

## CCC's HIRUSHKA FERNANDO

shares his insights on the Residential Real estate Market

Colombo City Centre (CCC), an innovative development located in Colombo City, has successfully integrated our rich heritage with a progressive Sri Lanka. Hirushka Fernando, the Director of Residential Sales, shares his knowledge on the residential real estate market.



### Since CCC opened in 2018, Sri Lanka has been through some turbulent times. How would you describe the challenges you have had to overcome?

I assumed responsibility for the CCC residencies at the time of a sudden Government change and depreciation of the rupee in late 2018. The Easter attacks then launched a declining stage for almost all businesses, and new strategies had to be proposed. It was rather taxing due to the differences in the results from our initial forecasts. It is important to know that the declining stage was not the result of one specific event but rather a combination.

The VAT imposition on apartments hindered sales because original prices increased by 15%, and all apartments priced in USD underwent price increases due to the depreciation of the rupee. As a result, the affordability in our market took the most significant hit. Although there was a slight recovery in the market, it was immediately overpowered by the Easter attacks and the global pandemic. While a majority of companies encountered dark times, we had sold more than 100 of the almost completed apartments. There was a certain degree of panic among clients who were unsure whether they would get the final product. Irrespective of it all, we managed to apply for the Certificate of Conformity (COC) by the end of 2019.

### What strategies were implemented to deal with these challenges?

Having realised constraints in the market, we immediately identified the realistic measures we needed to make to achieve our final goal. As a result, we mainly focused on retaining clients through relationships and concentrate primarily on completion. We never used the usual

market methods of offering unrealistic concessions. Still, we practised strategies to safeguard customers through service and all stakeholders by being practical on everything we did during the tough times. Our developer, Abans Group, proved to be immensely beneficial to us financially when completing our project. They were the powerhouse that took the project through to completion amidst limited sales.

Our sales began accumulating soon after we started handing over in 2020. Shortly after we obtained our COC in June 2020, we sold an estimate of 75% of the remaining apartments during the following months.

### Moving onto your customers, how would you describe your typical buyer profile?

Our customer portfolio contributes great value to the overall development. I am not overstating when I say that it is an exclusive community that has bought apartments at CCC, as most sales were made by communicating the message through happy homeowners. We secured a community that is known to each other through this practice. Eventually, with the start of the first waves of the pandemic, we had a new filtered segment of customers in the residential sector. The untapped market of the diaspora and expatriates with genuine investment interests stemmed from successfully controlling the initial COVID-19 wave in Sri Lanka. We were viewed as a safe and convenient living destination with inquiries specifically from the diaspora in Canada, Europe, the Middle East and the USA. The depreciating rupee was a supporting factor to these buyers as it boosted their affordability. There was heightened interest in the luxury segment in which we specialise, and we managed

to finalise some investments purely based on virtual viewings.

### How do you see the impact of foreign investments and the upcoming Port City on the residential real estate market?

Those interested in apartments purely for investment purposes escalated due to the Chinese developments at the time. This customer segment would specifically drive demand and match supply for 2-bedroom apartments in the heart of Colombo. Apartments ranging from LKR 20-30 million have had successful conversion rates as more are being purchased to rent.

A development such as Port City guarantees success with countless investors and job opportunities, making it a unique selling point for every project in Colombo. In comparison with our regional countries such as Hong Kong, Malaysia and Singapore, it has drawn in potential foreign investors. Although we, as a nation, may have a long way to go in terms of the housing and apartment market, the Port City development will aid in substantially increasing that demand within the next six years. Sri Lanka's lower coemption in comparison to neighbouring regions positions the country as a long-term investment prospect.

### Would the notable increases in the supply of apartments recently affect the pricing and relevant price appreciation trends?

The reality is that there has been a decline in the percentage increase in price appreciation over the past few years. Existing in a buyers' market would push developers to face the tough reality of not being able to raise prices further as customers now hold the upper hand. There-



fore, developers are at a stage of managing sales, offering flexible payment plans and prices, to keep up with meeting payments to suppliers and banks.

The dollar has appreciated approximately 20-30% since 2018, which eventually increased the prices and value of USD priced apartments in Colombo. This adversity was felt mainly for apartments priced in USD, which rapidly spiked up the LKR value. This resulted in higher discounts to match the affordability of the buyer paying in LKR whilst encountering an increase in their payment values to banks and suppliers. It is instead a slowdown in price increment as opposed to a price drop because, unlike other nations, Sri Lanka's everlasting demand for urban living makes it unlikely for our market to experience price drops in properties.

**How has Sri Lanka's everlasting demand been reflected in your monthly inquiries?**

Although our residential market endured a sizable drop in focus in 2019, the number of inquiries towards the market has generally risen. To be number specific, we have received over 100 inquiries per month, and this has been

a major stepping stone for us in today's environment, having progressed from less than 20 inquiries per month at one time. In the past, although inquiries were made, the conversion rate was low. However, our recent conversion rates have been promising since more demand is for completed units in Colombo.

**What major factors influence your customer's decision-making process?**

Each segment differs vastly. For projects ranging from LKR 80-100 million, the deciding factors are undeniably project stability, location, finishes, rental returns and lifestyle experiences. In contrast, smaller ticket sized apartments carry a long-term strategy covering value appreciation of the completion and rental availability.

Overall, with customers becoming more attentive, the stability of each project is vital, as well as ensuring proper documentation and legal stability.

**Have you noticed a preference in unit configuration or size for apartments?**

Two-bedroom apartments have seen a surge in demand and affordability as

they can be easily rented. Similarly, our project has accumulated interest and demand for larger sized apartments - ranging from 1600-2000 sq. ft. - along with a greater demand for smaller units purely because of affordability. If, however, larger units can be afforded, those are preferred as a larger space becomes instantly more valuable. Space is a vital factor often emphasised by some Embassies, especially European clients. This customer segment tends to favour apartments ranging from 1600-2000 sq. ft.

A growing market includes one-bedroom or studio apartments, mainly for expatriates in Colombo. Additionally, limited allowances for renting and location have contributed to smaller apartments gaining a share in the market.

**Finally, how long do you think it would take for the market to recover, and which policies do you think would help?**

Sales were at a standstill at a certain time, but people gradually understood and adjusted to the circumstances. Government policies such as the reduction in lending rates helped improve traction towards investments, especially captivating

those who are genuinely interested. The removal of VAT resulted in a 15% drop of the original value, which was encouraging enough for customers to broaden their investment opportunities. These actions have shown us promising results in terms of inquiries and conversions.

Future Government actions could include a legal framework adjustment, allowing local banks to lend in LKR and receive paybacks in USD. This could be primarily sourced from apartments in Colombo, which earn in USD. Our country could benefit from such an initiative since most foreign investors prefer to work with banks, thus opening a window of opportunity to draw foreign funds into the country.

Everyone in the real estate industry must face a new reality and focus on adaptation, especially in terms of pricing, payment flexibility and conversion rates. A word of advice to developing projects would be to focus on completion to notice the inflow of inquiries and conversions. For our industry, it is essential to establish mutual understanding and objectives during these challenging times to overcome the difficulties we face as a trade.