

Media Release

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SEC introduces a Framework for Real Estate Investment Trusts (REITs)

In Sri Lanka, owing to spiraling property prices it is a challenge for average citizens to finance real estate investments. Therefore, a significant proportion of the population of Sri Lanka is unable to benefit from the value appreciation of property and infrastructure development. The issue can be resolved by introducing a mechanism where capital is pooled by people who are willing to invest in prime commercial and residential property and they will benefit from property related income and value appreciation in the long term. Such pooled funds could be used to acquire prime residential and commercial property and income and wealth derived from such property is then shared with the unit holders of the fund.

Real Estate Investment Trusts (REITs) have been available for some time and are developing rapidly in Asia and are popular particularly in Thailand, Malaysia and India. The Securities and Exchange Commission of Sri Lanka (SEC) along with the other stakeholders have been contemplating the introduction of REITs framework in Sri Lanka for quite some time although no finality had been reached. The SEC has now facilitated the introduction of a REIT framework and the proposed initiative provides real estate developers and owners to convert fully completed properties in to a REIT which will provide an avenue for the general public of Sri Lanka to make an investment and thereby benefit from any property value increases. Corporate Bonds were introduced to the capital market in Sri Lanka in 1997 and it is approximately, after 23 years that a new product by way of REITs is being introduced.

The Sri Lankan REITs structure has considered the local environment in which it is expected to operate and the SEC has brought in a regulatory framework that is best suited to our market. The Rules that have been introduced by the SEC will be an extension of the current Unit Trust Code and the new Rules, which came into effect from 31st July 2020 is in the form of a Gazette Notification published by the SEC. These Rules which are comprehensive, will govern the setting up of and the conduct of a Sri Lankan REIT. Specific provisions have been included for the verification of title and valuation of property that will form part of the assets of the REIT.

Amongst the requirements is the mandatory distribution of approximately 90% of income to the unit holders, which is currently not a requirement for any of the listed entities. Further, due to the availability

of the tax pass through mechanism to Unit Trusts, REITs also could benefit to be a viable business concept to Sri Lanka that will open new horizons for entrepreneurs to take the real estate industry to greater heights.

This property backed alternative platform offers unique benefits to the investing public and to the nation as a whole.

Benefits to investors include:

- High dividend - since requirement to pay at least 90% of their income as a dividend
- Relatively stable income stream due to long leases
- Investor protection ensured since regulated by SEC
- Swift entry and exit opportunities
- Opportunity for portfolio diversification
- Professional investment management at a relatively low transaction and management cost
- An effective hedge against inflation due to real estate asset backing

Benefits to the country include:

- Optimize land usage due to vertical high-rise building complexes and mixed developments
- A catalyst for foreign investment
- liquidity added to market through listing
- Improved investor confidence through increased transparency created through the disclosure requirements
- Increased tax revenue
- Facilitation of planned urbanization with controlled congestion
- Environmental benefits
- Employment creation
- Contribution to the country's capital formation
- GDP growth
- Optimize capital allocation

Many real estate owners/developers can immediately benefit from the Unit Trust based REITs framework, which is now enabled under the capital market framework of the SEC. In order to promote transparency and to distribute ownership among people of Sri Lanka, REITs are only allowed as listed REITs on the Colombo Stock Exchange.



Attached Photo

SEC Chairman Mr. Viraj Dayaratne PC handing over the REIT Framework to the Chairman of CSE Mr. Dumith Fernando.

From Left to right Mr. Rajeeva Bandaranaike CEO CSE, Dr. Harshana Suriyapperuma, Director Corporate Affairs SEC, Mr. Chinthaka Mendis DG SEC, Mr. Viraj Dayaratne Chairman SEC, Mr. Dumith Fernando Chairman CSE and Mrs. Ayanthi Abeywickrema Director-Legal and Enforcement SEC

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