FEATURES

The Business Premises Market in the City of Colombo – A situational analysis

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The business premises market in Colombo continues to be quite active nearly three years after the initial promotion of urban development policies. While office and stores space supply is in large excess over demand, commercial floor space is in short supply; though business space in Fort appears to be saturated. A disturbing trend, however, is that the utilisation of houses for business premises continues on a substantial scale, thus further aggravating the supply of houses for actual residential use. These are some of the findings in a survey of the Business Premises Market conducted over the last two months by Willie Mendis, Professor of Town and Country Planning at the University of Moratuwa. He also makes specific recommendations regarding the monitoring of the Business Premises situation and a policy for office location together with a ban on the future use of houses for business premises and a time limit to be given to those already occupying residential bungalows to progressively vacate these houses.

Urban Development has received a massive stimulus in Sri Lanka in the past three years. The allocation of public investments in urban activities and the conscious planning of the urban sector has now become an integral part of the process of national development. Thus, of the three lead projects being pursued by the Government, two of them, namely the "Free Trade Zone" and "Urban Renewal and Housing, comprise urban projects. At no previous time has there been such attention focussed on the urban sector.

In the recent past, urban development had been viewed in terms of conventional "town improvement" or an outcome of "physical planning". Consequently, it became a "social overhead sector" associated with the ordering of land uses in towns and cities so as to secure convenience, beauty and design of the landscape. It was only in the mid — 1970's that the demands of the urban sector began to manifest itself in wider dimensions, thereby seeking a greater share of national resources.

The actual transition from "town improvement" to "integrated urban development" took place in September 1978 with the creation of the Urban Development Authority under the Urban Development Authority Law No. 41 of 1978[1] This transfer clearly distinguished "promotional urban development" from "negative development control". Such conceptual features have marked the beginnings of a new era in the development process in Sri Lanka wherein Planners will henceforth be compelled to bond rural with urban, and ensure their complementarities for mutual and national benefit.

Currently, urban development is being severely "tested" by the various phenomena associated with its infancy. Government policies have established very clearly the "most appropriate environment" to promote urban development.[2] Nevertheless these must be matched by the correct responses from the institutional, legislative and professional structures. It is the latter that poses the greatest challenge in urban development. Already resource limitations, infra-structure deficiencies and lack of trained manpower, have compelled the Government to decelerate the initial thrust. Yet the emphasis remains sustained and the overall strategy continues unchanged.

Against the above background, the urban center which has borne the severest stress and straint of the new policies comprise the primate/capital city of Colombo. It's central business district of Fort and Pettah, and the adjacent nodal areas of Colpetty, Slave Island, and Maradana have come under massive pressures of demand for floor space and for land (vide Map 1). The rental and capital values of buildings and land rose to astronomical values. (Vide Table 2) Such factors coupled with the attractive fiscal and other incentives offered through a package of liberal market — oriented policies of the Government has resulted in a "property boom" on a scale never witnessed before in the country. Developers began to construct new premises or improve existing structures or modernise recent buildings — all with the single purpose of "cashing-in" on the boom.

The dynamics of the property boom were reacting so rapidly that both policy makers and developers were unable to respond with corresponding speed in their comprehension of it. Accordingly, the consequences have not been properly anticipated, organised and monitored.

In this situation, an occasional insight into the behavioural pattern of the market becomes most relevant. Hence this Paper has attempted such a situational analysis of the Business Premises Market.

Table 1

ALLOCATION OF PUBLIC INVESTMENT FOR URBAN DEVELOPMENT

Period	1978	1979–1983 *Programme*	1980–1984 *Programme*	1981–1985 *Programme*
Gross Public Investment (Rs. Million) ...	7,127	77,107	67,341	89,579
% Share for "Urban Renewal and Housing Programme ...	10%	10%	13%	10%

Source: *Public Investment* 1979/83, 1980/84 & 1981/85, *Ministry of Finance & Planning, Colombo.*

(1) The UDA Law provides for the promotion of "integrated planning and implementation of economic, social, and physical development of certain areas as may be declared by the Minister to be Urban Development Areas".

(2) Approved urban development projects are offered ten-year tax holidays. Further, massive public investments amounting to several thousand million rupees are being allocated to urban development and associated activities. (Vide Table 1) These are supplemented by liberal import policies.

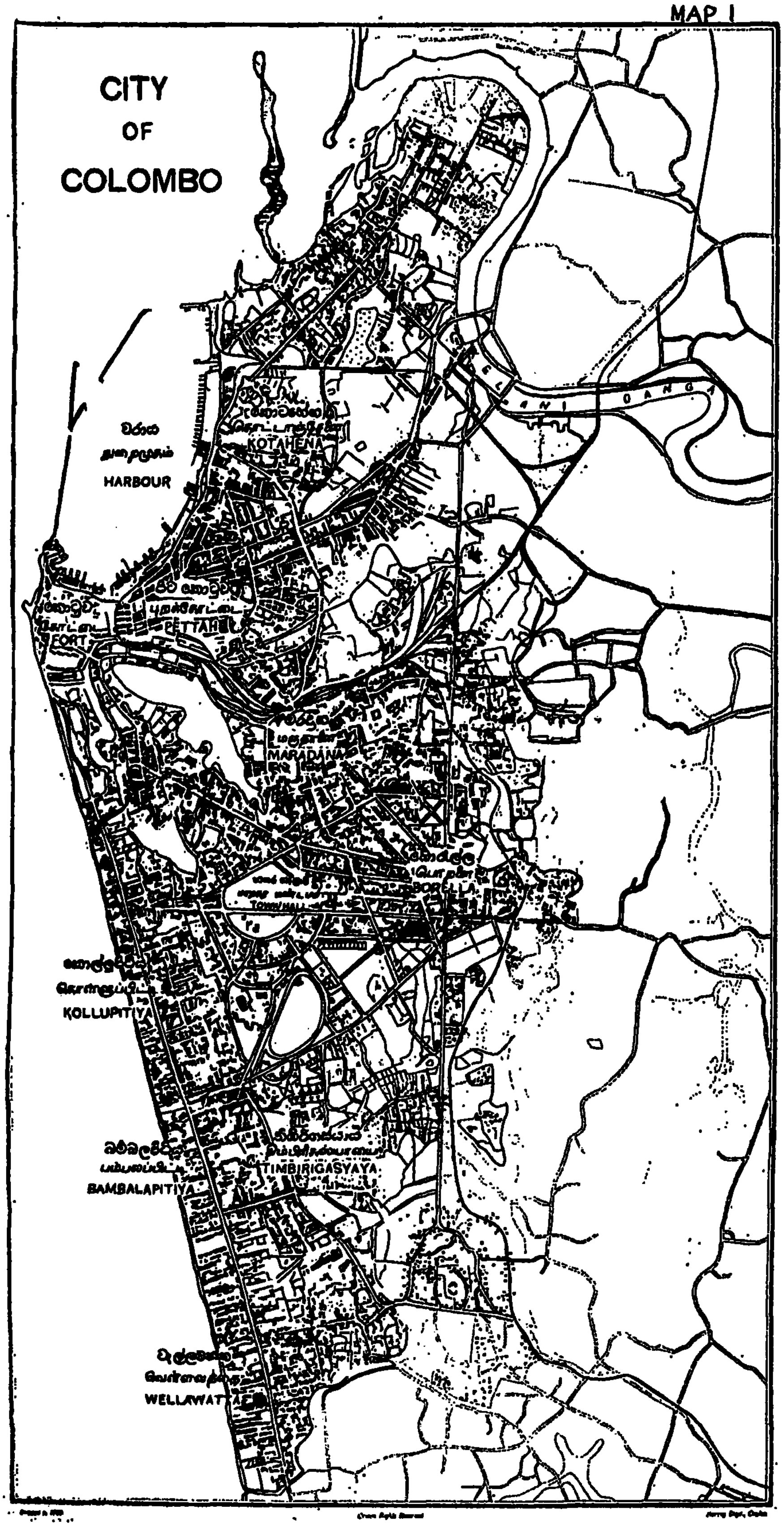
Purpose and Scope of Paper

As mentioned previously, a study of the dynamics of urban development is most timely and opportune after three years of its active promotion. The purpose of this Paper is thus to make a contribution towards the fund of such desired knowledge. It has analysed one aspect of it — namely the prevailig situation in the urban property market.

The Paper has confined its study to Business Premises only, and does not encompass the entire property market. It's average comprises Office, Commercial, and Stores premises in the city of Colombo.

It has examined the demand and supply of the above mentioned categories of premises in terms of floor space. It has not included a corresponding study of rentals and investments.

MAP I



Methodology of Study

The methodology employed in the study has been to examine the public advertisements appearing in daily newspapers in its "Business Premises" and "Real Estate" columns under "Wanted" and "Available" captions.

The newspapers chosen for this study have been the "Daily News", "Sun" "Sunday Observer" and the "Weekend". (These lead the circulation figures amongst the English language newspapers).[3]

The period of study has been 62 days (or approximately two months), from 12 May 1981 to 12 July 1981, both dates inclusive.

The following factors have been taken into account in the study:

(i) repetitive advertisements have been identified and avoided being used again.

(ii) where office cum any other uses were advertised — then only Office use was counted in computation.

(iii) where Houses were advertised as suitable for Office or Commercial premises, then floor area was computed as approximately found according to number of rooms in the house.

(iv) where multiple postal zones in city were requested by Advertiser, only the first mentioned zone has been taken into account.

Analysis of Floor Space "Wanted" and "Available" by category of Business Use

The total number of days on which the daily advertisements were observed comprised 62 days. During this period, advertisements for Business Premises appeared on 51 days.

The overall situation for floor space "wanted" and "available" by category of business use is given in Table 3. It indicates the availability of a very large floor space of Business Premises in the City of Colombo. The Office sector alone had just over 1/3 million square feet available for letting in the two-month period under study.

Table 3 also shows a large surplus of Office and Store space available over wanted. It further indicates that property developers invested more in Office space than in Commercial and Stores space.

The situation by the different months of May, June and July is given in Table 4. It indicates that for Offices, the availability of space when averaged per day, has been over 5000 ft. for each of the

Table 2

CHANGES IN LAND AND RENTAL VALUES IN SELECTED POSTAL ZONES OF COLOMBO

COLOMBO POSTAL ZONE	*PEAK LAND VALUES Rs. '000 per perch* Pre 1978	1979	*RENTAL VALUES* Pre 1978	1979
1	20	150		
2	8	15–50	Offices (Per Sq. ft.)	
3	10	80		
4	6	30	Rs. 0.50/2.00 to Rs.	10/Rs. 40
5	4	20		
6	4	20	Houses (Per month)	
7	10	80		
8	4	25	Rs. 500/2,000 to Rs.	5,000/25,000
9	4	8		
10	5	15		
11	20	150	Commercial (Per Sq. ft.)	
12	20	150		
13	20	150	Rs. 1/Rs.2 to Rs.	10/ Rs. 15.

Source: a. *Chief Government Valuer, quoted in the Ceylon Daily News of* 20 *April* 1979.
b. *"Skyrocketing Land Values", ANCL Research Unit Article in Ceylon Daily News.*
c. *Author's own knowledge.*

Table 3

BUSINESS FLOOR SPACE "WANTED" AND "AVAILABLE" IN THE PERIOD 12 MAY–12 JULY 1981

CATEGORY	*WANTED* (*ft.*2)	*AVAILABLE* (*ft.* 2)	*REMARKS*
OFFICE	59950	353441	Available approx. 6.0 x Wanted
COMMERCIAL (Excl. Hotels but incl. Restaurants)	14400	12250	Available approx. 0.8x Wanted
STORES	5000	84510	Available approx. 17x Wanted

Source: *Ceylon Daily News, Sun, Weekend & Sunday Observer. 12th May-12th July* 1981.

Table 4 BUSINESS FLOOR SPACE "WANTED" AND "AVAILABLE BY MONTH

CATEGORY		*May* 1981 *12th–31st*		*June* 1981 *1st–30th*		*July* 1981 *1st–12th*		*TOTAL STUDY PERIOD*	
OFFICE (ft2)	WANTED	31500		18950		9500		59950	
	AVAILABLE	102910	(5146)	171956	(5731)	78575	(6548)	353441	(5701)
	SURPLUS	71410		153006		69075		293491	
COMMERCIAL	WANTED	8000		6300		100		14400	
(Excl. Hotels but incl. Restaurants)	AVAILABLE	8050	(403)	2200	(73)	2000	(167)	12250	(198)
(ft.2)	SURPLUS	50		-4100		1900		/-2150	
STORES	WANTED	4000		1000		NIL		5000	
(ft2)	AVAILABLE	20400	(1020)	53110	(1770)	11000	(917)	84510	(1363)
	SURPLUS	16400		52110		11000		79510	

Note: Figures in brackets represent floor space availability averaged per day.
Source: *Ceylon Daily News, Sun, Weekend, & Sunday Observer. 12th May–12th July* 1981.

Table 5 LOCATION OF FLOOR SPACE "AVAILABLE" AND "WANTED" BY CITY POSTAL ZONES

COLOMBO POSTAL ZONE	*OFFICE* *Available Sq. ft.*	%	*Wanted Sq. ft.*	%	*COMMERCIAL* *Available Sq. ft.*	%	*Wanted Sq. ft.*	%	*STORES* *Available Sq. ft.*	%	*Wanted Sq. ft.*	%
1	4225	1.9	1300	2.13	Nil	0	Nil	0	Nil	0	Nil	0
2	76900	21.80	11250	18.70	5200	42.45	8000	55.60	4000	4.70	Nil	0
3	61416	17.30	11500	19.20	100	0.86	6300	43.70	Nil	0	Nil	0
4	20400	5.76	Nil	0	1800	14.70	100	0.70	2600	3.08	Nil	0
5	12750	3.61	400	0.67	Nil	0	Nil		27500	32.40	Nil	0
6	8800	2.49	Nil	0	Nil	0	Nil	0	Nil	0	Nil	0
7	27200	7.70	Nil	0	Nil	0	Nil	0	Nil	0	Nil	0
8	17400	4.90	Nil	0	Nil	0	Nil	0	Nil	0	Nil	0
9	Nil	0.00	Nil	0	Nil	0	Nil	0	Nil	0	Nil	0
10	65500	18.60	Nil	0	850	6.94	Nil	0	Nil	0	Nil	0
11	11200	3.17	Nil	;	2000	16.30	Nil	0	400	0.42	Nil	0
12	Nil	0.00	Nil	0	Nil	0	Nil	0	Nil	0	Nil	0
13	19500	5.51	Nil	0	Nil	0	Nil	0	Nil	0	Nil	0
14	14200	4.02	Nil	0	Nil	0	Nil	0	27500	32.40	Nil	0
15	10950	3.10	Nil	0	Nil	0	Nil	0	11650	13.60	Nil	0
Unspecified	3000	0.85	35,500	59.30	2300	18,75	Nil	0	11360	13.40	5000	100.0
Total	353441	100%	59950	100%	12250	100%	14400	100%	84510	100%	5000	100%

Source: *Ceylon Daily News, Sun, Weekend and Sunday Observer. 12th May—12th July*1981

months. It also shows that more Commercial, Stores and Office space have been wanted in May and less so in June and least in July, i.e. a downward trend in space wanted is evident during the study period. This may be due to ready availability of space thereby negating the need to advertise.

Locational Analysis of "Wanted" and "Available" Floor Space by Category of Business Premises

The location of business floor space "available" and "wanted" by postal zone is given in Table 5. It shows that all zones have more business premises available than wanted with the gap for Offices being most in Colombo 2 and 3. However there is also an exception in Colombo 2 and 3 wherein more Commercial space is wanted than available.

Table 5 further shows the development of an expanding Office sector in Colombo 2, 3 and 10. The availability of Office space in Colombo 10 being high owing to the supply in the Maligawatte Secretariat. The availability of Office space in Colombo 4, 6, 7 and 8 indicates an expansion of the Office sector beyond the immediate environs of Fort and Pettah. Further, the availability of a large share of Office space in Colombo 13, 14 and 15 indicates that the Office sector is in fact radiating from Fort in all directions of the city.

It is interesting to note in Table 5 that the availability of Business Premises in Fort is negligible. Nor are they being wanted. This situation is perhaps due to the full occupation and saturation of Business Premises in Fort.

The availability of Commercial floor space by postal zones indicates a concentration in Colombo 2 and 11. The corresponding wanted position reflects demand in Colombo 2, 3 and 4. Thus, like the Office sector, the Commercial sector too is spreading from Fort and Pettah to Colpetty and further southwards.

The availability of Stores space shows a traditional supply in Colombo 14 and 15. There is also large stores space available in Colombo 5. The stores space wanted does not indicate a specific zone. It is therefore reasonable to assume that Stores space is now being found outside the city.

Analysis of Office Floor Space "Wanted" and "Available" by Modular Sizes

It was considered relevant to analyse the modules of Office space "wanted" and "available" in the city. This situation during the study period is shown in Table 6. It is noted from the latter that, for both "available" and for "wanted" the most popular modules comprise the (2001-5000) and (1001-2000) ft. (2) size ranges. This reflects the scale of Office units developing in the city.

Table 6

OFFICE SPACE "AVAILABLE" AND "WANTED" BY MODULAR SIZES

MODULAR SPACE SIZE (Ft.2)	*NUMBER OF ADVERTISEMENTS* "Available"	"Wanted"
1–500	11	04
501–1000	11	03
1001–2000	22	04
2001–5000	29	07
5001–10,000	17	01
10,000+	03	01

Source: *Ceylon Daily News, Sun, Weekend Sunday Observer.* 12th *May to,* 12*th July* 1981.

Analysis of Houses Offered as Business Premises

The advertisements observed during the study period revealed the offer of 32 houses for use as business premises; predominantly for Office use. This shows a continuing trend in the use of residential pemises for other uses, thereby contributing towards an increasing housing shortage in the city.

Policy Implications of the Study Analysis

The analysis of business premises "wanted" and "available" has shown a remarkable degree of activity during the study period. It indicates that the impact of urban development policy has been sustained over the past three years; particularly in the property market.

The response of the supply part of business premises (as measured by "availability") has overtaken demand (as measured by "wanted"). This position may result in a waste of resources and must hence receive the attention of policy makers.

In terms of Office space, the popularity in the supply and demand of small moduler size ranges suggests that small businesses yet dominate the city economy. Hence such a situation must be reflected in investment promotion policy and in the corresponding technical specifications regarding intensity of plot use.

The use of Houses as Offices continue unchecked, thus further aggraving the supply of houses for actual residential use. This situation is neither suitable for the appropriate development of Offices. Hence policy guidelines to remedy this aspect will be most timely.

The radial spread of Office spaces in all directions from Fort suggests the need for an effective "Office Location" policy as an integral component of an overall urban development policy framework.

The situation of the Commercial sector indicates a saturation of building spaces. The inactivity is reflected in the relatively small share of space both "wanted" and "available". This situation is peculiar with an active urban development policy and needs closer attention and policy adjustments.

The Stores space sector in the city appears overserved. Hence policies to guide the conversion of such large floor space to other appropriate uses need to be fostered.

Conclusions

The conclusions arrived at from this study are as follows:

(i) The business premises market in Colombo is quite active nearly three years after the initial promotion of urban development policies. Thus, 1/3 million sq. ft. of Office space, 12,000 sq. ft. of Commercial space and 84,000 sq. ft. of stores space were available for letting in a 2-month period.

(ii) The Office and Stores space supply (as measured by "available" advertisements) is in large excess over demand (as measured by "wanted" advertisements).

(iii) Commercial floor space is in short supply. Further, the magnitudes involved are also relatively small, suggesting saturation levels.

(i) The supply and demand of the locations of business premises have spread radially outwards in all directions from Fort; the greater concentration being in Colombo 2 and in Colombo 3.

(v) The business premises in Fort appear to be saturated.

(vi) The utilisation of houses for business premises continue on a substantial scale.

Recommendations

The recommendations for action comprise the following:

(i) It is recommended that continuous monitoring of supply and demand of different categories of business premises, be carried out to guide investments and also to optimise use of resources (particularly of building materials)

(ii) The formulation of an "Office location policy" as part of an overall urban development policy is recommended.

(iii) It is recommended that a ban on the future use of houses for business premises be imposed and a time limit be given to progressively vacate existing houses. This will encourage the development of an appropriate "Office Pemises Market" in the city.

(iv) It is recommended that the State promotes developers to make available business premises to small businesses in the appropiate space modules.

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