Developing a Property Classification Framework for Rating Valuation Purposes in Sri Lanka

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Abstract

Property taxation forms the financial basis of local government in Sri Lanka, but its efficiency and fairness are compromised through the absence of a systematic system of property classification. Without properly established standards, rating valuations are exposed to excessive degrees of personal judgment, resulting in inconsistencies and limiting public confidence. This study aims to establish a property classification framework for rating valuation, defining measurable criteria across residential, commercial, industrial, agricultural, special, and vacant land categories. Using a qualitative approach supported by expert insights and content analysis of valuation practices, the research translates subjective judgments into transparent and comparable indicators. The findings demonstrate that structured classification enhances uniformity, accountability, and readiness for digital integration across local authorities. The framework provides a practical foundation for adoption within rating cards, ensuring equitable assessment and contributing to transparent, data-driven local revenue governance in Sri Lanka.

Keywords: Property Categories, Property Classification Framework, Property Criteria, Rating Tax, Valuation

Introduction

Property tax is the financial backbone of Sri Lankan local government finance, enabling the supply of basic infrastructure and services. The Municipal Council Ordinance No. 29 of 1947, Urban Council Ordinance No. 61 of 1939, and Pradeshiya Sabha Act No. 15 of 1987 empower the local governments to impose rates on the basis of annual value assessments made by the Government Valuation Department. The accuracy of valuations is a measure of the effectiveness of revenue realization. For fiscal reliability to be assured, the valuation base must reflect market conditions, which depends on accurate property classification.

Despite this legal framework, valuation practices remain inconsistent. The International Monetary Fund (2024) reports that 23 of 47 local authorities in the Central Province have not revised their annual values for more than eleven years, causing outdated assessments and loss of revenue. A study of the Colombo Municipal Council recorded only 58 percent valuation accuracy, with nearly 40 percent of potential rate income lost through misclassification and delayed revaluations (Fernando, 2013). These challenges reveal the need for a clear, measurable system that differentiates properties by physical, functional, and locational attributes.

Accordingly, this study develops a property classification system to be used for purposes of rating

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Valuation in Sri Lanka. The system encourages transparency and uniformity across residential, commercial, industrial, agricultural, special, and vacant land classes. The paper goes on to present the objectives of the study, literature review, overview of methodology, and the findings and implications for valuation policy and local authorities.

Objective of the Study

This study aims to develop a property classification framework for rating valuation in Sri Lanka by identifying major property categories and defining measurable criteria that enhance consistency, transparency, and equity in assessments while supporting effective rate administration and policy application within local government valuation practices.

Literature Review

Property classification is a structured process of grouping properties into defined categories based on shared physical, functional, and locational characteristics (IAAO, 2021). It provides the analytical foundation for valuation and taxation by ensuring that comparable properties are assessed on consistent criteria. Internationally, classification frameworks are central to valuation systems because they support uniform data collection, improve market analysis, and enable equitable taxation (McCluskey & Plimmer, 2010). In countries such as the United Kingdom and Australia, classifications are tied to measurable features such as construction quality, design, use, and condition forming the base for automated and mass-appraisal models (Slack, 2013; Gloudemans & Almy, 2011).

Within valuation practice, classification criteria act as the link between market characteristics and assessed value. They allow assessors to translate observable property attributes into quantitative indicators that inform rental or capital value estimation (Fisher & Martin, 2014). For rating valuation in particular, classification ensures that each property is valued according to its true earning potential and physical state, thereby strengthening transparency and fairness in revenue generation (IAAO, 2021). The absence of structured classification often results in arbitrary judgments, valuation bias, and difficulties in rate comparisons across jurisdictions (Bird & Slack, 2015).

Sri Lanka's property valuation system, administered by the Government Valuation Department under the Municipal Council Ordinance No. 29 of 1947, Urban Council Ordinance No. 61 of 1939, and Pradeshiya Sabha Act No. 15 of 1987, relies largely on professional discretion rather than a codified classification scheme. Past studies have highlighted that rating assessments frequently vary between valuers due to the absence of measurable criteria and standardized categories (Perera, 2019; Edirisinghe & Fernando, 2018). Limited use of digital valuation databases and the lack of objective property descriptors further constrain the consistency of local-authority rate rolls (World Bank, 2022).

This gap brings into focus the necessity of having a structured system that integrates measurable and verifiable criteria to the rating system. Its development will be capable of strengthening inter-valuer consistency, enhancing transparency, and making the move toward data-based valuation practices less abrupt. Through coordinating classification standards with local authorities' operating needs, the study also strives toward property tax modernization in the modern era, improvement in revenue accountability, and fairness in different types of properties.

Methods

This study adopted a qualitative, multi-stage design integrating document analysis, comparative review, field observation, and expert consultation to develop a property classification framework for rating

valuation in Sri Lanka. The approach focused on interpreting legislative, institutional, and professional practices to formulate classification criteria applicable across major property categories.

The first stage involved the review of valuation-related laws and administrative records to establish the conceptual and regulatory foundation. The primary references were the Municipal Council Ordinance No. 29 of 1947, Urban Council Ordinance No. 61 of 1939, and Pradeshiya Sabha Act No. 15 of 1987, supported by rating cards, internal guidelines, and international models presented by recognized valuation organizations. Comparative analysis incorporated secondary data on fifteen local authorities in urban, semi-urban, and rural environments. Field observations were conducted within selected local authorities to examine how physical and functional property characteristics are interpreted in current valuation practice and to identify the variations that influence classification.

A structured questionnaire was used to obtain professional opinions from valuers of the Government Valuation Department regarding the practicality and clarity of the proposed classification criteria. The responses were examined through content analysis to summarize recurring perspectives and areas requiring refinement. Subsequently, stakeholder consultations were held with the Chief Valuer, former Chief Valuer, Deputy Valuers, and senior officers to consider the draft framework. Their feedback was used to finalize the framework and ensure that it aligns with legislative requirements and administrative processes.

Overall, the methodological process combined documentary review, professional insight, and policy evaluation to produce a framework grounded in existing practice yet adaptable for application in rating valuation across Sri Lanka.

Results and Discussion

The study developed a Property Classification Framework for Rating Valuation in Sri Lanka, covering six primary categories Residential, Commercial, Industrial, Agricultural, Special, and Vacant Land each defined by measurable subcategories and observable criteria. The results demonstrate how classification can convert professional judgment into objective indicators, improving transparency and inter-valuer consistency in rate administration.

Residential properties form the largest share of taxable units within local authority areas. The framework differentiates them into measurable subcategories based on construction quality, design, facilities, condition, and access, enabling clear identification of housing diversity across regions (IAAO, 2021). These criteria provide a systematic means of determining relative rental value and ensuring equity in taxation.

Table 3
Residential Property Subcategories and Measurable Cues
Source: Field Survey, 2025

Subcategory	Differentiation (measurable cues)
Tenement	Temporary or low-grade structures (wattle and daub, plank, or GI/asbestos/corrugated roofing) with bare cement, mud, or concrete floors; brick, cement, or block walls; 1–2 small rooms; shared water and power; no internal kitchen or toilet; poor condition (>30–40 years); access through narrow lanes under 10 ft.
Cottage / House	Dwellings built of brick or block masonry with plastered walls; tiled or red oxide cement floors; 1–3 bedrooms, internal kitchen, attached bath possible; basic utilities, open parking, moderate upkeep (30–50 years); access via 12–16 ft secondary residential roads.
Semi-Modern	Houses with improved roofs (CFT/asbestos/Calicut/zinc-aluminium); brick/cement block walls plastered and weather-shield painted; internal skim coat with colour wash; timber or asbestos ceilings; ceramic tiles with modest paintwork; 3–5 bedrooms incl. master, attached baths, pantry kitchen, piped/well water; moderate finishes; 14–18 ft paved access.
Modern	Well-designed houses with architectural roofing (Colorcon or zinc-aluminium panels), terrazzo, granite, or ceramic tiled floors; weather-shield paint, internal skim coat with colour wash; 3–6 bedrooms incl. master suite, structured parking, landscaped garden, solar/CCTV; access via 16–20 ft formal roads.
Ultra-Modern	Architecturally designed RCC structures with Colorcon or zinc-aluminium solar-insulated roofing; terrazzo, marble, or granite floors; high-grade timber ceilings; premium finishes and imported fixtures; luxury bathrooms with jacuzzi, bathtubs, and shower cubicles; smart-home wiring, full backup power, landscaped gardens; generally found in high-value or gated residential settings.

The classification also extends to apartments, reflecting the vertical growth of urban housing markets. Unit size, finishes, amenities, maintenance quality, and location were adopted as differentiating variables, aligning with global valuation principles that emphasize market-observable attributes over subjective assessment (McCluskey & Plimmer, 2010).

Table 4
Apartment Property Subcategories and Measurable Cues
Source: Field Survey, 2025

Subcategory	Differentiation (measurable cues)
Basic / Flats	Compact 1–2 bedroom units with cement or ceramic finishes, basic lift, shared water and security; limited parking and minimal amenities; typically located in suburban or secondary areas and maintained with basic upkeep.
Semi-Luxury	Moderate 2–3 bedroom units with tiled floors, fitted pantry, and improved bathrooms; include structured lifts, 24-hour security, CCTV and intercom, standby generator, children's play area, parking, and private balconies; generally maintained to semi-modern standards in urban or sub-prime areas.
Luxury	Spacious 3+ bedroom units with granite or timber finishes, backup power, swimming pool, gymnasium, clubhouse, restaurant or bar, and landscaped grounds; equipped with service elevators, sauna, and enhanced safety systems; located in prime urban areas with strong city or garden views and well-maintained facilities.
Super-Luxury	Large or penthouse-scale apartments (3–5+ bedrooms) featuring imported finishes such as marble, designer tiles, or teak; include smart-home systems, multiple lifts, EV charging, concierge, spa, sauna, squash courts, walking tracks, and three-tier security systems; premium landscaping, valet, and landmark or coastal views define these properties.

Commercial properties were grouped primarily under Shops, and Offices. The framework identifies measurable cues frontage and visibility, building quality, floor area, utilities, and location which correspond directly to market rent determinants (Slack, 2013). This structure allows valuers to distinguish

between prime, secondary, and inferior units, ensuring that assessments reflect economic potential rather than arbitrary grading.

Table 5(a)
Commercial Property – Shops: Subcategories and Measurable Cues
Source: Field Survey, 2025

Subcategory	Differentiation (measurable cues)
Prime	Shops with wide frontage (3.5–10+ ft) featuring glass or aluminium shopfronts, strong signage, and floor areas of 100–2,000+ sq.ft; constructed with RCC core and modern finishes, ceilings , full utilities including 3-phase electricity, air conditioning, lighting, water, and drainage; typically located along main commercial streets, CBDs, malls, and arterial roads.
Secondary	Shops with medium frontage (3.5–10 ft), display windows, and visible signage; floor areas of 100–1,000 sq.ft; built with RCC or brick structures, plastered walls, and tiled or cement floors; equipped with basic utilities such as single or 3-phase power, lighting, water connection, and shared drainage; generally found along market streets, secondary town centres, or near bus stands.
Tertiary	Shops with narrow frontage (<10 ft) and minimal display, covering 50–500 sq.ft; constructed with brick, block, or semi-permanent walls, low ceilings, and basic flooring; served by minimal utilities including a single electricity point and occasional water or fan/light fittings; usually located on side lanes, rural town roads, or less trafficked areas.

Table 3 (b)
Commercial Property – Offices: Subcategories and Measurable Cues
Source: Field Survey, 2025

Subcategory	Differentiation (measurable cues)
Class C	Small converted offices or shopfront units ranging from 200–1,500 sq.ft, typically used by local agencies and consultants; equipped with single-phase power, ceiling fan or light fittings, common toilets, and basic provision for internet or telephone; located along mixed-use streets with on-street or minimal parking, and condition recorded as Good, Fair, or Poor.
Class B	Converted residential or mid-rise office blocks between 500–5,000 sq.ft, featuring split air-conditioning, lift or generator access, separate toilets, basic security, and small meeting areas; offering limited or shared parking and rated in condition as Good, Fair, or Poor.
Class A	Purpose-built office complexes ranging from 500–10,000+ sq.ft, incorporating central air-conditioning, full lifts or freight elevators, 100% power backup, fire-safety systems, fibre data cabling, CCTV and access control, reception and concierge services, EV-ready structured parking, and smart-building facilities; overall condition recorded as Good, Fair, or Poor.

Industrial properties were differentiated by scale of operation, construction type, service availability, and environmental compliance, supporting consistent evaluation of small workshops and large production complexes.

Table 6
Industrial Property Subcategories and Measurable Cues
Source: Field Survey, 2025

Subcategory	Differentiation (measurable cues)
Small Warehouse	Compact warehouses (<10,000 sq.ft) on modest or edge-zone plots, basic power supply (single or limited 3-phase), narrow access, light-duty frame or low eaves, limited yards, and average maintenance condition.
Large Warehouse / Logistics	Large-scale warehouses (≥10,000 sq.ft) on consolidated estates near expressways or ports, with strong 3-phase power and water, wide access, truck bays, high eaves, structural steel sheds, and automation-ready facilities.
Factory / Workshop	Variable built areas within industrial zones, extensive yards for materials or machinery, full 3-phase power plus gas or steam supply, dedicated service access, multiple docks, reinforced floors, and heavy-duty sheds with condition varying by modernization level.

Agricultural land was classified by use, crop type, and productive capacity, linking rating assessment to land-use intensity and policy goals of rural equity.

Table 7
Agricultural Property Subcategories and Measurable Cues
Source: Field Survey, 2025

Subcategory	Differentiation (measurable cues)
Small-Scale (<1 acre)	Fragmented lots with mixed crops or home gardens, rain-fed cultivation, low fertility and mechanisation, field paths or cart tracks, and temporary shelters or huts with low subsistence yields.
Medium-Scale (1–10 acres)	Consolidated smallholdings producing tea, coconut, rubber, or other minor exports, moderate fertility with irrigation channels, secondary or gravel road access, farmer housing or storage sheds, and moderate commercial output.
Large-Scale (>10 acres)	Estate or plantation-scale properties cultivating tea, rubber, coconut, sugarcane, or similar crops with mechanised, irrigated soils, estate housing and processing units, highway or rail access, and high commercial yields.

Special properties (Institutional, Recreational, Leisure & Entertainment) are assessed by function-specific capacity (extent/floors), facilities, access, condition, and permitted use. Differentiation remains case specific as value turns on operational purpose and public/social utility.

Vacant Land is split into Vacant Residential (plots suitable for standard residential development per local planning/building rules) and Vacant Commercial (parcels in or adjacent to commercial zones with retail/office/mixed-use potential consistent with zoning and development plans).

The findings demonstrate that the proposed classification framework enhances transparency and fairness in rating valuation by converting qualitative assessments into measurable indicators. In a context where valuers rely on discretion, this approach advances objectivity and aligns with global standards promoting uniform and evidence-based valuation practices (IAAO, 2021; McCluskey & Plimmer, 2010; Perera, 2019).

By establishing consistent property attributes across local authorities, the framework enables periodic revaluations and integration into digital valuation systems addressing long-standing institutional gaps in Sri Lanka's rate administration. It also reduces assessor bias and strengthens public confidence by allowing property owners to understand the valuation basis, consistent with global best practices (Slack, 2013).

From a policy angle, the study advocates the establishment of a national classification manual to standardize valuation approaches, improve fiscal transparency, and facilitate the shift towards automated mass appraisal. The framework is directly supportive of sustainable local revenue mobilization under

SDG 11 and good governance under SDG 16, facilitating measurable and progressive property taxation in Sri Lanka.

Conclusion

The study developed a framework of property classification that converts subjective value judgments into measurable parameters for all the significant types of property. The addition of observable properties like construction quality, design, facilities, and condition increases transparency, consistency, and accountability in rating valuation practice. The study bridges the gap between professional judgment and evidence-based valuation and enables more regular and comparable revaluations among local governments. The framework is recommended for formal integration into rating cards used by the Government Valuation Department, ensuring that property classifications are uniformly applied and easily auditable. This will reduce bias, strengthen appeal procedures, and promote greater public confidence in rate administration. In the long term, the framework contributes to fiscal stability and institutional integrity, aligning with national policy goals and supporting SDG 11 on sustainable cities and SDG 16 on transparent and accountable governance in Sri Lanka's property taxation system.

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