

## **Above the fourth floor – rising interest from overseas**

*By Real-estate Intelligence Unit, [www.riunit.lk](http://www.riunit.lk)*

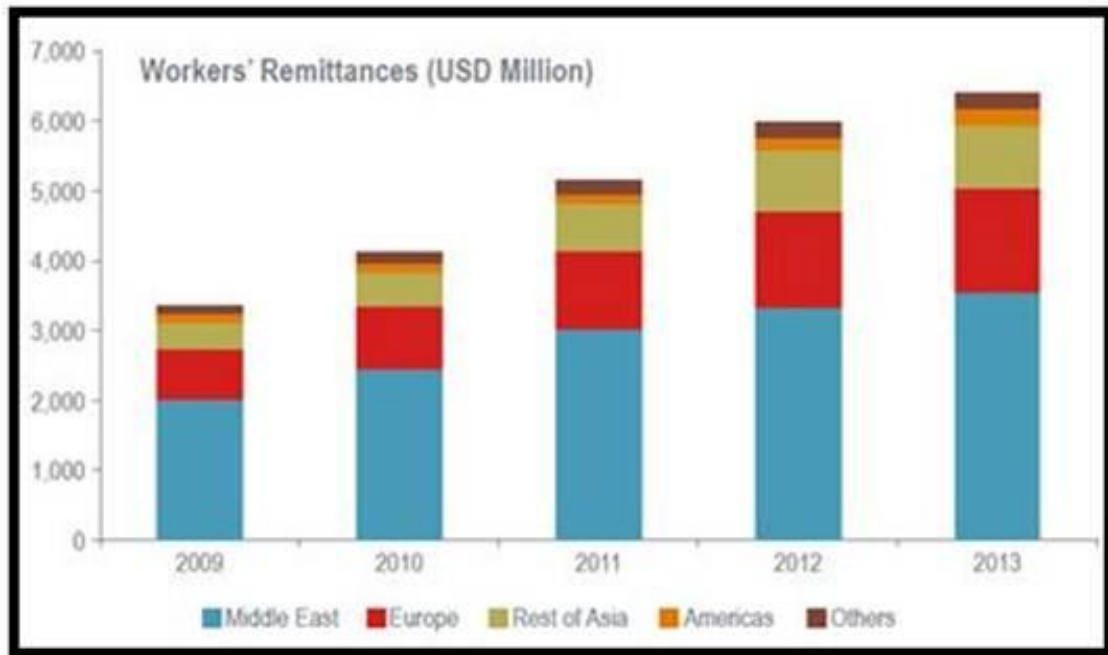
The sustained emergence of residential towers that continue to silhouette the Colombo sky-line has been a recent and welcome phenomenon as it signals a clear, and hopefully permanent, departure from the traditional horizontal brick and mortar developments that have long characterized the Capital. It may be that the shift to vertical real estate development will lead to the freeing up of more open spaces in the city and suburbs where people can unwind in a green environment, thereby taking Colombo up to a higher rank in the livable cities ratings. This remains to be seen.

For now, the first part of this equation is on a strong growth incline despite earlier misguided concerns that apartment living will not be popular in the context of Sri Lankan culture. So who is behind this massive hike in market demand for high-end apartments?

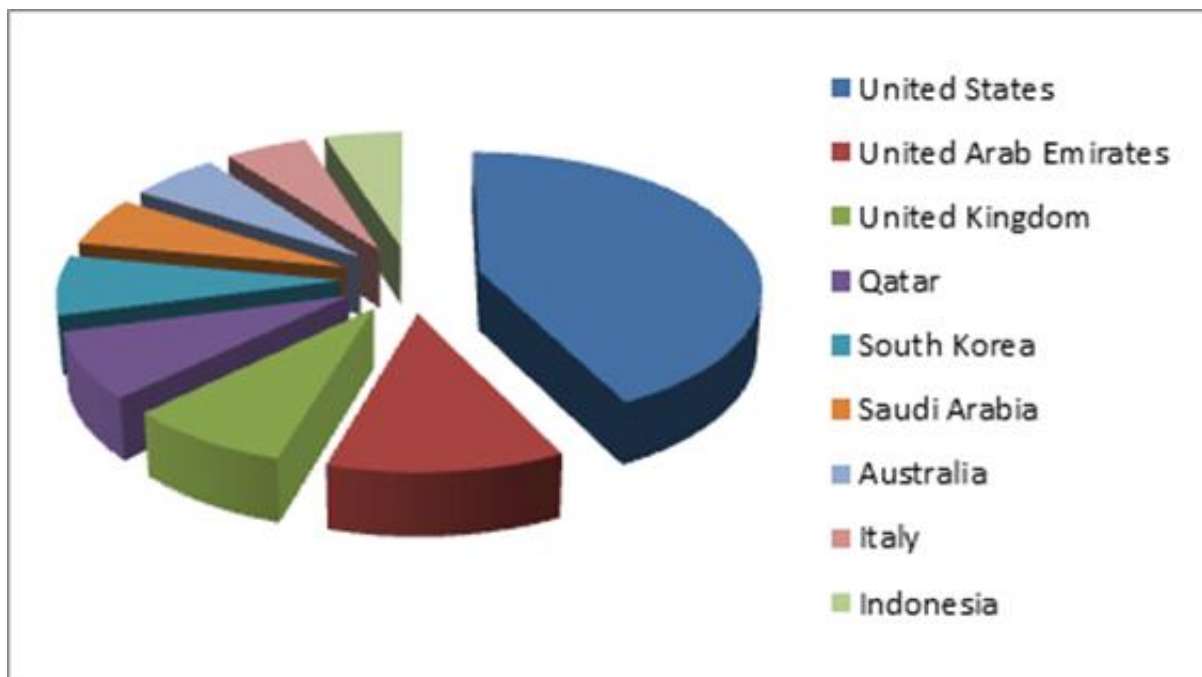
In the first instance, we can note that the affordability of an increasing number of local high-net-worth individuals (HNI's) has continued to grow over the past 6-7 years. According to a recent RIU study, the number of people entering the market for apartments that are sold for Rs.25 million and above is growing at a rate that reflects the average per capital GDP growth rate of 7.2 percent since 2009. However, local HNI's only explain half the story.

The expat share of the luxury condo market is estimated at between 30-50 percent with a higher concentration at the top end of the market. The demand factors from this segment arise from those who want to invest in a second home that can function as a holiday home and also from expats who want to return to Sri Lanka for their retirement. This group has a higher expectation in terms of facilities and service levels that they are used to in their adopted home in the developed world. Whilst expats from Europe and the USA have been the traditional market drivers, levels of interest from the Middle East have been steadily increasing.

Data from the Central Bank shows that the traditional sources of remittances into the island from Europe have been supplemented by strong growth in the contribution made from the Middle East and Asia.



Source: Central Bank of Sri Lanka  
**Foreign interest in Sri Lanka Real-estate (Q1 2015)**



Source: Lamudi (2015)

The increase in foreign demand for Sri Lankan properties is also supported by the data from Sri Lanka's leading real-estate website Lamudi. The latest data displays the geographical background of the traffic and confirms the fact that the West and the Middle East account for a large share the inquiries into real estate in Sri Lanka.

Given the domestic and global economic outlook, RIU expects the current high levels of demand from both local and expat Sri Lankans to continue in the short to medium term.

The only barrier to greater foreign participation in Sri Lankan real estate comes in the form

of the Land (Restriction on Alienation) Act No. 38 of 2014. This Act was introduced to restrict the transfer, lease or mortgage of lands within the island to foreign individuals and foreign companies and institutions. However, the new amendments have not made any changes to the freedom of foreign ownership for apartments above the fourth floor of any development. Consequently, the growth in this rapidly emerging new segment of the Sri Lanka real estate market will be sustained.

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