COMPARATIVE ANALYSIS OF OFFICE RENT DETERMINANTS IN NUGEGODA AND BATTARAMULLA URBAN AREAS IN COLOMBO

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As office properties share a considerable portion of the land use in an urban area, it comes frequently for property valuation purposes. The available literature discusses the importance of identifying the significant variables that effect on the rental value. Literature discusses the use of econometric models to determine the rent determinants and frequently been used the size, age, number of floors, condition, building amenities, and distance to town center as determinants.

Office properties contribute a significant role to National Economy of Sri Lanka through the service sector in the country. The share of the service sector in GDP lies between 50% -60% on average. The current method applied in valuing the office properties in Sri Lanka, has been subject to criticisms as it accompanied a lot of personal judgments. This paper focuses on analyzing the significant determinants of office rent with special reference to Nugegoda and Battaramulla selected as two attractive town areas for office development. The study uses data, collected both from the Govt. Valuation Department and through a field survey on 262 and 177 office units selected using the systematic random method. The size, age, number of floors, vertical location, quality of construction, type of building, condition, building amenities, locality and distance to town center have been used as predictor variables and an econometric model was applied to analyze the data. It was identified that the majority of the office properties in both locations are less than thousand square feet and compared to Battaramulla town, the Nugegoda town has more office properties above four thousand square feet.

The estimated results reveals that the floor area of the building (0.74 and 0.75 in both locations) is statistically significant and has a positive effect on the rental value. The location as well as the type of the building is also statistically significant. These are the strongest predictors among the significant variables to determine the rental value, irrespective of the different geographical areas. The rent model explains 83.6% of the variation in rent in Nugegoda area while in Battaramulla it explains 73.5% of rent variation suggesting further that use of a model with predetermined variables is an approximate guideline to value an office in a primary location.

Keywords: Property Valuation, Office property, Rent Determinants, Urban area, Sri Lanka