REAL - ESTATE NEWS FEED

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TO

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1. REAL-ESTATE

• A property market boom is coming

The prophesied property bubble never came. Not long ago, analysts predicted the property market will crash as high-rises sprouted in the city. However, since the covid-19 pandemic struck, the property market's prospects have never been better. Minoli Wickramasinghe, Managing Director of Capital Trust Properties, says that now is the perfect time to invest in property. A subsidiary of Capital Trust Holdings Limited, Capital Trust Properties has interests in Property Investment, Property Brokering, Property Management Services and Real Estate Advisory. Here, Wickramasinghe takes a deep dive into the Sri Lankan real estate market and investment prospects in a post-Covid environment.

Read more

• BIA expansion to be complete in three years

The US dollar 306 million Japanese funded Phase II of Bandaranaike International Airport Expansion project, finally commenced last week and is to be completed in three years.

The construction of the new multi-level passenger terminal building will increase the passenger handling capacity of the BIA from the current 6 to 15 million passengers per year.

State Minister of Aviation and Export Zones Development D. V. Chanaka said; "We will execute this development project as an environmental-friendly 'green' development initiative with the deployment of advanced technology which will help to save 40% of water and 20% energy."

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- **The need to champion affordable luxury living for all**

Luxury is not just cars or international holidays, today it has evolved to include a luxurious lifestyle, with technology, security and comfort with services playing a crucial role. As cities expand and evolve, and with it the concept of luxury living, the real estate sector has experienced a decisive shift towards affordable luxury living catering not only to High Net Worth Individuals but also the growing middle class.

The recent increase in per capita income has been an agent of this change tethered to the natural but rapid urbanisation and other socio-economic factors such as migration, to the outskirts of Colombo. In this setting, the demand for upmarket, comfortable and luxury spaces have increased.

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- **MAGA constructs iconic Manning Market Complex in Peliyagoda**

The iconic new Manning Market Complex in Peliyagoda was inaugurated on 20 November by Prime Minister Mahinda Rajapaksa. The complex will house 1,192 shops and is part of the new commercial hub in Peliyagoda, bordering Sri Lanka's most populous districts.

Relocation of the Manning Market to its new home in Peliyagoda provides vendors with larger, cleaner premises, and better access to storage, parking, and waste-management. With on-schedule completion at this critical juncture, the new market complex will provide additional safety at Colombo's primary hub for wholesale of fresh produce. As a further step toward development of Sri Lanka's capital city, the project will also ease traffic congestion in the city centre and release underutilised land to develop the multi-modal transport hub at Fort.

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2. ECONOMY

- ## ASPI remains flat despite 2021 budget – Acuity Stockbrokers

Sri Lankan equities remained largely unchanged for a second consecutive week as activity levels subsided despite the presentation of the 2021 Budget this week. The benchmark index experienced an uptick on Tuesday, rising ~32 points in anticipation of the budget. However, domestic equities failed to maintain this momentum as investor sentiment turned negative thereafter despite the proposals outlined in the budget. Consequently, the ASPI slipped ~47 points on Thursday having taken a mid-week breather. On Friday however, some buying interest returned to the market (particularly in DIST amid a proposal to increase local ethanol production) which helped reverse earlier losses.

Consequently, the Bourse ended the week on a mixed note as the ASPI increased by paltry 2.58 points (or +0.04%) to close at 6,085.00 points, while the S&P SL20 Index decreased by 11.10 points (or -0.46%) to close at 2,390.27 points.

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- ## Yield curve records a shift upwards for a second consecutive week

The secondary bond market yields increased further during the week ending 20 November, continuing the upward momentum witnessed over the previous week.

The persistent reduction in demand at the weekly Treasury bill auction which went undersubscribed for a fourth consecutive week coupled with the prevailing dull sentiment in the market were seen as the reasons that led to the upward momentum.

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- ## Sri Lanka publishes trade taxes for import substitution economy, new duty list

Sri Lanka has published a series of value-based and per unit cess taxes to limit competition from imports for domestic producers and keep prices up, as part of an import substitution economy.

A revised list of import duties were also released with a maximum rate at 15 percent and some items coming in at zero duty. Over 2,575 items and sub-items came under the cses taxes in a kind of negative list layer on top.

Some items could be imported sans the tax under permits or approval from the relevant ministry and the Director General of Customs.

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- ## Sri Lanka rupee quoted firmer, gilt yields up

Sri Lanka rupee quoted stronger at 184.90/40 to the US dollar in the spot market on Monday while gilt yields slightly up in active market trade, dealers said.

The rupee closed at 185.50/80 to the US dollar on Friday.

In the secondary securities market, bond yields up in act market trade on selling pressure, dealers said.

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- ## Budget 2021 likely to worsen macroeconomic instability amidst COVID-19 pandemic

Budget Speech 2021 was presented at a time when the country is being severely hit by the COVID-19 pandemic. GDP growth is projected to be down to negative 2 percent this year. Despite this economic setback, the government envisages to maintain an inclusive GDP growth rate of 6 percent per annum over the medium-term while containing inflation to around 5 percent, according to its macroeconomic programme, 'Vistas of Prosperity and Splendour'.

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- ## Decline in interest rates brings in Rs.7.7bn windfall for banks holding treasuries

While descending interest rates are generally considered a bane for banks, the same phenomenon acted as a blessing for the sector bringing in billions worth of capital gains on government treasuries they held, potentially offsetting any negative impacts on their top line.

According to latest data available up to end-August, the banking sector made a mammoth Rs.7.7 billion as capital gains on treasury bonds they held compared to Rs.3.4 billion reported in the corresponding period last year.

While the accumulated gains for the nine-month period aren't yet available as a block figure, the interim financial reports of the banks also confirmed this phenomenon.

The outsize capital gains on treasury bonds was possible due to the increase in investments in government securities during this year compared to the same period in 2019.

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- ## National prices hit 6-month low at 5.5% in Oct.

Sri Lanka's national prices descended to a six-month low in October predominantly on some ease in food prices and non-food prices over the same month in 2019, the latest data on inflation measured by the National Consumer Price Index showed.

According to the national price gauge, prices of the food and non-food basket rose by 5.5 percent during the twelve months to October 2020, decelerating from 6.4 percent increase in September.

Food prices were the key to the change in direction of the national price index as food inflation slowed to 10.6 percent in October over the same month in 2019 from 12.7 percent in September.

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- **'Lanka's economy to contract by 3% on 2020'**

Moody's Investors Service in their Credit Outlook predicts that Sri Lanka's economy would contract by more than 3% in 2020, with prospects for a gradual rebound in 2021 increasingly at risk given renewed virus flare-ups and lockdown measures globally.

The budget includes large allocations for domestically financed infrastructure development, incentives for domestic production, support for small and medium-sized enterprises and upgrading Sri Lanka's rural road networks, to which the largest portion of public investment spending has been allocated. It also includes scaled-up support to the tourism industry, which has taken a severe hit given the country's border closures.

But despite the focus of the development-oriented budget on reviving economic growth and reducing poverty, the benefits will be limited by the magnitude of the pandemic-driven hit to demand for Sri Lankan exports and the collapse in tourism activity. Domestic demand is also likely to remain sluggish given still-subdued business and consumer confidence, and ongoing import restrictions affecting industries such as construction and manufacturing.

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- **Govt. plans to reach 6% GDP growth during next 5 years - First Capital Research**

First Capital Research estimates that Sri Lanka's GDP would see its steepest contraction in history of -5.8% in 2020 following the unexpected contraction in 1Q GDP growth of -1.6% while 2Q GDP figures are yet to be seen.

However, the current Government.'s key drive is the development oriented economic growth which was spelled out through the Budget 2021 as well. Accordingly, Govt. plans to reach 6% and above GDP growth during the next 5 years commencing from 2021. As we believe a development-oriented budget coupled with a further low interest rate environment can support the Govt.'s medium-term goals.

"Therefore, the need to accelerate the GDP growth can be considered as a major factor favoring, further policy easing at the upcoming review".

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- ## Inflation dips in October 2020.

Headline inflation as measured by the year-on-year (Y-o-Y) change in the National Consumer Price Index (NCPI, 2013=100) decreased to 5.5 per cent in October 2020 from 6.4 per cent in September 2020.

This was due to the statistical effect of the high base prevailed in October 2019. Meanwhile, Food inflation (Y-o-Y) decreased to 10.6 per cent in October 2020 from 12.7 per cent in September 2020, whereas Non-food inflation (Y-o-Y) increased marginally to 1.5 per cent in October 2020 from 1.4 per cent in September 2020. The change in the NCPI measured on an annual average basis remained unchanged at 6.2 per cent in October 2020.

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- ## Bond yields edge up further ahead of weekly auction

The secondary market bond yields edged up further yesterday, mainly on the very short end of the yield curve, driven by persistent selling interest ahead of today's weekly Treasury bill auction. Yields on the short dated Treasury bonds of 2021's (01.08.21 & 15.10.21), 2022's (01.07.22, 01.10.22 & 15.12.22) along with 15.01.23 were seen hitting highs of 4.85%, 5.05%, 5.70%, 5.85%, 5.90% and 6.00% respectively in addition to 15.09.24 changing hands at 6.49%. Secondary market Treasury bills consisting of the maturities of January, February, September and October 2021 were seen changing hands at highs of 4.75%, 4.80%, 4.92% to 4.95% and 5.00% respectively.

Read more

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- ## Weekly bill auction subscription increases to 95%

The total accepted amount at yesterday's bill auction was seen increasing to a five week high of 95.26% of its total offered amount while been undersubscribed for a fifth consecutive week. A total amount of Rs. 37.44 billion was accepted against its total offered amount of Rs. 39.3 billion as the bids-to-offer ratio increased to a five week high of 1.67:1 as well. The weighted average rates on the 182-day and 364-day maturities were recorded at its stipulated cut off rates of 4.76% and 5% respectively, while the weighted average rate of the 91-day maturity was registered at 4.64% against its stipulated cut off rate of 4.65%.

In the secondary bond market, yields declined marginally yesterday with the liquid maturities of 15.12.22, 15.01.23, 15.09.24 and 15.08.27 hitting intraday lows of 5.76%, 5.85%, 6.45% and 7.15% respectively against its previous day's closing level of 5.85/90, 5.95/00, 6.48/50 and 7.15/23, driven by renewed buying interest. Activity was also witnessed on the maturities of 15.12.20, 01.09.23 and 15.12.23 at levels of 4.56%, 6.045% to 6.05% and 6.03% to 6.05% respectively. In the secondary bill market, July, October and November 2021 maturities traded at levels of 4.85%, 4.95% and 5% respectively.

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- ## PMI takes major hit in Oct. on COVID-19 resurgence

Manufacturing and services sectors took a strong hit in October with the Purchasing Managers Index (PMI) declining significantly amidst heightened job losses, increased backlogs and reduced expectations of future business activities due to the second COVID-19 wave, the Central Bank said yesterday.

Manufacturing activities indicated subdued performance in October due to the adverse impacts of the second wave of the COVID-19 pandemic that erupted in the country in early October, the report said.

Accordingly, manufacturing PMI declined to 40.3 in October with a significant decline in Production, New Orders, Employment, and Stock of Purchases sub-indices, particularly in the manufacturing of wearing apparel and food & beverages sectors.

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- ## Sri Lanka rupee quoted stronger, gilt yields steady

Sri Lanka rupee was quoted stronger at 185.55/70 to the US dollar in the spot market on Thursday while gilt yields were steady in the overall market, dealers said.

The rupee closed at 185.65/85 to the US dollar on Wednesday.

In the policy review held today (November 26), Sri Lanka is keeping policy rates unchanged the central bank said amid unprecedented liquidity injections through outright monetization of debt that has kept excess liquidity at over 15 per cent of the monetary base over several months.

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- ## Sri Lanka policy to focus on growth with inflation 'well-behaved': CB Governor

Sri Lanka will focus policy on boosting growth with inflation 'well-behaved' Central Bank Governor W D Lakshman said, after keeping policy rates unchanged in November 2020.

"Given well-behaved inflation, economic growth continues to be the key concern that needs to be addressed urgently," Governor Lakshman told reporters in an online media briefing.

"The ongoing and expected monetary and fiscal support will help the recovery."

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- ## Mortgage-backed loans to be interest capped

The Central Bank is to impose a rate cap for lending to property-backed loans to salaried employees. The maximum rate will be 7% for the first five years. All subsequent repayments (after the fifth year) will be capped at 1 percentage point increase over the monthly Average Prime Lending Rate (AWPR).

Director Research Dr C. Amarasekara said, "mortgage-backed securities will not cause a bubble." The regulator is also looking to collect data and thereby target lending to certain thrust sectors of the economy. Currently, the regulator doesn't readily have access to loan application information with regards to approved credit facilities and their breakdown.

The Central Bank maintained its accommodative monetary policy stance for the last scheduled monetary policy announcement of the year held yesterday.

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- ## EU to bring in more FDI

Head of Delegation of the European Union to Sri Lanka and the Maldives Denis Chaibi, and Deputy Head of Mission, Thorsten Bargfrede met with Chairman - Board of Investment of Sri Lanka (BOI) Susantha Ratnayake, and Director-General - BOI Sanjaya Mohottala, on 26th November 2020 at the BOI.

The discussion was on attracting more Foreign Direct Investment (FDI) from the European Union and the revival of the EU / Sri Lanka Investor Dialogue, a facilitation forum for existing investors from the European Union. The forum was initiated by the Delegation of the European Union to Sri Lanka and the Maldives and the European Chamber of Commerce in Colombo, in close collaboration with the BOI in 2014.

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- ## Activity moderates; yields increase once again as policy rates unchanged

The Central Bank of Sri Lanka's Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) or policy rates were held steady at 4.50% and 5.50% respectively at its announcement yesterday.

The activity in the secondary bond market moderated yesterday with yields increasing marginally once again subsequent to the monitory policy announcement. Yields on the most sorted maturities of 2022s (i.e. 15.11.22 and 15.12.22), 15.01.23, 15.12.23, 15.09.24 and 15.08.27 were seen hitting highs of 5.83% each, 5.86%, 6.07%, 6.55% and 7.20% respectively against its previous day's closing level of 5.70/78, 5.75/78, 5.80/87, 6.00/10, 6.40/45 and 7.10/15.

In the secondary bill market, February, May, June and November 2021 maturities traded at levels of 4.65% to 4.70%, 4.74%, 4.80% and 5.00% respectively.

Read more

3. INTERNATIONAL

• Slowed Commercial Acquisitions in U.S. Dampens Lending Activity in Q3

According to new research from CBRE, while sluggish commercial real estate investment activity has caused loan closings to slow in Q3 2020, a rise in loan applications in recent weeks is a promising sign for higher year-end closings.

The CBRE Lending Momentum Index, which tracks the pace of commercial loan closings in the U.S., fell to a value of 160 in September, down 17.6% from June. As of September 2020, the index was down 39.4% from a year ago.

"Stabilized multifamily continues to receive strong support from the agencies, while banks and life companies continue to underwrite lower leverage multifamily, industrial and selective office transactions. Retail and hotel properties, as well as those properties with transitional issues, remain challenging to underwrite. One promising sign has been the re-emergence of quotes from alternative lenders in recent weeks, a source of capital for value-add properties and distressed situations," said Brian Stoffers, Global President of Debt & Structured Finance for Capital Markets at CBRE.

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• UK borrowing hits highest October level on record

The Office for National Statistics (ONS) said borrowing hit £22.3bn last month, the highest October figure since monthly records began in 1993.

It underlines that the pandemic is having a "substantial effect" on the public finances, the ONS said.

But the figure - the difference between spending and tax income - was not as high as some economists had forecast.

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- ## **Singapore's economy is set to rebound in 2021 as third-quarter contraction slows**

Singapore's economy contracted by 5.8% in the third quarter compared to a year ago — coming in better than initial estimates, the country's Ministry of Trade and Industry said on Monday.

The Southeast Asian country earlier estimated its economy would shrink by 7% year-on-year in the July-to-September quarter, according to official data. The third-quarter economic performance was also better than the 13.3% year-over-year contraction recorded in the second quarter, the data showed.

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