

# Building luxury apartments in colombo construction essay



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It is proposed to set up a BOI registered joint-venture company to build luxury apartments in Colombo. The entire project can be done in three phases while this proposal will primarily address Phase I. This involves the purchase of 83 perches of pre-identified land. The subsequent phases will involve the purchase of 85 perches and 100 perches of land respectively. (Survey Plan Appendix part D)

The number of units to be constructed for Phase I will be 123 units in a 30-storey tower and will be aimed at the mainly local buyers in the middle to upper income brackets, as well as Sri Lankan expatriates. The preliminary works for Phase I will take about 12 months, including pre-sales of apartments and collection of deposits. The construction period is expected to be 30 months. Phase II will involve 177 units in a 35-storey tower and Phase III will involve 263 units in a 45-storey tower.

Phase I of the project is based on an average construction cost of Rs9, 030 per sq. ft while the average selling price is expected to be Rs25, 800 per sq. ft. The construction will only commence upon reaching secured sales through deposits amounting to 50% of the construction cost by sales value.

The capital required for Phase I is Rs650mn (Rs235 mn being in cash and Rs415 mn being land value) where the cash is sufficient to cover consultants fees, marketing expenses and CMC fees during the first 12 months, up to “push-button”.

The project is expected to generate a profit of Rs777. 8 mn for Phase I. If the same capital is retained in the company, Phase II can generate Rs1, 850. 3mn and Phase III of Rs3, 325. 8 mn.

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## **Background**

This proposal aims to capitalize on the buoyant market for affordable, yet luxury, condominiums within the Colombo city limits. In this regard, it is proposed to set up a joint-venture company for the purpose of raising equity capital to acquire land and develop a luxury condominium project.

This project is to be located in the heart of downtown Colombo and is to be developed in three phases, with the land to be acquired already been identified. This proposal addresses the development of Phase I of this project, while the remaining Phases can be developed along similar lines.

The project will be developed and promoted by experienced professionals with a proven track record in the property development market.

## **Project Plan**

### **Pre-project Planning & Approval of project**

Collect relevant market information and trends, analyze best fit for available land base / land that may become available in future, supervise the preparation of preliminary project evaluation document for presentation at Board of Management (BoM), get approval for sending out Architect's brief, Guide the team in preparing architect's brief; study and modify preliminary design provided by architect in line with market trends; make a presentation to BoM on the project - in order to get the required approvals for commencement of pre-sales and necessary funding for this purpose

MEASUREMENT CRITERIA - Quantitative/Qualitative

Total time taken from project conceptualization through project feasibility through project evaluation to presentation; Number of project presentations made to BoM; success rate of presentations

## **Pre-Sales of Project and Approval to Commence Construction**

Supervise the preparation of legal documentation / collateral / show flat / advertising and promotional plans; Selection of Consultant / Project Manager Firm; Initiate work with the local consultants, including Project Manager towards obtaining building approvals - in order to meet push button threshold and necessary statutory building approvals.

MEASUREMENT CRITERIA -Quantitative/Qualitative

Actual Sales against Target

## **Project Construction Implementation**

On achieving required sales threshold, make presentation to BoM for approval of project construction phase, monitor project progress weekly, authorize project payments, variations, extensions of time, negotiate with contractors on modifications - in order to ensure quality and timely completion of project within approved budget.

MEASUREMENT CRITERIA -Quantitative/Qualitative

Project as per Specifications; Cost Overrun; Time Overrun

## **Sales and Collections**

Review achievement of sales targets; if required, initiate necessary actions to meet targets; monitor timely remittances of customers' payment tranches - in order to ensure planned revenue recognition.

MEASUREMENT CRITERIA -Quantitative/Qualitative

Actual Receipts against Target

## **Project Closure**

Obtain necessary statutory approvals and execute all necessary legal documentation in time, full-fill customer expectations - in order to deliver customer satisfaction, and enhance company reputation.

MEASUREMENT CRITERIA -Quantitative/Qualitative

Customer Feedback; Repeat Business from existing customers

## **Construction Strategy**

### **Design Considerations**

The project will aim to maximize the plot coverage to ensure efficient use of the land. Given the site size, location, road frontage and road width, the maximum permitted plot coverage as per existing regulations of 50% will be utilized.

The design will be based on a fixed mix of apartments (i. e. not a modular design) as this will bring in design efficiencies and cost savings. The design will be essentially a reinforced concrete structure with locally procured materials (such as granite, tiles etc) while more expensive imported fitments

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and fittings will be procured in keeping with the market positioning of the condominiums.

The design will also involve cost savings through efficient M&E design (such as split-type air conditioning as opposed to central air conditioning) as well as other means to contain costs. Careful attention will be paid to ensure smooth operational considerations from car parking arrangements to easy maintenance of the building. Efficient energy and water usage will also be important given the high cost of electricity while pipe-borne potable water is in short supply.

Further, it is proposed to have the car parking above ground at podium level as this will avoid the need for expensive basement construction.

## **Costing**

This project will be on a BOI duty free basis and will be subject to 15% VAT.

The target overall construction cost for Phase I of this development is expected to be about Rs9, 030 per sq. ft. (which excludes land costs, consultancy fees and contingencies).

## **Timeline**

It is estimated that the finalization of designs will take 8 months while obtaining all the regulatory approvals will take an additional 4 months. Sales will run concurrently while waiting for regulatory approval. As such, it is estimated that “ push-button” will be about 12 months from the inception of this project.

It is estimated that it will take 30 months for completing construction of Phase I from the time of “ push-button”.

## **Risk Factors and Mitigating Measures**

### **Demand / Pricing Risk**

Supply and demand of luxury apartments in the market will determine pricing. The supply of apartments within Colombo city is growing, but is also constrained to some extent due to lack of availability of suitable tracts of land.

Meanwhile, the demand for apartments continues to grow from the Sri Lankan middle and upper middle class as they migrate to the city to be closer to their work place due to increasing traffic congestion and poor infrastructure. Sri Lankan families also wish to be closer to children’s schools, hospitals and other services. Given that the infrastructure is failing to keep up with the growth in the urban population, demand for condominiums in the heart of the city will continue to grow. This should help to underpin prices.

However, there is the risk that if the local economy slows down, it will adversely affect apartment sales. Further, a poor investment climate and falling tourism will curtail purchases from overseas buyers as well. In situations such as this, an over supply of apartments can lead to price cutting by developers to sell their inventory of apartments.

To mitigate the risk from over supply and price cutting, this project has two mitigating measures. The first is to ensure that the pre-determined sales

target has been secured before “ push-button”. The second is to phase out the development into three, thereby limiting the risk to one phase at a time.

## **Cost Risk**

Costs on a project such as this will be affected by domestic inflation and the exchange rate of the SL Rupee. As both of these factors cannot be directly controlled, it is proposed that this project be worked on a fixed-price contract for the construction.

This will effectively pass on the risk of cost increases to the contractor.

Further, as this development will be done in phases, it has the benefit of having a shorter timeframe for each phase and thus being able to limit the fixed price premium.

## **Duration Risk**

The risk that the project construction gets delayed is very real. This could arise due to a number of reasons, including poor management/cash-flow by the contractor, unavailability of skilled labour, shortage of materials (such as bricks etc.) amongst others.

To mitigate this risk that arises from any delay, only short-listed contractors with good reputations will be invited to tender for this project, preferably with their own directly employed labour. In addition, professional project managers will be hired to manage the project on behalf of the developer.

## **Interest Rate Risk**

Interest rates have been rising and this will affect the ability of potential apartment buyers to finance a purchase through a mortgage. Although this



risk cannot be directly avoided, as this project will be focusing on the affordable segment of the market, it should still enable customers to buy an apartment.

Further, the payments will be staggered through the construction of the project. Indeed, this project has the advantage that as the land will be acquired through the equity infusion, the need for a large deposits/tranches from buyers at the start can be avoided as a further incentive to buy.

## **Company Structure**

### **Capital Requirement**

It is proposed to raise equity capital to cover the cost of the land acquisition for Phase I, the cost of Consultancy , Marketing costs and CMC fees over the first 12 months of the project upto “ push-button”. The required capital is thus Rs650 mn, of which Rs235 mn being in cash, the rest being value of the land. A breakdown of these costs is given below.

Rs (mn)

Consultancy Costs

62

Marketing Costs

33

Pre-Contract works

29

CMC Fees

111

235

Land cost

415

650

The project will not rely on long-term borrowings to raise capital. However, short-term cash shortfalls are to be met through bank overdrafts.

## **Equity Structure**

It is proposed to set up a BOI registered joint-venture company for the purpose of this development. The required capital is to be raised through a private placement. The promoters of this project will be entitled to 2% of the equity.

The final structure of the company will be as follows.

Equity

Investors

98. 0%

Promoters

2. 0%

100.0%

## **Key Assumptions**

Land cost of Rs5 mn per perch

Exchange rate at start of development of Rs110

### **Phase I**

### **Phase II**

### **Phase III**

Land Extent (perches)

83

86

100

No. of Units

123

177

263

Parking & Amenities levels

5

6

7

Apartment levels

25

30

38

Total No. of Storeys

30

36

45

Average Cost of construction

Rs 9, 030 psf

Rs9, 800 psf

Rs10, 635 psf

Time for construction

30 months

36 months

45 months

Aver. selling price (inc. VAT)

Rs25, 806 psf

Rs27, 703 psf

Rs30, 921 psf

Period to sell out units

25 months

30 months

38 months