

ASIA'S NEXT BIG REAL ESTATE DESTINATION HUB

The South Asian island nation of Sri Lanka is emerging as a leading real estate investment destination for its flexible policies, strong government and robust financial-legal systems

IFM CORRESPONDENT

The Asia Pacific region has emerged as the best real estate investment destination globally, registering the highest year-on-year investment growth of 29% (H1 2018 vs H1 2017) against 9% in the Americas and EMEA regions (Source: JLL Research Report 'Global Capital Flows', Q2 2018). Within this region, Sri Lanka is a shining example of a thriving emerging market.

The 'Pearl of the Indian Ocean', Sri Lanka is experiencing a surge in real estate investment, following a steady period of impressive economic growth over the past decade. A vibrant democracy, political stability, a transparent and robust legal system based on the canons of the Laws of England, freedom for foreigners to invest, a transparent regulatory regime for free capital movements, a relatively benign tax environment, a peaceful South Asian region and an economy getting into a sustained growth all combine to put the spotlight on this island one of the top opportunities for real estate investments in emerging Asian economies. Extensive government

investment and private consumption has helped deliver an impressive GDP growth of 4.5% according to World Bank estimates.

Sri Lanka's capital city, Colombo, is one of the region's fastest-growing commercial hubs. Located at the centre of major shipping routes connecting South Asia and the Far East with Europe, Africa and America, it enjoys enormous strategic importance and today the city is a base for numerous businesses and government institutions. Additionally, strong air connectivity and popularity for tourists have provided a solid foundation for the country's transformation.

Sri Lanka's high potential for tourism—and in particular luxury tourism—has spearheaded some major infrastructure projects such as Colombo International Financial Centre at the Port City reclamation, Megapolis and Beira Lake, as well as improvements in transport including new expressways, a new Colombo Light Railway (CLR) and airport expansion.

REAL ESTATE



SAPPHIRE RESIDENCES
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However, real estate is the big success story underpinning Sri Lanka's growth. As the country seeks to ramp up its prominence among South Asian markets, GDP growth will be paralleled with growing salaries and with this comes an increase in demand for superior quality housing. Additionally, growing demand for quality office and commercial space from local and foreign businesses is spurring on private sector investment. The proposed International Financial Centre at the Port City alone will add 5.65 million square metres of new mixed-use real estate.

Arun Pathak, Managing Director of WelcomHotels Lanka (Private) Limited, observes: "The economic growth of Sri Lanka is being led by large real estate developments in Colombo from multiple investors including the US\$ 15 billion reclamation project, with an expected further investment of US\$ 25 billion in developments on the reclamation, that are all poised to reposition the importance of Colombo, and indeed Sri Lanka, as a key regional business and financial hub. This makes prime real estate a great buy as the market is at the beginning of its growth curve."

He adds that high quality assets here offer good long-term return opportunities, especially in the current scenario in which asset prices are relatively lower than other regional business and political centres. "This may not last very long as these are expected to catch up, at least regionally, in the next few years."

Indeed, as a rapidly developing emerging market, Sri Lanka is becoming increasingly attractive to global real estate investors. According to KPMG's recent report "Paradise Island—Luxury living in the tropics", real estate investors are being rewarded with ROIs

averaging 17% per annum and rental yields of up to 9%. Indeed, since the end of civil conflict in 2009, Sri Lanka has delivered a series of increasingly luxurious prime residential developments. As highlighted in KPMG's new report:

- Over 6,000 new apartments are due to be built by 2020
- The luxury market is driven primarily by local Sri Lankan investors (51%) as well as Sri Lankan expats (18%) who are keen to invest in their country of origin. The remainder of the market comprises owner-occupiers (17%) and institutional investors (4%)
- From drawing board to completion, high-end new-build properties in Sri Lanka are achieving an average ROI of 10% per annum. Investors entering the secondary market have achieved 15% ROI per annum on an average. Historically prices have registered increases of 40-45% in the 1st year to the 3rd year after completion
- Rental yields are achieving a generous 9% per annum, whilst secondary market investors are averaging 5-7% per annum. Foreign professionals are the most prominent tenant within the luxury market (57%), followed by local end users (19%), local tenants (13%) and foreign tourists (1%)

Commenting on the country's future prospects for real estate investment, KPMG Sri Lanka's Principal Shiluka Goonewardene observes, "Regionally Sri Lanka remains attractive as an emerging market, when considering the ROI on real estate. The positive outlook for the global economy is an encouraging sign that the rewards will continue for some time to come."

Recently developers have brought luxury real estate in line with top global urban destinations

and several new luxury and branded residential developments—including Cinnamon Life, Altair, Shangri-La at One Galle Face and Ritz-Carlton at The One—have been springing up across the city, with more in the pipeline. Attracted by the strong economic growth, developers from further afield are increasingly setting their sights on Sri Lanka, especially Colombo; in addition to substantial existing Chinese investment in Colombo, Japanese firm Belluna Co. recently announced plans to invest US\$500 million in real estate developments here.

The city's latest high-end residential offering, Sapphire Residences, is the city's most exclusive residential development, described as "the jewel in Colombo's crown" and the city's "most talked about address". Sapphire Residences is set to redefine luxury vertical living in the Indian Ocean Reale. Located on the prestigious Galle Face oceanfront at Colombo's epicentre, it comprises 132 exclusive private residences averaging a voluminous 5,000 square feet living area with extraordinary floor-to-ceiling heights (penthouses are 9,325 square feet), with stunning 180° panoramic views of the city, lake and ocean, floor-to-ceiling windows and extensive leisure facilities for residents that span an impressive 40,000 square feet.

The first overseas project by luxury Indian hotelier ITC Hotels (operating through ITC's 100% subsidiary WelcomHotels Lanka (Private) Limited), this distinctive development is set to become a globally recognised landmark for the city; the iconic design was the brainchild of a world-class international team lead by U.S. architectural firm Gensler, which created the two distinctive parallel towers connected by a sky bridge, with the residential interiors by



Burega Farrell in Singapore.

Sotheby's Sri Lanka's Director Charles Phillipot comments: "We have started to preview the Sapphire Residences to HNW buyers in Colombo and the consistent response is 'WOW!'. ITC Hotels has raised the bar to a new level for the region and created 'uber-luxury' apartments that offer a superlative living experience in South Asia. The mixed-use development includes a private Residents' Club offering over 40,000 sq. ft. of extraordinary leisure amenities for homeowners and their guests. Conceptualised by YOO inspired by Starck, these include several swimming pools, cinema, residents' Clubhouse with lounge and library, amphitheatre, spa, gymnasium and fitness centre, yoga room, indoor squash, table tennis and multi-purpose sports courts."

Currently under construction with completion expected in 2021, the development comprises a 224-metre-tall residential tower set alongside a 140-metre-tall 5-star ITC hotel. Connecting the two buildings at the 19th-21st levels is a 54-metre long sky bridge, which incorporates a stunning bar and lounge with spectacular views on the lower level and on top are two infinity pools and a sunbathing deck. The adjacent ITC hotel is crowned by a helipad (the only one being in the vicinity) for not only VIPs, guests and residents, but also for medical and other emergencies.

The development's proximity to the International Financial Centre in the forthcoming Port City and its commanding location on Colombo's most exclusive Central Business District strip, owing a home at Sapphire Residences

ensure that residents are ideally placed to keep a finger on the pulse of international finance, trade and commerce. Priced from around US\$1.4 million, Sapphire Residences are scheduled to launch onto the market in Q3 2018 with Sotheby's International Realty.

These developments are a sign of a renaissance for Sri Lanka that has seen its fair share of natural calamities and political turmoil in the last few decades. With several provisions being made for foreign investment, real estate can witness a real boom in the years to come.

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