

The past few years have taken a toll on Sri Lanka. What effect have these events had on the residential real estate industry?

The pandemic caused utter devastation to the entire economy. The global travel restrictions and the periodical domestic curfews majorly impacted our GDP. There is a huge share of job losses and considerable salary deductions at which more than 25% of corporate sector employees have been affected. SMEs constitute a large part of Sri Lanka's econ-

omy out of which 30% of private companies have been seriously affected by the pandemic. Therefore, private consumption has severely shrunk and is a major hit to the real estate industry in the long-term perspective.

However, in the short term, people are pushed towards real estate as they have no other alternatives for their investments. For example, Fitch Ratings downgraded Sri Lanka's Sovereign Credit Rating to CCC and assigned No Outlook. Thus, people lost credibility with Govern-

ment banks which led to rapid withdrawals. Bank borrowing rates lowered to a bare minimum of 3.5% - 6% per annum. Therefore, people are not satisfied by domestic savings and cash in hand is also a loss with an inflation rate of 5.5%. On the other hand, bank lending rates have also dropped immensely so that the affordability of capital increased with easy lending. Moreover, people are restricted in buying new vehicles with the recently imposed import ban, which has subsequently led to a price increase of 60% of recently registered vehicles.

Therefore, people who invested in vehicles are no longer able to do that. Further, the other popular investment modes like gold and the share market have also shown less interest due to the declining economy. Therefore, a huge opportunity opens to investments in real estate which secures a solid ROI of approximately 25% per annum.

Besides, based on the current market state, construction costs are sky high and there is a persistent labour shortage. It is high-risk and relatively expensive for

an individual to purchase a plot of land and build a house for the purpose of living. This has thereby led to a trend of attracting people to purchase houses and apartments that have already been built rather than constructing their own.

Although the real estate sector had recorded a contraction of 1.2% during the past year, we have been experiencing a demand surge based on the current situation in the market. Thanks to our differentiation strategy, we did not experience any negative impact on residential sales in the luxury and premium segment of housing. Companies need to have strong adaptability and high financial stability to stand strong in this type of situation. This highlights the growing need of implementing an effective resilience strategy.

When you compare the effects on your company in a pre and post COVID setting, how has the pan-

demic affected your sales velocity?

Our average sales in a month have increased by 48% in 2020 where 10-15% of our sales were focused on the diaspora. The post-COVID-19 demand surge would boost more local sales. Moreover, for the next three years, we have identified approximately 140,000 potential buyers from the diaspora who are more triggered about the investment.

What has been the typical price appreciation trend that you have experienced?

Generally, we have experienced above 20% annual price appreciation for new apartments and individual houses over the past years and a similar trend is seen in the secondary market as well.

In difficult times, such as now, what assistance has the Sri Lankan Government provided to facil-

itate residential investments?

The low borrowing rates which we currently partake in, are a result of Central Bank decisions on key monetary policy instruments such as policy interest rates. The statutory reserve ratio has been reduced to its lowest levels in history. It uplifts the buying power of people. Lower interest rates also reduce the burden on borrowers who are facing various financial difficulties due to the pandemic.

The Government has introduced various import restrictions recently. What are your thoughts on how these have or would affect the real estate market?

These restrictions have certainly affected construction costs. For example, the import ban imposed on the tiles and ceramic bathroom industry has raised our construction costs for one house by around

LKR 250,000 to 300,000. However, since our sales are made before the construction, we have an agreement that the prices cannot be raised, therefore we have to work around such complications. This may result in shrinking our profit margins.

This loss can be absorbed in the future due to our conglomerate nature, indicating that only big players may have a chance of survival and smaller companies/individuals will not be able to compete with such pricing. Consequently, there would be an undersupply in the market.

Being a leading real estate residential player in the market, it is undeniable that you have a large customer base. What is the typical buyer profile prevailing in the market and how would it change in a post-COVID setting?

Our buyers are typically 30-50-year-old locals. 60% of purchases are for invest-

Home Lands Group is the largest residential real estate solution provider in Sri Lanka and owns 45% of the market share. We spoke with the CEO of Home Lands Skyline (Pvt) Ltd, Mr Yasas L Pathiranage who has a wide spectrum of experience in the construction / development sector as an engineer and management professional. He has served in many senior management positions of large conglomerates in Sri Lanka. He is an engineering graduate of the University of Moratuwa and holds a Masters in Project Management. In addition to that, he has obtained many post-graduate qualifications in the areas of finance, human resources, marketing and operations. At present, he is reading for a Doctorate in Business Administration at the University of Kelaniya specialising in Strategic Management. He is a proud product of Ananda College – Colombo and has excelled in many areas of his career and personal life.

BEING RESILIENT IN THE REAL ESTATE SECTOR WITH HOME LANDS SKYLINE CEO

Yasas L Pathiranage



ment purposes - mainly with two-bedroom units due to the lower prices and high liquidity. Those interested in living purposes are mostly drawn to the 3-bedroom units with an average family size of 4 members. Unlike in the early days, the typical age for marriage has also extended to the mid-30s. We see there is a tendency for singles to be attracted to studio apartments to support their convenient lifestyles.

According to our statistics, Sri Lanka has nearly 40,000 high-net-worth individuals who are now attracted to larger real estate investments above LKR 50 and they do outright payments mostly as they maintain a liquid asset portfolio of over LKR 125 million. The next tier of customers is those who have monthly incomes above LKR 1 million. They fall under the upper-mid income group of 90,000 people and most of them are interested in real estate investments of LKR 30-50 million with easy payment plans.

A high proportion of these buyers prefer easy mobility to the metropolitan city and their workplaces, serenity, open spaces, prestigious and safe neighbourhoods. Our customer-focused intuitions also complement green value propositions supported by our novelty concepts.

I would think that the post-COVID-19 market push would most likely lead to a demand surge and undersupply. This would be a short-lived opportunity as it is forecasted to last only till mid-2023. Nearly 25% of employees from the private sector have either lost their job or suffer from salary deductions. 25% of the private sector accounts for 650,000 people. The overwhelming reduction of

their income highlights the struggle of these potential customers continuing in the future in terms of big investments. However, interest rates have been reduced and that creates more affordability. We understand that less than 5% of residential customers are in the high-income category, and out of that, only 30% could manage it without any bank loans.

Having successfully enticed a large customer base, from your experience, what is the buying sentiment among the Sri Lankan diaspora and expatriates living here?

Sri Lankan tourism was at an all-time high before the Easter attacks and regardless of the attacks, our country was an ideal location for foreign clients. They sought peaceful environments and eventually brought in their families and friends.

Our calculations show that nearly 140,000 of the Sri Lankan diaspora are expected to buy residential properties in Colombo and the suburbs within the next 3 years. Their buying sentiment has increased lately due to the domestic currency depreciation. Many of our residential inquiries are sourced from Australia, Canada, Dubai, Italy, the Middle Eastern nations and the UK. Our highest number of inquiries are from England. When interest rates are very low all over the world and the returns are very minimal on monetary savings, a 25% ROI despite inflation of 5.5% is still attractive to the Sri Lankan diaspora. If we reach them correctly, there is a huge potential in attracting their funds. In the last 5 years, we experienced their buying sentiment as only 15% of our total sales. But we hope

that the prevailing context would increase their buying sentiment significantly.

What 3 major factors are considered when buying various housing segments and which segment is more popular?

The convenience of mobility is significant because a noteworthy proportion of our time is spent in travelling. Nearly 13% of our time is spent in a vehicle in traffic, which amounts to nearly 10 years of a person's lifetime spent on the road. We try to provide solutions to these serious issues faced by our customers.

As a country moves vertically up with skyscrapers, it is a must to have horizontal development as well to support those vertical additions. There can be restrictions, but we can't say no to the needed infrastructure expansions. The closest example is the Bandra Worli Sea Link bridge of India to support the high apartment density of 80% in Mumbai.

Secondly, connectivity plays a major role in the buying decision. This refers to the proximity to highways, metropolitans, workplaces, supermarkets and other amenities.

I would say comfort is the third factor. A lot of people now look for mental freedom away from the hustle and bustle of the city. They appreciate spectacular views with a green environment. Moreover, open spaces, bodies of water, scenic surroundings, prestigious safe neighbourhoods and the convenience of living, are identified as the most desired and sought-after comfort criteria.

Do you feel that there is a preferred unit configuration and size in each housing segment?

Figures indicate that customers requisitioned 2BR more which has 700-800 sq. ft. This is especially true for those who have investment intentions and this constitutes 60% of our customers. Real estate is ideal for an investor with low-risk tolerance. Investing in an apartment is the best decision not only because it gives you a higher ROI, typically around 25%, but it also provides decent rental income all year round.

3BR also possesses a concurrent demand. When a customer buys intending to own a family residence, they would most likely go for 3BR which has 1000-1100 sq. ft. Nearly 40% of people would buy an apartment for this purpose.

Sri Lanka has been luring foreign investment, especially from China. What impacts have these had on the Colombo residential market?

The great influx of foreign involvement and investment in the Colombo residential market will be on large-scale projects and their levels of operation will be very high. Quality and the offerings will also be high. Chinese investments will bring in new technology which local developers may have to overcome as a hurdle to provide healthy competition. This will simply raise the bar of the Colombo residential market.

Do you also believe the same for the Colombo Port City development? Would it be a gamechanger in terms of FDI flow and what trade-offs do you see?

As professionals, we like to see opportunities flow into the country with the Colombo Port City development. The Port City will stimulate competition in the luxury apartment market with an expectation of 24,000 housing units to be supplied by 2041. They would be more expensive and relatively smaller than the current Colombo luxury apartments. An increase in investment merely means an increase in our GDP. Attracting investments of USD 15 billion will be a huge achievement. Moreover, nearly 200,000 direct and indirect employment is anticipated. So, the necessary infrastructure and other facilities should be enhanced to capture the additional demands. Human capital should be developed from the basic points. Related local industries and other supporting businesses also need to be developed for economic development. These will cause a ripple effect of inflowing opportunities. Sovereignty will not be challenged if local regulations and foreign policies are set in broader perspectives. Therefore, it can be ascertained that the Colombo Port City development will become a catalyst for the macroeconomic growth of Sri Lanka.

With the grand success of your current projects, what are your plans for the future?

Home Lands Skyline (Pvt) Ltd and Home Lands Holding (Pvt) Ltd are the first real estate companies in Sri Lanka to be certified with the Highest Grade Property Developer (LB1 and L1) by CIDA. Moreover, Home Lands is recognised as the Most Preferred Brand in the Residential Real Estate Sector as per the recent brand health survey conducted by the RIU. Value innovation is one of our key strategies to pursue differentiation and

low cost simultaneously. We are the first real estate company in Sri Lanka to implement the Blue Ocean Strategy in residential market space and came up with a novelty concept of Resort Apartments. This attracts many customers who appreciate an innovative lifestyle over a conventional way of living.

We thrive with immense R&D and pursue new trends to operate the business in a more customer-focused manner which brought us the brand loyalty which we have today. We are focusing on value innovation, cost optimisation and process enhancement through which we expect to provide better offerings to our valued customers. Times can be tough, but we believe in our people; thanks to our employees' hard work, the business has endured.

We want to be recognised as a global brand of choice and a partner of preference in the residential real estate sector by further capitalising on our brand equity. Our goal is to be the first name that comes to mind when one wants to buy an apartment or land. With our innovative offerings and excellent customer service, we certainly bring our brand closer to peoples' lives.

