The latest addition to Savlanka’s research report portfolio takes a look into the residential property market in Sri Lanka’s capital city, Colombo.

Our previous edition examined the hotel and leisure property market and concluded that in recent years the market has seen significant growth. This growth, along with improvements to the infrastructure, appears to be making Sri Lanka an attractive location for Foreign Direct Investment (FDI) and as such, the residential market is experiencing rapid growth.

This report assesses the current market’s demand and supply patterns, the target markets, and current and future stock, with a particular focus on the high-end condominium market.

Savlanka concludes that despite a rapid and vast increase in supply over the coming years, there is still a niche in the market that is not being reached by upcoming developments. The Sri Lankan property market is very specific and differs significantly from the rest of developing Asia. The success of future projects can only be assured through differentiation from competitors.

Savlanka’s extensive expert knowledge of the Sri Lankan property market and their close affiliation with Savills International, enables deep, accurate insights into the current market and ensures unbiased informed guidance to our readership and our clients.

To get a bird’s eye view of the residential property market in Sri Lanka and to familiarise yourself with key property trends, growth statistics, and demand and supply patterns…Download the entire market research report from the Savlanka website now!

www.savlanka.com
WHY invest in Sri Lanka

Sri Lanka continues to experience strong economic growth, driven by large-scale reconstruction and development projects following the end of the 26-year conflict with the LTTE. Economic activity rebounded strongly with an IMF agreement, resulting in two straight years of high growth in 2010 and 2011. Per capita income is among the highest in the region.

- **GDP growth 8%**
  - Two successive years 2010 - 2011

- **The 2nd fastest growing economy in South East Asia in 2011**

- **Among the 10 fastest growing economies in the next 40 years projected by Citi Bank**

- **Ranked 5th in financial attractiveness ahead of India, China, Central and East Europe**

- **Ranked as the most liberalized economy in South Asia**

- **No restrictions on repatriation of earnings, fees and capital**

- **Safety of foreign investment guaranteed by the constitution**

- **Tax Holidays to promote private foreign investments**

- **Area: 65,610 sq km**

- **Coastline: 1,340 km**

- **Climate: Tropical monsoon**

- **Population: 21,481,334**

- **Median age: 30.8 years**

- **Literacy: 90.7%**

- **Government: Republic**

- **Capital: Colombo**

- **Total foreign ownership permitted across almost all areas of economy**
INTRODUCTION

Sri Lanka is at the crossroads of a sea-change, jumping from tradition to modernity, from a conservative outlook to a bold confidence in the future. The definitive end to the war has brought with it the economic benefits of peace. Sri Lanka was the second-fastest growing economy in emerging Asia during 2011 – second only to China. The government is investing heavily in infrastructure and harnessing the country’s key strengths like high literacy and its strategic position along shipping routes. This is creating nationwide benefits like foreign investment and tourism revenue.

In the Global Competitive Index of 2011-2012 Sri Lanka is ranked 52nd out of a total sample of 142 countries advancing 10 places within the year. Also in 2010, Sri Lanka ranked 62nd after moving up 27 places.

The World Bank’s Ease of Doing Business Review 2012 ranked Sri Lanka 89th globally. The country rose 9 places in only a year, making it one of the fastest-improving countries in the world. It comes 32 places higher than the regional average, 43 places higher than India and it fared better than all of the BRICs. In the “protecting investors” sub-category, Sri Lanka is ranked as high as 46th.

In this ebullient environment, the real estate market is growing fast. Improved communication and connectivity are making an array of spectacular locations accessible. From amazing beaches, coral reefs and wildlife parks, to historical sites and bustling cities. Sri Lanka holds a diversity that will keep international tourists coming in ever-increasing numbers for years.

Global hospitality players are set to capitalise on this enormous potential: existing hotels like Hilton and Taj are upgrading their products to international luxury standards, while Shangri-La, Hyatt and the Starwood Group have also entered the market. Despite this, accommodation will continue to be in short supply, creating an opportunity to build new hotels.

The residential and rental market for high-end condominiums looks very positive. There is a surge in demand from foreigners as well as expatriates. Compared with neighbours, property prices in Sri Lanka are still low, making it even more attractive.

With a new airport and seaport soon to be operational in Hambantota, Sri Lanka is poised to become a major shipping hub. With only a few purpose-built office buildings in the entire country, the field is wide open for developers and investors to create quality commercial spaces.

In the words of Ruchir Sharma, head of emerging markets at Morgan Stanley; “Sri Lanka’s time has come... it is no longer a land in waiting".
Amidst economic and political turmoil in many parts of the globe, the overall trend in the luxury real estate segment in Colombo has been very positive over the past three years, spurred on by the dawn of peace on the island. The buoyancy in the market is underpinned by a combination of rising interest from the thousands of high income earning expat Sri Lankans who are returning to the island from the west, an increase in local demand from high-net-worth individuals (HNI) and to some extent the life-style changes that are shaping the society. Various types of direct and indirect fiscal incentives, mostly under BOI status, have also moved many developers to kick start new projects in and around the Capital. The country is at the brink of an economic transformation from safe conservatism to bold competitiveness bringing around tangible economic benefits.

Urbanisation
The end of the civil war and the opening of the Sri Lankan economy to outside investment should drive an inflow of the most entrepreneurial and educated groups from the outer regions to Colombo, as most foreign investment is being concentrated in the commercial capital. Within the next decade, close to half a million people are expected to move from rural areas to towns and cities, with the largest numbers moving to Colombo (Source: The World Bank 2011). As a result, the net transfer of the population from rural to urban areas will cause the territorial expansion of urban settlements and substantially increase the demand for housing. When considering the urbanisation of Colombo, a key feature of population mobility is international migration. In the past, international migration has not been a substantial element of Colombo's urbanisation. Now, however, international migration is taking on greater significance as the city is being established as a logistical, industrial and financial hub in the region.

Current Market
The condominium developments in Colombo can be divided into 5 segments: low-mid level segment, mid-level segment, high-end level segment, prime segment and luxury segment. Graph 1.1 illustrates that the total cumulative supply of condominiums in Colombo is 9,429 units, as recorded at Q2 of 2012 (Source: Condominium Management Authority Colombo 2012).

Sri Lanka's changing socio-demographic profile is a key driver of the housing market. While rising population numbers generate new housing demand, the evolution of social situations and lifestyles impacts buyer demand preferences and requirements.
High-rise condominium living is a relatively new phenomenon in Sri Lanka, with the majority of high-rise buildings becoming part of the Colombo skyline within the last decade. In 2002 there was the opening of JAIC Hilton Residences, followed by Global Towers in 2006, Monarch in 2009, and most recently, Emperor which opened its doors in 2011. Each of the aforementioned residencies comprise around 146 to 180 apartments per building.

The inflow of a professional and managerial group of international expatriates is significant in the context of high-end residential demand. Graph 1.2 shows that the higher-end condominium apartments are predominantly occupied by foreign professionals. The business model of local investors buying properties and renting them to foreigners is widely accepted.

It is worth noting that the first generation of Sri Lankans who moved to the west 30-40 years ago are entering retirement age and they are looking at Sri Lanka as their retirement home. This group, with its considerable amount of savings, can become a valuable target segment for the condominium apartments which offer convenience and a sense of community.

When analysing the condominiums listed in Table 1.1, the predominant unit type is large 3-bedroom apartments, (approximately 60% of the total) with a size of between 2,000-3,000 sq ft. The range of the unit sizes in relation to the type of the unit is shown in Graph 1.3. Although large 3-bedrooms apartments are the most common type of unit, the latest developments, such as the Monarch residences and the Emperor, introduced smaller overall unit sizes with an increased number of 2-bedroom apartments.
Luxury at what cost
There are currently a number of high and mid-level segment condominium projects in construction in Colombo, with several more targeted to break ground in 2013.

The 2 latest projects, Altair and Krissh Square, which were announced recently, will be by far the largest residential developments in Colombo. Altair will be a 68-floor building totalling 410 units, while Krissh Square is an even more ambitious project totalling 520 units over 3 towers; the tallest tower will have 89 floors. These two projects will significantly increase the future supply of larger, family-sized apartments and will introduce a level of luxury that is currently lacking in the Colombo residential market.

With high specifications of superior quality finishes and amenities, the properties are ranging between USD 245-400 per sq. ft. Table 1.1 displays general information and pricing for the current and up-coming condominiums in

Table 1.1

Condominiums: general information and pricing

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Loc. Ref. (Fig 1.1)</th>
<th>Developer</th>
<th>Launch Year</th>
<th>Launched Price (US$ per sq ft)</th>
<th>Pre-Sales Year</th>
<th>Pre-Sales</th>
<th>Year of Completion</th>
<th>Current Price (US$ psf)</th>
<th>Rent (US$ psf)</th>
<th>Rental Yield</th>
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<tbody>
<tr>
<td><strong>Announced Projects - Luxury Segment</strong></td>
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<tr>
<td>Altair</td>
<td>A1</td>
<td>South City</td>
<td>End 2012</td>
<td>$275 - $400</td>
<td>Just Launched</td>
<td>2017</td>
<td>$275 - $400</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>Krissh Square</td>
<td>A2</td>
<td>Krissh Group</td>
<td>End 2012</td>
<td>$245-$350</td>
<td>Just Launched</td>
<td>2017</td>
<td>$245-$350</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td><strong>Prime Segment</strong></td>
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<tr>
<td>Iceland Residences</td>
<td>B1</td>
<td>ICC Housing</td>
<td>2004</td>
<td>$110.00</td>
<td>80%</td>
<td>2008</td>
<td>$215.00</td>
<td>$1.10</td>
<td>6.1%</td>
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<tr>
<td>Empire Tower</td>
<td>B2</td>
<td>CT Properties</td>
<td>2004</td>
<td>$130.00</td>
<td>100%</td>
<td>2008</td>
<td>$225.00</td>
<td>$1.20</td>
<td>6.4%</td>
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<tr>
<td>The Monarch</td>
<td>B3</td>
<td>John Keells</td>
<td>2004</td>
<td>$170.00</td>
<td>100%</td>
<td>2008</td>
<td>$235.00</td>
<td>$1.30</td>
<td>6.6%</td>
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<tr>
<td>The Emperor</td>
<td>B4</td>
<td>John Keells</td>
<td>2007</td>
<td>$190.00</td>
<td>98%</td>
<td>2012</td>
<td>$245.00</td>
<td>$1.35</td>
<td>6.6%</td>
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<td><strong>High-End Segment</strong></td>
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<tr>
<td>On Three 20</td>
<td>C1</td>
<td>John Keells</td>
<td>2011</td>
<td>$195.00</td>
<td>75%</td>
<td>2014 Phase 2</td>
<td>$205.00</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>Havelock City</td>
<td>C2</td>
<td>Overseas Reality</td>
<td>2006 Phase 1</td>
<td>$125.00</td>
<td>40%</td>
<td>2014 Phase 2</td>
<td>$180.00</td>
<td>$0.65</td>
<td>4.3%</td>
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<tr>
<td>Trillium Residences</td>
<td>C3</td>
<td>Trillium Residences</td>
<td>2004 Phase 1</td>
<td>$105.00</td>
<td>70%</td>
<td>2012 Phase 3</td>
<td>$165.00</td>
<td>$0.65</td>
<td>4.7%</td>
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<tr>
<td>Crescatt Residences</td>
<td>C4</td>
<td>John Keells</td>
<td>1998</td>
<td>N/A</td>
<td>N/A</td>
<td>2001</td>
<td>$200.00</td>
<td>$1.00</td>
<td>6.0%</td>
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<tr>
<td><strong>Mid-level Segment</strong></td>
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<tr>
<td>Fairway on the Waterfront</td>
<td>D1</td>
<td>Fairway Residences</td>
<td>2005</td>
<td>$100.00</td>
<td>100%</td>
<td>2007</td>
<td>$120.00</td>
<td>$0.55</td>
<td>$0.06</td>
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<tr>
<td>Fairmount Urban Oasis</td>
<td>D2</td>
<td>Fairway Residences</td>
<td>2008</td>
<td>$110.00</td>
<td>95%</td>
<td>2010</td>
<td>$130.00</td>
<td>$0.60</td>
<td>$0.06</td>
<td></td>
</tr>
<tr>
<td>Fairway Sky Gardens</td>
<td>D3</td>
<td>Fairway Residences</td>
<td>2011</td>
<td>$95.00</td>
<td>40%</td>
<td>2014</td>
<td>$95.00</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>110 Parliament</td>
<td>D4</td>
<td>Atlantis</td>
<td>2011</td>
<td>$140.00</td>
<td>41%</td>
<td>2014</td>
<td>$150.00</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
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</tbody>
</table>
Taking into consideration the sizes of the units, the price of the typical unit will be higher than anything previously experienced in Sri Lanka and how the market is going to react to this pricing is yet to be seen.

**Supply exceeds demand**

Absorption, or sales rates, are important gauges of market demand dynamics. Graph 1.4 plots the yearly cumulative supply and absorption of the condominium units in Colombo. The chart takes into consideration only mid level, high-end and prime segments of the condominium market. The yearly absorption rate, indicated on the chart, records the rate at which the units have been selling.

When absorption rates of the Prime Segment are compared to the overall condominium market, it can be observed that over the last two years, the Prime Segment units were fully absorbed by the market, while the low absorption rate for the lower level segments indicates oversupply in the lower segment of the market.

**Niche in the market**

As mentioned above, within next year there is going to be a substantial increase in the supply of units on the market, hence the success of any future project will depend largely on its differentiation from competitors.

Although aimed at the high-end clientele, most completed condominiums on the market cannot be regarded as “high-end” by an international standard as they failed to produce quality design and finish. Also, the units are generally very large with poor functionality and, more often than not, fail to take advantage of the attractions on offer (e.g. views, orientation, etc).

With the new projects coming on to the market the bar is rising as world-renowned architects are getting commissioned to produce quality designs. However, due to high construction costs and accordingly high prices of these over-sized apartments, we believe that the absorption rate will leave a lot to be desired.
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ABOUT US

We provide international quality real estate services to the Sri Lankan real estate industry. Underpinning this is our powerful entrepreneurial value-embracing ethos. Our objective is to develop long-term client relationships by providing professional services and adding value through our local knowledge, global reach and brand strength.

Market research and valuations
Feasibility, viability and other studies
Marketing and sales
Development, project and design management
Facilitating development process
Professional and advisory services
Finance and investment structuring
Facility management

Savlanka is Sri Lanka’s first real estate consultancy office providing international standard service, with global reach through Savills network of offices. It was founded by a group of real estate professionals who collectively have extensive knowledge of the International and Sri Lankan property markets and have a wide range of experience across all sectors of the real estate industry.

Internationally the founders of Savlanka undertook investments, design, project and development management, and construction of luxury residential units ranging from £1M to £35M in London’s prime areas of Belgravia, Mayfair, Knightsbridge and Chelsea. In Europe they managed prime residential, commercial, hotel and resort developments ranging in value from €100M to €300M on behalf of international investors and developers such as Merrill Lynch, Investment Dar, Latsis Group of Companies, etc. They have strong working relationships with some of the World’s leading architects, engineers and consultants such as Zaha Hadid Architects, WATG, YOO, ARUP, AECOM, G&T, HVS and many others.

In Sri Lanka they act on behalf of institutional investors and developers, both local and international. They have successfully worked on some of the largest transactions in post war Sri Lanka and have the most extensive database of private and institutional investors. Their in depth understanding of what constitutes an informal market, strong working relationships with leading consultants, professionals and relevant government authorities and their understanding of the regulatory framework, is key to insuring the success of projects.

Savlanka is uniquely placed on the Sri Lankan real estate market offering a wide range of bespoke services utilising its local knowledge and expertise, international experience and global reach.

Savills was established in the UK in 1855, and has grown to have over 23,000 employees across a network of more than 200 international offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East. Savills is one of the largest real-estate service providers in the World and it is listed on the London Stock Exchange.

Savills offers a broad range of specialist advisory, management and transactional services to clients all over the world including governments, corporations and individual clients.

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