

# Socio-Economic Insight of the Secondary Housing Market in Colombo Suburbs: Seller's Point of Views

R. G. Ariyawansa, M. A. N. R. M. Perera

**Abstract**—“House” is a powerful symbol of socio-economic background of individuals and families. In fact, housing provides all types of needs/wants from basic needs to self-actualization needs. This phenomenon can be realized only having analyzed hidden motives of buyers and sellers of the housing market. Hence, the aim of this study is to examine the socio-economic insight of the secondary housing market in Colombo suburbs. This broader aim was achieved via analyzing the general pattern of the secondary housing market, identifying socio-economic motives of sellers of the secondary housing market, and reviewing sellers' experience of buyer behavior. A purposive sample of 50 sellers from popular residential areas in Colombo such as Maharagama, Kottawa, Piliyandala, Punnipitiya, and Nugegoda was used to collect primary data instead of relevant secondary data from published and unpublished reports. The sample was limited to selling price ranging from Rs15 million to Rs25 million, which apparently falls into middle and upper-middle income houses in the context. Participatory observation and semi-structured interviews were adopted as key data collection tools. Data were descriptively analyzed. This study found that the market is mainly handled by informal agents who are unqualified and unorganized. People such as taxi/tree-wheel drivers, boutique venders, security personals etc. are engaged in housing brokerage as a part time career. Few fulltime and formally organized agents were found but they were also not professionally qualified. As far as housing quality is concerned, it was observed that 90% of houses was poorly maintained and illegally modified. They are situated in poorly maintained neighborhoods as well. Among the observed houses, 2% was moderately maintained and 8% was well maintained and modified. Major socio-economic motives of sellers were “migrating foreign countries for education and employment” (80% and 10% respectively), “family problems” (4%), and “social status” (3%). Other motives were “health” and “environmental/neighborhood problems” (3%). This study further noted that the secondary middle income housing market in the area directly related with the migrants who motivated for education in foreign countries, mainly Australia, UK and USA. As per the literature, families motivated for education tend to migrate Colombo suburbs from remote areas of the country. They are seeking temporary accommodation in lower middle income housing. However, the secondary middle income housing market relates with the migration from Colombo to major global cities. Therefore, final transaction price of this market may depend on migration related dates such as university deadlines, visa and other agreements. Hence, it creates a buyers' market lowering the selling price. Also it was revealed that the buyers tend to trust more on this market as far as the quality of construction of houses is concerned than brand new houses

Prof R G Ariyawansa is attached with the University of Sri Jayawardenepura, Sri Lanka. Currently he is a Professor in Real Estate Management, Department of Estate Management and Valuation, Faculty of Management Studies and Commerce. (phone 094-11 2803078, 094 718190712; e-mail: ariyaw71@sjp.ac.lk)

Dr. M A N R M Perera is attached with the University of Sri Jayawardenepura, Sri Lanka. Currently she is a Senior Lecturer in Sociology, Department of Sociology and Anthropology, Faculty of Humanities and Social Sciences. (phone: 094 713096584, e-mail: rasanjalee@sjp.ac.lk)

which are built for selling purpose.

**Keywords**—Informal housing market, hidden motives of buyers and sellers, secondary housing market, socio-economic insight.

## I. INTRODUCTION

“HOUSE” is an inexpressible phenomenon as far as its role and nature is concerned. It is so powerful as it provides everything expected by individuals and families. That is why housing (shelter) is recognized as a basic need. Three basic elements of a house such as the floor, walls and the roof literally ensure the survival of the dwellers providing physical and non-physical means. Hence, it can be considered as a symbol of socio-economic background of individuals and families. Further, it can be argued that house is providing all types of needs/wants from basic needs to self-actualization needs as described in Maslow's Need Hierarchy [13]. Thus, in order to understand the real picture of the house, it is essential to analyze hidden motives of buyers and sellers of the housing market rather than a surface analysis based on physical and financial attributes. In this regard, some scholars [15] argued that the attitude has more positive effects on the intention to purchase a house than some crucial property factors such as the location, living space, public service, and reference groups such as friends Influence. This is true that the attitude may be the governing factor in house purchase as the “house” is the place of most attached to individuals and families. That is why some are referring house as an elusive matter [5].

A study done in Bangladesh noted that there is a strong relationship between buying intention and buying attitude of the customers [3]. A group of researchers [6] also confirmed that the attitude of the buyer is more powerful in buying a house as per the study of housing market in Dhaka city, Bangladesh. In this regard, some Sri Lankan researchers [7] state that the selling of a house is largely dependent on the customers' perception. Accordingly, it can be argued that the way that a person thinks, his perception and attitude determine the socio-economic insights of the housing purchase behavior. Hence, this study attempted to examine the socio-economic “insight” of the secondary housing market in Colombo suburbs as the general objective.

This study addressed three specific objectives. Firstly the researchers analyzed the general pattern of the secondary housing market in the city of Colombo based on the secondary data. However, in this paper, outcome of this analysis of secondary market was not presented fully. Secondly, the socio-economic motives of sellers of the secondary housing market were identified. And thirdly, it was reviewed the

sellers' experience on buyer behavior.

## II. METHODOLOGY

This study was conducted to examine the socio-economic insight of the secondary housing market in selected areas of Colombo suburbs. As the housing is highly complex phenomenon, it is important to evaluate socio-economic motivations behind the market operations; buying and selling.

This study addressed a problem related with the secondary housing market in Colombo, which is highly unorganized and informal [1], [8]. Hence, the research population is inevitably an unknown population. Accordingly, for the purpose of primary data collection, purposive sampling method was adopted to select 50 sellers from few popular residential areas in Colombo such as Maharagama, Kottawa, Piliyandala, Punnipitiya, and Nugegoda. These areas are preferable residential areas in Colombo suburbs. As they are located nearby, it can be argued that deviation of sellers' and buyers' motives and other factors are insignificant. Necessary secondary data were collected from published and unpublished reports. However, this paper does not include facts based on secondary data. In order to maintain the uniqueness of the data and information, sample was selected only from the middle income houses. This was decided based on selling price. The adopted selling price range was from Rs15 million to Rs25 million.

The researchers conducted the study adopting participatory observation and semi structured interviews mainly. Therefore, researchers acted as potential housing buyers and attempted to study available houses in the market with the view to buy a suitable house. Firstly, house selling advertisements on public newspapers and websites were analyzed and identified suitable houses based on some criteria such as the 'price range as Rs15 million to Rs25 million', 'close proximity to the Maharagama urban area', 'two storied', '12-20 purchase of land', 'less than 10 years of age', '20 feet width access road', 'suitable for a upper middle income family'. Then having a brief discussion over the telephone with the owner or broker, appointments were fixed. Then physical observations and detailed discussions with owners of the houses were done.

## III. SECONDARY HOUSING MARKET IN COLOMBO

In Colombo, the primary housing market is active for luxury and super luxury houses and there the condominium sector is rapidly emerging sector for semi-luxury, luxury and super-luxury houses [13]. However, for the middle income and low-income houses, primary market is inactive and instead all families are building their houses by themselves. Market operation of ready-made houses for middle income is not significant at present [11].

Secondary market for middle income housing market is so significant compared with the primary houses market. However, Colombo property market has lots of potentials in area of housing particularly suburban areas including the localities covered by this research [11].

## IV. GENERAL DEMOGRAPHIC FACTORS OF THE SAMPLE

This study gave major concerns on only three demographic factors: "sex", "age" and "education". Table I details the general pattern of the factors among the sample.

TABLE I  
 BASIC DEMOGRAPHIC FACTORS OF THE SAMPLE

Factor	Count	%
<b>Sex:</b>	4	8
Male	46	92
Female		
<b>Age: 25 &gt;</b>	2	8
25 – 45	36	72
45 – 65	8	16
65 <	4	8
<b>Education</b>	18	36
School only	22	44
Higher		
Non Formal	10	20

Table I including some basic demographic was developed based on the factors of key interviewed person who engaged actively and being motivated to perform the selling including brokers. Accordingly, it is crystal clear that the vast majority of male, 92%, of the sample was the key motivator of selling of houses in the secondary market. However, as per the researchers' experience and sellers' views in Sri Lankan secondary housing market, female influence is very high in purchasing a house even though it is not similar when selling a house.

As far as the age is concerned, 2 brokers who are below 25 years old were interviewed. They simply started brokerage as a part-time job. Their housing knowledge is very primary level and responsibilities taken were insignificant since their primary motivation of the career is earning profit (money minded). Among the category of people who are "above 65 years old", it was found only 2 brokers and 2 parents from the examined sample. Herewith, the significant category is those who are in 25-45 years old, within which, it can be expected young children and parents in families. However, the key motivated persons in such selling are not the parent but the young children. These children are motivating their parents to collect funding for their dreams of education in foreign countries. That's why count of this age category is very high in this survey.

Among the other age group, 45-65 years, some are planning to sell their properties and migrate. This phenomenon is further elaborated in Table III and its description.

## V. GENERAL QUALITY OF HOUSES IN THE SECONDARY MARKET

In this study, it was also examined the level of general quality of houses which are advertised for selling in the open market. As the houses are ready to sell, it is assumed that the existing quality is the maximum level of quality maintained/demonstrated by the owners. The general quality was evaluated by means of four aspects: "maintenance" (daily cleaning and frequent color wash), "legal approval obtained for modifications", "landscape quality" within the premise,

and general “neighbourhood quality” around the vicinity of premises. Table II summarizes the observed facts of 50 houses.

TABLE II  
LEVEL OF QUALITY OF HOUSES

Factor	Count	%
<b>Maintenance</b>		
Well	04	08
Moderately	01	02
Poorly	45	90
<b>Legal Approval</b>		
Illegal modifications	48	96
No modification	02	04
<b>Landscape Quality</b>		
Well planned/maintained	06	12
Moderately P/M	12	24
Poorly P/M	32	64
<b>Neighbourhood Quality</b>		
Well planned/Maintained	10	20
Moderately P/M	28	56
Poorly P/M	12	24

Researchers observed both inside and outside of all property as potential buyers. Level of maintenance was evaluated as “well-maintained”, “moderately maintained”, and “poorly maintained” based on the researchers’ knowledge and practical experience. Only five houses were identified as moderately and well maintained premises. 45 i.e. 90% of observed houses were poorly maintained premises. Such houses were not timely color washed and daily cleaning was not done. Corroded iron frames, broken gutters and down pipes, unmaintained rain water drains, wall cracks and patches on plasters and floors, damaged tiles etc. were most common features in poorly maintained premises. “Dirty pantry cupboards and kitchen” is also common in such places. Also unhygienic wash rooms (toilet and bathrooms), “leaking plumbing system” were common in such houses. Based on observation and discussion with households, it was predicted that “poor workmanship of construction” and “quality of material and equipment used” as well as “poor knowledge of household about the general maintenance” of premises were main reasons behind the poorly maintained conditions of those houses.

As these houses were located in urban areas, it was identified that all the observed houses were initially constructed with legal approvals. Necessary plans were approved and needed local authority certificates were obtained. However, it was observed and found that 48 houses, i.e. 96%, have been altered without having approval for the alteration. Identified commonly appeared alterations are “constructing parapet walls around land plots”, “adding rooms”, “adding bathrooms”, “adding cooking places with firewood”, “adding another housing units as annexures for renting purpose”, “reshaping the roof”, “erecting temporary huts with lean roof attached to the permanent buildings” etc. The potential impacts noted due to the unplanned and illegal alterations can be direct and indirect. Direct impacts observed are that reducing the beauty of original architectural design,

inadequate ventilation and lights, reducing the beauty of outside landscape and neighbourhood quality.

Landscape quality is another observed/evaluated phenomenon as “well-planned/maintained”, “moderately planned/maintained”, and “poorly planned/maintained”. Similarly the internal house maintenance, outside landscape quality of majority of houses was poor. According to the researchers’ observation, landscape of 32 houses was poorly planned and maintained.

Under the “neighbourhood quality”, it was observed and evaluated the quality of immediate vicinity of houses as “well-planned/maintained”, “moderately planned/maintained”, and “poorly planned/maintained”. For this case, the responsibility is rest with both households and the local authorities. Therefore, the existing situation is better than the inside quality aspects. Yet, the well-planned neighbourhoods were seen only around 10 observed houses and 10 houses were located in poorly maintained neighbourhoods.

## VI. KEY MOTIVE FOR SELLING THE HOUSE

This study particularly inquired the key motivated factor for selling houses. Table III summarizes the significant factors behind the house owners’ motivation to sell their houses.

TABLE III  
KEY MOTIVES FOR SELLING HOUSES

Factor	Count	%
<b>Key Motives</b>		
Migrating for Education	40	80
Migrating for employment	05	10
Family problems	02	04
Social Status/health/other	03	06

As per the interviews conducted with the housing sellers in the secondary housing market, it was identified that the “migration of their children for education” is a key motivated factor behind the selling of many houses. As shown in Table III, the sample consists of 40 respondents of such motivated parents. Further, some sellers’ i.e. five sellers’ motive was to migrate for employment purpose. This phenomenon can be related with the observation made by a social scientist [9] who described that Sri Lankan middle income families have higher priority for the educational goals of their children. Parents tend to decide even to sell their houses as the cost of education is very high since their children’s preference to find places in countries such as Australia, UK and USA.

As per the literature [9] and discussion held with the sellers, families that motivated for education tends to migrate Colombo suburbs from remote areas of the country. Such families are seeking temporary accommodation in lower middle income housing initially. Some of them stay in Colombo permanently while some are returning to original places after children’s education. This situation is different in middle income housing market. Sellers’ motive, as middle income housing owners, relates with migration from Colombo to major global cities. Therefore, final transaction price of this market is determined considering the migration plan of the

children or person for the particular purpose. In other words, migration plan is a major price deterrent factor in the secondary middle income housing market in Colombo. The migration plans include dates of university admissions, visa process and conditions, cost of courses and other expenditures etc. Accordingly, the study noted that the buyers in this market enjoy more bargaining power and able to reduce the price as well in case of urgent migrants. Contrary, in case of unurgent migrants, buyers are unable to bargain and selling time is very long. This situation of the secondary housing market generates very pathetic social issues as well. Some of house selling parents stated that *"it is somehow needed to cover the cost of universities of the son"*, *"we will find a rental house after selling our house"*, *we will find a small house later"*. This way, it is clear that the parents are motivated to sell their houses without real will. So they are disappointed due the motive of selling their houses.

Another particular observation noted from the sellers' point of view about the buyers' views is an important insight. Interviewed sellers stated that the potential buyers prefer to the secondary market, particularly for houses to be sold by families for migrating purposes than brand new houses in the primary market. They opened their views further and revealed the reason for that as the buyers' concern about the quality of construction of brand new houses in the primary market is not positive. Instead the buyers tend to guess that the housing owners in the secondary houses maintain a quality life and accordingly they have constructed houses under their supervision for their private living. This means that the buyers believe that families migrated having sold their houses, which are built for their living and therefore quality of such houses is high. In other words, this implies another severe situation about the quality of houses in the primary market.

#### VII. CHARACTERISTICS OF AGENTS/BROKERS

It was noted that brokers engage in both primary and secondary house market in an unorganized way. Out of interviewed people, four were brokers. Full time brokers are also engaged informally. Majority are part time brokers. Their general education level is low and none are professionally qualified. The brokers' background is further elaborated under the selling strategies as described below.

#### VIII. SELLING STRATEGIES

According to the sample survey, it was noticed that selling advertisements of houses are published in property websites and/or week-end public newspapers. Some of house owners have requested brokers not to involve with them. All of such owners have two opinions. One is that they do not like/need to pay a broker fee which is a huge amount (3%) for them. Other opinion is critical one that relates with the trust of the brokerage sector. Some of house owners' views are that brokers are "not trustworthy", they are "trouble makers", they try to "keep additional amount of money in their hand", and "they do unnecessary interference". In fact, even the secondary market is not producing quality houses as the

primary market produces (in luxury houses market) do, price levels are set as per the price set in the primary market.

In countries like Singapore and Malaysia, secondary (resale) market, house prices react positively and significantly to new supply [4]. This means that the secondary market can follow the action of the primary market and vice versa. However, this is not similar to the Colombo secondary housing market as both primary and secondary housing markets are not so similar to such countries. Yet, the secondary housing market is severely affected by primary and secondary land markets in Colombo. The price formation of secondary housing market is affected adversely by the land market prices in many countries where market mechanism has problems [9], [10]. In this study on Colombo secondary market, sellers pointed out the "higher land price" as the key factor for the higher price for their houses even though such houses are in very low in quality and old.

Other important aspect to be noted that the sellers and brokers of the secondary housing market in Colombo are emphasizing the fact that the "purchasing of a house is an investment". In this way, potential buyers tend to invest their money on purchasing houses even at a higher price in secondary housing market. This insight fact is very powerful as it is evident that the sellers of the secondary market is not serious about the present situation of the houses in terms of the quality, maintenance etc. A team of researchers [2] also identified this phenomenon in their study and stated that rising prices can lead to further demand increases as housing is a consumer as well as an investment good. This investment motive is seen in housing market when the financial facilities are sufficiently available. A study done in Poland based on primary and secondary housing market during a decade period identified that the most likely buyers on the secondary market are first-time buyers with little own capital, use large mortgage [12]. The same situation is noted in this particular study in Colombo that all the sellers and brokers revealed that buyers are capable to pay less than Rs 5 million in cash and the balance to be covered by mortgage loans. In fact, this sample covers the price range between Rs 15 million and Rs 25 million. That means everyone is seeking mortgage finance for the transaction. The buyers expect higher capital value than amount of the loan settlement.

#### IX. CONCLUSION

This study examined socio-economic insight of the secondary housing market in selected areas of Colombo suburbs. Purposive sample of 50 house owners (and some brokers), who are motivated to sell their owned houses were interviewed and such houses were observed for the data collections.

Low quality of available houses in the market and some hidden socio-economic insights in connection with the selling of houses were revealed. Accordingly, it was found that middle income families tend to sell their houses with the view to collect funds for their children's education in foreign countries. Due to this critical financial strategy for educational goals, some parents have to face a lot of difficulties as well.

They are going to lose their freehold properties that they developed with many difficulties during their life; some parents will have to live in rental houses or small places after selling their owned houses. Consequently, their economic status and social life will be pathetic along with this selling decision. However, due this social insight of the selling of houses, buyers have more bargain power in the market. Also, housing brokerage sector in the secondary housing market is very informal and unorganized. Buyers' trust on housing brokers is very low.

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