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AN ASSESSMENT OF THE FUTURE DEMAND  
FOR COMMERCIAL FLOOR SPACE IN  
THE C.B.D. OF COLOMBO AND  
AN  
ECONOMIC EVALUATION OF THE  
ECHELON SQUARE PROJECT



A DISSERTATION  
PRESENTED TO  
THE DEPARTMENT OF TOWN AND COUNTRY PLANNING

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IN PARTIAL FULFILMENT OF THE REQUIREMENTS  
FOR THE DEGREE MASTER OF SCIENCE  
IN TOWN AND COUNTRY PLANNING

J.M.L. JAYASEKERA


NOVEMBER 1980.

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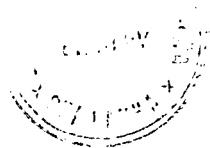
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SYNOPSIS

This study has been undertaken in partial fulfilment of the academic requirement for the M.Sc. (Town and Country Planning) Degree Course. The chosen area of study comprises a specialised aspect of urban development planning which has assumed an increase in importance in Sri Lanka.

The study itself consists of an assessment of future demand for commercial floor space in the Central Business District of Colombo and an economic evaluation



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one of its projects in Echelon Square.

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The study has been undertaken in three Parts.

Part one which comprises three chapters has dealt with the background to the assessment of demand for commercial floor space in the Central Business District of Colombo. In this connection Chapter One has discussed the National Development Perspectives in the context of urban growth. Against this National background, Chapter two has outlined the profile of commercial sector activity in the Colombo Metropolitan Region. Thereafter, the analysis in Chapter Three has made an assessment of the future demand for commercial floor space in the City's Central Business District. The three chapters of Part One have clearly established that a potential demand for commercial floor space in defined categories does exist in the Central Business District.



Part Two of the study has utilised the product of Part One and has made an economic evaluation of the Echelon Square Project in the Central Area Development Programme of the Urban Development Authority. For this purpose Part Two comprises two chapters. Thus in chapter Four, a cost benefit analysis of the private investment in individual building projects in Echelon Square has been discussed to determine their investment feasibility. Thereafter, in Chapter Five a critical analysis of public benefits and costs of these same building projects have been discussed.



Part Three of the study consists of the conclusions and recommendations arising from the overall study.

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The study also includes Appendices and a Bibliography.

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Mrs. G.S. Ratnayake, Statistical Officer, Department of  
Labour

Mrs. S. Kulatunga, Programming Officer, Department of  
Labour

Mr. D.J. Heendeniya, Programming Officer, Department of



University of Moratuwa, Sri Lanka.

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Mr. G.S. Ariyaratna, Programming Officer, Department of  
[www.lib.mrt.ac.lk](http://www.lib.mrt.ac.lk)

Labour

Mr. P.K.Y. Perera, Vidyodaya University

Mr.S.S. Kulatilaka, Programming Officer, Department of  
Labour

Mr. George Kostrisky, U.N. Expert, U.D.A.

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## INTRODUCTION

### Background

The present government which assumed office in 1977 brought about certain fundamental changes in the economic policies of the country which led to a new boom in the service sector of the national economy. The impact of this boom was manifested particularly in the Urban Sector. The fundamental changes in policies consisted of relaxation of foreign exchange regulations, liberalisation of trade and the development of the foreign investment in



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It also granted several incentives in order to generate more local and foreign investment in industries, tourism and generally "Urban Development" itself. New policy changes also encouraged investors to bring foreign consultants building contractors and management services into the country.

Against the background of such policies the government has launched three "lead projects" involving massive construction programmes. These being -

- (1) The accelerated Mahaveli Development Programme
- (2) The Free Trade Zone of the Greater Colombo Economic Commission
- (3) The Urban Development and Housing Programme.

The estimated investment for these projects as given in the medium term public investment programme of the Government

is as follows:-

Accelerated Mahaveli Programme <sup>1</sup>	Rs. 13,000 Millions
Free Trade Zone	Rs. 500 "
Urban Development and Housing	Rs. <u>3,900</u> "
	Rs. <u>17,400 Millions</u> <sup>2</sup>

New economic policies, particularly the liberalisation of trade and relaxation of foreign exchange restrictions gave a tremendous boost to import oriented commercial activities. The open invitation extended to foreign investors, foreign developers, bankers and professional building firms to take an active interest in exploring investment opportunities particularly in urban development activities. All these developments took place within a year or so in a country which since then had a "closed economy". New employment opportunities were created in the newly growing sectors of the economy.

The changes that have taken place in Sri Lanka could be seen in increasing number of business establishments and

- 
1. Public Investment 1980 - 1984 Ministry of Finance and Planning, Colombo - February 1979.
  2. These figures prepared in 1978 will need to be doubled today owing to subsequent oil price rises inflationary trends (30%) and in increase in construction costs (50%).

employment opportunities advertised.<sup>3</sup> Against this background the purchasing power of the people and their level of consumption has also gone up.

3. Table I.

<u>Companies Registered</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980 (first three months)</u>
Private Limited Liability Companies	287	566	768	245
Public Limited Liability Companies	30	48	28	18
Individuals & Partnerships	11,069	13,232	13,088	N.A.
Branch Office of Foreign Companies	-	10	5	3



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Registration of New Companies 1977 - 80

Source: Department of Registrar of Companies.

Note: The activities of the Companies registered fall into the categories of industry, tourism, commerce, hotels, Agri-business, finance, engineering and construction and management services.

Table 2

<u>Year</u>	<u>High Level</u>	<u>Middle Level</u>	<u>Skilled Level</u>	<u>Unskilled Level</u>	<u>Total</u>
1977	1035	3153	3607	1359	9154
1978	1297	5274	6913	2985	16,469
1979	1280	9965	14,074	9636	34,055

No. of Employment Opportunities advertised in the Private Sector

Source : Extract of "Employment Survey in the Private Sector", Article by Dr. W.Weerasooriya, Secretary, Ministry of Implementation in the Sunday Observer of 25 May 1980.

A substantial share of this new growth has taken place in the City of Colombo. This has become visible in several new multi storeyed buildings which are coming up. Some of the major development proposals are still in the planning stage. The Ceylon Chamber of Commerce has indicated that its membership requires an additional floor space of 450,000 square feet in the City.<sup>4</sup> Massive demand for infrastructure and utilities has arisen also as an obvious consequence of this situation. Above all the spiralling land and rental values in the City have been the most significant indicator of this demand.

#### Objectives and Scope of the Study

In order to deal with the direct consequence of demand for building space, the Urban Development Authority of the Ministry of Local Government, Housing and Construction has taken over the task of identifying planning solutions and building programmes leading to achieve investment either by the State or by the private sector.

In the above context the U.D.A.<sup>5</sup> has already identified several projects as lead projects and a central area development

- 
4. A mid 1979 requirement as quoted in the Report by Mr. Frank S. Krisoff - U.N.D.P. Adviser attached to the Urban Development Authority.
  5. The U.D.A. has been established under the Urban Development Authority Law No. 41 of 1978 for "The promotion of integrated Planning & Implementation of Economic, Social and Physical Development of Urban Development Areas".

programme.<sup>6</sup>

In this study it is proposed to examine the economic viability of these projects as against a more realistic assessment of demand for commercial floor space, having taken into account the high inflation rate especially in the construction industry and global economic changes that are taking place.

This study attempts a research on the overall demand for commercial floor space and a cost benefit analysis of one of the U.D.A. Projects which is the Echelon Square Development Project. The Author believes that the analytical method developed for the Echelon Square Project in the second part of this study could well serve to guide other central area projects



that are proposed by the U.D.A.  
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The demand for commercial floor space in the central area of Colombo City necessarily depend on a wider spectrum of factors including global economic changes. The main emphasis would nevertheless be on an extensive in depth study of the national and the city's economies. Third Chapter would examine the existing floor space structure and its possible future growth in the light of facts derived from 1st and 2nd Chapters.

- 
6. "Colombo Central Area Project" - Colombo Master Plan Project, Ministry of Local Government, Housing and Construction - September, 1978.



The second part of this study that will start from Chapter 4 analyses the economic cost benefit of promoted "Echelon Square Development Project".

Figure 1 illustrates the general methodology that was followed in this study.

This Introduction to the study has discussed the background, objections and methodology of the dissertation. The first chapter will now generally review the global economic factors which would have an influence on the local economic situation and demand for commercial floor space in Colombo.



Figure 1

METHODOLOGY OF THE STUDY

