

FEATURES

SOME SPECIFIC CHARACTERISTICS IN THE SPHERE OF BUSINESS PREMISES CONSTRUCTIONS IN THE CITY OF COLOMBO

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A recent survey conducted by the Research Department of the People's Bank during the period of April to August, in 1984 has revealed some important characteristics in the field of business premises construction in the city of Colombo. The relevant period of coverage was confined to three years from 1980-1982. This was a period of major activity in the construction of business premises in Colombo. According to the basic data collected from the Colombo Municipal Council and Urban Development Authority, individuals and business institutions had obtained 52 new approvals in 1980; 83 in 1981; and 41 in 1982 amounting to a total of 176 new

approvals. The analysis below is based on the above sample which constitutes about 27 percent of the total new business premises approvals.

Ownership

According to the data analysed various individuals and institutions obtained permission from the Colombo Municipal Council until 1980 and from the Urban Development Authority after 1980 for building business premises during the period under review. The following table shows the nature of ownership.

According to this information 33 units of business premises or 68.8% were owned by sole proprietors. This represents about 2/3 of the ownership of building units. Private companies and public companies come next. They constitute 12.5% of the total number. The lowest category of proprietors of business premises is the partnership. They represent only 6.2% of the total. According to these figures in the ownership of business premises, for which approval had been given in 1980-82, sole proprietorships are more prominent than companies and partnerships.

Location of Premises

The location of business premises in the city of Colombo could be classified according to postal zones. The following table reveals the location of business premises under the 15 postal zones.

Table I

OWNERSHIP OF BUSINESS PREMISES

(According to new approvals in 1980 - 1982)

Sole Proprietor		Partnership		Companies (Private)		Companies (Public)		Total	
No.	%	No.	%	No.	%	No.	%	No.	%
33	68.8	3	6.2	6	12.5	6	12.5	48	100

Table II

LOCATION OF BUSINESS PREMISES ACCORDING TO POSTAL ZONES

Postal Zones	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
No. of Units	-	3	6	3	-	3	-	6	-	9	9	6	-	3	-	48
Percentage	-	6.2	12.3	6.2	-	6.2	-	12.5	-	18.8	18.8	12.5	-	6.2	-	100

Table III

FLOOR AREAS OF NEW BUSINESS PREMISES IN COLOMBO APPROVED IN 1980-82
(According to Postal Zones)

Postal Zones	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Floor area sq.ft.	-	36000	62880	408969	-	3990	-	12486	-	8730	18380	14400	-	1887	-
No. of Units		3	6	3	-	3	-	6	-	9	9	6	-	3	-
Average floor area of a unit sq.ft.		12000	10480	136323	-	1330	-	2081	-	970	1820	2400	-	629	-

Table IV

NUMBER OF FLOORS IN THE BUSINESS PREMISES IN COLOMBO
(According to the approvals in 1980-82)

No. of Floors	No. of Units	Percentage
1 - 2	36	75.0
3 - 4	09	18.8
5 - 6	-	-
7 +	03	6.2
Total	48	100.0

As far as the concentration of business activity in Colombo is concerned, the postal zones of Colombo 10, 11 and 12 (Maradana, Pettah, and Hulftsdorp respectively) appear to be dominated. Concentration of business in these zones is a result of an evolution that has occurred through a long period of time. According to the sample Colombo 10 and Colombo 11 show an equal concentration and each represents 18.8%. In the location of business premises, Colombo 12 (Hulftsdorp), Colombo 8 (Borella and Narahenpita), and Colombo 3 (Kollupitiya) areas are the next in importance. Hulftsdorp has been a leading area for siting business institutions for some time, while there has been a rapid expansion

of business activities in Borella more recently. According to the information given in Table 2 the area that deserve special mention are Kollupitiya (Colombo 3) and Bambalapitiya (Colombo 4). These two postal zones recorded a high concentration of business premises which is equivalent to the situation at Pettah, Kollupitiya and Bambalapitiya have taken a leading position in recent times and become important zones in the business sphere, mainly because of the establishment of large scale shopping complexes in these areas.

Floor Area and Floors

According to the approvals obtained for construction of business premises there was a large

variation of the floor areas and number of floors in these buildings. The floor areas approved for business premises are given in the table below according to postal zones in the city of Colombo.

Table III shows that, according to the approvals given for building business premises there is a tendency for large buildings to be concentrated along the Galle Road. Bambalapitiya (Colombo 4) has the highest floor area while Kollupitiya (Colombo 3) followed in second place. This was reflected in the average floor area of a unit too. Thus the average floor area of a building unit in Bambalapitiya area is 136,323 sq.ft, while at Kollupitiya it was about 10,480 sq.ft. Pettah, Maradana and Hulftsdorp are the other areas of commercial importance. In other zones the floor area in building units is smaller. Smaller floor areas and large number of units show the congestion in these areas. This also confirms the fact that in the past few years Bambalapitiya and Kollupitiya areas have achieved prominence in regard to large scale shopping complexes and expansion of office accommodation.

The other factor related to floor areas of business premises is the number of floors in each

Table V

DISTRIBUTION OF BUSINESS PREMISES ACCORDING TO THE NUMBER OF FLOORS
(according to the approval in 1980-82)

Postal Zones	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Total
1-2 Floors	-	3	3	-	-	3	-	3	-	6	9	6	-	3	-	36
3-4 "	-	-	3	-	-	-	-	3	-	3	-	-	-	-	-	09
5-6 "	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7+	-	-	-	3	-	-	-	-	-	-	-	-	-	-	-	03
Total	-	3	6	3	-	3	-	6	-	9	9	6	-	3	-	48

Table VI

YEAR OF COMMENCEMENT OF CONSTRUCTION OF BUSINESS PREMISES
(According to the sample in the period 1980-82)

Year	No. of Units	Percentage
1980	09	18.8
1981	15	31.3
1982	18	37.5
1983	03	6.2
Construction not started	03	6.2
Total	48	100.0

building unit. In a city of commercial and administrative importance like Colombo, there is an increasing demand for accommodation. This demand is met by the construction of bigger storied buildings as well as by the lateral expansion of the city.

The Table IV gives an indication of the number of floors in units of business premises.

There appears to be a preponderance of business premises with one or two floors. The number of such premises is 38 or 75% of the total. The number of buildings with 3-4 floors was 18.8 per cent

of the sample. There were no buildings with 5-6 floors, and number of buildings with 7 floors or more was only 6.2 per cent of the total. This shows that the construction of buildings with a small number of floors is the most dominant feature. The main reasons of this situation was the lack of capital.

Distribution of Business Premises according to the Number of Floors

The following table V shows that when distribution of business premises is considered in terms of the number of floors, the traditional business zones, namely, Pettah, Hulftsdorp, and Maradana,

recorded the lowest number of stories in the business premises.

The approval for the greatest number of buildings with 1-2 floors has been obtained in Colombo 11 (Pettah) Colombo 10 (Maradana) and Colombo 12 (Hulftsdorp) which are the traditional business zones in the city of Colombo. According to the sample the approvals obtained indicates that those three zones lead the City in the construction of business premises with a small number of floors. A fact that emerges from an examination of this table is that Colombo 4 (Bambalapitiya) is predominant in the construction of building with a large number of floors. Here too the area adjoining Galle Road shows a great concentration of bigger shops and office buildings.

Construction (Time)

Attention was paid to the time schedule of construction of business premises, (for which permission had been obtained in 1980-82) from the beginning until its completion. When construction began is given in the table below.

The construction of 18.8% of the business premises commenced in 1980 and 31.3% commenced in 1982, while the construction of

37.5% commenced in 1982. It was also found that about 6.2% of the construction work had started within Year 1983. About 6.2% of the construction work had not commenced up to the time of the survey.

Following table VII reveals the time tables of the building constructions, expected to be completed.

It is apparent that the majority of the owners of the units of construction, have taken longer duration than they expected. While 6.2% of the individuals who obtained permission to build business premises expected to complete construction in 1980, 27.1% expected to complete it in 1981 and 31.3% in 1982. In the period considered (1980-1982) their number represented 64.4% of the total. Accordingly the construction of 35.3% of the business premises for which permission had been obtained in 1980-82 were expected to be done in subsequent years namely 20.8% in 1983, 6.2% in 1984 and 8.3% in 1985. This situation in the construction of business premises is largely influenced by the builders' capacity to invest funds for the purpose.

Use of Building

It may be said that the use of business premises takes place in two ways; according to business objectives and according to individuals. The owners of the business premises have intended to use those buildings for various business objectives. The following table shows the objectives of the owners of building premises.

The above table VIII that 43.8% of the business premises were used for retail and whole

Table VII

YEAR THE CONSTRUCTION OF BUSINESS PREMISES IS EXPECTED TO BE COMPLETED

Completion expected in	No. of Units	Percentage
1980	03	6.2
1981	13	27.1
1982	15	31.3
1983	10	20.8
1984	03	6.2
1985	04	8.3
Total	48	99.9

Table VIII

USE OF PREMISES ACCORDING TO BUSINESS OBJECTIVES (New approvals in 1980-82)

Business Objectives	Number	Percentage
Trade (Retail & Wholesale)	21	43.8
Business Office	15	31.2
Business/Industrial	12	25.0
Total	48	100.0

Table IX

USE OF BUILDINGS ACCORDING TO THE USERS

Users	Numbers	Percentage
Owner	36	63.2
Given on rent	21	36.8
Total	57*	100.0

* The number has increased due to the own use and renting out of the same building.

Table X

RENTING OF BUILDINGS (Rent Expected per sq.ft.)

Price	No. of Units	Percentage
Rs. 1 - 4	6	28.6
5 - 10	9	42.8
10+	3	14.3
Price, Not decided	3	14.3
Total	21	100.0

Table XI

ESTIMATED COSTS OF BUSINESS PREMISES

Estimated Costs	No. of Units	Percentage
100,000-1,000,000	24	50.0
1,000,000-2,000,000	12	25.0
2,000,001-3,000,000	03	6.2
3,000,001-4,000,000	Nil	Nil
4,000,001-5,000,000	03	6.2
5,00,000+	03	6.2
Not Reported	03	6.2
Total	48	99.8

Table XII

SOURCE OF FUNDS

Source	No. of Units	Percentage
Own Resources	18	37.5
Loan (Banks)	15	31.3
Loan (Finance company)	-	-
Loan (Other sources)	9	18.8
Rent advance from tenants	3	6.2
Other sources	3	6.2
Total	48	100.0

sale trade. About 31.2% are intended to be used as office premises. While 25% appear to be used for some industrial purpose. An observation that may accordingly be made is that the city of Colombo occupies an average position in regard to concentration of industries as compared to areas like Ratmalana. The other important observation was the tendency for siting of premises used as business offices moving away from the main-business areas to other areas.

However, it is important to note that, whether the premises are used by the owners themselves or they are given out to others on rent. This is a crucial aspect of building business premises in the city of Colombo. Construction of business premises and giving them on rent has become a major means of making profit of those investors, today as shown in the table below.

According to the information given in table IX the individuals and institutions were more interested in establishing their own business activities in those premises. Their percentages is 63.2. This is an important feature of the investment in business premises in Colombo. This means that in order to get a return for their investments the builders of business premises have chosen to establish their own business activities in those premises. It may also be shown that about 36.8% of the builders, intended to give their building on rent in order to obtain a satisfactory return for the investment. This is a direct return to their investments.

Table X shows the quoted rent per square foot, by those 21 individuals and institutions.

According to this table 28.6% of the institutions and individuals who have built industrial premises

intend levying Rs. 1-4 per sq.ft. while 42.8% expect Rs.5-10 and 14.3% expected more than Rs.10/-. About 14.3% had not made up their minds about the rents at the time of investigation.

Estimated Costs

Estimated cost of business premises in Colombo for the construction of which individuals and institutions have obtained permission are given in the following table. The different categories of costs have been classified according to the estimates given by the owners of the premises.

According to this data the majority of owners have tended to invest less than Rs.1 million each in the construction of business premises. They represent about half the business premises, investigated. This feature may be a result of an attempt by a majority of the individuals and institutions (63.2%) who establish business premises, to use for their own purposes and to be within their financial capacity. Those who invest between Rs.1 Mn. and 2 Mn. comprise the second largest group who invest in the construction of business premises in Colombo. They represent 25% of the investors. There are no investments in a range of three to four million. Investments between four and five million represent 6.2% and above five million also represent 6.2%. About 6.2 percent has not reported the cost.

Financing

In the construction of business premises, the individuals and institutions are dependent on outside funds for investment. The following table shows the sources from which funds were expected to be raised.

The table XII shows that great part of the funds invested in the construction of business

premises was supplied by the individuals themselves and the institution, concerned. The amount represents 37.5% of the total. In addition about 31.3% of the funds of those individuals and institutions have obtained from bank borrowings. The participation of the banking sector in the investments on construction of business premises in Colombo is an important factor. Loans from unspecified sources represent 18.8% and funds expected to be raised as rent advances for premises under construction was 6.2%. Funds from un-specified sources represent 6.2%. However,

according to this data, contribution from all sources amounts to 56.3% of the total investment in the construction of business premises. It may be stated that more than half of the funds used in the construction of business premises have been through borrowings.

Growing business environment of Colombo city indicate the today's profitability of business premises which include the repayment of loans with interest in addition to the profit of those investors.