



## **REAL - ESTATE NEWS FEED**



**SEPTEMBER 28**

**TO**

**OCTOBER 02**

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## 1. REAL-ESTATE

- **Introducing REITs in Sri Lanka: ‘An opportunity to benefit from real estate investment’**

The Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka (SEC) announce the launch of Real Estate Investment Trusts (REITs) which now give average investors an opportunity to reap the benefits of real estate investment and the advantages associated with investing in publicly traded securities on the CSE. While investing in real estate appears to be a popular choice, the rising cost of property poses a significant challenge to individual investors who typically resort to bank loans to finance such investments. This timely introduction by the CSE and SEC provides greater access to all investor segments to commercial real estate projects and an opportunity to benefit from the recently observed spiraling property prices.

REITs were first introduced in the United States in 1960 creating a mechanism for individual investors’, especially middle-income earners, to generate income through investing in large commercial real estate. This product has made rapid progress within the Asian markets as well with its growing popularity especially in Thailand, Malaysia and India and is also viewed as a mechanism to broad base the real estate ownership within a country. A REIT is essentially a structure which typically owns and operates income-generating real estate. The income-generating real estate assets owned by a REIT may include office buildings, shopping malls, apartments, hotels, resorts, self-storage facilities and warehouses.

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- **Real Estate Investment Trusts open new avenue for capital investment**

With the advent of Real Estate Investment Trusts (REIT) into the Sri Lankan capital market in August this year, the Securities Exchange Commission (SEC) says it is making progress with efforts to grow awareness on the new instrument.

As part of this measure, a seminar on Sri Lanka REITs was held in Colombo last week to educate stakeholders on this new investment opportunity through the capital market, and a book published by the SEC for this purpose was handed over by its Chairman Viraj Dayaratne, to State Minister for Finance and Capital Markets Ajith Nivard Cabraal.

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## 2. ECONOMY

- **Jan-July budget deficit up by Rs.189bn; tax income picks up on economic recovery**

The deficit between the government's revenue and expenditure for the seven months ended July 2020, expanded by Rs.188.5 billion, declining from the deficit of Rs.214 billion recorded for the first six months, while the data showed tax revenues making month-on-month gains with the recovery in economic activities.

The Finance Ministry data showed a fiscal deficit of Rs.872.6 billion from January through July, compared to Rs.684.1 billion in the corresponding period in 2019.

Revenue from taxes remained under pressure throughout this year, initially due to the broader tax cuts afforded to both businesses and consumers while the bigger impact came from the coronavirus lockdowns, which damaged the incomes of businesses and individuals alike, depressing tax revenues.

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- **Bond market yields increase further ahead of auctions**

The secondary bond market yields increased further during the week ending 25 September, with the weekly Treasury bill auction being undersubscribed for a second consecutive week and a bond auction initially scheduled for 13 October now being brought forward to Monday 28 September.

Today's (28 September) auction will have on offer a total amount of Rs. 75 billion, consisting of Rs. 45 billion of 15.11.2022 and Rs. 30 billion of 01.03.2026. Stipulated cut off rates for the said maturities as published are 5.65% and 6.60% respectively. The weighted average yields at the bond auction conducted on 11 September were 5.72%, 6.57% and 7.07% respectively for the maturities of 01.10.2023, 01.02.26 and 01.07.2028.

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- **Sri Lanka rupee bonds quoted wide after Moody's downgrade**

Sri Lanka's rupee bond yields were quoted wide on Tuesday dealers said, after Moody's downgraded the government rating to Caa1 (CCC+) while sovereign bond rates which turned after constitutional amendment was gazetted on August 03 continued to rise.

Spreads of most tenors which was around 5 basis points widened to over 40 basis points reflecting uncertainty, while yields were also higher.

The rupee was quoted weaker at 185.80/186.10 to the US dollar, down from 185.25/40 levels on Monday.

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- **Stock market turnover witnesses significant contribution from key cities**

Stock market regulator, the Securities and Exchange Commission (SEC) yesterday said significant contributions to market turnover have been recorded from key cities in the country apart from capital Colombo. "Significant contributions to turnover have been recorded in Colombo, Gampaha, Kandy, Kurunegala, Galle, Kalutara and Matara districts," a SEC statement said. The daily average turnover since market re-opened on May 11 has been around Rs.1.6 billion.

"Local investors have recognised the potential in the market especially in terms of attractive market valuations and growth potential of Sri Lankan listed companies and contributed to approximately 68 percent of the total market turnover," the SEC statement added.

Although net foreign sales year-to-date are now topping Rs.39 billion, the Colombo Stock Exchange is on a bull run largely on the notion that local investors have enough fire power to absorb the foreign selling.

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- **Weekly auction undersubscribed**

The weekly Treasury bill auction conducted yesterday saw only an amount of Rs. 895 million been accepted in total against a total offered amount of Rs. 40 billion as the bids to offer ratio decreased sharply to 1.02:1. The weighted average rate on the 364 day maturity reflected an increase of 01 basis point to 4.89% while it remained unchanged on the 182 day maturity at 4.64%. All bids received on the 91 day bill maturity were rejected.

The sovereign down grade to Sri Lanka by Moody's Investor Services led to secondary market bond yields increasing further yesterday. Activity centred the liquid maturities of 15.11.22, 15.01.23, 2024s (i.e. 15.06.24 & 15.09.24), 01.05.25 and 01.02.26 as its yields were seen increasing to intraday highs of 5.80% each, 6.45%, 6.43%, 6.70% and 6.92% respectively during morning hours of trading against its previous day's closing levels of 5.62/68, 5.65/75, 6.13/23, 6.15/30, 6.58/60 and 6.65/73.

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- **Sri Lanka rupee quoted stable, gilt yields marginally up**

Sri Lanka rupee quoted stable at 185.05/10 to the US dollar on Wednesday while bond yields marginally up, dealers said.

The rupee closed at 185.10/20 levels on Tuesday.

Moody's Investors Service has downgraded the long-term foreign currency deposit ratings of Bank of Ceylon (BOC), Hatton National Bank PLC (HNB) and Sampath Bank PLC (Sampath) to Caa1 from B3, and the banks' long-term local currency deposit ratings to Caa1 from B2.

At the same time, Moody's has downgraded the Baseline Credit Assessment (BCA) of BOC to caa1 from b3, and those of HNB and Sampath to caa1 from b2.

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## 3. INTERNATIONAL

- **House prices are surging again in the Philippines**

The Philippines experienced a house price boom from 2010 to 2018, with Makati CBD prices rising by more than 132% (76% inflation-adjusted) due to strong demand and rapid economic growth. But with a slowing domestic economy, coupled with the US-China trade war, the housing market slowed sharply last year.

Surprisingly despite the COVID-19 pandemic, the housing market has bounced back quickly this year with house prices rising by double-digit figures again. This was mainly due to the Philippines' attractiveness to investors due to high rental yields, and the release of the much-awaited Implementing Rules and Regulations (IRR) of the Real Estate Investment Trust Act of 2009 early this year. The law removes stringent tax and minimum public ownership requirements that prevented the wider use of REITs in the country.

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- **The UK's housing market continues to improve**

The UK's housing market is gradually improving. Real house prices rose by 1.11% during the year to Q2 2020, an improvement from the previous year's 1.25% decline and its best performance since Q1 2017. Quarter-on-quarter, real house prices increased slightly by 0.83% during the latest quarter.

North West was the best performing region during the year to Q3 2020, with real house prices rising by 3.9%, followed by Scotland (3.1%) and South West (1.4%). London real house prices increased 1.2%.

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- **House prices to rise by 2% in 2020 before grinding to a halt**

UK house prices will rise by 2% in 2020 before staying flat in 2021, Hamptons International has predicted.

House prices are expected to see the biggest increase in Wales (3.0%), followed by London (2.5%), Yorkshire & the Humber (2.5%) and the North West (2.5%).

Next year West Midlands is predicted to see the biggest fall (-1.5%), followed by London (-1.0%) and the South West (-1.0%).

Aneisha Beveridge, head of research at Hamptons International, said: "The housing market's strong start to 2020 soon came to a halt with the rise of Covid-19.

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- **U.S. Home Prices Jump 14 Percent Annually this Summer**

According to a new housing report by Redfin, median U.S. home sales prices increased 14% from 2019 to \$319,978 in August 2020 -- the highest on record. The 14% year-over-year increase was the largest since August 2013.

"The recent boost in the number of people listing their homes for sale still falls far short of demand from folks looking to buy homes right now," said Redfin chief economist Daryl Fairweather. "Unfortunately, that means little relief for homebuyers, especially those seeking an affordable home. I don't expect the double-digit home-price increases to subside before early 2021."

Even though we're in a historic seller's market, it remains critical that sellers price their homes right, according to Washington, D.C. Redfin listing agent Mary Bazargan.

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- **Hong Kong Office Rent Slide Slows in August, New Lettings Uptick**

According to JLL's latest Property Market Monitor report released this week, Hong Kong's overall Grade A office rental market is declining at a more moderate level in August 2020, as the COVID-19 pandemic's third wave recedes.

Momentum in new lettings also picked up modestly, with an increase of 10% month-on-month in August. Net take-up improved, albeit still in negative territory, amounting to -147,500 square feet, the least negative figure so far in 2020. Outward movement from Central continued as tenants remained firmly in cost-saving mode. Among the more notable transactions, Hong Kong Mortgage Corporation reportedly leased 73,000 sq. ft (gross floor area or GFA) at Two Harbour Square in Kwun Tong to relocate out of Central.

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- **European markets pull back with Brexit, U.S. politics on the agenda**

The pan-European Stoxx 600 fell 0.5% in early trade, with banks shedding 1.3% to lead losses as all sectors except utilities slid into negative territory.

The cautious open follows mixed trading in Asia-Pacific overnight, where mainland Chinese and South Korean shares advanced while stocks in Hong Kong and Australia retreated slightly.

Stateside, stock futures for Tuesday are slightly lower following a rally on Monday, as investors prepare for the first presidential debate between President Donald Trump and Democratic challenger Joe Biden, with a clear victory for either party likely to cause some market movement.

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- **Home prices rose 4.8% in July, according to Case-Shiller index**

Strong demand from homebuyers in July, coupled with rock-bottom mortgage interest rates, caused home prices to accelerate in major markets across the nation.

Nationally, home values rose 4.8% annually, up from a 4.3% gain in June, according to the S&P CoreLogic Case-Shiller U.S. National Home Price Index.

The 10-City Composite annual increase showed a 3.3% gain, up from 2.8% in the previous month. The 20-City Composite rose 3.9% annually, up from 3.5% in June. Detroit was not included in the series, due to data collection issues, so it covered just 19 cities.

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- **Reallymoving: House price growth to reach 14% in November**

Reallymoving has predicted annual house price growth to reach 14% by November 2020.

The quote service said the prediction is based on deals already agreed, as pent up demand and urgency to benefit from the temporary stamp duty holiday has driven up activity in the market.

Annual price growth is forecast to reach 4.7% in September, 11.4% in October, and finally 14% in November.

Rob Houghton, chief executive of reallymoving, said: "Buyers are determined to make their move now, despite the fact that the current spike in prices will in many cases wipe out the stamp duty savings.

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- **Rental demand surges in Q3 – Belfast leads the way**

Rental demand surged by 31% in Belfast between the second and third quarters, followed by Glasgow (29%) and Bournemouth (26%), Howsy research has found.

Aberdeen (+1%), Leeds (+4%) and Leicester (+4%) have seen the lowest uplift in tenant demand in the last three months.

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- **Qatar's housing market remains fragile**

Qatar's housing market remains weak, despite the government's continuous effort to mitigate the economic and financial fallout of the ongoing blockade, as well as the coronavirus outbreak. The nationwide real estate price index rose by 1.97% during the year to Q2 2020, following y-o-y changes of -3.6% in Q1 2020, 0.55% in Q4 2019, and -6.86% in Q3 2019. Property prices fell slightly by 0.31% q-o-q during the latest quarter.

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