

**PROPERTY STANDARDS ON PROPERTY MANAGEMENT AND
PROPERTY VALUES:
ANALYSIS OF COLOMBO PROPERTY MARKET,
SRI LANKA**

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ABSTRACT

“Property Standards”, “Property Management” and “Property Values” are interrelated and interdependent variables. It is revealed that as there is an increasing shift towards International Valuation Standards (IVS), most of responsible authorities in developed cities have set particular standards for residential properties to ensure safe and healthy living space. Accordingly, provision of standard and valuable properties can be recognized as one of major aims of real estate management in such cities. In Sri Lanka, national and international standards relating to products, commodities, materials, processes & practices are in operation to certain extent. Even though real estate is treated as a product, standards relating to real estate are not adequately available. Further, real estate valuers use some standard only in methods of valuation but not about the quality of properties. Yet, application of accepted property standards is an essential factor for high level satisfaction of property users as well as for the better management of properties. Accordingly this study aims to discuss the importance of application of property standard and impact of property standards on property management and thereby property values. This is done in collaboration with private sector property valuation firms which have experience of conducting valuation and real estate consultancy on a vast range of property types for various purposes. This is an exploratory study for which basically qualitative research approach is adopted. The study considered only residential properties in the city of Colombo-Sri Lanka with special emphasis on social aspects of property standard and the well-being of the users by means of standard properties. Findings of the study helps to understand the need of establishing an acceptable set of standards for properties ensuring higher property values and higher user satisfaction especially in the residential property sector in Colombo - Sri Lanka.

Keywords: Property Management, Property Standards, Property Values, Real Estate Sector, Residential Property

INTRODUCTION

Standards are procedures established by consensus that provide rules, guidelines or characteristics for products, services and systems. It is generally accepted that property standards are essential in ensuring public safety and health as well as the general satisfaction of property users. Through accepted standards, cost of property maintenance will be reduced, quality will be improved (Underwriters Laboratories of Canada (ULC), 2016). Such standards are based on industrial, scientific and consumer experience and are regularly reviewed to ensure that they keep pace with new technologies (Standards Australia Limited, 2016).

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Standard properties as well as valuable properties with high demand are key concerns in the real estate management in catering global property requirement (Ariyawansa & Gunawardhana, 2016). In fact, property standards and property values are interdependent and interrelated variables. It is revealed that as there has been an increasing shift towards International Valuation Standards (IVS), currently, there is a practical requirement to be aware of IVS. Further, most of local authorities in developed cities have set property standards in ensuring safe and healthy housing and other real estate in their cities (Karunaratne, et al., 2015). They have well communicated such standard for interested parties to ensure the provision of their services. Accordingly, provision of standard and valuable properties can be recognized as one of major aims of real estate management.

In Sri Lanka, over 1250 Sri Lankan Standards relating to products, commodities, materials, processes & practices are in operation (Institution Sri Lanka Standard, 2016). However, it is not seen any such national level standard on real estate as a product except some selected standards on some materials. Further planning & building regulations enforced by the Urban Development Authority-Sri Lanka (www.uda.gov.lk, accessed on 20.09.2016) has been applied to a greater extent as a monitoring tool of some aspects of properties (Urban Development Authority, 2016). Because of beliefs and experiences related to real estate appraisals, valuers and accountants use some standard only to regularize the method of valuation but not the quality of properties (Dayarathne & Gunawardhana, 2012).

The Royal Institution of Chartered Surveyors that has been a world recognized real estate professional institute is launching a set of best practice standards to apply to property transactions involving RICS real estate agents and brokers worldwide aiming at integrity among practitioners (RICS, 2016). These international level standards attempt to minimize gaps between national practices, malpractices of property agent and brokers etc. However, as Sri Lanka deals with the RICS in a very minimum way, impact of the RICS on the country's property standard has not been significant do far.

Hence, dealing with global property needs is a new challenge faced by Sri Lanka property market as it is being transformed into middle income economy from low-income status. Particularly, as the country is planning to be an internationally recognized developed nation, country's property market would be a key factor in reach of the target (www.riunit.com, accessed on 20.09.2016). In this connection, catering to the domestic property needs is not the mere role of the property market but to cater to the global property needs. Properties should be prepared so as to offer any one from any region of the world. Application of accepted property standards is an essential phenomenon for the higher satisfaction of property uses as well as for the better management of properties (Ariyawansa, 2015). This research is important as it discusses the significant of application of property standard as well as impact of property standards on property management and subsequently property values. The results of a research done by Noam (1983) show that strict standards raised property values, they furthermore show that the strictness of standards is in turn affected by property values. Also most empirical evidence on property standards and property values finds that property standards increase housing costs by not more than 5 percent (Dehring, 2006). But the expected values increases probably more than that. However, implementation of any standard, rule and regulation is highly depended on attitudes of individuals as well (Gunawardhana & Gunawardana, 2014). Regardless of individuals' decisions, need for accepted property standards should be an agenda item of Sri Lankan property market.

OBJECTIVE

In general, this study aims to examine implications of existing practice of property standards, especially in residential properties in the city of Colombo on property management and property values.

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The rest of this paper is structured as follows. Further to the introduction, the next heading focuses on a brief literature review on the topic. Heading three details the methodology adopted and data requirements for the study. The fourth heading presents the research discussions/findings with conclusions.

BRIEF LITERATURE REVIEW

It is accepted fact that standards are essential in ensuring public safety and confidence (Underwriters Laboratories of Canada (ULC), 2016). There are three levels of standards in the practice: international, regional, and national. National standards can be developed by a national standards body or other accredited bodies. (Standards Australia Limited, 2016). It is applicable for everything under the sun - from sewing pin to skyscrapers. Accordingly standards for properties is highly sensitive as properties are critical elements for the wellbeing of human and other living beings.

International professional institutes such as the RICS and Australian Property Institute (API) etc seem to be keen on the area of real estate management, valuation as they have identified the need to protect the standard of valuation profession. These organizations are mostly addressing the valuation procedures, rules and regulation, methods of valuations, code of conduct and professional ethics etc. Dianne (2009) says that “establishing common and consistent standards for all estate and letting agents is an essential step in the growth of consumer protection in this sector. Author is addressing consumer protection, which relates with more specific aim. For that purpose, as he explains, the Property Standards Board (PSB) created by RICS, ARLA and the NAEA will provide a focal point for the residential property sector to come together for a common purpose. The common purpose that the author emphasized is that establishing and endorsing universal standards in residential property services and enhancing the consumer experience in buying, selling and renting property. Yet it can be argued that this is also not addressing clearly the quality aspects of property.

Among other studies, mostly, it is used to talk about the standards relating to materials only. Even in the Sri Lankan context, this is poorer as it mostly imposed as legal instrument but not a quality related practice (Ariyawansa, 2015). As a whole, available studies or applications on property standards do not address adequately on quality of property and property management issues.

Available guidelines in Sri Lanka related to standards of buildings and land subdivisions are merely to consider whether permission can be granted for the development activities carried out in places that are not in conformity with the planning and building regulations of the Urban Development Authority Act No. 41 in 1978 (Urban Development Authority, 2016). Therefore, in Sri Lankan context, comprehensive studies on “property standards on property management and property values” seem to be a timely important need.

Property Standards on Property Values and Property Management

In the real estate market it is often said that the “location” is a prerequisite for determining the value of a property, based not only on the geographical location but also on the proximity to schools, supermarkets, main roads and other conveniences (Edirimane, 2016). However, it is more rational that the location and proximity to services are external factors to a property itself which are uncontrollable. However, the facilities, amenities are internal and parts of a property and manageable and easily be standardized.

The level of values in the property market is influenced by the economic growth levels political stability and government policy of the country (Premathilaka, 2008). The factors affecting property values in urban areas like Colombo are basically the physical factors external to the property, factors integral to the property, the national and local economic conditions which determine the level of property values. Out of

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these factors, factors integral to the property can be controlled, monitored and even standardized. In this regard, role of local authorities is highly important in a city in order to standardize the properties (Karunarathne, et al., 2015). In fact the individuals' interest in this regards is not adequate; the local authorities neglect the standards of public place and neighborhoods

Buildings can be designed with future uses in mind making it easier for organizations to trade a costly, complex, or obsolete use for a new, more marketable one (Apgar, 2009). As far as such designs are concerned standardized space modules/methods are important to make the space easy to reconfigure when anticipated uses or operating expenses change according to the changing market and consumer patterns. There are cases that companies strive to reduce costs through outsourcing. Sometimes, this results to produce low quality, unstandardized products. However, it is required to maintain workplace health and safety standards, legal requirements, social and cultural norm etc to be met in provision of space (Apgar, 2009). Property standards may answer many of such questions.

In Canada, standards are developed through consensus by balanced committees of stakeholders, and subject to public review, prior to publication (Underwriters Laboratories of Canada (ULC), 2016). However in the implementation stage, benefits of implementing standards are concerned. Specifically, for the real estate sector, benefits are gained in practice management and practice promotion. Practice management covers, for example, better management control improving procedure awareness, improving efficiency, eliminating procedural problems, aiding induction of new staff and improving motivation of all staff. Secondly the promotional benefits such as improved customer service can be seen. For example, ISO 9000 as a practical promotional tool, increasing customer satisfaction and gaining new customers (Buttle & Jayne, 1999). Accordingly in the history of the Sri Lanka real estate industry, Prime Lands is the first company to achieve this ISO certification based on three criteria; Purchase of land, Development of land, and the Sale of land (Prime Residencies (Pvt) Ltd, 2016). Still this may not be an adequate achievement as far as quality aspects of real estate developments and comprehensive property management aspects are concentrated.

Figure 01: Property Standards, Property Management and Property Values



Source: *Compiled by authors (2016)*

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Based on the discussed literature, figure 01 was drawn to demonstrate the interaction among Property Standards, Property Management and Property Values. International and regional Standards would be important guidance for setting national standards.

Colombo Residential Property Market

Over time the demand for land resources changes, brought about by changes in the size, income and tastes of the population, the rate of growth of economic activity, methods of transport, techniques of production and distribution (Premathilaka, 2008).

Colombo is the most active and developed property market in Sri Lanka. Residential properties within Colombo show a steady increase in demand; nevertheless, the suburbs and growing regions, such as Gampaha and Kandy, also indicate rapid growth. Around 76% of Sri Lanka's housing stock is owner-occupied and resides in the western province (Global Property Guid, 2016). Colombo city attracts those seeking a luxury lifestyle, which subsequently causes the highly populated middle-income group to either purchase or rent a home in suburbs, indicating growing need for newer developments in these areas (Lamudi Sri Lanka, 2016). This development will without doubt raise the need of quality and standard related issues.

Demographic and socio-economic factors may seriously reshape the demand pattern of residential properties as the Sri Lankan society is moving from low-income to middle income society. The increased opportunities in the nation have attracted many local and international developers. In 2014, 20.2 percent of the country's GDP was contributed by the construction industry, an increase from 14.4 percent in 2013. Also residential construction has been arisen. Housing approvals in Greater Colombo rose in 2014 by 8.8% to 11,792 units (Global Property Guid, 2016). The investment focus has been predominantly toward the commercial capital of Sri Lanka, Colombo, with luxury residential projects in Rajagiriya, Colombo 3 and 4, as well as hotels opposite Galle Face Green (Lamudi Sri Lanka, 2016). Hence, it is worthier to study the standard aspects of property market along with the growth of the market in order to the probable failure of the market due to low-quality value.

While Colombo attracted high-end investments, residential and commercial real estate prices rose steadily. Though, a certain population of Colombo is capable of such a spending power, the majority from Colombo and daily commuters find increasing prices difficult to manage (Lamudi Sri Lanka, 2016). In addition, opportunities to satisfy the need of residential properties have risen in the suburbs and growing towns of Sri Lanka (Lamudi Sri Lanka, 2016).

METHODOLOGY

Research approach was inductive; an exploratory study for which basically qualitative research method was adopted. The study considered only residential properties in the city of Colombo-Sri Lanka. The study was done with a collaboration of a private sector property valuation firms/valuers, who have experienced of conducting valuation and real estate consultancy on a vast range of property types for various purposes in the country.

In conducting this study as many qualitative researchers do, data was collected from multiple sources; researchers' own experience, magazines and relevant journals, telephone interviews with the valuers and assessors in local authorities, and interviews with the real estate academics in Sri Lanka. However, the most recent discussions regarding the property standards were obtained from local real estate forums and informal discussions.

The methods of data collection are elaborated below. Both of the authors being academics in real estate management and valuation, opinions of industry experts could easily be obtained. A verification of the collected data and facts was done with telephone interviews during September, 2016. Total respondents for the interview were 25 from different sectors who have knowledge about property markets, property management, property standards and property values.

As (Buttle & Jayne, 1999) proposed, the reasons for real estate companies pursuing standardization are: Likely future customer demand, Proof of total quality management, Make operations more efficient, Maintain/improve market share, Increase consistency of operations, Improve service quality, Improve product quality, Good promotional tool, Customer pressure and Cost reduction were used as driving factors for property standards application.

Using the theoretical framework developed for the study (figure 1), analysis of data was presented under the two headings; Reasons for pursuing standards and Expected benefits of property standards, making especial emphasis on social aspects under property standard i.e. the wellbeing of the users by means of standard properties.

Table 01 discussion was based on the theoretical framework developed for the study. Finally the conclusion was drawn.

DISCUSSIONS AND FINDINGS

Based on the available literature and views of municipal assessors, real estate valuers, academics and general public who have different viewpoints on existing practice of property standards in Colombo-Sri Lanka, following summary table was prepared. Among eight (08) reasons for pursuing standards, Good promotional tool and Maintain/improve market share were the top suggested reasons. Cost reduction and customer pressure are not considered as key pursuing factors on property standardization. Property sellers, developers try to maximize bottom line while property buyers try to maximize their utilities. This is a major drawback of price mechanism which discourages the standardization process of property irrespective of use. For this, government intervention would be required to minimize failures of the price mechanism in terms of regularizing the property market, market activities and products.

Table 01: Reasons for pursuing standard and expected benefits of property standards.

Reasons for pursuing standards	1. Good promotional tool	Expected benefits of property standards.	1. Using as a promotional tool
	2. Maintain/improve market share		2. Gaining new customers
	3. Make operations more efficient		3. Improving efficiency
	4. Increase consistency of operations		4. Improving staff motivation
	5. Improve product/ service quality		5. Better management control
	6. Proof of total quality management		6. Improving customer service
	7. Customer pressure		7. Increasing customer satisfaction
	8. Cost reduction		

Source: *Compiled by authors (2016)*

On the other hand, using as a promotional tool and gaining new customers are the expected benefits of property standards. As in the pursuing factors, expected benefits also force property market to neglect the importance of standardized properties. This will lead cities towards an unplanned, low-quality dead markets.

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Considering all viewpoints of interviewees in this study, it is confirmed that set of property standards is an immediate requirement for the country. It is accepted that Standards are essential in ensuring public safety and confidence. Such standards need to be based on industrial, scientific and consumer experience and be reviewed regularly to ensure they keep pace with new technologies. Also it is worth to understand that in the long run, standard properties tend to reduce costs, improve quality and maximize the value.

As far as the real properties are concerned, local authorities are the authorized entities which sanction laws or by-laws with respect to the prescribing standards for the maintenance and occupancy of property, and requiring property that does not conform with the standards to be repaired and maintained with the standards on the site to be cleared of all buildings, structures, debris or refuse and left in graded and levelled condition etc. Finally, Property Standards will facilitate to proper Property Management and act as a catalyst to boost Property Values.

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