



HOSPITALITY CONSULTING

Sri Lanka

Coastal Resort - Residential Market Update

December 2016

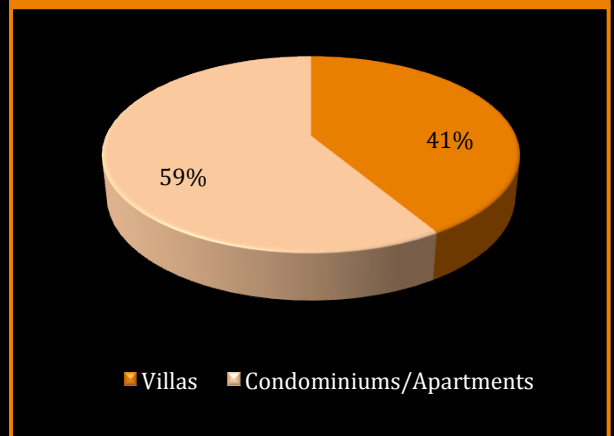
Foreign demand expected to absorb surge in new supply as government reforms ownership laws

Developers focus on lifestyle designs and leisure facilities

“The island has seen a series of positive changes from the government in the past five years, as the nation braces for increased tourism demand. With the upgraded Southern Expressway E01 connecting the three major cities of Colombo, Galle and Matara, infrastructure is pushing property development on a broader basis to coastal resort areas.

The real estate market is also seeing an uplift in demand this year with a revised legislation that lowered barriers for foreign direct investment in the sector. Some of the progressive changes include an exemption of a 15% tax for leasehold properties with a tenure up to 99 years. As for freehold titles, foreigners are currently able to only own condominium/apartment units located on the fourth floor and above; however, a new 2017 proposal to remove such restriction may well stimulate demand and alleviate a supply demand imbalance.

Market Size Comparison by Project Value



Source: C9 Hotelworks Market Research

Another key storyline is hotel residences which are becoming more popular amongst upscale property offerings. The concentration of new projects on the Southern Coast is expected to push the market into a new growth cycle in the short to medium term.”

Bill Barnett, Managing Director, C9 Hotelworks

Trends

- Foreign direct investment in the broad real estate market is highlighted by investors from Mainland China, India and Hong Kong.
- Property transactions for lifestyle properties are more popular amongst buyers from Europe, Australia and Hong Kong compared to other international source markets.
- Domestic demand constituting high-net-worth individuals and expatriates residing in Sri Lanka make up a significant portion of sales in upscale residential developments.

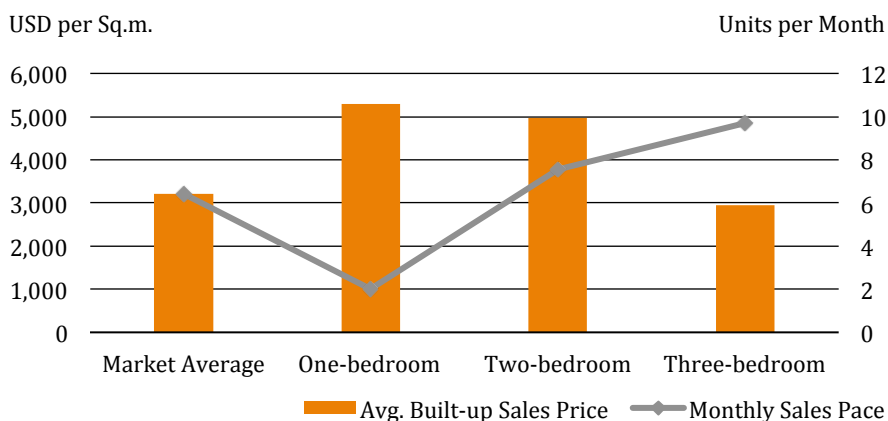
Forward Outlook

- New tax reforms for development outside key CBD areas are expected to spur property developers towards projects in new locations.
- Potential establishment of REITs introduced in the 2017 budget proposal, if passed, will trigger an influx of demand in the property sector and provide a capital market mechanism.
- Completion of the Bandaranaike International Airport's expansion scheduled to finish in 2017 will induce tourism arrivals and have a knock-on effect for hospitality-led residences.

CONDOMINIUMS/APARTMENTS

- Although many of the residential properties offer a residential condominium/apartment operating structure, the sector is seeing more collaboration with hotel operators for newer projects, especially amongst luxury product offerings. Hotel residences command a premium sales price per square meter over pure residential products.
- Majority of foreign buyers purchase residences for a lifestyle investment, with a trend towards fully furnished condominiums/apartments featuring premium décor and furniture. Ultimate pricing per unit typically falls between USD150,000 up to USD450,000.

Average Built-up Sales Price and Absorption Rate by Unit Type

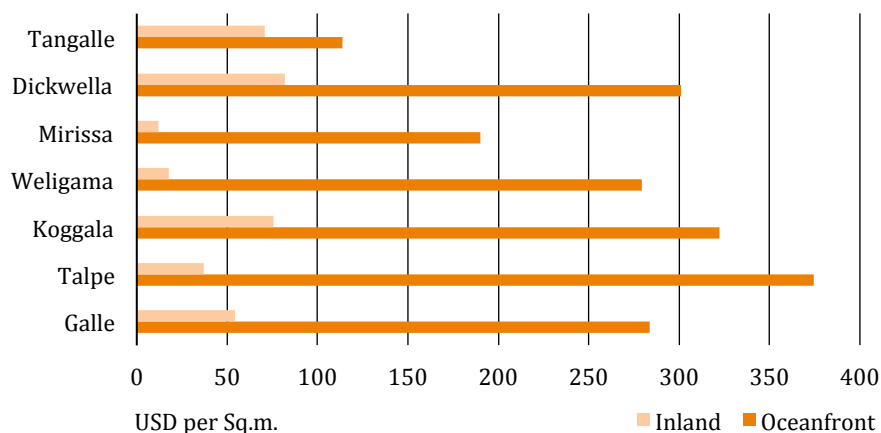


Market-wide built-up sales price for units averaged USD3,200, with approximately 6.4 units sold per month

Source: C9 Hotelworks Market Research

- View, location and land value are the three main factors affecting sales prices of condominium/apartment projects. The escalating land value of oceanfront properties has pushed some of the new developments inland in order to reduce cost and increase capital gains.

Typical Land Values by Key Destinations



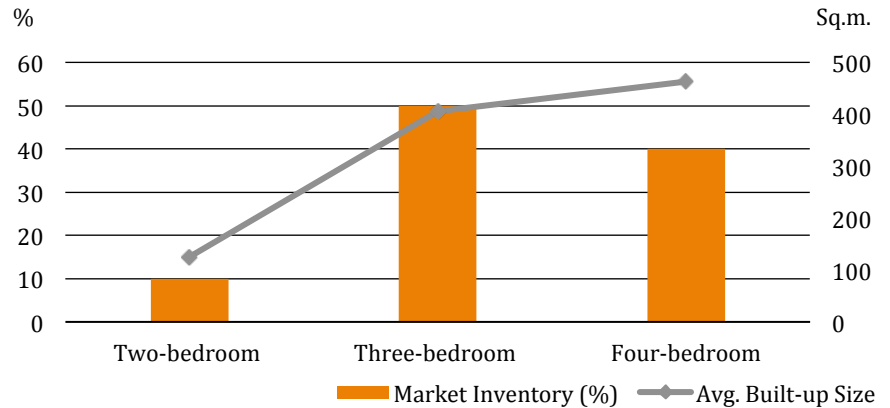
Land values of oceanfront properties rose in recent years, with the new expressway connecting coastal areas

Source: C9 Hotelworks Market Research

- Peripheral town areas were originally a popular location for villas due to convenience; however, increasing foreign demand and improved infrastructures along the coastline has shifted preferences towards waterfront properties in the past decade. These include locations with ocean views such as Talpe, Koggala and Weligama, as well as lake views in Hikkaduwa.

Three-bedroom configurations account for half the market, with the average built-up area being 400 sq.m.

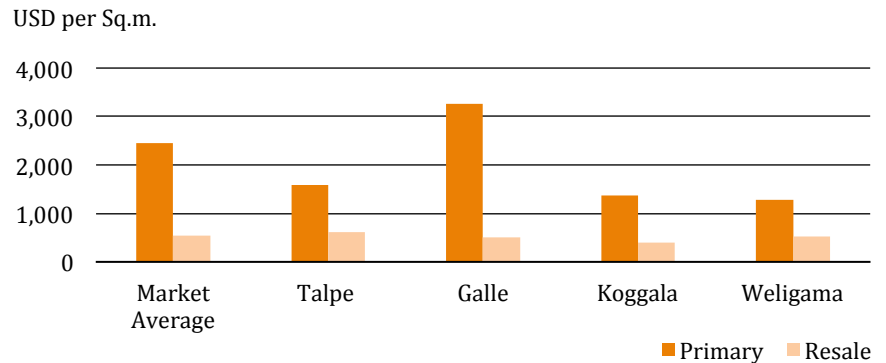
Inventory Mix and Average Built-up Size by Villa Type



Source: C9 Hotelworks Market Research

Built-up sales prices for resale villas are substantially lower than new units on the market

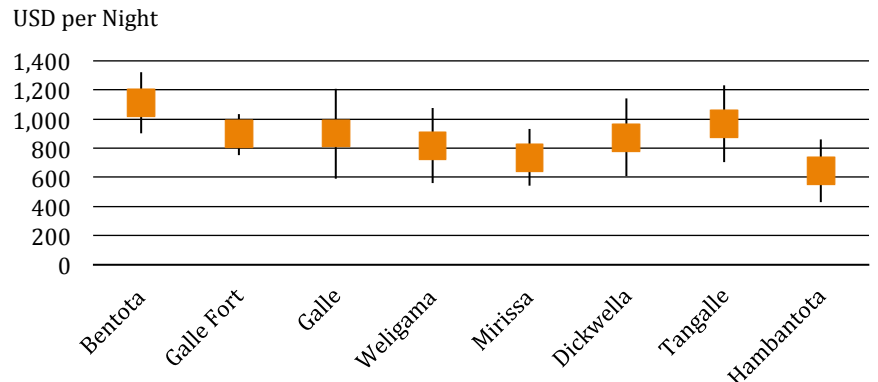
Average Built-up Sales Price of Primary Market vs. Resale



Source: C9 Hotelworks Market Research

Well-situated villas are highly preferred, with a price per night averaging USD868 for a four-bedroom unit

Average Villa Rental Rate by Key Destinations



Source: C9 Hotelworks Market Research

About C9 Hotelworks



Bill Barnett
Managing Director

C9 Hotelworks is an internationally recognized consulting firm with extensive experience in the Asia Pacific region. Its core business focus includes:

- **Hotel and Resort Development**
- **Asset Management / Ownership Representation**
- **Project Feasibility and Analysis**

Key competencies include international hotel operator search, selection and contract negotiation, mixed use hotel and residential planning and operation reviews.

A wide range of both institutional and private developers and a comprehensive portfolio of completed projects give C9 the skill set and background to focus on key issues, evaluate complex ones and assist clients in achieving solid results. Based in Phuket, Thailand and led by Managing Director Bill Barnett, who has 30 years of experience in Asia Pacific, the firm is well positioned to serve an increasing demanding marketplace.



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