

OPTIMISING INVESTMENT DECISIONS IN HOMESTAY TOURISM: A COST AND PERFORMANCE ANALYSIS OF COASTAL REGIONS IN SRI LANKA

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ABSTRACT

Tourism plays a vital role in the economy of Sri Lanka, with homestay accommodations emerging as a key component of community-based tourism. However, the successful development and operation of homestays are influenced by multiple factors, creating challenges for investors and operators. These challenges often result in inefficient investment decisions, underperforming accommodation ventures, and missed opportunities for local economic development. Despite the growing trend of homestay establishments in coastal regions, limited research has been conducted to systematically identify the critical factors affecting their development. Therefore, the main aim of this research is to identify and analyse the key factors influencing the development of homestay accommodations in the coastal regions of Sri Lanka. Accordingly, the study investigates three primary dimensions: cost-related factors, including initial investment and operational expenses; tourist preference factors, focusing on the attributes that influence visitors' selection of homestays; and social, environmental, and cultural constraints within the Sri Lankan context. Data were collected through a combination of literature review and semi-structured interviews with relevant stakeholders. Mean comparison and thematic analysis were employed to evaluate and prioritise the critical factors affecting homestay development. The findings provide valuable insights for homestay operators and potential investors, enabling more informed decision-making and contributing to the sustainable development of the homestay sector in Sri Lanka.

Keywords: Coastal Region; Constraints; Cost Elements; Homestay; Tourist Preference.

1. INTRODUCTION

Among South Asian countries, Sri Lanka possesses significant tourism potential due to its natural beauty and cultural heritage (Gamalath, 2021). The southern coastal belt of

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Sri Lanka, particularly from Beruwala to Mirissa and Tangalle, has emerged as one of the most popular tourist regions in the country. This area attracts visitors due to its scenic beaches and various tourism activities, including whale watching, turtle watching, snorkelling, surfing, and coastal recreational experiences (Dharmasena et al., 2023). Consequently, a range of accommodation facilities, including luxury hotels, guesthouses, and alternative lodging options have developed in this region to cater to the increasing demand from tourists (Wijesundara, 2022).

In recent years, tourists have increasingly demonstrated a preference for alternative forms of accommodation, particularly homestays (Thapa, 2017). A homestay can be defined as a form of lodging where visitors reside within a local household, enabling a more immersive and personalised travel experience. Beyond offering economic advantages for travellers, homestays facilitate meaningful social and cultural exchange by allowing close interaction with host communities, while simultaneously generating income opportunities for residents (Dias et al., 2022).

Within the Sri Lankan context, the concept of home-stay accommodations has gained increasing popularity in recent years, especially in the southern coastal regions (Patwal et al., 2023). Homestay offers many benefits, such as experiencing the local culture, learning about different cultural practices in a homely environment, improving language skills, and many more (Gautam, 2024). They contribute to strengthening social cohesion, promoting community empowerment, and advancing gender equity by enhancing women's leadership and reducing prevailing social stigmas (Bandusena et al., 2023).

In response to the growing demand for alternative accommodation options, many local households have increasingly engaged in providing small-scale lodging facilities for tourists. Recognising the potential contribution of this sector to tourism development and community-based economic growth, the Sri Lanka Tourism Development Authority (SLTDA) has introduced guidelines and regulatory frameworks for homeowners seeking to establish and operate registered homestay accommodations (Sri Lanka Tourism Development Authority, 2020). In addition to complying with SLTDA requirements, homestay operators are expected to obtain approvals from relevant authorities, including the Urban Development Authority (UDA) and the respective municipal councils. Despite the existence of these regulatory mechanisms, a considerable proportion of accommodation providers continue to operate without formal registration, indicating a gap between regulatory requirements and actual industry practices.

However, the demand for rental accommodation is influenced by a range of factors, including tourists' preferences for specific facilities, services, and nearby attractions (Pina & Delfa, 2005). Despite the increasing interest in homestay investments, many homeowners undertake such developments without a comprehensive understanding of construction costs, operational expenses, or prevailing market demand (Magno et al., 2018). This knowledge gap can adversely affect the financial viability and profitability of these ventures. Moreover, conventional pricing and investment evaluation methods often fail to adequately capture the dynamic nature of tourism demand and fluctuating market conditions (Ndaguba & Van Zyl, 2024). Given that homestays primarily cater to budget-conscious travellers, it is essential for investors to conduct thorough feasibility assessments prior to committing financial resources (Patwal et al., 2023). Failures may

result in inefficient investment decisions, underperforming accommodation ventures, and missed economic opportunities for local communities.

Recent studies emphasise the need for more adaptive and evidence-based approaches to overcome these challenges and support informed decision-making in tourism-related investments (Ndaguba & Van Zyl, 2024). Accordingly, the aim of this study is to identify and analyse the key factors influencing the development and investment viability of homestay accommodations in the coastal regions of Sri Lanka. To achieve this aim, the study is guided by the following objectives: 1) To identify the initial and operational cost components associated with homestay accommodations. 2) To examine the key factors influencing tourist preferences for homestay accommodations. 3) To analyse the social, environmental, and cultural constraints affecting the development and operation of homestays within the Sri Lankan context. The first and second objectives of the study were addressed through the literature review, followed by ranking the identified factors based on respondents' perceptions. The third objective was examined using both literature findings and respondents' views to assess the impacts of those factors. Finally, the study aimed to identify the cost-related and demand-related factors that required greater attention for the effective development and formalization of homestay accommodations.

2. LITERATURE REVIEW

Since investment decisions should first consider the investor's financial capacity, this study initially focuses on cost-related factors before examining preference and demand-related factors associated with homestay accommodations. The study identifies the key cost items associated with homestay accommodation development and determine their relative priorities. In addition, it sought to examine tourists' preferences for staying in homestays and assess the influence of these preferences on income generation. Accommodation plays a fundamental role in tourism development as one of the key components of the tourism system, together with attractions, accessibility, and ancillary services (Sedai, 2011). In the southern coastal region of Sri Lanka, various types of accommodation are available, including hotels, boutique hotels, guesthouses, and homestays, which cater to diverse tourist segments and preferences (Ministry of Foreign Affairs, Foreign Employment and Tourism, 2023). Among those types of accommodation, home stays generally offer more affordable accommodation options with basic facilities, making them attractive to budget-conscious travellers (Adhikari, 2020; Chiu et al., 2017). These accommodation types contribute to tourism development by increasing accommodation capacity while also enabling local communities to participate directly in tourism activities (Ministry of Foreign Affairs, Foreign Employment and Tourism, 2023).

Despite these advantages, several challenges persist within the homestay sector, which lead to inefficient investment decisions, underperforming accommodation enterprises, and missed economic opportunities for local communities. In this context, it is important to examine the key constraints faced by investors, including initial capital requirements, ongoing operational costs, managing demanding factors, and socio-cultural considerations that influence both the development and management of homestay accommodations (Idahosa & Ebhuoma, 2020; Petruzzi et al., 2023).

2.1 INITIAL INVESTMENT COST ELEMENTS OF HOME-STAY ACCOMMODATION

Initial investment constitutes a critical factor influencing the establishment of homestay accommodation businesses. Such operations are typically initiated by private homeowners who convert portions of their residences into tourist accommodation to generate supplementary income. These investments are intended to provide basic yet comfortable facilities that satisfy tourist needs while preserving a home-like environment (Khan et al., 2020).

The initial investment generally comprises several cost components related to property development, facility provision, and regulatory compliance. Key elements include construction costs, development of attached bathrooms, acquisition or leasing of land or property, furniture and room amenities, and installation of essential utilities such as water and electricity (Daniels, 1994; Qiao et al., 2021). Additional facilities, including kitchens, laundry equipment, and household appliances, are often incorporated to enhance guest comfort and the overall homestay experience (Patwal et al., 2023; Yu et al., 2022).

Beyond physical infrastructure, legal and administrative requirements such as tourism registration, health and safety certification, and local authority approvals also contribute to initial investment costs (Pasanchay & Schott, 2021). The level of investment varies depending on the type and quality of accommodation provided. Higher investment may enable operators to offer superior facilities and attract more guests; however, excessive capital expenditure may reduce profitability if not supported by sufficient demand (Pawlicz & Napierala, 2017). The principal initial cost components identified in the literature, which influence the establishment and viability of homestay accommodations, are summarised in Table 1.

Table 1: Initial cost elements influencing home stay accommodations

Initial Cost Element	Reference
Construction cost	(1), (2)
Acquisition of land or property cost	(3), (4)
Bedroom, furniture, and amenities cost	(5)
Kitchen and laundry facilities	(6), (7)
Electricity, water supply, and washing machine cost	(7)
Legal approval cost, registration cost	(8)
1 - (Daniels, 1994), 2 - (Khan & Su, 2003), 3- (Amalia & Febrian, 2022), 4 - (Qiao et al., 2021), 5 - (Sedai, 2011), 6 - (Patwal et al., 2023), 7 - (Yu et al., 2022), 8 - (Pasanchay & Schott, 2021)	

2.2 OPERATIONAL COST ELEMENTS OF HOME-STAY ACCOMMODATION

Operational costs denote the recurrent expenditures required to manage and maintain accommodation facilities and deliver services to guests (Amalia & Febrian, 2022). The primary component is labour, encompassing wages and related expenses necessary to sustain service quality (Arbelo et al., 2017). Homestays also incur utility costs, including electricity and water, which may vary with occupancy levels and length of stay (Aldubyan & Krarti, 2022). Maintenance and repair costs represent another key

element, as ongoing upkeep is essential to preserve service standards and guest satisfaction (Au-Yong et al., 2019).

Additional operational expenditures include waste management, safety and security measures, and housekeeping services, all of which uphold hygiene and safety standards within the accommodation (Janjua et al., 2021). Moreover, marketing and promotional activities such as website maintenance, social media engagement, and online advertising are necessary to attract tourists and sustain market visibility in a competitive tourism sector (Gulati, 2024). Based on the literature, several operational cost elements influencing home stay operations have been identified and are presented in Table 2.

Table 2: Operational cost elements influencing home stay accommodations

Operational Cost Element	Reference
Electricity, housekeeping, and laundry service bills	(1)
Waste management/ disposal of garbage cost	(2)
Maintaining cost	(3)
The guests and the premises are safe	(4)
Marketing cost (Website, Advertisement)	(5)
Labor, the driver of energy consumption, and regular maintenance costs	(6), (7)
Booking.com, Airbnb, and Agoda booking costs.	(8)
1- (Amalia & Febrian, 2022), 2- (Janjua et al., 2021), 3- (Aldubyan & Krarti, 2022), 4- (Kunjuraman & Hussin, 2017), 5- (Kartal et al., 2025), 6- (Arbelo et al., 2017), 7- (Ihsan & Alshibani, 2018), 8- (Lamis et al., 2022)	

It is observed that cost-related factors are one of the major challenges that investors face at the initial stage of developing homestay accommodations. The initial investment is a major barrier for investors. Therefore, financial planning strategies are important for the development of homestay accommodations.

As cost control strategies smaller public areas and efficient room layouts can also help save on future costs of heating and cleaning (Arbelo et al., 2017). The incorporation of green building features such as good insulation, double glazing, solar passive design, LED lighting and solar hot water systems may incur higher initial costs but can save on long-term costs (Xiao, 2023). Cost or budget methods can be employed to arrive at target costs for each room (construction and fit-out) and design to the target costs (Gössling & Lund-Durlacher, 2021). The Balanced Scorecard can be employed to manage costs while maintaining quality of service, learning and sustainability.

2.3 CRITICAL ATTRIBUTES INFLUENCING TOURIST PREFERENCES FOR HOME-STAYS

Homestays represent a distinctive form of accommodation that enables tourists to engage directly with local communities and experience authentic cultural practices. Unlike conventional hotels, homestays offer a personalized, family-oriented environment in which guests may participate in everyday local activities and consume home-prepared meals (Dash, 2022).

Several attributes influence tourists' preferences when selecting homestay accommodation. These include host hospitality, cleanliness and hygiene, safety and security, affordability, and opportunities to experience local culture and traditions (Chen, 2023; Patwal et al., 2023). The availability of comfortable facilities, such as well-furnished rooms, kitchen amenities, and reliable internet access, may also affect accommodation choices (Sánchez-Franco & Rey-Moreno, 2022). Location-related attributes are particularly significant in coastal tourism contexts. Proximity to the beach and scenic ocean views strongly influence tourists' choices and willingness to pay premium prices (Hamilton, 2007). Empirical evidence further indicates that accommodation located near the coastline tends to attract higher tourist demand (Perez-Sanchez et al., 2018). Accordingly, the major attributes influencing tourist preferences for homestays, as identified in the literature, are summarised in Table 3.

Table 3: Key attributes influencing tourist preferences for home stays in the southern coastal region

Preference for home stays in the region	Reference
Local culture, living style and homemade foods	(1), (2)
Cleaning and hygiene	(2), (3)
Warm familial feel	(5)
Safety and security	(3), (6)
Low price range	(6)
Distance to the beach	(8), (9), (10)
Kitchen facilities	(4)
1- (Dash, 2022), 2- (Chen, 2023), 3- (Luekveerawattana, 2024), 4- (Sánchez-Franco & Rey-Moreno, 2022), 5- (Janjua et al., 2021), 6- (Patwal et al., 2023), 7- (Perez-Sanchez et al., 2018), 8- (Mendoza-González et al., 2018), 9- (Hamilton, 2007), 10 - (Perez-Sanchez et al., 2018)	

3. METHODOLOGY

This study adopts a mixed-method approach, integrating qualitative and quantitative techniques to analyse factors influencing the development of homestay tourism in the coastal regions of Sri Lanka. The research includes a background study, literature review, primary data collection, and data analysis, enabling a comprehensive understanding of the research problem through both numerical and qualitative insights (Ishtiaq, 2019). The study is guided by three objectives: (1) to identify initial and operational cost components, (2) to examine factors influencing tourist demand, and (3) to analyse social and cultural constraints affecting homestay development. These objectives were initially addressed through the literature review, which provided a partial identification of key factors based on existing studies. To ensure contextual relevance, these factors were further validated and refined for the Sri Lankan context through semi-structured interviews with homestay owners. The data collection period was from January to February 2026 extending for 03 weeks. A total of 15 respondents were selected using snowball sampling, which is suitable for accessing participants with relevant experience. This qualitative approach primarily supported the validation of literature findings.

Data were analysed using manual thematic analysis to identify patterns related to cost factors, tourist preferences, and socio-cultural constraints. Mean comparison was also applied to prioritise the significance of identified factors, with Microsoft Excel and Word supporting the analysis. The methodology enables a structured identification of key factors influencing homestay investments. Although developing strategies is not a primary objective, the discussion section highlights the need for such strategies to address identified challenges and constraints.

4. FINDINGS AND ANALYSIS

4.1 ANALYSIS OF CAPITAL AND OPERATIONAL COSTS IN HOMESTAY ACCOMMODATION BUSINESSES

The cost components identified through the literature review were further validated through semi-structured interviews with homestay owners. Respondents were asked to rate each cost item on a scale from 0 (not impactful) to 5 (highly impactful) based on their experience in establishing and operating homestay accommodations.

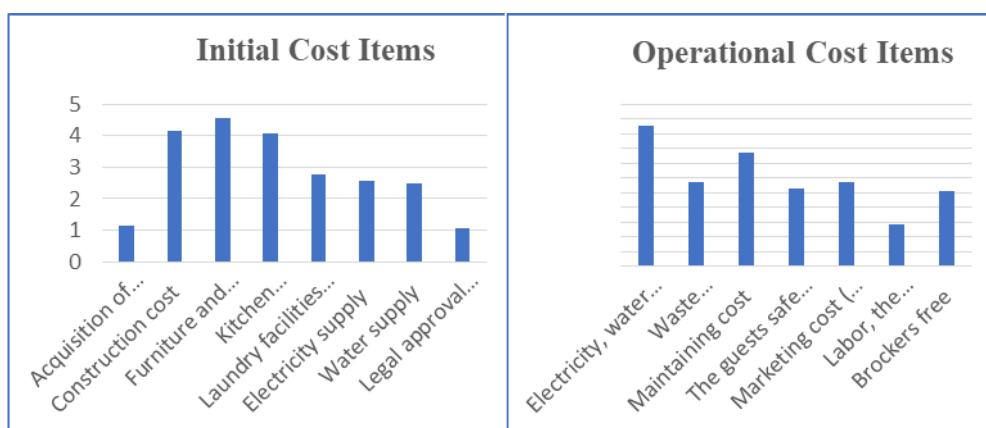


Figure 1: Initial and operation cost items analysis

The results were analysed using mean value comparison and are illustrated in the Figure 1. The findings indicate that furniture and kitchen equipment represent the most significant initial investment components, followed closely by construction costs. This suggests that homestay owners prioritise the provision of essential amenities and comfortable living spaces to enhance guest experience. Investment in furniture, room facilities, and kitchen equipment is particularly important in the homestay sector, as these elements directly influence tourists' perceptions of comfort and hospitality within a home-like environment. Other than the respondents also mentioned that, *"construction-related expenses also remain relatively high, reflecting the need for renovations, interior modifications, and the development of facilities such as attached bathrooms to meet basic accommodation standards."*

In contrast, legal approvals and land acquisition were identified as the least impactful initial cost items. This finding reflects the typical operational model of homestays in Sri Lanka, where homeowners utilise existing residential properties rather than acquiring new land or constructing purpose-built accommodation facilities. Additionally, many small-scale homestay operators either face minimal regulatory requirements or incur limited administrative costs during the registration process, which further reduces the

financial burden associated with legal approvals. According to the respondents mentioned that *“We have not registered the accommodation because there is no requirement for us to register it.”* This indicates a lack of awareness and understanding regarding the importance of registration and the relevant regulatory requirements.

About operational costs, the analysis reveals that utility expenses, particularly electricity and water bills, constitute the highest recurring costs, followed by maintenance expenses. These findings highlight the ongoing financial commitment required to maintain service quality, ensure facility functionality, and provide essential services for guests. Regular maintenance activities, including repairs, cleaning, and replacement of household equipment, are necessary to sustain acceptable accommodation standards and maintain positive tourist experiences.

Conversely, labour costs were reported as the least significant operational expense. This outcome reflects a distinctive characteristic of homestay businesses, where most operational activities, such as cleaning, guest assistance, and meal preparation, are typically managed by the homeowners themselves or by family members.

5. ANALYSIS OF DEMANDING FACTORS IN HOME-STAY ACCOMMODATION

The demand-related factors identified through the literature review were further validated through the interview responses and ranked using mean value comparison. Respondents evaluated each factor on a scale from 0 (not impactful) to 5 (highly impactful) based on their experience hosting tourists. The results are presented in Figure 2.

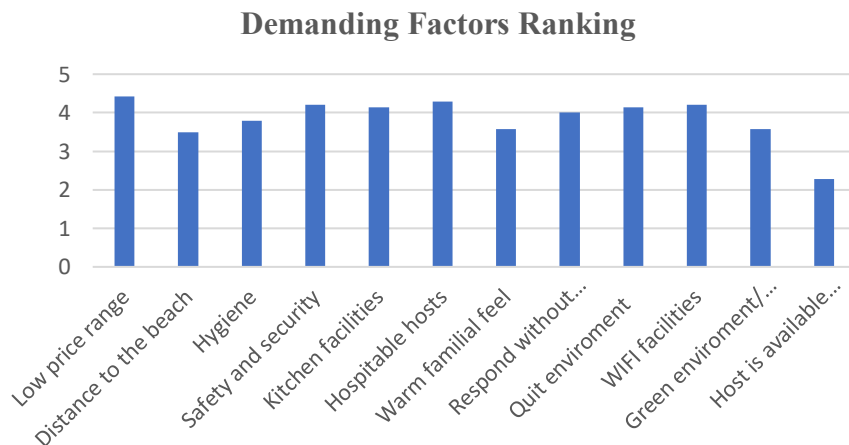


Figure 2: Demanding factors ranking

The analysis indicates that low price range, safety and security, hospitable hosts, and the availability of Wi-Fi facilities are among the most influential factors shaping tourist preferences for homestay accommodations. Furthermore, respondents are suggesting that, “tourists selecting homestays generally seek affordable accommodation combined with a safe environment and welcoming hospitality. The presence of friendly hosts and reliable communication facilities further enhances the overall visitor experience and satisfaction. In addition, factors related to the quality of the surrounding environment, such as a quiet environment and green or natural surroundings, were rated relatively

high. This highlights that many tourists prefer homestays located in peaceful settings that provide closer interaction with nature, which is often a distinctive attraction of coastal destinations.

Conversely, factors such as host availability received comparatively lower ratings. Respondents added that, *“while interaction with hosts is appreciated, tourists may value a certain level of independence and privacy during their stay”*. Overall, the findings emphasise that affordability, safety, hospitality, and a pleasant natural environment play a crucial role in shaping tourist demand for homestay accommodations. These aspects should therefore receive greater attention when planning and managing homestay businesses in coastal regions.



Figure 3: Significant cost and demand factors

The figure 3 illustrates the significant cost and demand factors.

5.1 SOCIAL, ENVIRONMENTAL, AND CULTURAL CONSTRAINTS

The latter part of the interviews focused on identifying the social, cultural, environmental, and regulatory constraints associated with homestay development within the Sri Lankan context. Respondents highlighted that, *“several social and cultural challenges have emerged alongside the expansion of homestay businesses. In particular, concerns were raised regarding the involvement of children in tourism-related activities, as this may negatively affect their educational progress and long-term personal development”*.

Interview findings also revealed that many homeowners initiate homestay ventures by following prevailing tourism trends, often without adequate language skills or prior operational experience. This lack of preparedness can result in inconsistencies in service quality and may contribute to trust-related concerns among tourists. In several instances, respondents reported that, *“tourists who had made prior reservations decided not to stay upon arrival due to unmet expectations and inadequate facilities”*. Overall, these issues highlight important gaps in service delivery, management capacity, and regulatory awareness.

6. DISCUSSION

The findings emphasise the need for improved guidance, training, and institutional support to ensure the sustainable development of homestay accommodations in Sri Lanka. Accordingly, it is important to develop appropriate strategies and raise awareness among homestay owners to help minimise initial and operational costs while maintaining satisfactory service standards for tourists. The literature review identified several strategies that could help overcome existing constraints, and some practical approaches suggested by respondents were also considered during the interviews. For

example, many owners have already adopted energy-efficient practices, such as the use of LED lighting and energy-saving appliances. Research also indicates that effective energy management practices, including smart HVAC systems and renewable energy integration, can reduce energy consumption by approximately 10–20% (Menegaki, 2025). Therefore, authorities and relevant institutions should actively disseminate knowledge on cost-effective construction methods and energy-efficient technologies to help reduce both initial and operational costs.

In terms of socio-cultural aspects, respondents emphasised the importance of awareness and educational guidance, particularly for children involved in tourism-related activities. With proper communication and guidance, cultural barriers and social concerns can be addressed more effectively (Jiang & Zhang, 2024). Accordingly, training programmes and capacity-building initiatives for homestay owners could improve service quality, management practices, and communication with tourists. Overall, relevant authorities and institutions have a crucial role in supporting homestay development in Sri Lanka's coastal regions. Through appropriate strategies, training initiatives, and regulatory guidance, homestay investments can be optimised while promoting sustainable and responsible tourism practices.

7. CONCLUSIONS

This study identified key factors influencing the development of homestay accommodations in the coastal regions of Sri Lanka, with reference to the southern coastal area. The analysis focused on cost factors, demand determinants, and the social, cultural, and environmental challenges associated with establishing and operating homestays. The findings indicate that these factors play a significant role in shaping the development and investment viability of homestay businesses. Although the level of influence may vary across different social, cultural, and geographical contexts, the study recommends that collaboration between business owners and relevant authorities can address these existing challenges. The development of appropriate strategies, regulatory support, and awareness programmes is therefore important to promote better investment decisions, maintain service quality in homestay accommodations, and support sustainable growth in the sector.

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