

When such variations in development cannot be assessed quantitatively even the perception of discrimination can create fertile grounds for looming conflicts.

Above all, recurring war has drained wealth, disrupted markets, and depressed economic growth. Wars are expensive (in money and other resources), destructive (of capital and human capital), and disruptive (of trade, resource availability, labor management). Large wars constitute severe shocks to the economies of participating countries.

Notwithstanding some positive aspects of short-term stimulation and long-term destruction and rebuilding. War generally impedes economic development and undermines prosperity. Several specific economic effects of war recur across

historical eras and locales. Economy always burnt because of terrorist activities and all the developments were in slow pace. Civil war incidents directly or indirectly affected all the components of micro and macro economy variables (viz. Investment, Tourism, Real estate sector, construction, Budget deficits, Investments Directly or Indirectly, Health, Inflation, Economic growth etc.)

The end of the 30 year old war in Sri Lanka brought new hopes for the industry, thus in anticipation of a high economic growth and a higher demand for land and property whereby the supplying side dynamics overtook the demand in the market. However, the prices did not reach higher levels as expected with the growing demand which was at a slower pace. The land and property prices did not see the upward trend.

In recent years, condominium living has gained popularity among Sri Lankans. Many Sri Lankans have invested in this development because of its product attributes. It has become the mode of living for the country's middle and upper class families. In most of the time, the residents can enjoy the convenience of having facilities at their doorsteps with the abundance of greenery and open space.

The 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.

Identification of real market situation is another important aspect to prevent or mitigate economic crisis, decision making, policy preparing and financial crisis. According to literature on the civil war, all the economic variables (viz. economic growth, inflation rate etc.) have played negatively and it is important to know how condominium market played multiple roles under such situation. So, there is no proper research that has been carried out to find answers to these questions.

The aim of this study is to gain adequate knowledge and identify the level of impact of civil war on supply of residential condominiums in the market of Colombo at different time series with econometric models such as linear regression and multiple regressions. In Sri Lanka, few researches were carried out on real estate market analysis and application. The relationship between civil war and condominium supply

has been observed and studied in this research by analyzing the factors affecting the supply of condominium.

1.2. Background of the study

Real estate has become part and partial in the world development process. It is an industry and resource of vital importance to any economy which is considered as a very diverse area with many opportunities. It is a vital component of the national economy as it constitutes large portion of national wealth and it influences on land use and conversely affected by land use policy decisions and regulations. Real estate appears everywhere in the world in various modes such as residential, commercial, industrial, agricultural and infrastructure in diverse architectural forms under different tenure styles.

The condominium market plays a critical role in Sri Lanka providing better living apartments and it helps to reduce housing shortages in recent years. The demand for condominiums has shown a marked increase recently with more foreign and Sri Lankan expatriates' willingness to purchase apartments as future investments. The condominium industry is a vibrant and growing part of the Sri Lanka's real estate sector. In Colombo and the suburbs the market is particularly dynamic. Condominium apartments have become a best solution for housing deficit since last decades. It is the best solution for housing deficit and scarcity of land availability.

The condominium housing has become a major concern world over since it has been identified as a solution to the acute housing problems especially in the areas where suitable land for housing is scarce. The primary attraction to this condominium is the ability to obtain affordable housing in a highly desirable area that typically is beyond economic reach. On the other hand condominium is a popular form of residential ownership, particularly for people who want the security of owning property without the care and maintenance a house demands. It is also a popular ownership option in areas where property values make single-unit ownership inaccessible for many people.

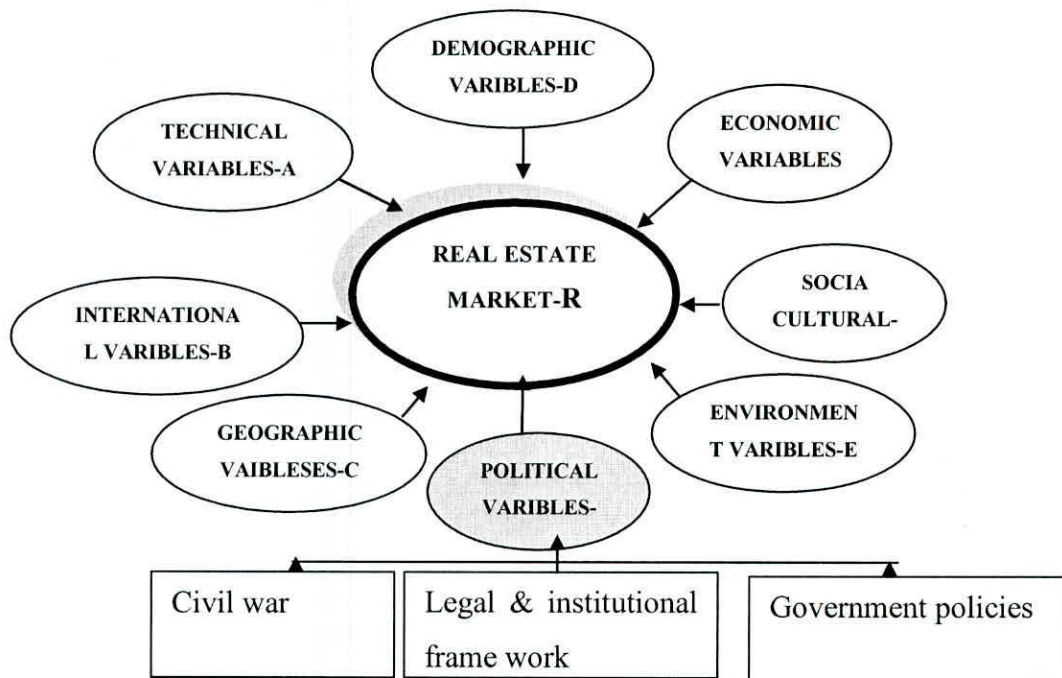
Condominium market depends on various factors such as population, migration, economic growth, inflation rate etc. Political stability is one of the major factors that

decide the growth of the condominium market or its drop. It causes all the investment decisions.

1.2.1. Factors affecting the investment in real estate

In accordance with Ariyawansa (2008), illustrate that range of variables that are affecting on real estate market. In view of him political factor is also taken part of that.

Figure 1.1- range of relative's variables



Source: Compiled by the author,2011

Bandara (2006) has presented effects of the war in Sri Lanka on tourism and the regional economy. Capital stock is another important development stock in any country. According to Jeremy & Weinstein (2000), Civil war affects the capital stock in two ways. First, internal conflict reduces the existing stock of capital. Residential structures, roads, bridges, ports, and factories are targeted and destroyed by competing militaries in wartime. Terrorism can harm and can create huge impact on the country's economy.

Political instability can occurred in any country due to internal Civil war. Unstable political situation decrease the level of growth in all elements of economic growth. Real estate plays a vital role in development process. It is one of the key factors in