

FEATURES

ACCESSIBILITY OF LAND OWNERSHIP IN AND AROUND COLOMBO

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The rapid upward movement in real estate values both within Colombo and outside has been recorded over the last ten years. Throughout the period 1977-1987 the "Economic Review" has carried assessments of this trend. E.g. (see Economic Review 1986 March P.20 and 1988 June P.9). These assessments recorded the increasing trend in prices of land and properties in the city and its outskirts, and also noted the price fluctuations.

A basic reason for the increase of land and property values is the general economic conditions that prevailed in the country after 1977, particularly the increase of housing and construction activities during this period. Construction activity brought fast and heavy returns, while pressure for building in the city kept pushing up costs. Rising land values pushed the ownership of property beyond the reach of most people, while specific locations in the city were in greater demand than others. These aspects of ownership, accessibility of residential land and the shifting pattern for preferential areas in Colombo and suburbs, according to the household income, are discussed here. Attention is placed on general inflationary effects on households' living conditions, specially in the city and suburbs, and the land value in-

creases which occurred during the period 1977-1987. These two factors are used here for the analysis of land ownership changes and shifting of the preferential areas of people living in Colombo and its suburbs.

Over the ten years after 1977 there were several factors that changed money values significantly. The economy witnessed a fivefold increase in money supply following the introduction of the liberal economic policy, there was a floating of the rupee value against other currencies, various incentives were offered for savings, increased employment opportunities came up in the Middle East; while an expansion of the gem trade and the service sectors and a higher level of business activity were also experienced in this period. These factors appeared to have either directly or indirectly contributed to the rise in land and property values. In terms of income distribution there have been wide disparities between the poor and the rich. For those with capital and access to capital speculation in the above activities benefited a small segment of society. Thus although in recent years the growth rate had shown a general increase still the living standards among poorer sections of the population and vulnerable groups had not moved up proportiona-

Table 1 COLOMBO CONSUMER PRICE INDEX (1952=100)

Year (Annual Averages)	All Items	Food	Clothing	Fuel & Lighting	Rent	Miscellaneous
1977	570.9	203.3	223.8	257.5	109.8	208.4
1978	640.2	237.5	226.2	262.1	109.8	224.8
1979	708.9	263.3	231.2	328.5	109.8	252.4
1980	894.2	339.7	239.9	563.9	109.8	293.8
1981	1054.9	399.6	257.8	767.9	109.8	345.7
1982	1169.1	450.4	273.8	816.4	109.8	377.1
1983	1332.4	506.3	291.1	1087.6	109.8	433.7
1984	1554.1	598.0	307.5	1282.7	109.8	496.9
1985	1577.0	598.4	324.2	1332.1	109.8	524.4
1986	1702.9	641.4	374.5	1347.6	109.8	599.7
1987	1806.4	684.1	399.1	1349.6	109.8	643.7

Source: Department of Census & Statistics and Central Bank of Sri Lanka

Table 11 LAND PRICES IN THE CITY OF COLOMBO AND SUBURBS IN 1978 AND 1987 (PER PERCH OF LAND)

	1978		1987	
	Minimum	Maximum	Minimum	Maximum
Nugegoda	2,500	4,000	10,000	45,000
Nawala	2,000	4,500	12,000	25,000
Ratmalana	1,000	3,500	8,600	30,000
Dehiwala	2,500	4,000	8,600	35,000
Battaramulla	600	2,500	5,000	15,000
Maharagama	1,000	2,800	7,200	30,000
Kiribathgoda	700	2,000	5,000	18,000
Kotte	800	2,000	10,000	30,000
Colombo	8,000	50,000	30,000	300,000

ely. Increases in prices and living costs caused by the depreciation of the local currency and exchange rate and charges in the food subsidy scheme had their effect on income levels and prices of essential food items. The result was that disparities in income levels of the households were widened especially between the urban poor and the rich. Since the focus here is on changing values and purchasing power of city residents the Colombo Consumers Price Index for the period 1977-1987 is used for the purpose of analysing the price inflation.

According to this price index there has been an increase in the All Items index by 216.4 percent, from 1977 to 1987. The price index for food recorded an increase of 226.4 percent and price for clothing increased by 78.3 percent. The most significant increase appeared to be in the price of fuel and lighting amounting to 424.1 percent from 1977 to 1987. The increase of miscellaneous items was 208.8 percent; while most significant was that there was no change in the rental charges. Thus even if the indicators show a high inflationary trend of the consumer items, the absolute changes should be more than this. The index is calculated on the base year 1952 and therefore it is no longer realistic. If the rental charges, specially in the city and suburbs, are considered there is no doubt that charges have gone up very rapidly during the period 1977-1987. The observation has been made that the rental value for a sq. ft. of the residential buildings was minimum Rs.

1.50 in the areas of Colombo outskirts and it was more than double of that amount within the city limits. Around 1978 the rental for residential buildings averaged Rs.9.50 per sq.ft. in Colombo 3, but by 1988 rentals in this same area amounted to Rs.27.50 per sq.ft.. On the other hand the inequalities in income also increased over this period. For instance, according to the Consumers Finance and Socio-Economic Surveys conducted by the Central Bank of Sri Lanka, an increase in income inequalities is observed between 1973 and 1982/83.

According to the Labour Force and Socio Economic Survey of the Department of Census and Statistics this trend of increasing income inequalities continued upto 1986. During this period income inequalities are reported to have increased by 88 per cent. Generally income disparities were higher in urban areas than the other areas of the country; while there was also a widening of the gap between the urban poor and the rich.

Every household in the city and suburbs had to face the general increases in prices of commodities as well as rental charges, land and property values etc. Available data shows that the price increase of land and properties was higher compared to that other commodities. This situation was most noticeable in the city of Colombo and its suburbs. The increases of the land values in the city and outskirts of the city during the ten year period 1978-1988 illustrate this. There is generally

a range between minimum and a maximum prices in respect of the land values in the city, and a survey has revealed that in Colombo Municipality in 1986 the minimum price of a perch of land was Rs.25,000/- while the maximum price reached Rs.250,000/-.

At present land prices in Colombo City have increased by about 20-25 percent of the prices prevailing in 1986. Accordingly the minimum price of a perch of land is around Rs. 30,000/- and the maximum price Rs. 300,000/- in Colombo. Within the City of Colombo there are price differences in the price of land in the central business district (CBD) of Colombo 1,2, 11,12,10, new business areas of Colombo 4 (Bambalapitiya) Colombo 3 (Kollupitiya) and prime residential areas of Cinnamon Gardens and Havelock Town etc. which are higher than that of other areas in the city.

Yet the prices of land in the other areas of Colombo and its suburbs witnessed a considerable increase after 1978. In the year 1979 the highest increase in the minimum price of a perch of land was recorded in Ratmalana which amounted to 150 percent when compared to the previous year. In the Kotte area the increase in minimum price was 100 percent and in maximum price increase was 400 percent which was the highest recorded increase for the entire area over the last ten year period. Land prices in the other areas such as Maharagama, Dehiwala, Nugegoda, Battaramulla and Kiribathgoda also witnessed a considerable increase over this period. (See Table 11).

The above table shows how land values had increased over this ten year period. If both Table 1 and 2 are taken together the inflationary tendencies in all features of economic activity become evident. An attempt is made here to evaluate people's capacity to contend with these increases, their accessibility to land ownership, and the shift from preferential areas to other areas in Colombo and its suburbs. Household incomes during the two periods of 1977 and 1987 is used to assess purchasing power. The data on land values and ownership changes area wise, according to wage earners, is also used in

respect of these two years. The affordability of a block of land in Colombo of an average household is calculated on the following 4 assumptions or parametres:

- (a) the purchase will cover only a 10 perch block of land
- (b) the household already has savings of 25 percent of the total cost of land
- (c) the land is purchased through a bank loan - the monthly repayments will not exceed 40 percent of monthly wages and the minimum rate of interest was 5.5 percent in 1978 and 9 percent in 1987.
- (d) the household can obtain a loan amounting to 75 percent of the total of its three years income.

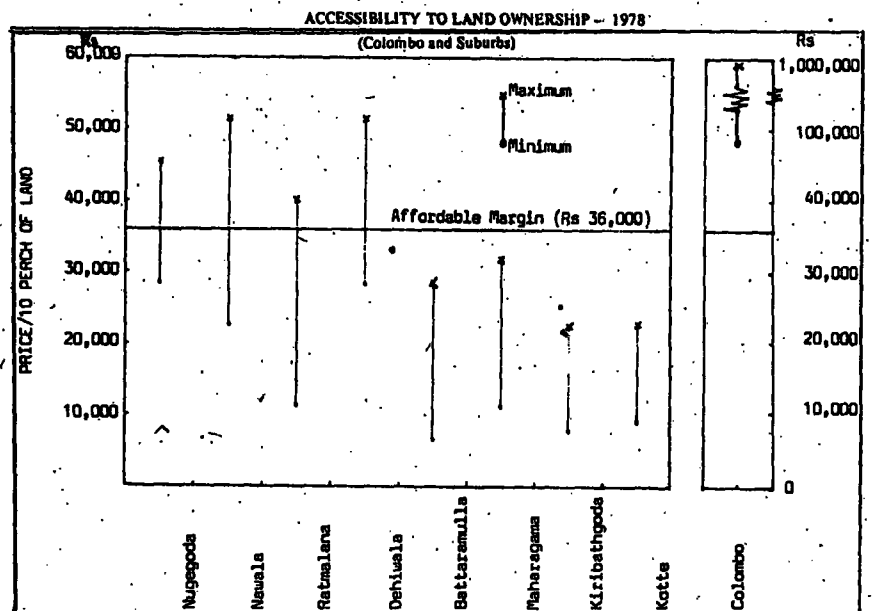
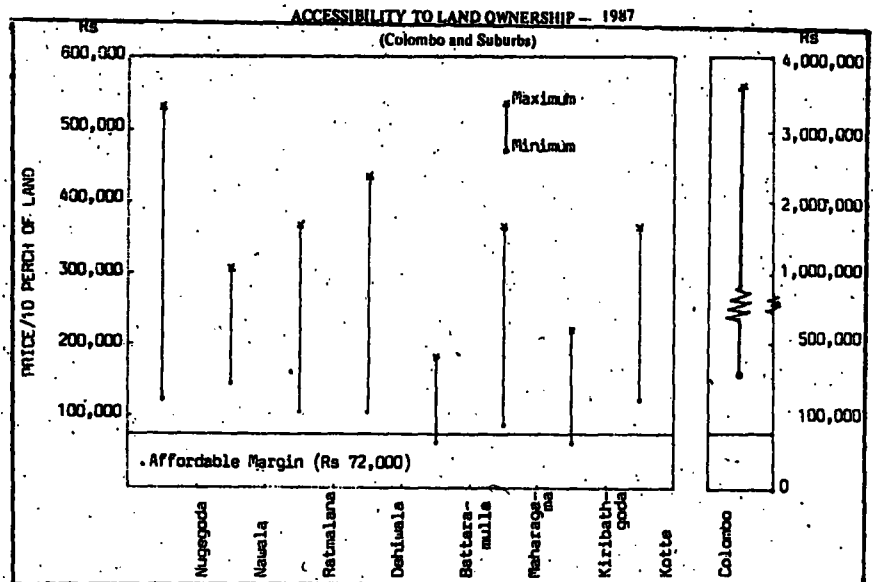
(1) On the basis of the above 4 assumptions, for purchase of a 10 perch block of land, an average household/individual could afford a loan of Rs.36,000/- from income and savings as follows:

-one month minimum salary of an average wage earner in 1978 was	-Rs. 500.00
-one month other income was	-Rs. 500.00
-three years income was	-Rs.36,000.00
-75% of the three years income	-Rs.27,000.00
-and 25% savings	-Rs. 9,000.00
Total	-Rs.36,000.00

(11) On the basis of the above 4 assumptions, for purchase of a 10 perch block of land, an average household/individual could afford a loan of Rs.72,000/- from income and savings as follows:

-one month minimum salary of an average wage earner in 1978 was	-Rs. 1,000.00
-other income was	-Rs. 1,000.00
-three years income was	-Rs. 72,000.00
-75% of the three years income	-Rs. 54,000.00
-and 25% savings	-Rs. 18,000.00
Total	-Rs. 72,000.00

The diagram shows the accessibility of the land ownership or shifting pattern of the land ownership according to household income and the mini-



imum and maximum land values that prevailed in 1978 and 1987 in the city of Colombo and its suburbs. It could be observed that a person who got a minimum wage of Rs.500 in 1978 could have purchased a ten perch block of land in any areas of Colombo's suburbs, except in the city limits, at the minimum price which prevailed in 1978. This person/household could also have purchased a plot of land even at the maximum price in the areas of Battaramulla, Maharagama, Kiribathgoda and Kotte. On the other hand, in

terms of the 1987 minimum-wage this person/household could have purchased a ten perch block of land at the minimum price only in the areas of Battaramulla and Kiribathgoda. Access to a plot of land, even at the minimum price, in the other areas was beyond the persons/households normal means. Taking the maximum price of 1987 he could not have access to any areas in Colombo city and its suburbs. Therefore, such persons/households had to shift from the preferential areas in Colombo to other areas such as Kottawa, Homagama, Kadawate or far beyond.