IMPACTS OF HISTORICAL BUILDINGS ON REAL ESTATE DEVELOPMENT IN COLOMBO, SRI LANKA

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Abstract

Historical buildings significantly contribute to a city image and identity. The urban heritage properties all over the world are under several threats. Competing demand for limited land and real estate resources in urban areas is one of the challenges which urge to integrate conservation with real estate development and urban development. Though Sri Lanka is a small country in terms of its geographical area, the country has gained world reputation for rich assemblage of cultural and natural heritage. The City of Colombo - the commercial capital of Sri Lanka is endowed with rich collection of historical buildings which inherited from our colonial ancestors. Colombo records the highest land values in the country and a tremendous competition for locating more profitable uses in the limited land available. Hence conservation of historic buildings has high opportunity cost as there are many opportunities which yielding monetary benefits to be sacrificed for the sake of conservation. Hence this study has been carried out to assess the impacts (either positive or negative) of historical buildings on real estate development through measuring some indicators. As per the results of these measures, the study found that the positive impact of historical buildings on real estate development is not so significant.

Key words: Historical Buildings, Real Estate Development, Conservation, Impact

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Introduction

The built heritage created by past civilization and the natural environment in which people live, requires a special attention due to several reasons. Although they belong to different cultural areas and different historical periods they represent a valuable asset for modern society. They are the physical embodiments of the past history. For example, the remains of ancient cities provide valuable testimony about architecture and concepts of town planning. Such ancient concepts have greatly helped in nurturing the theories of modern town planning and design principles of architecture.

The major cities of the world irrespective of the level of economic development have been facing the pressure of new development and re-development during the last few decades. This accelerated re-development has brought about many threats for the heritage in these cities. Every new development or re-development destroys the vernacular built environment, and socio-economic character of towns and cities.

Historic conservation is the revitalization and maintenance of historical sites, monuments and artifacts and recognition of their importance significance to the people, culture and surroundings. It is based on the value of retaining and restoring instead of destroying and demolishing. Therefore conservation historic buildings and monuments is a shared responsibility of the government and the society.

Colombo- the Colombo Municipal Council Area- which was selected as the case study of this research is the Commercial Capital and the primate city in the country. Colombo City which covers under the Municipality limits of Colombo is in extent of 3729 hectares (37.3 Sq. Km.) of land is the largest among the Municipalities in the country.As per the Census of 2011 the population of Colombo was 555031. As per a report of the World Bank 2012 additionally there are about 400,000–500,000 daily commuters coming to the City for various purposes.

Colombo has a rich assemblage of historic buildings of which most of them are inherited from our colonial rulers. There are about 242 such buildings scattered all over the city which nearly half of them are in Fort and Pettah area which is the Central Business District (CBD) of the city. (City of Colombo Development Plan 1999).

During the last few decades Colombo has been developed as an important urban centre internationally. The rapid growth which accompanied with this development on the influence of open economy policy has significantly contributed to accelerate the urbanization in Colombo. The government of Sri Lanka is anxious to develop the city as the commercial hub in the Asian Region. Accordingly various new projects have been formulated for Colombo. In addition, the private sector plays a key role in development of Colombo. Many housing and commercial building projects are being implemented with the initiatives of the private sector.

Revitalization of heritage building is a key element in developing Colombo to stand with a positive image for branding the city in the arena of global competitiveness and a place for people to live, work and leisure. However it was revealed that the maximum potential use of historic buildings in the context of urban development have not been achieved due to various reasons like legal restrictions, lack of guidance and motivation, high cost of maintenance, impediments in the institutional structure, lack of public participation etc.

It is therefore an imperative requirement to search whether historical buildings are barriers to the development of Colombo especially in the context of real estate development. This study therefore focused to assess the situation of historic buildings in Colombo and analyze the potential impacts- both positive and negative- to the real estate development in the city.

Research Problem

Though many countries have initiated programmes to conserve historical buildings in urban areas, the integration of these buildings with the real estate development is hardly found. On the other hand investors and property developers are on the opinion that historical buildings, monuments and land marks affect negatively on development of historic areas and its surroundings. As a result historic areas are not attractive areas for investments by the privates sector. Further economic return and benefits are not adequate to compensate the high cost involved in historic preservation and conservation. Secondly the potential economic benefits of historic conservation are largely unexplored. This scenario is very much common to Sri Lanka.

The city of Colombo which is the commercial capital of the country receives prominence in this case which records the highest land values in the country and a tremendous competition for locating more profitable uses in the limited land available. Hence conservation of historic buildings has high opportunity cost as there are many opportunities which yielding monetary benefits to be sacrificed for the sake of conservation. Secondly the absence of an effective conservation program especially designed for Colombo further discourages the efforts of property owners.

According to the zoning plan of the city, the Fort area. (a part of the Central Business District-CBD) where this study was conducted has been declared as a concentrated development zone in the Development Plan prepared by the Urban Development Authority (UDA). Generally this zone can have unlimited number of floors in the context of building density in the area. This specification seems somewhat contradictory to the character of existing historic buildings in the area which mostly consist of low rise single or two to three floors. Nevertheless development Guide Plan prepared for Colombo Fort has paid special consideration on the existence of some unique historical buildings of which most are less than three floors with unique colonial architecture. Under these circumstances the potential contribution of historic buildings for development of the Fort area and its impact to the real estate development is worthy to explore and measure.

Objectives

The general objective of this study is to assess the economic impacts of historic buildings on real estate development in the context of urban development in Colombo Fort.

The following objectives have been set out in order to achieve the general objective.

i. To study the conditions of the existing historical buildings in Colombo Fort.

ii. To analyze the economic impacts of historical buildings on real estate development in the framework of urban development in the case study area.

Methodology

Methodology of the research was set out to achieve the objectives of the study. The literature review covers the aspects related to the value of historical buildings, conservation of historical

buildings, listing of historical buildings, real estate development and conservation of historical buildings, measuring the impacts of historical buildings on real estate development and strategies to link historical buildings with real estate development.

Two categories of sample which one consists of historical buildings and another block with non-historical buildings from the case study area (Colombo-Fort) were selected for the study. Secondly stratified random sampling method was used to select the particular historical buildings for detail studies. Based on the findings of the literature review the following economic indicators in the selected sample blocks and their changes during the period of 2000 to 2010 were considered in measuring the economic impacts of historical buildings on real estate development namely, condition of historical buildings. intensity of development, private investments, land and property values, rental values, annual values (municipal assessment rates) were considered.

Questionnaire survey and investigation survey was carried out to collect the data on buildings selected for the detail study of the sample and visual images were also used to support the data obtained from the surveys. Few professionals like town planners, architects, bankers and asset managers and relevant stakeholders like foreign tourists, property owners were also interviewed to obtain relevant data. The collected data on building were analyzed through Mean Comparison Test (paired sample/T Test) by using SPSS computer package. The assessment of land values and property values were made through the Income Approach method and the Direct Comparison Method.

Literature Review

Heritage Properties and Historic Buildings

Historical buildings are built environment which were erected in the past by our ancestors. The historical building encompasses a wide variety of forms including houses, farmstead structures, public and commercial buildings and the landscape surrounding a building. Besides that the contents of buildings like furniture, and equipments are also considered as a part of historical buildings.

The importance of historical buildings in terms of its contribution to the nations culture and history, have been discussed by many scholars. For example, its tangible manifestations of town's

identity and a physical expression of the cultural heritage of the people of the town and efforts of our ancestors to build cities etc are some of the key aspects highlighted by scholars like Ahlfeldt et al. (2012), Sodangi (2013) and Navrud & Ready (2002).

Further Feilden (1994) described the value of historic buildings as follows "…… an historic building is one that gives us a sense of wonder and makes us want to know more about the people and culture that produced it. It has architectural, aesthetic, historic, documentary, archaeological economic, social and even political and spiritual or symbolic values: but the first impact is always emotional, for it is a symbol of our cultural identity and continuity - a part of our heritage. If it has survived the hazards of 100 years of usefulness, it has a good claim to being called historic".

According to the above explanations it is clear that historical buildings are the key elements of cultural heritage. Historical buildings play a distinctive role in representing somewhat unique identity of each and every community. According to the classification of the World heritage Convention, historical buildings are considered as portray of the cultural heritage.

Conservation and Preservation of Historical Buildings

Historical buildings with architectural significance and traditional art are considered for their preservation and conservation. Historic preservation of buildings involves careful management of historic resources, avoidance of waste, maintenance of historical building sites and the recognition of their significance to the people, cultural and surroundings.

The conservation receives in the agenda of sustainable development. As per Randall (1987) standard definition for both conservation and preservation includes the terms such as preventing exploitation, destruction or neglect. Nevertheless the dictionary recognizes a subtle distinction between the two words. Conservation connotations of wise use, whereas one of the shades of meaning offered for preservation is to keep intact. Randall further stated that, economic approach for conservation is compatible with the "wise use" concept. However, conservation and preservation issues pose some special challenges for the economic concept of optimal allocation of resources.

Conservation is based on the value of retaining and restoring rather than demolishing and removing the historical buildings and artifacts. The importance of conservation in the paradigm of environmental sustainability has been strengthened and firmly established through various regulatory measures nationally and internationally. Generally conservation refers to a resource, which is useful to the society. Usefulness has been justified on the basis of assigned value to a particular resource. The urban built heritage as a resource therefore should possess value to become qualified for conservation.

Ashworth, (1997) suggested that in the process of conservation following questions to be considered and answered. What should be conserved? How should it be selected? Where in what quantity and for how?"Hence conservation of built heritage requires considering all these special characteristics and sound judgment based upon the expertise knowledge of different disciplines.

With many challenges affecting the survival of built heritage there is a strong argument and rationale behind the conservation of built heritage in the process of urban development. The negative effects of physical deterioration and obsolescence of historic buildings are being addressed through a series of solutions like repair, renewal, refurbishment and ultimately re-development. (Mansfield (2000).

There are many economic, social and environmental benefits of heritage conservation provided that it must be associated with a sound heritage management plan prepared in coordination with the urban development plan. (Thurley et al 2013, Yeksavich 2001, Ahlfeldt 2012, Navrud & Ready 2002 , Richard 2006, Meng 2007, Bishop 2004, Leichenko 2001 and Rypkema 1994).

Behavior of the Urban Real Estate Market and Conservation of Historical Buildings

Urban land and property market functions against the principles of historic conservation. In the normal market system the functions or use values of properties are measured. Accordingly the function of the real property market is to establish a pattern of prices and rents so that after sufficient real estate resources are allocated based on the price signals as per their most profitable use (highest and best use). This occurs because competition in the market induces owners to switch or change the real property resources to the use, which yields the highest net return. For example, agricultural land is used for housing, a house is divided into flats or changed to offices and in time sites are cleared for re-development. The common phenomena are that the urban land

is used for highest and best use, which defined as that use of land most likely to produce the greatest long- term economic return to the owner. A more precise definition is that "Use of land among the reasonable and alternative use that are physically practical, legally permissible, market supportable and economically feasible, that provides the highest residual land value" (Floyd and Allen 1993).

Bertaud (2005) also confirmed the fact that Market forces continuously re-cycle land in urban areas. He explained that this process readapts cities land use to ever changing economic conditions. Conservation by contrast consists in maintaining the physical aspect of a built environment produced by the culture and economic forces of the past. Hence it is noted that economic base and the market behavior of cities provide many incentives to ignore or neglect the value of conservation of historical properties.

To ensure that a property with a historical value is put to its best use the process must work in such a way that owner is able to capture the full social value of the resource in that use. This can be illustrated by an example. Suppose an individual owns a building of historical value in an urban area where the tourism market is well developed in that part. Based on this potential there are two options available for the owner to develop the property. Develop a resort hotel or devote that building to a museum by retaining its original character and historical elements. The resort hotel will get direct flow of income because of the tourism. The value of the building as a museum may well be much higher than its value as a resort hotel in terms of actual aggregate willingness to pay all the people in the country and the world. But there is no good way for the people to express that value, as there is no ready market as tourism where people can in effect bid against the tourists. Therefore it is noted that though we recognize the validity and importance of conserving that building with a historical value, it cannot very well be captured by a private owner due to the problem that there is no way for the historical values to be made apparent and expressed in a direct way. But the development values are real and immediate. Thus the private owner opted for development in spite of the historical value of the property.

Especially in urban areas where development pressure have led to scarcity of buildable land for different competitive uses. The high land values on the other hand necessitate the intensification of use to obtain the maximum possible economic gain. In the case where lands with historical properties, this pressure for development works against the principles of conservation. As

described earlier the absence of a mechanism which the owner can capture the value of the land and property as a historical asset cum development asset and be able to enjoy the benefits of development similar to other property owners is a crucial issue.

Bertaud (2005) therefore suggested that understanding the spatial pattern of land prices generated by market is important for conservation. He further stated that location of historical centers coincides with the centre of gravity of cities i.e. with the area the most accessible from the rest of the city. Therefore he confirmed that pressure generated by land markets is highest precisely where conservation is needed. However Bertaud looked at some potential benefits of market forces which make conservation possible first by understanding the way market force work and second by using market mechanism to finance conservation. For example he pointed out that the development plans and zoning regulations produced in Cracow in 1994 and Warsaw in 1999 illustrates two different strategies by considering the aspects of market forces.

There are several possible economic impacts of conservation of heritage properties in urban areas. According to Richard (2006) they are in the areas of tourism, property value, taxation, employment and others such as the quality of life. Conservation also contributes to the real estate development. (Meng et al. 2007)

Conservation creates positive impact on property value by providing a form of insurance of future neighborhood quality (Leichenko et al, 2001) In addition to direct effects on property values in an area, there are positive spillover for neighboring areas where by designation of areas as conservation areas leads to ripple effect of rehabilitation and upgrading of properties in the surrounding area. (Rypkema 1994). Heritage conservation has been considered as both community preservation and an economic development strategy. (Bishop 2004).

There are however a number of potential aspects of historic designation that may detract the value of historic properties. As Leichenko et al, (2001) pointed out the designation may impose restrictions or limitations on alterations and demolition. It may also require maintenance of exterior design and other historic façade treatments in addition to the requirements stipulated under the general maintenance code. Furthermore maintenance work of historic properties is often more expensive as it has to follow specific guidelines. Restrictions on conversion to other uses or to a more intensive use on the other hand detract the value. Hence Leichenko et al

confirmed that in such situations the historic designation might not reflect the highest and best use of land.

Results and Discussion

The first specific objective of this study is to study the conditions of the existing historical buildings in Colombo Fort. The analysis on the condition of historical buildings and intensity of development in terms of number of stories of the historical buildings provide an overview on the potential use of historical buildings to achieve the highest and best use of real properties for urban development. The building which were constructed on or before the year 1948 (during the colonial period) were considered in this study. As such there are 76 valuable historical buildings in Colombo-Fort area. The sample of the study included 40 buildings out of this total. Basic information and condition of those buildings were obtained through available documents, visual images and investigation survey conducted in the area.

Table 1: The Relationship between the Number of Floors and the Ownership of Historical Buildings

Number of Floors	Ownership				Total	
	Government		Private			
	No.	%	No.	%	No.	%
01 Floor	03	25.0	02	07.1	05	12.5
02 Floors	03	25.0	12	42.9	15	37.5
03 Floors	02	16.7	03	10.7	05	12.5
04 Floors	03	25.0	04	14.3	07	17.5
05 to 07 Floors	01	08.3	07	25.0	08	20.0
Total	**12**	**100**	**28**	**100**	**40**	**100**

Source: Investigation Survey 2010.

As per the collected data it is noted that about 12% of the buildings are single storied, while 80% of the total are less than 04 stories. Similarly it is noted that most of the government owned historical buildings have less than 04 stories which is about 92% of their stock of building compared to the privately owned buildings which counts only 75% is less than 04 stories. (Pl. refer Table 1) Therefore it is noted that majority of the historical buildings are low rise. The low rise low density is somewhat a typical character in historic areas of all cities. However, according to the zoning plan of the city, the Fort area has been classified as concentrated development zone. Generally this zone as specified by the Urban Development Authority (UDA)

can have unlimited number of floors in the context of building density in the area. This specification seems somewhat contradictory to the character of existing historic buildings in the area

Table 2: The Relationship between the Condition and the Ownership of Historical Buildings

Condition	Ownership				Total	
	Government		Private			
	NO.	%	NO.	%	NO.	%
Good	06	50.0	16	57.1	22	55.0
Partly dilapidated and renovated	05	41.7	07	25.0	12	30.0
Dilapidated and totally renovated	01	08.3	04	14.3	05	12.5
Totally dilapidated and beyond renovation	00	00.0	01	03.6	01	02.5
Total	**12**	**100**	**28**	**100**	**40**	**100**

Source: Investigation Survey 2010.

Table 3: Classification of Historical Buildings based on the Period of Construction

Period of Construction	No.	%
1505 – 1656 (Portuguese Period)	00	00.0
1656 – 1796 (Dutch period)	01	02.5
1796 – 1900 (British period I)	09	22.5
1900 – 1948 (British period II)	30	75.0
Total	**40**	**100**

Source: Department of Archaeology

The appearance of the building, the level of dilapidation, structural damages and level of renovations and repairs were considered in categorizing the buildings as above. It is observed that situation is somewhat satisfactory that more than half of the buildings are in good condition. About 30% of the buildings are partly dilapidated and renovated which shows a sign of careful attention and maintenance. Only a small percentage which is about 2, 5% of the buildings are in very poor condition which even beyond renovations. (Pl. refer Table 2) As per the information from the Department of Archaeology about 75% of the buildings were constructed during the period of 1900 to 1948 which is in the age between 114 to 66 years. (Pl refer Table 3) This may be a reason that the significant number of buildings are in a good condition. Another

contributory factor for the good state of historical buildings is the nature of ownership of buildings. The survey revealed that 70% of historical buildings are either owned by the private individuals or institutions and 30% belongs to the government. (Pl. refer Table 2)

At the time of survey about 95% of the buildings were occupied which is fairly compatible with the overall condition of buildings. About 43% of the buildings were utilized for commercial purposes like shops, pharmacies and groceries, hotels and restaurants and 13% were utilized for banks. So it is noted that majority of the buildings were utilized for profit making ventures.

The second objective of the study is to analyze the economic impacts of historical buildings on real estate development within the framework of urban development. As indicated in the methodology the level of investment in the real estate sector was used as one indicator to measure whether there is an economic impact of historical buildings on real estate development. A comparison was made between two areas which is the historical core and its surrounding area. Table 3 and 4 illustrate the details of private investment made during the study period.

Table 4: Private Investments in the Surrounding of the Historical Core Area.

Project	Construction period	Total Cost (Rs. M.)	D.C.@18 % No. of years	PV of the Total Cost (Rs. M.)	Land Extent (Perches)	Investment/ perch (Rs. M.)
Day and Night Bazaar	2002-2003	5000	07	15927	318	50
Custom Head Office	2008-2011	30000	00	30000	345	87
harmers Granaries Site	2012-2014	25375	02	18224	498	37
Transworks House New Building (proposed)	2012-2014	22100	02	15872	518	31
Mean Investment (Rs.M. per perch)						51.25

Source: Board of Investment- Sri Lanka, Urban Development Authority- Sri Lanka, Ports Authority- Sri Lanka and Colombo Municipal Council.

**Table 5: Private Investments in the Historical Core Area.**

Project	Period of Const.	Total Cost (Rs. M.)	D.C.@18 % No. of years	PV of the Total Cost (Rs. M.)	Land Extent (Perches)	Investment/ perch (Rs. M.)
New Bristol Building 1	2000-2002	800	08	3007	130	23

Commercial Bank Building 1	2000-2002	1200	08	4510	120	38
emas Building	1999-2000	1000	10	5234	120	44
Commercial Bank Building 2	2004-2005	5000	05	11439	255	45
Mean Investment (Rs.M. per perch)						37.5

Source: Board of Investment- Sri Lanka, Urban Development Authority- Sri Lanka, Ports Authority- Sri Lanka and Colombo Municipal Council.

As per the Tables 3, 4 and Figure 1 it is noted that the investment on real estate development by the private sector is considerably low in the historic core area compared to that of its neighboring area in Colombo Fort. The restrictions on demolitions or renovations to the historical buildings creates scarcity in supply of land and buildings for new real estate development which discourages the investments in the real estate sector while affecting the land values either in a positive or negative manner in the area.

Figure 1: Private Investments in Non-historical and Historical Core Area
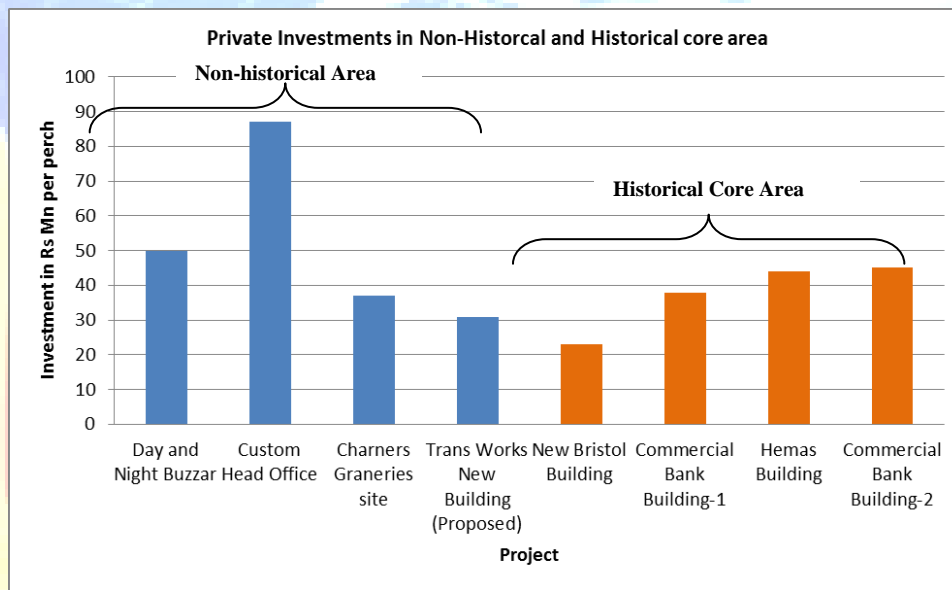
Source: Board of Investment- Sri Lanka, Urban Development Authority- Sri Lanka, Ports Authority- Sri Lanka and Colombo Municipal Council.

Secondly, several other indicators were measured and analyzed to check the impact of historical building on real estate development in the case study area. A comparison was made between the historical core area and its surrounding area in terms of land values, rental values and municipal assessment rates. The literature suggests that appreciation of these values is one indicator depicting the boom of the real estate sector and the active real estate market.

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A suitable statistical test to be selected to find whether there are significant difference in land values, rental values and assessment rates in two areas. Accordingly a test was conducted to check the normality of the data collected on those attributes.

Even though there are multiple ways of assessing the normality of the distribution of scores, to assess the normality for this study the researchers used Kolmogorov-Smirnov statistic (K-S test) and the Shapiro-Wilk statistic test (Malhotra & Dash, 2011). The normality of the data set was assessed using the average values of the attributes that were used to measure a specific variable of interest and the results of the normality test conducted for each attribute is depicted in the Table 6.

Table 6: Tests of Normality

Attribute	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Land value per perch	.175	55	.000	.899	55	.000
Rent per sq.ft. (office use)	.348	55	.000	.716	55	.000
Rent per sq.ft. (commercial use)	.233	55	.000	.817	55	.000
Annual value (municipal asst. rates)	.233	55	.000	.814	55	.000
a. Lilliefors Significance Correction						

In order to assume the normality of data distribution the sig. values of K-S test and the Shapiro-Wilk test should be more than 0.05, so that the assumption of normality can be met (Kothari, 2004). But as per the Table 6 all variables do not score a sig value of more than 0.05, and as a result the assumption of normality for the data set cannot be satisfied. The non-parametric test therefore has been applied to measure those differences.

Hence based on the results of the normality test Independent Sample Mann Whitney U Test has been applied to measure the differences between attributes indicated above.

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Table 7 : Results of Mann Whitney U Test

Attribute	Sig. Value
Land value per perch	.000
Rent per sq.ft. (office use)	.169
Rent per sq.ft. (commercial use)	.003
Annual value (municipal asst. rates)	.145

As per the results of the test it is observed that there is a significant difference between land values and rental values for commercial uses in the historical core area and the non-historical area as the sig. values are less than the significant level of .05 while no significant difference is observed in rental values for office use and annual values (municipal assessment rates).

These differences can be further clarified based on the mean values given for each category as given in the Table 8. It is observed that land values and rental values for commercial uses in the non-historical area are significantly higher than in the historical core area.

Table 8: Mean Values of Land, Rental and Annual Values of Historical and Non-Historical Buildings

Category	Land value per perch (Rs.M.)	Rent per sq.ft. (office use) (Rs.)	Rent per sq.ft. (commercial use (Rs.)	Annual value (municipal asst. rates (Rs.)
Historical Buildings (Mean Value)	3.2135	32.50	35.78	2270.50
Non-historical Buildings (Mean Value)	4.1350	24.05	48.43	1924.70

Conclusions

The general objective of this research is to assess the economic impacts of historic buildings on real estate development in the context of urban development in Colombo Fort. Several indicators were used to measure the impact like condition of buildings, investments, land values, rental values and annual values (municipal assessment rates). A comparison was made between the area with historical buildings and the area with non-historical buildings to conclude whether the

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historical character and other attributes associated with the historical buildings have a negative or positive impact on real estate development in the study area. The study found that the overall physical condition of historical buildings are quite good but majority of them are low rise buildings which is somewhat not favouring for real estate development in the context of economic highest and best use of land and real properties for urban development. Secondly it is noted that the investment on real estate development by the private sector is considerably low in the historic core area compared to that of its neighboring area in Colombo Fort. The active participation and contribution from the private sector is of vital importance to promote urban development. The low investments in the historical area indicate a discouraging factor which affects negatively on the real estate development. The low land and rental values for commercial uses similarly negatively affects the real estate development. The appreciation of land values and rental values is an indicator which shows the progressive development and investment in the real estate sector. Especially the investments in the commercial sector are one of the major driving forces of economic development of a city.

However the study concludes even though the overall economic impact of historical buildings on the real estate sector and the urban development in the case study area shows some discouraging conditions, the value of historical buildings and its potential contribution to the real estate sector and the development of cities to be explored. A sound heritage management plan associated with the urban development plans can overcome the challenge of integrating the historic conservation with urban development.

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