



Why Invest in Sri Lankan Real Estate



Sri Lankan Economy Snapshot

Inflation

NCPI (Y-Y) 6.80



July 2021

Area

65,610
sq. km.



Economic Growth

4.3%



Q1, 2021

\$ =

LKR 199.9000

Indicative

Policy Rates

SDFR 5.00

SLFR 6.00

Interest Rates

T-bill < 364 days 5.08%

T-bond < 3 year 6.86%

T-bond < 5 year 7.48%

Unemployment Rate

5.5%



Q4, 2021

Population

21.9 Mn



Per Capita Income

LKR 683,106

USD 3,682



Strategic Importance Linked with Location

Major shipping routes connecting South Asia, Far East and the Pacific with Europe and the Americas

Close proximity to emerging Southeast Asian economies and Middle Eastern countries

Strategically located next to the fast-growing Indian sub-continent

Strong air connectivity and a tourism hotspot



Strategic Location of Sri Lanka...

- The Indian Ocean serves as a maritime trading corridor and is a significant source of maritime economic resources, with nearly two thirds of the world's oil being transported through here.
- Consequently, the area has become crucial for the energy, food and national security of many nations making Sri Lanka's location important.

Conducive Business Environment

Sri Lanka's Index Ranks

Type of Index	2015	2016	2017	2018	2019	2020	Overall Change
Ease of Doing Business	99	107	110	111	100	99	↑
Human Development	73	76	72	73	72	N/A	↑
Economic Freedom	93	105	104	83	N/A	N/A	↑

Human Development Index (HDI)

The HDI is a summary composite measure of a country's average achievements in 3 Basic Aspects.

1. Health
2. Knowledge
3. Standard of Living

The ranks of various countries are determined by the United Nations Development Programme.

Economic Freedom Index

This index compares the jurisdictions of countries against each other. The Key Aspects considered are;

1. Trade Freedom
2. Judicial Effectiveness
3. Tax Burden

This index is calculated by the Fraser Institute of Canada.

Ease of Doing Business Index

Sri Lanka is ranked 99th by the World Bank in the Ease of Business Index. This index is a measure to help investors get a better understanding about the business environment of a country. The factors considered when determining the ranks are as follows.

1. Starting a Business
2. Dealing with Construction Permits
3. Getting Electricity
4. Registering Property
5. Getting Credit
6. Protecting Minority Investors
7. Paying Taxes
8. Trading across Borders
9. Enforcing Contracts
10. Resolving Insolvency

EoDB Rankings Of Emerging Economies in 2020

 Bangladesh - 168

 Vietnam - 70

 Myanmar - 165

 Cambodia - 144

SAARC Country Rankings on EoDB

 India - 63

 Bhutan - 89

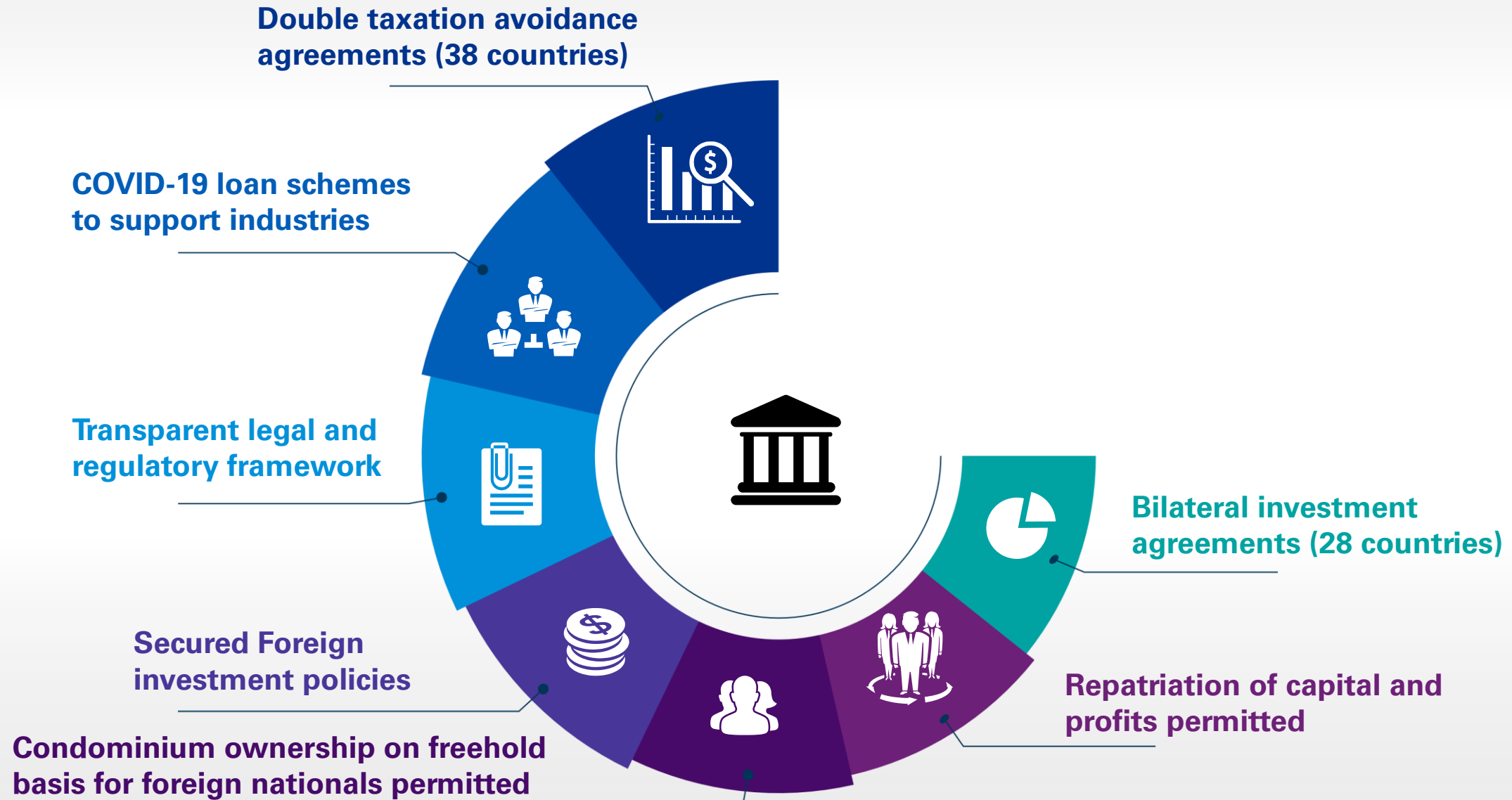
 Nepal - 94

 Pakistan - 108

 Maldives - 147

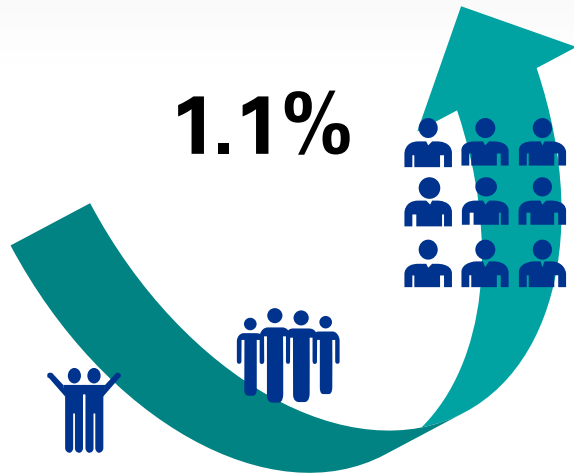
 Bangladesh - 168

Conducive Business Environment

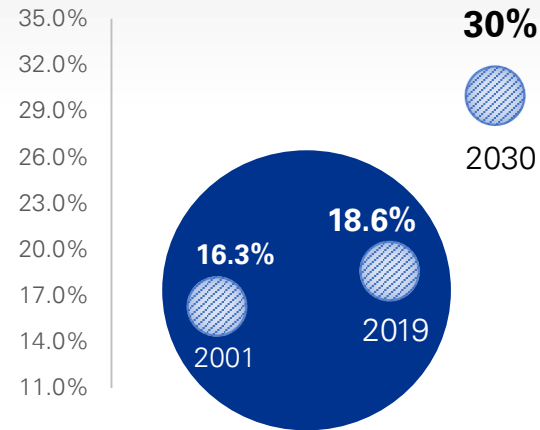


Real Estate Demand Drivers of Sri Lanka

Expected Annual Population Growth Rate (p. a.)

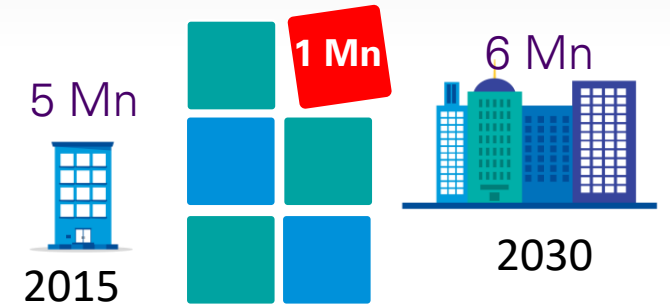


Fast Urbanization



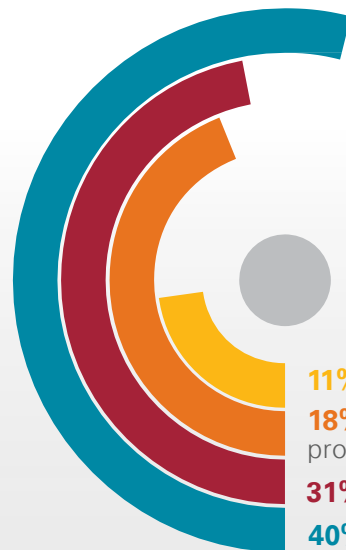
Though it is recorded as 18.6% in 2019, it should be closer to 20%

100,000 units per annum to fill the housing gap



New requirement	1,000,000
Replacement	500,000
Total	1,500,000

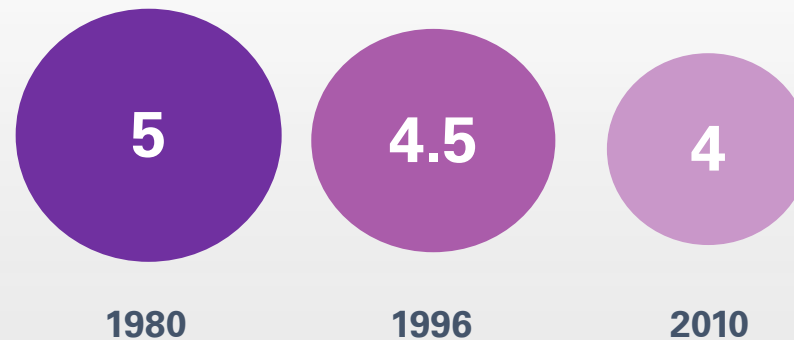
Proper effective utilization of land is essential in meeting the rising demand for housing



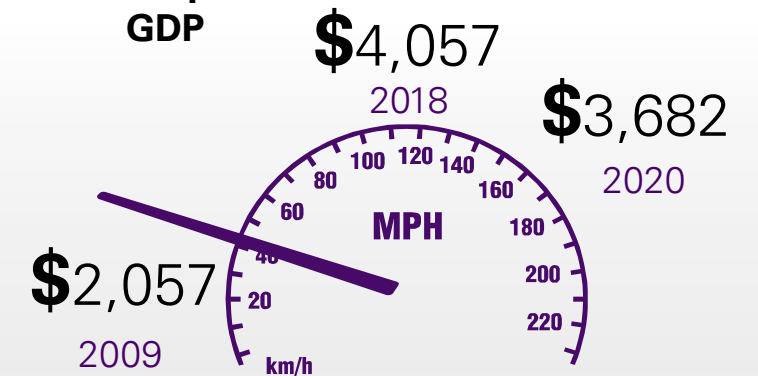
- 11% Land available for development
- 18% Reservoirs and land unsuitable for productive use
- 31% Forest and Wildlife reserve
- 40% Agricultural land



Decreasing Household size in Sri Lanka



Per Capita GDP



Sources – KPMG Research, CBSL, Department of Census & Statistics

Real Estate Demand Drivers of Sri Lanka

Demand Drivers of Middle Income Earners



60%

Middle income professionals, self employed and public sector employees

Growth of Upper Middle Class

With more than one income earner in the family, the monthly household income of the middle-income family is rising



In a family where both partners are working, condominium living may be preferred due to convenience.



1.9 Mn Tourist Arrivals in 2019

Due to COVID-19 tourist arrivals dropped to 507,000 in 2020. Post COVID-19 strategies were devised by the GoSL and Sri Lanka Tourism to re-ignite the entire tourism sector. Sri Lanka had a strong tourism drive and was on track to achieve a tourist arrival target of 4.5 before the advent of COVID-19

Luxury Real Estate Demand Drivers

Worker Remittances Growth

USD 3.3 BN

2009

USD 7.0 BN

2018

USD 7.1 BN

2020

Sri Lanka is seen to have the second fastest growth in HNWI's after Vietnam according to the 2016 Wealth report by Knight Frank.

- Sri Lanka is reported to have
- 3,400-dollar millionaires
 - 170 multi-millionaires (more than USD 10 Mn)
 - 70 ultra HNWI's (more than USD 30 Mn.)

Opportunity for foreigners to buy condominiums on freehold





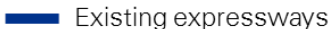

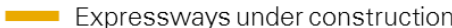




Growing HNWI's in the Asian Region wanting to buy second homes/ holiday homes in Sri Lanka due to the fact that foreigners can buy condominiums freehold.

Sources – KPMG Research

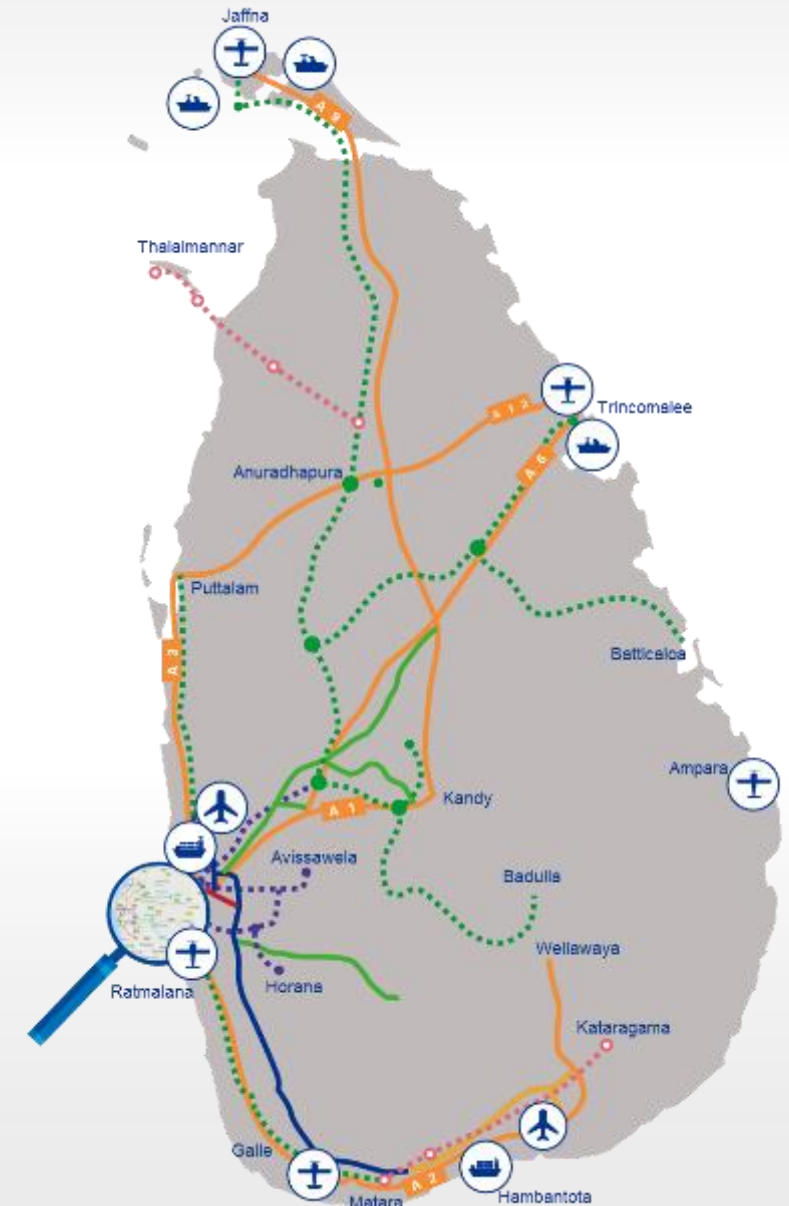
Government Infrastructure Development Drive

Light Railway Connectivity



-  International airports
-  Domestic airports
-  International seaports
-  Domestic seaports
-  Existing expressways
-  Proposed expressways
-  Expressways under construction
-  Existing highway
-  Existing railway
-  Proposed electrification railways
-  Proposed railways

-  RTS 1 – Fort > Kollupitiya > Bambalapitiya > Borella > Union place > Maradana (15km)
-  RTS 2 – Fort > Maradana > Mattakuliya / Peliyagoda (11.5km)
-  RTS 3 – Dematagoda > Borella > Kirulapona > Havelock City > Bambalapitiya (10km)
-  RTS 4 – Borella > Battaramulla (10km)
-  RTS 5 – Battaramulla > Kottawa via Malabe (9.6km)
-  RTS 6 – Malabe > Kaduwela (6km)
-  RTS 7 – Peliyagoda > Kelaniya > Kiribathgoda > Mahara > Kadawatha (10km)



Sources – KPMG Research

Government Infrastructure Development Drive

Western Region Megapolis



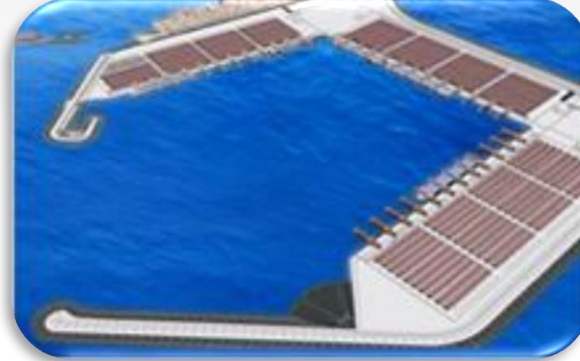
Colombo Port City



Hambantota Port



Colombo Sea Port Expansion



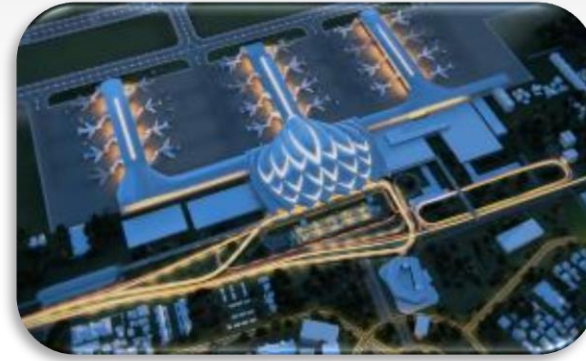
Connectivity to Major Expressways and Ring roads



Major Power Projects – Hydro, Coal, Wind and Solar



BIA Expansion



Lotus Tower



Sources – KPMG Research

Port City Development the Next Game Changer in the Sector



Port City Development is the first ever development of world class business, commercial, ultra luxury residential, entertainment and lifestyle hub developed adjoining the Colombo CBD, targeting High Net Worth Individuals in the Asian region to set up a second home to Live, Work and Play. The project is anticipated to add a total of 175 Ha. of sellable land and a total GFA of 5.5 Mn sq. ft. Port City is the largest real estate project currently in Sri Lanka. There will be a lot of high end real estate. It will create employment opportunities for the country.

Reclamation period (3 years)

Development period (18-22 years)

2016
Commencement
of Reclamation
Works

2019
Completion of
Reclamation
Works

Commencement of
Phase 1
Development works

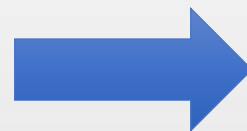
2022
Commencement of
Phase 2
Development works

2024
Completion of
Infrastructure
works

2041
Target
Completion

Total Investment: USD 1.4 Bn

Total Reclaimed Land: 269 Ha.
Total Saleable Land: 175 Ha.
Total Gross Floor Area: 5.5 Mn sq. m.



Phase 1

Total Saleable Land: 58 Ha.
Total Gross Floor Area: 2.57 Mn sq. m.

Phase 2

Total Saleable Land: 117 Ha.
Total Gross Floor Area: 2.93 Mn sq. m.

Positive Implications of the project to the Real Estate Sector of Sri Lanka

- Positive impact on economic growth with the increase in FDIs, tourist arrivals and spending
- Creation of ~ 83,000 job opportunities
- The supply to be added to the market in a phased out manner, avoiding a risk of oversupply in the market
- Positive impact on land prices, rental values, residential and commercial property values in the CBD area. This will be driven by the additional demand created from the job opportunities created by the Port City Development

Sector Outlook



Residential Development Market

Residential Demand Picks Up Amidst Challenges



Semi-Luxury Condominiums

**Supply Pipeline (Up to 2025)-
5,200 Units
Pre-sales - 78%**

Semi-Luxury Condominiums are developments with basic accommodation with fewer basic amenities for users, Typically priced USD 90 -170 per sq.ft



- ❖ Trends of urbanization and land scarcity compounds the housing requirements further in Urban areas.
- ❖ Price appreciation of land values in urban areas and increase in construction cost has created pushed pricing of condominiums.
- ❖ Certain developers in recent times have penetrated the market with affordable products, which have sold at a faster pace compared to that of other residential segments.
- ❖ Housing loans have been capped at 7%, therefore more people are encouraged to consider a semi-luxury unit through available borrowing options.



Luxury Condominiums

**Supply Pipeline (Up to 2025)-
6,900 Units
Pre-sales - 65%**

Luxury Condominiums are developments with accommodation facility with luxury finishes and a range of amenities for it's users. Typically priced between USD 170-450 per sq.ft (and above)

- ❖ Typically demanded by expats, foreigners and HNWIs. Demand for Luxury Condominiums were dull during 2018-2019 due to relative slowdown in the economy and political uncertainty.
- ❖ However the announcement of new projects have slowed down recently and off plan sales have pick up from 2020 despite COVID. The supply pipeline from 2020 - 2025 is ~6,900 units, with ~4,400 units under delayed projects and pre-sales have improved to 65%.
- ❖ Several developers were offering special pricing and easy payment plans since 2020 to push the remaining stock in to the market which has improved pre-sales.



Residential Development Market

Residential Demand Picks Up Amidst Challenges



Beach Condominiums

Supply Pipeline (up to 2025) - 1,000 Units
Pre-sales – 74%

Beach Condominiums are high-rise residential developments in coastal lines. Typically purchased by investors wanting a holiday home and can be used for income generation through renting for tourists. Typically priced between USD 130-450 per sq.ft

- ❖ Beach Condominiums are a way for investors to earn a passive income with a time-sharing feature. Typically purchased by foreigners, HNIs and Sri Lankan Expats.
- ❖ Only a few developers have completed construction while majority is still under construction. There are big names such as Dusit Thani, Crystal Properties, ICC, Serenia, Prime presently committed with projects.
- ❖ It is an attractive investment option for investors (unit buyers) as they receive a rental yield approximately between 5% -10% p.a.
- ❖ Currently due to low tourist arrivals, it is difficult to guarantee a high rental yield. 10% - 20% p.a capital appreciation is experienced regionally on this asset class.



Gated Communities

Supply Pipeline (up to 2023) - 900 Units
Pre-sales - 70%

Gated Communities are residential communities or large housing developments which are strictly enclosed by closed walls or fenced with all common facilities in same premises.

- ❖ Gated Communities are a residential concept which is rapidly emerging mainly in the suburbs of Sri Lanka in fast urbanizing areas.
- ❖ These type of units sell between USD 40 – 150 per Sq.Ft and the average size of these houses range between 1,000- 2,500 sq.ft.
- ❖ Many developers are contemplating to build more of these developments as Sri Lankans tend to prefer a house than an apartment to live in.



Sources – KPMG Research, Developer's Website

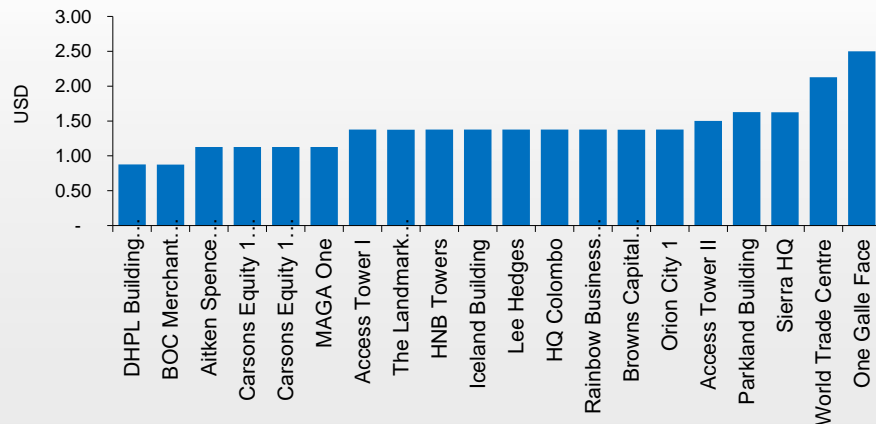
Commercial Office Space Market

Emerging New Opportunities

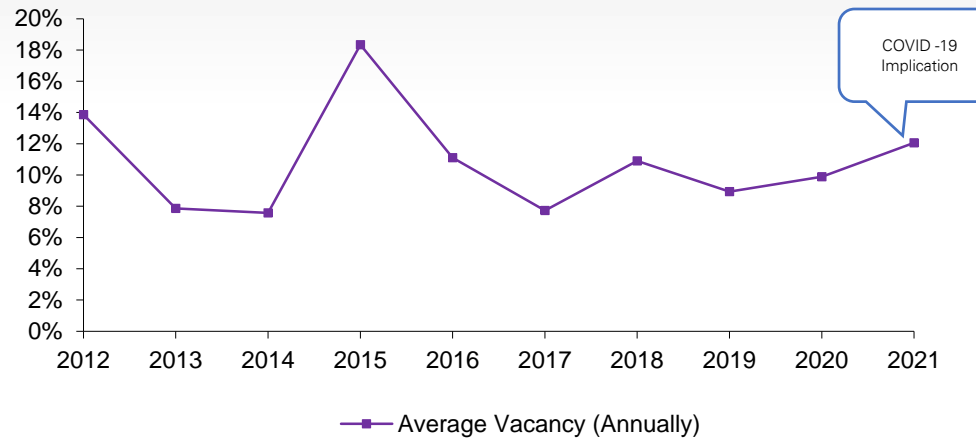


Since 2010, we have witnessed a complete and remarkable turn-around in fortunes for the commercial property market segment in the Colombo city. This is reflected in the high occupancy levels and increase in rents in the market. However the pandemic poses a challenge in maintaining the same momentum in the short-run. The GoSL has plans to vaccinate most of the population which will lead to people moving back to normalcy in their day to day work. WFH will continue as a practice to resort in emergency. However it is unlikely demand for physical office space may reduce drastically.

Rental Rates of Graded Multi-Tenant Offices



Vacancy Trend of Office Space (Historically)



- According to existing data, there is ~5.4 Mn sq. ft. of office space available within Colombo 1 - 15 areas. A new supply of ~1.7 Mn sq. ft. is anticipated to enter the market between 2020 - 2025.
- Recently completed office towers of large mixed developments are One Galle Face, Cinnamon Life while Havelock City – Mireka towers, Ekroma are expected to finish in the coming quarters of 2021.
- Companies engaged in the business of renting or leasing out office spaces have used multiple forms of strategy to retain tenants by extending or providing grace periods on rent, providing discounts on rents and being flexible on lease/rent contact negotiations
- It is expected that demand for co-working options will increase as the sector adjusts to operating under social distancing norms and health guidelines imposed.

Few of the Existing and Upcoming Multi-Tenant Office Towers in Colombo.

Ekroma



WTC



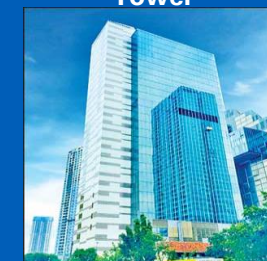
HQ Colombo



Havelock City



Cinnamon Life Office Tower



Galle Face Icon



Commercial Retail Space Market

Sector Adjusting to New Norms

- According to Research, there is ~1.8 Mn sq. ft. of retail mall space available between Colombo 1 - 15 areas. while shopping precincts cover ~255,000 sq. ft. area. **This is relatively a low mark, compared with the population within the city limits and the country's original tourism targets.**
- An addition of 907,072 sq.ft is expected to add to the supply by 2023 with projects such as Altair, Havelock, Cinnamon Life, ITC, One Square, Marina Square and Destiny
- The sector reported steady rental growth, occupancy however with COVID-19 the retail mall spaces were greatly effected. Drop in tourism, health restrictions imposed limited the footfall placing tenants in a difficult position to pay rents.

Altair



Destiny Mall



Cinnamon Life



ITC Colombo



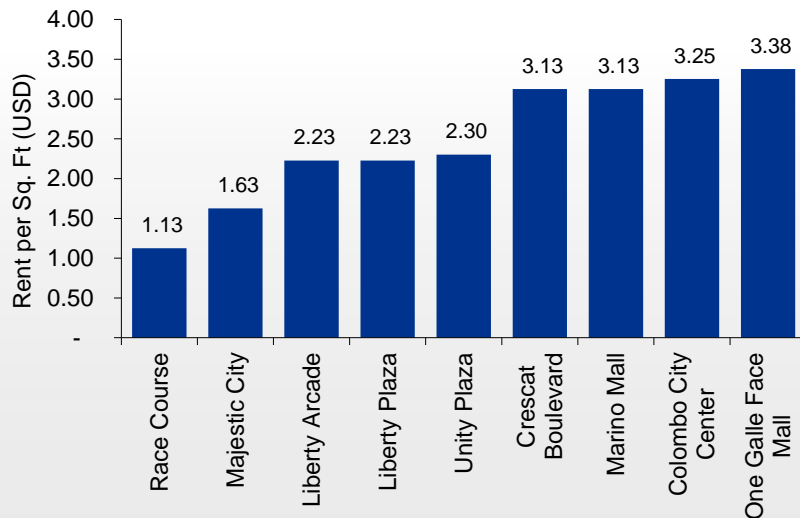
Havelock City



Crescat Boulevard



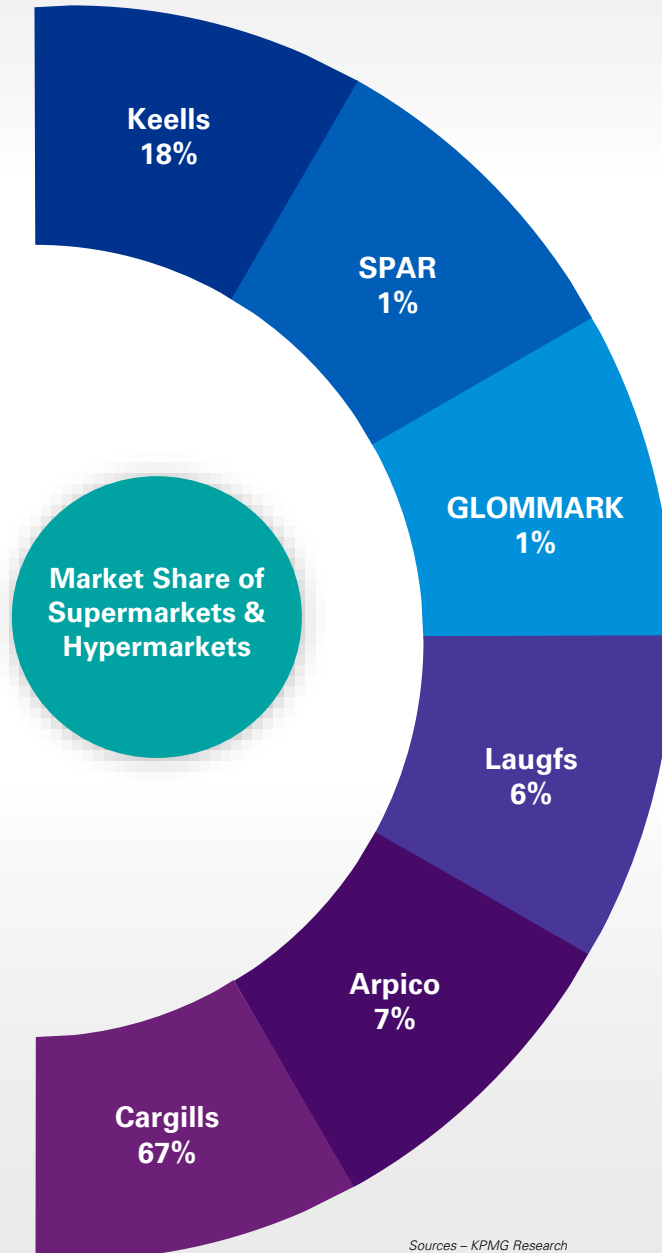
Rental Rates of Malls in Sri Lanka



Pre-COVID19, the retail sector had recorded a vacancy rate of ~5%, but mainly due to the pandemic, the market has experienced a higher vacancy rate of ~14%.

Many mall operators and tenants worked together to devise relief schemes regarding rental payments such as waive off rents due for a certain time period since businesses suffered in terms of sales, discounts, rent deferring options.

- Many retailers shifted towards e-platforms to market their products.
- Major supermarkets were the first to initiate this shift and it has greatly assisted their operations.
- Supermarket chains have expanded their operations due to the strict health regulations, which in turn creates more demand for retail spaces.



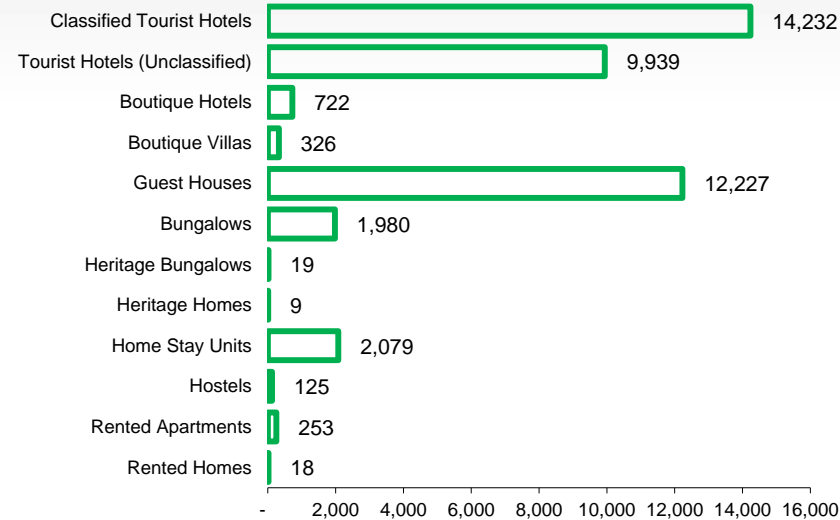
Sources - KPMG Research

Leisure Related Real Estate Developments

A Segment with Long-term Prospects

Tourism has been a key sector, which has contributed largely to the economy in Sri Lanka. The sector remained the third largest forex earner to the economy after workers' remittances (USD 5,757 Mn) and textile and garment exports (USD 5,596 Mn). Tourist arrivals grew steadily since 2010- 2018 until arrivals were unexpectedly affected, after the attacks on Easter Sunday in 2019. Tourist arrivals dropped to 1.9 Mn arrivals, a drastic drop of 18% from 2.33 Mn tourists' arrivals in 2018. COVID-19 posted another challenge for the sector with arrivals reporting a drastic drop as BIA remained closed for nearly 9 months.

Classification of Tourist Accommodation



	2019	2020	% Change
RevPAR (USD)	24,200	15,600	35% ↓
Revenue (USD Mn)	382.25	315.22	18% ↓
Occupancy	57%	52%	5% ↓
Profitability (USD Mn)	11.35	(38.41)	438% ↓
Supply (No. Rooms)	39,759	41,929	5% ↑

Many luxury hotels such as Cinnamon Life, J W Marriott, Next Hotel, Radisson will add an additional 2,000 rooms over the next 2-3 years, creating pressure in the Colombo hospitality market.

Travel restrictions across regions will result in a low demand from foreign travelers and recovery may be well expected beyond 2023. Local hoteliers may continue to focus on domestic traveler demands and the present strategies. Short term industry revenue and profitability may see challenges, though long-term prospects remain positive.



Recovery Strategies of the Sector

- Strict health and safety guidelines in accepting tourists and re-purposing of assets
- Catering to more to domestic travelers
- Government support on effected tourism businesses
 - Streamlining investment approval procedure
 - Debt moratoriums were implemented by CBSL
 - License fees for hoteliers have been waived off due to the pandemic
 - Accrued penal interest on tourism related vehicle leasing facilities were waived off by financial institutions for Covid-19 affected tourism businesses

Warehousing Market

There are 4 main warehousing corridors in Sri Lanka located along.

- Colombo Port
- Wattala - Peliyagoda
- Ja Ela – Katunayake
- Ratmalana

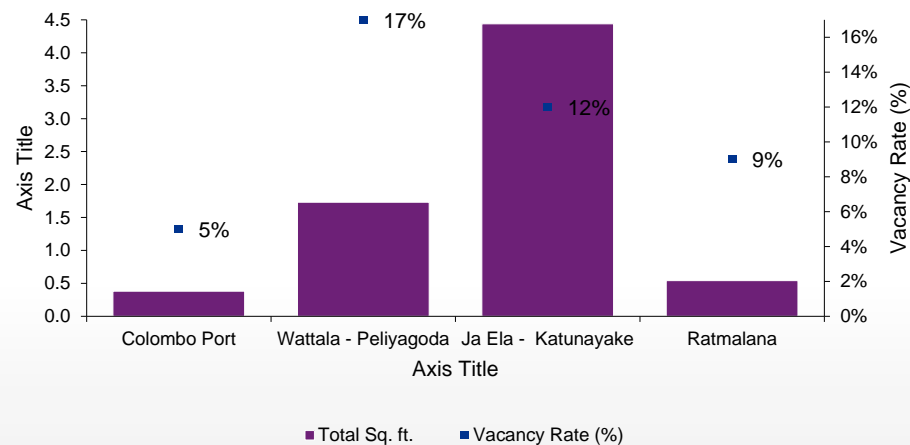
Reasons to Invest in Warehousing

- High demand for logistical spaces
- Can be a strategic industrial REIT
- Passive income strategy
- Capital appreciation with increasing land values

What drives the Demand ?

- The logistics and warehousing sector contributes USD 2 Bn in Sri Lanka. The Colombo Port handles over 7Mn TEUs and has been ranked at the 11st best connected Port in 2018.
- Growth in e-commerce business estimated at USD 40 Mn as at 2018 and expected to grow to over USD 400 Mn by 2022 according to Ministry of Industry and Commerce. A large segment of the population are internet users and on-line shoppers
- Growth in Apparel and Textile sector, Tea, FMCG and Pharma sector of Sri Lanka
- Improvement in internal and external connectivity of Sri Lanka

Warehousing Area and Vacancy Rate



- There is ~7.41 Mn square feet of warehousing area in Sri Lanka.
- 86% is B Grade warehousing spaces
- 14% is A Grade warehousing spaces
- Cold storage spaces demand has increased as more perishable goods enter the market.
- Demand for B Grade spaces is higher than A Grade spaces as most tenants provide products which don't require high quality facilities.

Average Warehousing Rent Prices

Area	Price per sq. ft. (USD)	Price per sq. ft. (LKR)
Peliyagoda	0.23	46
Kelaniya	0.27	54
Wattala	0.24	48
Grandpass	0.30	61
Kottawa	0.35	71
Kaduwela	0.32	64

Relatively longer periods of lease contracts will create less pressure on rental rates. In wake of COVID-19 Logistic companies will reassess inventory volumes in line with business continuity plans. Diversification of manufacturing and warehousing across the globe amidst COVID will create future demands.

Main Warehouse Owners

- Hayleys Advantis
- Aitken Spence Logistics
- John Keells Logistics
- McLarens Logistics Ltd

Sources – KPMG Research



Thank You



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