

# An Analysis of Service Quality and Practices of Non-Regulated Real Estate Brokers in Sri Lanka: Service Users' Perception

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## Abstract

The real estate sector plays a vital role in any economy, with the quality of brokerage services significantly impacting market dynamics. In Sri Lanka, real estate brokerage operates in an unregulated environment, leading to concerns about service quality. Despite the widespread presence of non-regulated brokers, research on their practices remains limited. Thus, this study aims to assess user perceptions of service quality provided by non-regulated real estate brokers in Sri Lanka, focusing on reliability, responsiveness, assurance, empathy, and tangibility using the SERVQUAL model. Primary data was collected from a sample of 100 individuals who had purchased properties through brokers in the Sabaragamuwa Province. The findings reveal significant deficiencies in reliability, responsiveness, and tangibility, all of which contribute to overall dissatisfaction with quality of brokerage services. The study emphasizes the urgent need for regulatory measures to enhance service quality, protect homebuyers, and stabilize the real estate market. By addressing these gaps, the research highlights the negative consequences of unregulated brokerage practices and advocates for the implementation of regulations to ensure professionalism and improve the overall functioning of the sector.

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*Keywords:* Service Quality; Non-Regulated; Real Estate Brokerage Industry; SERVQUAL

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## Introduction

The real estate market, a dynamic pillar of any national economy, encompasses transactions related to the use or ownership of buildings and land (Stan, 2022). These transactions involve complex decision-making, from setting asking prices to finalizing sales (Yavas, 2007). Brokers are central to this process, assisting with pricing strategies, partner searches, negotiations, mortgage issuance, and closing deals. Despite their critical role, concerns about the quality of services provided by brokers and appraisers have grown, with increasing dissatisfaction from both consumers and the government (Agboola et al., 2012).

In a competitive residential real estate market, high-quality service is crucial for ensuring customer satisfaction and trust, which in turn strengthen a broker's reputation and encourage repeat business. Quality service allows agents to attract more clients, enhance financial performance, and reduce complaints and legal issues, fostering long-term client relationships (Parasuraman et al., 1985; Seiler & Reisenwitz, 2010; Zeithaml, 2000). Competent brokers streamline transactions, provide accurate market insights, negotiate favorable terms, and comply with legal requirements, thereby enhancing market liquidity. Conversely, poor brokerage practices can lead to inefficiencies, inflated property prices, and prolonged vacancies, destabilizing the market and hindering economic growth (McAllister, 2020; Tomal, 2024).

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Sri Lanka's real estate sector has seen significant expansion in recent decades, fueled by domestic and international investments, supportive government policies, urban development, and rising housing demand (Hettiarachchi & Gunawardhana, 2022). However, despite this growth, the industry remains largely unregulated. The rise of non-regulated brokers over the past decade has raised concerns about market credibility and transparency. These brokers often engage in unethical and fraudulent practices, negatively impacting both buyers and sellers (Karunaratne, 2018; Wickramasinghe & Ariyawansa, 2015).

Although the widespread presence of non-regulated brokers, research on user perception on brokerage service quality is limited, with existing studies primarily focusing on service quality in regulated real estate markets (Johnson et al., 1988; McDaniel & Louargand, 1994; Seiler et al., 2008; Seiler & Reisenwitz, 2010), leaving a significant gap in understanding non-regulated brokerage practices.

### **Research Problem**

The brokerage industry in Sri Lanka is still emerging as a professional field, lacking a comprehensive nationwide database for property listings and broker information. Furthermore, there is no professional organization to regulate the entry of brokers into the profession or to ensure that they provide transparent and accountable services. Many brokers in Sri Lanka do not pursue this profession full-time; instead, they often engage in brokerage as a secondary occupation while maintaining primary jobs, such as driving trishaws or running small-scale businesses. This part-time engagement often results in a lack of a solid and enduring foundation in real estate brokerage (Karunaratne, 2018).

These conditions risk both consumers and transaction efficiency, as reliable services are not guaranteed. In Sri Lanka, any individual or organization can become brokers by merely completing a few transactions. This unregulated system can lead to dual agency situations, where one broker represents both buyer and seller, often resulting in suboptimal outcomes for both parties and allowing brokers to earn secret profits, thereby breaching ethical standards and eroding industry trust (Wickramasinghe & Ariyawansa, 2015).

### **Objective of the Study**

This study aims to assess user perceptions of service quality provided by non-regulated real estate brokers in Sri Lanka, focusing on reliability, responsiveness, assurance, empathy, and tangibility using the SERVQUAL model.

### **Literature Review**

#### ***Real Estate Brokerage Industry in Sri Lanka***

The real estate brokerage industry in Sri Lanka is characterized by the presence of both individual brokers and organizations. Individual brokers typically enter the industry through personal contacts and experience rather than formal education or a knowledge-based background. In contrast, many brokerage firms are well-established, with a strong reputation and a broad reach across the country. These companies often offer a wide range of services beyond basic property brokerage, including transactions involving residential, commercial, industrial, and recreational properties (Wickramasinghe & Ariyawansa, 2015).

Karunaratne (2018) highlighted several critical issues in Sri Lanka's personal real estate market, particularly unethical practices by buyers and intermediaries, such as agents and brokers, who often resort to deceptive tactics to gain unfair advantages over sellers. Additionally, some brokers engage in unprofessional behavior, further complicating transactions. To address these challenges, it is suggested that the professionalism of brokers be enhanced by offering educational courses in real estate marketing, leading to certifications and diplomas for agents.

### ***Service Quality in Real Estate***

Service quality is defined by how well a service meets or exceeds customer expectations, representing the delivery of a level of service perceived as excellent or superior (Ilakkia & Gayathiry, 2024; Parasuraman et al., 1985; Zeithaml, 2000).

The SERVQUAL model, developed by Parasuraman, Zeithaml, and Berry (1985, 1988), quantifies service quality by comparing customer perceptions with expectations across five dimensions: tangibles, reliability, responsiveness, assurance, and empathy. Johnson et al. (1988) applied this model in residential brokerage, discovering differing rankings and perceptions between homebuyers and agents. McDaniel & Louargand (1994) identified a disparity between the service agents believed they provided and what customers expected, highlighting the importance of service quality for repeat business and referrals. Seiler et al. (2008) found that tangibles, reliability, responsiveness, and empathy were statistically significant in real estate. Hence the SERVQUAL model, as evidenced by Johnson et al. (1988), Parasuraman et al. (1985), and Seiler et al. (2008), plays a critical role in shaping customer perceptions of service quality. This research employs these five dimensions to assess the service quality of non-regulated real estate brokerage in Sri Lanka, with Table 01 detailing the selected variables.

**Table 01: Description of the Variables**

<b>Variable</b>	<b>Description</b>
<b><i>Tangibles</i></b>	Encompasses the physical elements of the brokerage service, including office setup, signage, printed materials, and agent appearance. In non-regulated settings, brokers may exploit these elements to unduly influence clients, potentially leading to ethical breaches.
<b><i>Reliability</i></b>	The broker's ability to consistently deliver consistent, accurate and dependable services, which is vital for informed real estate transactions (Zeithaml, 2000). In non-regulated environments, reliability may be compromised due to brokers' lack of essential market knowledge (Karunaratne, 2018).
<b><i>Responsiveness</i></b>	Reflects the broker's willingness and promptness in addressing client needs, which enhances client satisfaction. However, in non-regulated environments, brokers who treat this as a part-time job may not prioritize responsiveness.
<b><i>Assurance</i></b>	The broker's expertise and professionalism that build trust and credibility with clients. In non-regulated environments, assurance may be weakened by the prevalence of malpractice and unethical conduct.
<b><i>Empathy</i></b>	Empathy involves the broker's ability to understand and prioritize the client's needs, offering personalized and caring service. Empathy is essential for reducing client stress and improving overall service experiences (Sanita & Mutuku, 2019).
<b><i>Brokerage Practices</i></b>	This refers to the conduct of brokers operating without regulatory oversight, which can compromise service quality, leading to market instability and consumer mistrust (Agboola et al., 2021).

### **Methods**

This study used a quantitative approach to examine the impact of non-regulated real estate brokers on service quality in Sabaragamuwa Province, Sri Lanka. It targeted individuals who used these brokers for land purchases, identified through non-probability sampling. As most studies on real estate brokerage in Sri Lanka focus on Colombo (Karunaratne, 2018; Radicati, 2022; Wickramasinghe & Ariyawansa, 2015); this study focuses on assessing the service quality of non-regulated real estate brokers in Sabaragamuwa, a province in Sri Lanka that includes the Ratnapura and Kegalle districts. A structured questionnaire with 30 questions was sent to 120 participants, with 100 responses (83% response rate). The questionnaire assessed demographics, brokerage practices, and service quality perceptions using a Likert scale. Mean analysis was used to evaluate the impact of non-regulated brokers on service quality.

## Results and Discussion

The study findings revealed that the majority of respondents were male (54%) and most of the respondents' age were ranging from 35-44 years old. Most of the respondents occupied in Private sectors (31%), secondly were Government Sector (26%). On the other hand, all respondents 93% bought less than 5 lands with the help of non-regulated real estate brokers. The analysis of the collected data revealed interesting findings and the statistics of the mean value comparison are summarized in table 2.

**Table 2: Statistics of the Perception on Service Quality Dimensions and Brokerage Practices**

Variables	Mean	Std. Deviation	Variance
Brokerage Practices	3.60	.811	.657
Responsiveness	3.56	0.637	0.4065
Assurance	4.04	0.731	0.5345
Reliability	4.01	0.707	0.500
Empathy	3.54	0.4345	0.659
Tangibility	3.68	0.3915	0.626

The analysis of brokerage practices, measured as the dependent variable, reveals a mean score of 3.60 with a standard deviation of 0.811, indicating a generally negative perception of non-regulated real estate brokers. This suggests that participants consistently view these brokers as failing to meet expectations. Karunaratne (2018) similarly reported that unregulated brokers engage in unethical behaviors and deceptive tactics to gain unfair advantages while Wickramasinghe & Ariyawansa (2015) noted that dual agency practices are prevalent and exploit clients, leading to ethical violations and distrust in the industry. Thus, clients should exercise caution and conduct thorough research before choosing a real estate broker to ensure they are reputable and trustworthy. Further results highlighted that Regulatory reforms are necessary to improve the quality of services provided by real estate brokers.

Table 02 indicates that non-regulated brokers in the real estate industry generally underperform in several service quality dimensions. The average Responsiveness score is 3.56, highlighting issues with timeliness and communication, often because brokers treat real estate as a secondary occupation, leading to insufficient focus on client needs. Assurance scores slightly better at 4.04, yet clients still lack confidence due to inadequate broker knowledge and responses. Reliability, scoring 4.01, shows ongoing problems with timely service and task accuracy. Empathy scores the lowest at 3.54, indicating a lack of personalized attention and inconvenient operating hours, as many brokers work irregular hours. Tangibility scores 3.68, pointing to outdated equipment and disorganized property inspections. Overall, non-regulated brokers show significant deficiencies in Empathy and Responsiveness. These results align with studies by Agboola et al. (2021) and You et al. (2012) in the Nigerian and Taiwan real estate markets, which experienced similar consequences. The lucrative nature of real estate attracts individuals, including the unemployed and artisans, who often lack professional knowledge, skills, or ethical standards. These individuals prioritize quick transactions over comprehensive client engagement and satisfaction, thereby reducing service quality and affecting client trust and satisfaction in the real estate market.

The studies by Karunaratne (2018), Radicati (2022), and Wickramasinghe & Ariyawansa (2015) often align, highlighting that the lack of educational foundations for real estate brokers, inadequate regulatory oversight, and government practices contribute to service quality mismatches and resultant dissatisfaction. Ha & Huyen (2023) emphasize that skilled, knowledgeable, and positive brokers enhance customer satisfaction, while non-professionals often provide substandard service, increasing complaints (Moyinola, 2021). Agboola et al. (2021) adds that non-professional involvement in real estate leads to market fraud and misrepresentation, damaging the profession and fostering distrust. Further, the lack of formal training among many market entrants worsens these issues, correlating with unethical practices and a lack of accountability (Markoc & Cizmeci, 2021). To address these problems, studies suggest regulatory measures and promoting professional education and training to

improve service quality and restore trust in the real estate sector (Agboola et al., 2012; Karunaratne, 2018).

### **Conclusion**

This study assesses user perceptions of service quality provided by non-regulated real estate brokers in Sri Lanka, focusing on reliability, responsiveness, assurance, empathy, and tangibility using the SERVQUAL model. The findings emphasize the urgent need for regulation to enhance service quality, protect homebuyers, and ensure their trust on real estate brokerage industry. The research highlights the detrimental effects of unregulated brokerage practices and advocates for regulatory measures to ensure professionalism and improve the sector's functioning. Future research should examine the influence of technological advancements on non-regulated real estate brokerage practices, as well as their impact on service quality, homebuyer decision-making and risk, and consumer protection mechanisms pertaining to non-regulated real estate brokers.

### **Acknowledgment**

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