

BRI Pulse

Colombo Port City: Investor Marketing Begins

All Dressed Up...

After nearly six years since launch, and considerable progress over the past few months, Colombo Port City (CPC) has recently begun to actively market ownership parcels to international investors. Unfortunately, this investor launch has come at a time when the world is facing a global pandemic which is adversely affecting emerging markets, home to the 300,000 High Net Worth (“HNW”) investors CPC have been targeting for years.

While these represent less than ideal fundraising conditions, the initial \$1 billion FDI has already been approved, a new yacht marina and the SEZ should be functional by year end 2020, all of which are likely to add to attractiveness of the investment and upside to future valuation, which has risen substantially since the 2014 project launch.

Construction to Date

It has been a bumpy ride to reach this milestone. The concept of Port City originated in 2004, but the plans were delayed by a decade long domestic conflict. This Port City Project involves building a modern city, along the lines of Singapore or Dubai, on 233 hectares of land reclaimed from the sea, at a cost of circa \$1.5 billion. It is said to be Sri Lanka’s largest single foreign direct investment for land development. The construction and funding are provided by the China Harbour Engineering Company (CHEC) and its parent China Communication Construction Company (CCCC), in conjunction with the Sri Lanka Ports Authority. CHEC hopes to attract a further US\$13 billion in secondary investments, for a combined FDI of \$15 billion before the project is completed (by 2041).

The project was launched with great fanfare in September 2014 in the presence of both countries’ leaders. However, in March 2015, work was suspended for numerous reasons, including following a change of Sri Lanka’s government. It was then restarted in August 2016 after satisfying CCCC’s lawsuit (for costs involved in halting construction) and CHEC satisfying a new set of environmental protections, including to the local fishing community.

By Q4 2018, the developers had completed more than 90% of the planned reclamation, putting them on track to finish reclamation by June 2019. According to CHEC, at that time, both the reclamation and the first phase of infrastructure were to be completed 2020.

In January 2019, CHEC Port City completed reclamation of 269 hectares of land from sea, ahead of the June schedule. The breakwater construction was also completed in 2019 (and certified having no flaws by Dutch independent consultants in March 2020).

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June 2020 Reboot

While much of the world has struggled with the virus since early in Q1, China and Sri Lanka have been moving expeditiously to accelerate development of this project, especially since June.

On 9th June, CHEC agreed to invest an additional \$1 billion into CHEC Port City for vertical development. This amount was in addition to the initial planned \$1.4 billion for land reclamation. This marks the first secondary investment (expected to be redirected into the SEZ once it is finalised).

On 11th June, CPC announced it expected to resume full construction activities from mid-July onwards, as more workers return with the gradual easing of COVID-19 – related restrictions in Sri Lanka. On 20th March, as the government imposed an island-wide curfew, the project company significantly slowed construction; the number of employees declined from 1,600 to below 500, including the circa 300 Chinese employees. Once restarting, CHEC Port City Colombo remains focussed on completing the project's first phase of infrastructure works, now scheduled for August 2021 (versus 2020 as recently as 2019).

On 20th June, Sri Lanka's Cabinet approved the proposed \$1 billion mixed development tower block, Sri Lanka's largest mixed development project. This project is designed to be carried out in two phases; Phase 1 – four years, \$400-500 million to be invested; Phase 2 – also 4 years, \$500-600 million to be invested. Phase 1 will cover three towers for three office buildings, two residential towers and a retail podium which would involve 6.8 hectares out of a total of 269 hectares which are available under the entire project.

Official Investor Launch

In December 2019, Prime Minister Rajapaksa, accompanied by the Chinese Ambassador to Sri Lanka, Cheng Xueyuan, officially declared the 269 hectares of land reclaimed from the sea open to investors.

In March 2020, the Port City Project announced that several foreign companies have expressed their willingness to invest in the Colombo Port City. It also announced there are now 50 hectares of land ready for construction that it plans to add a new marina for yachts, that the construction of the new road connecting the Port City and Colombo Port to Colombo International airport (contract for new terminal signed in March 2020) has commenced and that the SEZ will be finalised by end of 2020, In addition, the construction of beach, marina and central park is scheduled to be completed during 2021.

Since 2017, CHEC has been interested in attracting some of the estimated 300,000 HNW individuals based in Singapore, India, Sri Lanka, Pakistan and Bangladesh as investors. This number of HNW's is expected to double over the next decade. It is likely that some of these potential investors are part of the over 200 investor MoUs signed with the project company.

In July, CPC/CEHC planned to launch the fund-raising at the World Cities Summit 2020 in Singapore, which was postponed until June 2021. They then embarked on webinars initially focussed on HNW Indian/Asian investors, followed by a virtual global open house to end July.

The only major investor to date is the original Chinese investor, which spent only \$800 million of the \$1.4 billion planned to reclaim the land (as at January 2020).

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Valuation Calculations are Complex

From the 2014 launch, initial land valuation levels have been substantially lifted, led by strong Sri Lanka real estate/land valuations during the interim years.

The land valuation of initial investment made by CHEC Port City on the reclamation used Rs.5.6 million per perch (91 hectares), which would sum to \$512 million. Since 2014, real estate and land prices in Sri Lanka have boomed, especially in commercial land. In early 2020, the nominal land price in Colombo 01, which borders CPC, was estimated over Rs.20 million per perch – a 258% increase.

In February 2020, PwC provided a set of calculations based upon a midpoint of the two valuations of (Rs. 5.6 million and Rs.20 million) of Rs.13 million per perch (a 132% increase). At this valuation level, the CPC would generate \$3.4 billion from land sales while the Sri Lankan Government \$1.8 billion. Foreign investors are expected to purchase 70% of marketable land plots worth US\$ 3.6 billion.

Longer term, valuation uplifts could also be anticipated during the operational stage and/or from other FDI uplifts. PwC estimated FDI flows during the construction stage to be around \$5.6 billion and around \$740 million worth of FDI flows per annum in the operational stage.

It will therefore be interesting to track the sales over the next several months for this round of sales as well as sales through 2023, when the construction of Phase 1 of the business district and first hospitality spot is scheduled for completion.

In the interim, as can be seen above, CHEC has not only reclaimed the land (269 hectares actual versus 233 planned), spent only \$800 million of the pledged \$1.4 billion in doing so, and have already seen its land valuation levels increase substantially since the 2014 project launch.