

# MIXED DEVELOPMENT PROJECT

600 Apartments

At Vauxhall Street



To develop 37 story with 600 luxury apartments on 253 perches land adjacent to Vauxhall Street – home to “Big Businesses” and shores of the Beira Lake - Vauxhall Street is surrounded by leading commercial, buildings , Modern

<b>Sector</b>	<b>Infrastructure/Mixed Development</b>
Responsible Agent(s)	Investor, BOI, UDA and other Line Ministry/Agency
Project Description	37 story with 600 luxury apartments or mixed development
Project Size	US\$ 160 Mn Total Extent of land area is 253 perches
Proposed Procurement Process	<b>Investment Model –</b>  (a) Foreign Direct Investment (b) Joint venture agreement with potential investors/developers
Project Documentation	(1.)Project approval received from BOI for mixed development  (2)Government land lease agreement for 99 years  (3) Cabinet approval for this project for mixed development.  (4)UDA (urban development authority) clearances for site/building approvals are obtained  (5)The project qualifies for all applicable incentives under the Board of Investment of Sri Lanka (BOI). (6)SCAKA approval obtains. (Special government sub committee for Colombo city development)
Current Status	Investor /Developer could contact the local investor for further details regarding the proposed project
Existing Policy, institutional framework and concessions to be offered	(01) Board of Investment of Sri Lanka has granted 12 years tax holidays (02)With this tax period any profit gain from this project no taxes (03)Other relevant taxes in srilanka also tax free(BBT, STAMP,ECT) (04)Duty free facilities for importation of project related items under the BOI incentive scheme. (05)Duty free for developer to bring project related his equipments and machinery (06)Allow for visa skill labor from foreign countries (07)12 years tax holiday staring from project contraction starting date. (08)With this scheme investor can open foreign currency bank account in srilanka and bring they fund and take back home without central bank control

## **PROJECT PROPOSAL FOR MIXED DEVELOPMENT PROJECT IN VAUXHALL STREET**

### **Sri Lanka – Country Situation**

The cessation of hostilities in May 2009 has placed the country on a platform of a massive unprecedented development drive to catch up with the backlog and lost opportunities during the ethnic war lasting 26 years. Foreign Direct Investments (FDIs) have poured in from several Regional countries such as China, Hong Kong, Singapore, South Korea, India and Malaysia as well as from the traditional countries in the West to a lesser degree. In fact the investments in the first 09 months of 2013 have amounted to USD 870mn while commercial loans have totaled USD 1.32billion in the period. The government aims to make Sri Lanka the center of the Asian silk route once again taking advantage of its unique geographical location. Its target is to make the country into navigation, aviation, financial, trading and commercial hub linking the East and West. The development projects have initially being focused on infrastructure covering sea ports, air ports, expressways and roadways, hotels, shopping malls and other commercial buildings, apartments and mixed developments. Several sectors have been targeted by big names in the world of business attracted by real business opportunities, boosted by attractive incentives offered by the government of Sri Lanka by way of special tax holidays, customs duties and other waivers, exchange control exemptions and fast track approvals.

Please see Annex 01 for an Overview of the Sri Lankan Economy.

### **Construction Industry Overview**

Sustaining the high growth momentum recorded during the 2011 year, the construction sub sector recorded an impressive growth of 21.6 % compared to 14.2% in 2011. This is the highest growth registered by the sub sector in the past 10 years. The sub sector contributed to 8.1% of the overall GDP and 23.9% of the change in GDP growth from 2011 to 2012 becoming the growth driving sub sector in the Industry sector. Compared to the share of 6.6% and contribution to the change of 10.3% in 2009, this indicates the improved performance of this sub sector after the ending of the war. Public sector construction projects, particularly in the areas of infrastructure development projects such as road development, power projects, port and airport development and housing development projects provided a substantial impetus to the growth in the sector. The private sector contributed towards the growth in the sub sector particularly with hotel and housing construction activities. The growth in the sub sector is reflected through the increase in imports of investment goods and building materials by 1.7% and 13.5% in volume terms in 2012. Furthermore, loans and advances by the Commercial Banks to the private sector for construction activities grew by 22.9% in 2012, compared to 14.5% in 2011. As per the price index compiled by the Institute of Construction Training and Development (ICTAD), the cost of construction activities had increased by 12.2% during the year compared to the increase of 5.4% in 2011.



## Development of Colombo

Colombo the Commercial Capital of the country for centuries is experiencing new lease of life in the development perspective. Colombo Port a key-shipping hub of the Region has already carried out the **Colombo South Port expansion** to cater for higher volume of TEU's as well as to accommodate deep draught vessels and transshipments.

Colombo is also fast emerging as the financial hub of the Region with a highly developed banking system, exchange liberalization and further opening up of the capital account of the country in addition to the most deregulated current account of the country in the South Asian Region.

Infrastructure development by way of modern roadways and high-tech communications has given a further fillip to the development effort. Greening of the City and its immediate environs has contributed to beautifying the City. According to the government plans the City would compare with the best-developed Cities in Asia in the near future. Recent years have seen City living in Sri Lanka transform itself into a modern metropolis, almost befitting of its western counterparts in terms of amenities, conveniences and life style services.

The Nations construction industry as a whole has been on a rapid drive forward in its post war era heralding Sri Lanka into a new age of modern cities and 21<sup>st</sup> century life styles. Discerning homeowners looking for luxury home investments in the City are becoming more selective in their choice of apartments, looking for dynamic solutions including solid construction, aesthetics value, intelligent architecture and engineering, access to modern conveniences, recreation facilities, minimal maintenance and most importantly an idyllic environment in which to make their home.

In the last couple of years, Colombo has experienced the commencement of several high rise development projects in the residential apartment and mixed development categories. These developments are mainly located at undeveloped lands in the heart of the city owned by the State and made available to Property Developers on long-term lease.

All these developments are targeted at the high-end of the market both in respect of commercial space as well as Residential Apartments. Even the Apartment Complexes being constructed by local developers are in the luxury and super-luxury segments catering to the needs of the affluent class as the rich are becoming richer.

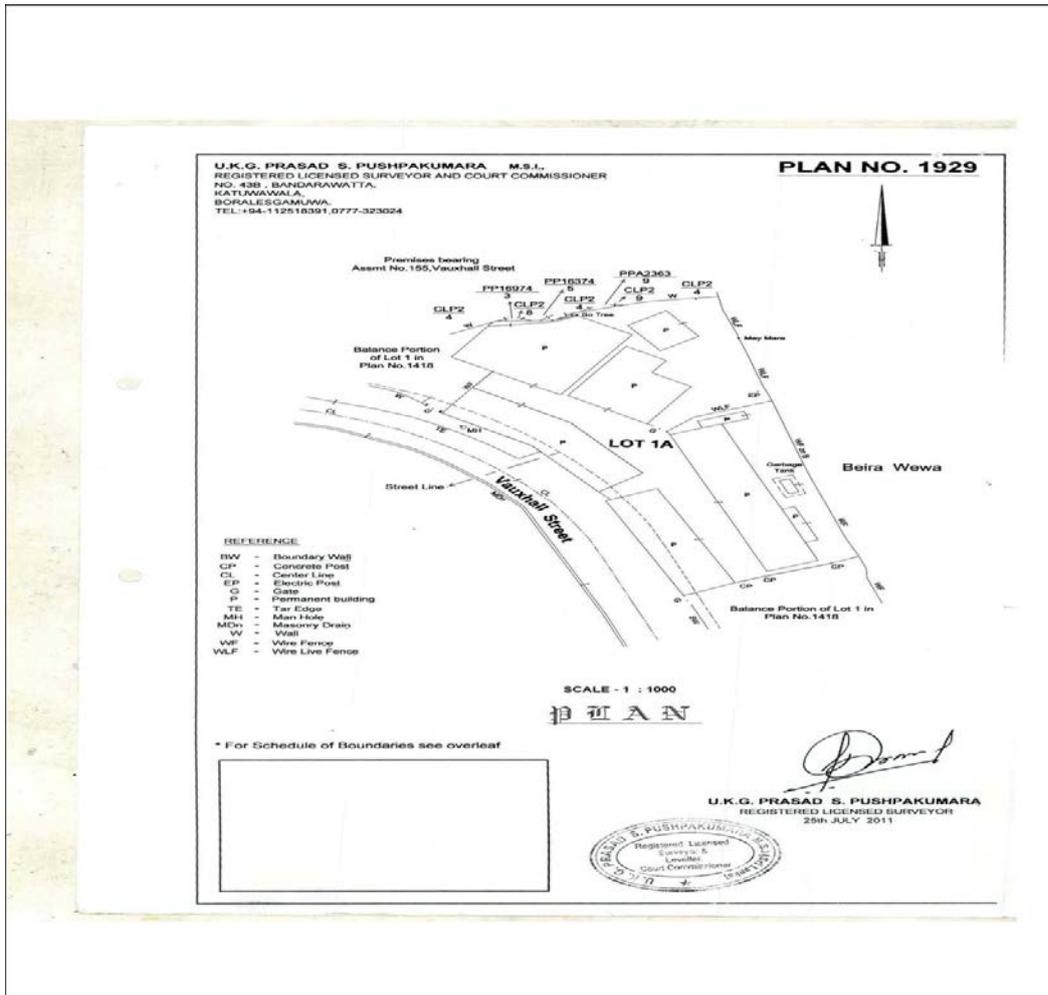
### **Location**

The land for the proposed Project, 253 perches in extent is located in **Vauxhall Street, Union Place, Colombo 02**, within the Central Business District (CBD) of the Capital and indeed of the country as a whole. Fort, Colombo 01 that has been the nerve center of business for centuries is a very small geographical area bursting in its seams with saturation. Colombo 02, which is adjoining the Fort, has for several decades been the hub of large mercantile firms, particularly the **Vauxhall Street**. However, the development of Colombo 02 has been constrained for several decades in spite of its very close proximity to Colombo 01, due to the fact that the state is the largest landowner in the locality and the area has experienced a proliferation of contiguous tenement structures and shanties most of which are illegal and unauthorized. The Urban Development Authority (UDA) and the Defense Ministry (under which it falls) have mapped out development plan and strategy for Colombo 02 which envisions the following:

1. Making available undeveloped / under developed state land to the private sector on long-term lease for development into priority sectors.
2. Demolition and relocation of tenements and shanties and unauthorized structures in the area.
3. Development of infrastructure including arterial roadways, communications, the Beira Lake, walkways etc.

The area boasts of several high-rise buildings including Empire Residencies, Dawson Towers, Hilton Residencies, on three twenty Apartments, Access Towers, Aitken Spence Building, Dialog Axiata Building, Park Street Development by Readywear Industries (Pvt) Ltd., and many more. The Nawam Mawatha area (also fronting the Beira Lake) has emerged as the financial City in Colombo 02. Several proposed large scale mixed use developments such as Destiny Mall and Residencies the mixed development of UDA with Indian Giant TATA and the country's leading conglomerate John Keells Group's proposed Leisure development are all within 01 Km of the site in the CBD.

### **The Site**



The most important factor in a real estate development Project is the location and site. This particular site in the mercantile hub of Colombo 02 in Vauxhall Street has a commanding strategic importance in that it is sandwiched between the well organized Vauxhall Street and the Banks of the Beira Lake (wide frontage). The Beira Lake now serving as a pivot of development also serves as a nerve centre for leisure activities including being the premier waterway for rowing. The other side of the Beira Lake is the planned area for hospitality and leisure including the up market “integrated Super Luxury Resort” of Australian Casino Mogul James Packer and several other recreation and leisure developments. The 350 ft. tall transmission tower styled “Nelum Kuluna” (Lotus Tower) is already coming up fast across the Lake from the Site. This tower is touted to be a premier tourist attraction (both foreign and local) and is bound to trigger tremendous activity.

**Project Concept** promoters have designed the project concept taking into cognizance the country situation with tremendous growth prospects, real estate industry trends, the strategic and supreme location of the site in the heart of the CBD and the mercantile hub in Colombo 02 with dual frontage to the well organized Vauxhall Street and the premier main water body in the City, the Beira Lake. Due

consideration has been given to the need to maximize the business opportunity of the site in tandem with the booming high grade condominium market particularly with the super luxury segment and the demand for commercial space in this historical mercantile hub adjoining the city center Fort.

In view of the foregoing the Promoters have focused on the super luxury apartment market in the main while taking advantage of the valuable commercial area by planning for a smaller component of commercial space. According to preliminary drawings 600 apartments of the highest grade are targeted with a few floors of commercial space penciled in.

## **Market Overview**

### ***Market Definition and Opportunity***

Recent years have seen city living in Sri Lanka transform itself into a modern metropolis almost befitting of its western counterparts in terms of amenities, convenience and life style services.

The nations construction industry as a whole has been on a rapid guide forward in its post war era, heralding Sri Lanka into a new age of modern cities and 21<sup>st</sup> century life styles. Discerning homeowners looking for luxury home investments in the city are becoming more selective in their choice of apartments looking for dynamic solutions including solid construction, aesthetic value, intelligent architecture and engineering, access to ultra modern conveniences, high class recreational facilities, minimal maintenance and most importantly an idyllic environment in which to make their home.

In order to retain the beauty of this natural environment, it is important that developers of residential and commercial properties are conscious of not disturbing the natural ecosystem and ensuring that the required developments leave behind the smallest of 'carbon footprints'.

The only way to achieve this effectively in high demand residential areas is to build 'vertically'. As a result, one of the key benefits of high-rise developments is its minimal impact on the environment, doing much less damage to it than if a large number of homes were built on the ground.

Colombo 02 which is adjoining the Fort, Colombo 01, considered the City centre, is the target of a rapid drive spearheaded by the Urban Development Authority (UDA) under the direction of the Defense Secretary, Hon. Gotabaya Rajapakse in the transformation of a congested area proliferated by old tenement buildings mainly on state land into a modern **Central Business District** optimizing its value.

The site with an extent of 253 perches with long dual frontage to Vauxhall Street and the Beira Lake in a serene environment is an ideal opportunity for reputed Architects to design a condominium development aiming at the market segments in demand.

### ***Competition and Other Influences***

In the last 03 decades activity in the construction industry has seen highs and lows in tandem with the economic and social conditions of the country. Of course with the 26 years war situation construction of housing units has lagged far behind the ever increasing demand for housing. Recent surveys conducted indicate that Sri Lanka has a shortfall of residential units amounting to over 600,000. Even with accelerated housing construction, demand for houses will outstrip supply in the foreseeable future considering the annual increment in demand. The dramatic rise in the price of land in Colombo has naturally led to the construction of high-rise condominiums. The demand for apartment living in an around the Central Business District is further enhanced by the need to be close to the place of work and to the prestigious schools obviating strenuous travel. The developments that have sprung up and are on the drawing boards of Colombo 02 are a clear sign of this trend and due to the high cost of land and its strategic value the demand is really from the affluent classes and expatriates.

Please see Annex 02 for a comparative analysis of super luxury apartments under development/proposed in Colombo which shows at a glance the competitive locations. Of these the most relevant to our location is the John Keells Group Development **on three twenty** which is about 600 meters from our site. It is noteworthy that out of the 475 units on offer already 415 have been sold with the completion scheduled for end of 2014. Of course one has to bear in mind that the developer is a company within the umbrella of John Keells Holding Group, the No. 1 PLC in the country.

### ***Unique Selling Proposition (USP)***

For the success of any condominium development, the location is the most important single factor. It is very much so in this project as well. In fact, the unique location with coveted frontage to the Beira Lake gives it a USP which is not available to the '**on three twenty**' project. The Beira Lake itself is undergoing a plan for a massive redevelopment with better facilities for rowing, other water sports, pleasure cruises, a linear park with a walkway and the banks of the river being allowed for hospitality and leisure industry and most importantly the unique '**Lotus Tower**'.

### ***Target Market***

In view of the foregoing the target market for the proposed residential development should be the "**super luxury**" segment of apartment sector and nothing less. Although there are other locations in Colombo 02 aiming at this segment, still there is scope if the required luxuries and facilities are made available and proper positioning of the project with due advantage taken of the Beira Lake frontage as well as being in the hub of the Business District. The last factor makes the site very attractive for sale / lease of commercial space as well. Vauxhall Street is a unique area identified with the mercantile sector with the tea trade and insurance dominating.

## Marketing Strategy

While the developer would naturally endeavour to obtain the highest value of sales, one would also have to strike a balance with profitability as well, and in that respect the following factors would be taken into account.

- Fixing of selling prices at higher levels during the construction period makes it difficult to achieve presales of apartments and the discounts offered should be progressively less as the building construction progresses. Reductions of prices have far more adverse effects than increase of prices with regard to customer satisfaction.
- Offer of unduly high discounts on the list prices to attract funds from customers in order to cover project financing needs, erode project profitability. Presales proceeds take away the burden of shareholders to make larger equity contributions and the need for bridging finance from Banks. It would be prudent to obtain Bank facilities to complement equity funding and to delay presale of apartments and refrain from offer of unduly large discounts.
- Potential customers readily make bookings when construction of the super structure has reached.
- The prices of apartments could progressively and significantly be increased for higher floor levels particularly due to the importance of 'view factor' and less noise, dust etc.
- Presales have the advantage to the developer as a source of finance for the construction as well as the comfort that the product can be sold.
- Customization needs are most important and it is better to have a wider range of the apartments of different sizes to facilitate customer selection.

Needless to say that the marketing strategy should also be determined by the imperatives of the developer taking into account the different component of his proposed Financing Plan and profitability objectives.

## Sales Forecast

Undoubtedly the sales forecast of this proposed development would be a very vital factor in the decision making process of a potential Investor / Developer. In determining the value of sales we have to take into cognizance the comparative locations, which are really the **on three twenty** Project and Destiny Mall, both of which are in the same locality. The John Keells project has a price range of USD 192 per sq. ft. to USD 262 with an average of USD 227. Of course one has to bear in mind that 87% has already being presold and completion is scheduled for end 2014. In the case of Destiny Mall 55% is claimed to have been presold (this figure appears to be overestimated) and the completion date is mid 2017. The price range for Destiny Mall is USD 199 per sq. ft. to USD 274 with an average of USD 237 leaving out the Villa types (Pent Houses).

Taking into account the above price ranges we could estimate an average price level of well over USD 260 per sq. ft. (excepting Pent Houses) assuming that the construction starts by end 2014. However, as a measure of prudence we have taken average selling price of USD 260 per sq. ft. The parking slots can be sold outright at least for the residential apartments and we have included such sales in the

## Comments on Configuration

- As per the preliminary drawings and specifications, the total number of apartments amount to 600 Units + 04 Pent Houses. On this basis average floor area of an apartment works out to 1,055 sq. ft. We are of the view that 600 apartments in one location would be too unwieldy by way of management and maintenance, parking areas, not to mention marketing and sales, while an average floor area of 1,055 sq. ft. is on the low side taking into cognizance that our target market is the super luxury segment. As such we recommend that the number of apartments be brought down to 498 Units which would mean that the average floor area of an Unit will go up to 1,271 sq. ft. which is a better selling proposition. Needless to say that 04 bed roomed apartments would have a much higher floor area while studio apartments and 02 bedroom apartments would have a lower floor area.
- This would mean that the parking slots required would be proportionately less which would give the options of providing reduced parking area / allowing more slots from a marketing point of view.
- As per the present plans only 04 Pent Houses have been penciled in. In the Sri Lankan context of the condominium sector Pent Houses constitute the **first sales** in a Project due to the demand for them by high net worth individuals. Pent Houses are also the Units that give a Developer by far the highest rate per sq. ft. on sale and add super profits. We recommend that the number of Pent Houses be increased to at least 06 Units. This would bring the total number of Units to 502.

## Project Cost

The Project Cost would include 03 basic components, land cost, building cost and overhead cost.

### **Land**

As the land in question is owned by the state it would be divested on the present government policy, which will be on the basis of a 99-year lease but with its value being paid upfront. For the purpose of project costing, the land cost would include the upfront payment, legal fees, stamp duty, negotiation fees, approval cost of the relevant line departments for the divestiture, tenant relocation cost, Investor promotion fee etc.

### **Building Cost**

The building cost would include construction cost, consultancy cost and contingencies. The cost of construction would depend on several factors including the method of selection of the main constructor, the mode of the contract (design and build / measure and pay / partnering etc.) and the class of contractor (M1, M2 etc.). The cost of construction per sq. ft. would also depend on the condition of the soil, need for piling, water table, the number of levels, procurement system of building materials, availability of customs duty waivers etc. This Project already has Board of Investment approval with exemption from Import duty and other levies, which would bring down the cost of importing project related goods. Taking into consideration the above, an average cost of construction per sq. ft. is estimated at USD 100.

Site Extent = 6438.57 Sq.m  
 Gross Floor Area = 107,999 Sq.m  
 Floor Area Ratio = 16.7  
 Plot Coverage of Podium = 66%  
 Plot Coverage of two Towers = 42%

Total Parking Area = 9,080 sq.m [8.4 % from G.F.A]  
 Car Parking Bays ; Required 730 | Provided 800

Total area of 04 no Pent Houses = 1,660 sq.m  
 Total area of 600 no Apartments' = 56,500 sq.m  
 Total Rentable Officearea = 2,755 sq.m  
 Total Rentable commercialarea = 6,332 sq.m  
 Total Sellable Area = 67,247 sq.m [62.2 % from G.F.A]

Total Services & Circulation area = 32,130 sq.m [29.75 % from G.F.A]

Podium Height - 35.1m  
 Tower Height - 125.7m  
 Maximum Height - 160m

