Real Estate Beyond Investment



Luxury condominiums have changed the face of Sri Lanka’s real estate industry over the last few years, with high-rise apartment buildings now dominating the Colombo skyline. Driven by its own unique strategy, Blue Ocean Group differentiates its apartments and property services through innovation. S Thumilan, Chairman, speaks about the industry’s potential and on increasing investor

confidence.

By Keshini de Silva and Tharika Fuhrer
Photographs Mahesh Bandara and Isuru Upeksha

Blue Ocean Group has a large portfolio. Could you tell us a little about the group and the journey so far?
Over the years the dynamic Blue Ocean Group of Companies has grown into a versatile conglomerate. The evolution of the group is significant because the Group has achieved growth and profit harmoniously and not by taking part in the aggressive competition in the field. Blue Ocean Group of Companies engage in Real Estate, Construction, Engineering, Trading, Education, Corporate Consultancy and many other fields.

With a diverse portfolio, the Group takes bold strides as it strives to uphold its reputation for ethical, innovative and constructive practices in businesses not only in Sri Lanka but also in the Asia Pacific region.

Blue Ocean Alone Is Conducting Over 23 Projects While Our Company Link Engineering Is Engaged In Several Government Projects.

We are the largest developer in Sri Lanka and we maintain BOI and ISO certifications, in addition to meeting other international standards. Currently, Blue Ocean alone is conducting over 23 projects while our company Link Engineering is engaged in several government projects.

Link Engineering is one of the first few construction engineering companies in Sri Lanka which boasts of approximately four decades of experience in the field and comprises of high profile Chartered Architects, Engineers, Accountants, Professors, Doctorate holders, Interior Designers and other industry professionals. They have enjoyed many renowned accolades for their excellence in construction over the years and continue to do so at present with much expectation for the future as well.

Link Engineering is the architect of many a landmark infrastructure project in Sri Lanka. This award winning company specialises in buildings, highways and bridge constructions, water supply projects, irrigations, land reclamations, electrical engineering, plumbing, carpentry and joinery, interior decorations and floor finishing works. Link Engineering has acquired highest national grades of C-1, F-1, and EM-1 for its products.

We, steer our modern vision in diversified fields and specialise in creating architectural building designs and fully undertake the development of high quality residential, commercial, industrial and governmental constructions, and also provide essential services, such as Engineering, Quality Controlling and MEP Solutions all under one roof. The base of many of Blue Ocean Group’s endeavours is our need to be the most respected, ethically sound and socially responsible company. Covering all aspects of construction, our services include an umbrella solution to contractors and customers. Our focus is to reach potential markets through international networks and expanding to existing markets. These key markets include the Asia Pacific, Europe, Middle East and East Asia regions.

Touching on the education sector, KBBS Campus is an institute specialised in conducting classes for major Professional Accountancy Bodies such as ACCA(UK), CIMA(UK), CA(SL), AAT(SL) , IBSL and CMA(SL). KBBS Accountancy College in Colombo has the most qualified and experienced lecturers in the market and we focus on providing students from around the world with a unique study experience.The teaching orientation of KBBS is focused on ensuring you pass your examinations gaining a reputation for producing many prize winners and proven results in the professional examinations. We are proud to announce that we have produced Top CA Prize and ACCA Prize Winners.

Could you comment on Blue Ocean’s business model?

We live by the concept of simultaneous pursuit of differentiation and cost leadership. Blue Ocean Strategy describes how to create growth and profit by being innovative in a created uncontested environment. Value innovation with continuous perseverance for differentiation with low cost, and understanding of the big picture of the competition and its weaknesses thereby being constantly in line with honesty, ethics and transparency to differentiate with low cost structures are but only a few ingredients of the highly acceptable Blue Ocean concept in the context of

today’s world. Following the Blue Ocean concept and adopting the same name, Blue Ocean Group of Companies strives to be the most ethical, innovative and constructive company in Sri Lanka.

Our policy is not only selling condos at competitive prices but also providing high quality luxury living space. You may wonder how you can be the cheapest while maintaining high quality. At Blue Ocean, we are able to maintain a good price through economies of scale and by manufacturing what we need here.

Value Innovation Is The Simultaneous Pursuit Of Differentiation And Competetive Cost, Creating Value For The Buyer, The Company And Its Employees, Thereby Opening Up A New And Uncontested Market Place.

Actually, Blue Ocean Group’s business model follows a concept called the Blue Ocean strategy. We live by the concept of Blue Ocean Strategy that includes value innovation. Value innovation is the simultaneous pursuit of differentiation and competetive cost,creating value for the buyer,the company and its employees, thereby opening up a new and uncontested market place.

For example, if you take BMW and Benz, they have created their own market space. Our policy is not only selling condos at competetive prices but also providing high quality luxury living space.

You may wonder how you can be the cheapest while maintaining high quality. If you see the major international contractors in Sri Lanka, they have profit margins of 20 – 25 per cent by hiring international and high national graded construction contractors for their property development. At Blue Ocean, we are able to maintain a good price through economies of scale and by manufacturing what we need here. Link Engineering, which has gained prominence locally and internationally, has cemented the Blue Ocean Group’s position in the construction industry. It has over 35 years of experience in the construction field through which it has gained many accolades for exellence.

One of the company’s invaluble assets is human resource. Our chartered architects,

chartered engineers, chartered accountants, interior designers and other professionals in varied fields are those who have garnered extensive exposure and industry experience locally and abroad over the years. In comparison with present market standards, our professionals are highly capable of contributing to improving real estate value.

Also, we simultaneously develop several apartments at the same time, which in turn creates economies of scale. This means the bigger the volume of the order, the lesser the cost per unit.

We maintain our margins through business mechanisms instead of relying on the selling price. These mechanisms include horizontal and vertical business integration and value innovation. This is why we have Link Engineering, which is a C1 contractor with 35 years' experience. Thus we maintain quality.

In addition, we ensure that our living spaces add value to customers. Currently, our apartments have appreciated 50-70 per cent in value. This is because market value of property is constantly on the rise. One of our main concepts is the holiday home idea. We have many foreign customers who own holiday homes and apartments in Sri Lanka. They usually use these when they visit Sri Lanka, be it for leisure, business or even herbal medical treatment. They like coming to Sri Lanka because of our hospitality and they prefer these properties to hotels due to privacy. Foreign nationals can own apartments above the third floor.

Finally, our policy is that we do not have competitors. Blue Ocean Group does not engage in cut-throat competition; instead, we innovate. We don't try to react towards our competition. We innovate by looking at industry standards, customer satisfaction and by improving on the little things that make a big impact. Our apartments are the only complexes which have a separate driver's quarters. We will also be launching the laundry room concept within apartment complexes.

Our blue ocean strategy has helped us achieve growth and profit through innovation, in a created and uncontested environment, within key markets in South Asia, Asia Pacific, European, Middle East and East Asian regions. The company offer

both construction and consulting services including for the construction of private houses.

Over the past few years, several high-rise luxury apartment buildings have been built. Could you comment on this?

The real estate sector is a good avenue to attract international investment and foreign exchange to help the country prosper. For example, Dubai has quite a small domestic population yet they have a massive real-estate sector, especially in terms of high-rise apartments, and they invite foreign nationals to purchase these for both business and pleasure. Again, it was the same scenario in Australia and a key policy in helping Australia deal with the financial crisis. This is because the Australian real estate market attracted quite a bit of Chinese foreign exchange.

Sri Lanka has the potential to do just this. Our proposition is to market these high-rise buildings as a second home. Apartments are ideal, because in Sri Lanka, foreign nationals can own an apartment. They are popular because frequent travellers and those who stay long periods prefer their privacy and the flexibility to cook their own meals and do their own laundry. When I travel on business, I prefer the same. Also, there's the security issue, where some travellers just don't want to have the hotel hold their passports, especially during long stays. Therefore, you can't have restrictive policies or a restrictive mindset. In order for Sri Lanka to grow, you need to open up the real estate market. Attracting people to live and own apartments in Sri Lanka will create demand across the board – for example, for the education, food and beverages and retail sectors.

If foreigners live or school in Sri Lanka, they need facilities such as healthcare, too. The arrival of foreign nationals in the country creates inward demand, which is a win for the country. This is a little different to the tourism industry. Tourism constantly depends on the influx of foreign nationals and they may not come back for a long time. But if they invested in an apartment, we would be assured of their return.

If Sri Lanka Wants To Grow Like Malaysia, Then Private Universities Must Be Established And We Should Attract International Students Here. There Is So Much Opposition Towards Private Universities In Sri Lanka. Why Is This?

We see many high quality education facilities coming up in Sri Lanka. Can Sri Lankans alone absorb this supply? No. If Sri Lanka wants to grow like Malaysia, then private universities must be established and we should attract international students here. There is so much opposition towards private universities in Sri Lanka. Why is this? Currently, we have a significant percentage of students who go overseas to study, not just to the US, UK and Australia but also to Bangladesh, China and Malaysia. Basically, we are just sending our money out of the country.

To create a demand for Sri Lankan real-estate, one must attract foreigners to the Island. The best example is Dubai.

Most of the high-rise apartments in Dubai are empty because these are owned by foreign nationals. But this is an investment for them as when these nationals come to reside in this holiday or business apartment, they spend their money in Dubai. It is marketed as tax-free investment to attract foreign investors, but at the end of the day, to start a business in Dubai, one must have a sponsor from Dubai. In addition, you pay for medical facilities and economic licences among other things. So the country still receives an income, albeit in a roundabout manner.

Imagine if Sri Lanka implemented a policy stating all permanent residents must obtain necessary medical facilities through the Kalubowila Hospital at a fee. This results in income for the country and the doctors and eventually will contribute to the development of Sri Lanka’s health sector. At the end ofthe day, it’s not about just checking if there is a demand for a particular service but in creating a demand through innovative thinking. You most definitely cannot calculate demand by the population. There is too much restriction in Sri Lanka towards bringing foreign exchange into the country. Instead, we should be focusing on attracting foreign exchange to ensure the country’s growth. This is after all something that Greece is looking into at the moment.

There’s a huge concentration of property development in Colombo. What are the types of developments that are taking place in other areas in Sri Lanka?

All politics aside, I must admit that the previous government had taken several constructive steps in moving development out of the Colombo area. Development

must be expanded beyond the city and I believe the current government, too, has planned some good initiatives in this direction. Recently I heard land in Hambanthota has been allocated to set up Chinese factories. This is a constructive step. It’s the way forward.

Sri Lanka needs foreign investment to continue to develop and introduce better facilities in areas across Sri Lanka. Former President R Premadasa set up several free trade zones in Katunayake, Koggala and Biyagama. These have been instrumental in Sri Lanka’s development.

In Order For Sri Lanka To Grow, You Need To Open Up The Real Estate Market. Attracting People To Live And Own Apartments In Sri Lanka Will Create Demand Across The Board – For Example, For The Education, Food And Beverages And Retail Sectors.

It was similar policies such as these that have led to the development of Dubai. They are doing the same in Sharjah, where today infrastructure is being developed beyond city limits.

After all, we can’t build apartments in Hambanthota if there is no employment in the area. If people are moving into the cities in search of employment then we will only be able to invest in the property market within the city limits. But if we take jobs to the rural areas by setting up free trade zones, then we can focus on developing property in these areas.

The government must drive infrastructure development out of city limits through innovative policies. At the moment, people in rural areas have to travel all the way to the Colombo National Hospital for certain treatments. What if tax holidays were given to encourage the setting up of good hospitals in rural areas? There is so much overcrowding in Colombo and traffic is unbearable. Driving development out of Colombo will curb these issues.

On the other hand, multiple facilities will be important during a crisis. I remember, a pilot once told me that in 2001 he was flying into Katunayake but was informed that

he could not land due to the terrorist attack on the airport. He could not land in Ratmalana and had radioed India, but found out all Indian airports were full. So he was forced to take the flight to Dubai. Luckily he had spare fuel. In instances like these we need multiple facilities.

In terms of quality and industry standards, how does Sri Lanka compare with the international market?

Sri Lanka does meet international standards, but as contractors and being in the real estate industry, we do face certain challenges. One of the main factors, I believe, is the over-protection of local manufacturers. Of course, we need to protect local industry. However, there must be a balance in ensuring local manufacturers are competitive not just in the local market but internationally.

At the end of the day, our real estate, especially luxury apartments and villas, are competing against Malaysia, Singapore and Dubai. Therefore, from design to finish, it needs to be on par with the international market. Customers who purchase these properties at a premium price require an excellent finish. If the local market cannot produce what we want, we will import these goods, from tiling to bathroom fittings – we want the best. However, if the government imposes taxes on imports to protect local industries that are not performing to international standards, then our cost of production increases needlessly. This artificial price increase makes Sri Lanka’s real estate market less competitive in the international sphere.

For example, there are certain travellers who would specifically stay at Hilton hotels. Why? Because they expect the same quality in all their Hilton hotels and therefore Hilton hotels cannot compromise on quality because prices are standard. It is the same with apartments. If our charges are on par with international prices, then we must deliver apartments of international quality.

Sri Lankan Manufacturers And Professionals Must All Be Globally Competitive… Our Manufacturing And Service Sectors Must Welcome Globalisation.

So Sri Lankan manufacturers and professionals must all be globally competitive. The government must support this endeavour and not over-protect. Our manufacturing

and service sectors must welcome globalisation.

There must be skill-sharing. We have noticed that when we mix Sri Lankan workers in the construction field with foreign workers, there is a significant increase in productivity. This is because when they work together, they share knowledge and new skills. It's good exposure. Again, Dubai is a prime example, as their workforce consists of many nationalities, and productivity in Dubai is greater, thus contributing to the country's growth.

This is the reason Blue Ocean Group works with many international companies. We want to be aware of the latest innovative methods and how best to do things.

How has the 2016 Budget impacted the property market?
The removal of duties on certain imports is a big plus because it drives the cost of production down.

However, the new residence visa to attract investors to Sri Lanka is too high. There might be a reason for such policies, but they must be reasonable and practical. Our rules and regulations must match international regulations if we are to compete with other countries and attract foreign investment.

I hope everything in the Budget and new reforms will be gazetted soon to promote investor confidence.

Could you comment on Sri Lanka's construction and land costs?
As I mentioned earlier, quite sadly, Sri Lankan construction costs are continually on the increase. Although project management is key in construction, it is difficult for us to budget for future price hikes. The volatility of the prices is quite discouraging, especially in our efforts to attract foreign investment. A recent example is the increase in Value Added Tax. It has been increased from 12 to 15 per cent, which is a four per cent hike. In the construction industry, this is a significant increase and has an adverse impact on on-going projects. Usually, we account for a safety margin when budgeting for a project. However, if the random mid-year increases in

taxes continue, then we must keep a safety margin of about 20 per cent. This drives the cost of the apartment high and makes the real estate industry uncompetitive.

It’s the same with employee salaries. Mid-year, there will be regulations stipulating a 2,000-rupee increase in wages. These changes should be brought in during the Annual Budget. Once the budget has been finalised, amendments of this nature should be at a minimum. These are bottlenecks in the growth of the industry. The government, I believe, needs to introduce a concrete solution to this issue.

What more needs to be done for Sri Lanka’s real-estate market to continue to grow and for Sri Lankans looking to own their own homes?
This is a good question. Yes, there is much to be done. A demand must be created for Sri Lankan real estate. The second-home concept and other similar policies must be used to attract foreign investment to Sri Lanka’s real estate market.

The 2016 Budget Has Laid Out Some Promising Policies… So We Are Quite Hopeful. There Is Much More That The Government Can Do To Boost Investor Confidence. Also, regulations on bringing foreign currency to Sri Lanka and taking money out of Sri Lanka must be relaxed. Obviously, the government must strike a balance between the country’s security and growth here. However, if investors cannot take their money out of Sri Lanka, then no one will bring money to Sri Lanka. The basic principle should be that you can bring your money into Sri Lanka, but when you are in the Island, you have to abide by the laws.

The 2016 Budget has laid out some promising policies in this regard, so we are quite hopeful. There is much more that the government can do to boost investor confidence.

We also need the government’s assistance in addressing the shortage in skilled labour in Sri Lanka. Most of the youth here are driving three-wheelers and taxis. So either there should be a plan on meeting this shortage within Sri Lanka itself or we must look into bringing international labour to Sri Lanka. In the construction industry, the shortage of workers is an issue of significant concern.

This is not a huge concern but it must be highlighted: media responsibility. News in Sri Lanka is over-sensationalised. I understand there are serious concerns; however, there should be a certain balance in the good and bad. The constant negative reporting tarnishes the country's image in the international sphere, which makes attracting investment to Sri Lanka all the more difficult.

Could you tell us a little about yourself?
I'm a chartered accountant and hold professional membership with the, Institution of Chartered Accountants of Sri Lanka (CA), Chartered Institute of Management Accountants (CIMA), Chartered Global Management Accountant (CGMA), Association of Chartered Certified Accountants (ACCA) and CPA Australia. I have gained industry and business experience due to the previous positions in being a senior executive of many successful enterprises during. In addition to being the Group Chairman of Blue Ocean Group, I also lecture for CA, ACCA, and CIMA. These are of course the three major professional accountancy bodies in Sri Lanka and are well recognised across the globe.

You come from a strong financial background. How has this helped you steer the Blue Ocean Group forward?
I sincerely feel that everyone needs a financial background to manage a company. I'm sure you have noticed that most of the CEOs do come from a strong accounting background. However, the important skill they garner by coming from this background is the analytical skill. Which is important.

In Sri Lanka, most strategies implemented by organisations are impractical. They may to an extent be by the economics book, however companies have not looked into the realistic nature in implementing such strategies. At Blue Ocean, my policy has always been to look at the practicality of strategies.

The Mattala Airport was a good strategy because we do need a second airport. However, there may be flaws in the implementation of that strategy from an analytical perspective. Currently, maybe the correct strategy for the airport is to convert it into an aircraft maintenance and refuelling facility.

You Must Be Innovative And Look Into Transforming Your Organisation, Or

Else, There Is Really No Point In Having A CEO, Right? As The Head Of An Organisation, You Need To Understand Your Assets And Liabilities.

Also, coming from a background in finance helps you understand your company's balance sheet and thereby it helps you look beyond the losses. A great example is how the CEO of Qantas Airways turned around the loss-making entity. As a CEO or chairman, you cannot ponder on your losses and continually complain. You must be innovative and look into transforming your organisation, or else, there is really no point in having a CEO, right? As the head of an organisation, you need to understand your assets and liabilities. If you have more liabilities, you need to figure out a way to turn your liabilities into assets.

The new strategy today is to run the business with strategic business units, which are separate profit centres. Each Strategic Business Unit (SBU) will have its own cash flow, project management plan and staff allocation. Once each SBU starts to earn profits, it leads to the entire organisation earning profits.

My experience in the industry has also helped me drive the extensive diversification of Blue Ocean, which today includes Education, Engineering and Construction, Real estate, corporate Consultancy, Trading, Electrical and Engineering Consultancy.

In terms of the importance of education, Sri Lanka's education system falls short in providing students with practical exposure. Students are not trained to think practically in the business scenario. Many accountants graduate each year; however, they are not employable accountants. They just don't have practical knowledge. Many are quite versed in theory but are unable to apply this knowledge. I've seen it happen time and time again. Graduates present proposals that are completely impractical and they are criticised for it. They just don't seem to get the right exposure.

What do you believe is the future of real estate in Sri Lanka?

We reached this far at a time when the task of construction developers has become a great challenge due to the steep rise in prices of construction materials caused by direct and indirect taxes. Especially, the prices of imported construction materials

have gone up very much, even BOI approved companies feel the heat. Shortage of skilled manpower, delays in approvals from authorities and frequent changes of rules and regulations make the task very much enduring.

Like they have done in the past, our Strategic Corporate Planners have already projected the targets of the Group for the next five years. The Group members have scaled up the prepared projected targets by now and have formulated the vision for the future.

Of course the reliability of the developer is a key factor that determines the success of the project. The developers credentials and past track records are of paramount importance and needs to be given due attention prior to making investments in the real estate market.

Given the advantages of combining a most dynamic destination,proximity to the highlights of city living and luxurious lifestyle within the apartment itself given its accent to indulgent details and stringent international standards. Blue Ocean apartment will assurely be a ground-breaker in this fast developing metropolis of Colombo, Sri Lanka.



