



How to Buy Property in Sri Lanka

Overview

Sri Lanka is a relatively investment-friendly destination and welcomes overseas investment. Sri Lanka's real estate market has enjoyed very significant growth, particularly since the end of civil strife in 2009.

- The south coast centered around Galle has been a very popular destination for expatriates and retirees seeking second homes or holiday homes.
- The capital city, Colombo, has experienced very significant growth in the high-end, high rise residential property, largely driven by overseas buyers' and local high net worth investors' demand for luxury apartments.

Online searches, the property pages in Sri Lankan newspapers and reputed agents ("brokers" in Sri Lanka) are the most effective ways of finding your dream property in Sri Lanka.

The property section in Sri Lanka's *Sunday Times* is a popular local source. Leading local agents have their own website listings and offer a full service including assistance with introductions to lawyers and banks.

Lawyers play a key role and appointing an experienced lawyer is an essential early step. Their involvement can extend beyond the usual property title checks and conveyancing, to include assistance with setting up a local bank account, assistance with setting up a local property ownership company and identifying and appointing an immigration consultant to assist with resident visas.

Non-Sri Lankan citizens are currently required to purchase freehold property (except apartments) through a well-established company structure set up for them by their lawyer, with several features to safeguard the buyers' complete control and interests.

The Sri Lanka government has announced its intention to liberalise the laws that currently restricts non-Sri Lankan individuals' direct ownership of freehold property.

Any overseas buyer should set up a local bank account in Sri Lanka, both to pay for the property purchase as well as for day-to-day living. Your lawyer can assist with this – if the property is to be purchased through a company, the bank account should be in the company's name. Sri Lanka has a special category of bank account catering for such investments, the *Inward Investment Account* (also known as a *Securities Investment Account*).

International banks including Standard Chartered Bank and leading local private banks like Commercial Bank and Seylan Bank offer these accounts, online and telephone banking facilities and extensive branch and ATM networks.



The Sri Lanka government has a special residence visa for foreigners aged over 55 investing in Sri Lanka.

New developments are typically sold “off the scheme”, allowing buyers to pay in instalments linked to pre-defined development. Payment for existing properties typically involves a lump sum payment, made at the time the ownership is transferred.

Once you have identified the desired property, your lawyer should:

- 1) help draft a preliminary contract (Sale & Purchase Agreement)
- 2) commence the legal due diligence on the property, and if you are a foreigner,
- 3) help set up the company through which the purchase would be made
- 4) help set up the company bank account through which the purchase would be funded

The above work is generally done in parallel and the entire process typically takes four to six weeks.

Preliminary Contact (Sale & Purchase Agreement)

A Sale & Purchase Agreement (“S&PA”) is generally used as a preliminary contract to summarize the intent of the seller and buyer.

The SP&A contains the terms and conditions under which the purchase would be completed, including the price, payments, timing of completion and the respective obligations of the buyer and the seller until the ownership is transferred.

For new developments, the S&PA is often a standardised document, prepared by the seller’s lawyer and provided free of charge to buyers.

It is customary that you will be required to make a deposit to the seller’s lawyer at the time of signing the S&PA. It is important that the S&PA should clearly list the circumstances under which you or seller can terminate the agreement without forfeiting the deposit - for example, if there is a problem obtaining planning permissions and certification, if the purchase involves a new construction.

If you withdraw and fail to complete the transaction for reasons other than those listed, you may be considered in breach of the agreement and may forfeit this deposit. Likewise, if the seller fails to complete for reasons not listed in the SP&A, the seller may be required to return the deposit and sometimes, a pre-agreed penalty payment. All these details should be clearly documented in the S&PA.

You would generally sign the S&PA at the same venue together with seller, in the presence of the respective lawyers.



Legal Checks

The seller (or agent/broker) provides a copy of the title deed, survey plan and if available, the ownership history. For property with existing buildings, a building and street line certificate and a certificate of conformity from the local municipality or council and proof of payment of rates and taxes for the previous quarter should also be provided.

Your lawyer would check the validity of these at the relevant land registry, along with the ownership history and the seller's legal entitlement to the property. Your lawyer should also confirm the absence of any mortgages or restrictions to transfer ownership title and the absence of legal disputes affecting the property.

It is important to note, however, that your lawyer typically does not visit the property as part of the legal checks, but these services can be included if requested.

If not undertaken by the lawyer, it would be up to you or your estate agent or representative to ensure that the property and buildings at the site conform with the building certification and that there are no structures apart from those on the approved building plans (eg. an unapproved swimming pool or additional building).

The seller also arranges for an updated survey plan that is attached to the documents when applying for registration of the new title.

These legal checks typically take four to six weeks.

Completion

After the completion of legal due diligence (for existing properties) or on completion of the development (for new developments), ownership and title is transferred via a Deed of Transfer ("DOT").

For new developments, the DOT is often a standardised template document prepared by the seller's lawyer and provided free of charge to buyers.

The change of ownership is notarized by a public notary and registered at the land registry. Often, the buyer's lawyer or seller's lawyer may also be a public notary and perform this service, without involving a third party notary.

You are generally not required to attend the signing of the DOT – only the seller signs the title transfer documents, in the presence of the respective lawyers. Your lawyer would hand over the balance of the purchase payment, estate agent's fees and notary fee (if not done by either party's lawyer), in exchange for taking possession of your keys and the title documents to your new property.

Your lawyer would register the DOT at the local land registry and also notify the local council or municipality of the change of ownership. You receive a certificate of ownership once the registration is completed.



Property Buying Costs

Your lawyer should typically charge 1% to 3% of the property value for conveyancing, depending on the lawyer and on the value of the purchase. In addition, the nominal costs of the buyer's and seller's lawyers attending to the signing of the S&PA are generally split equally between the buyer and seller.

A foreign buyer will also incur the costs of setting up a local company for the purchase. This could range from USD2,000 to USD5,000, depending on the lawyer.

You incur Stamp Duty (4%), VAT (15%) and a Nation Building Tax (2%) on the value of the property. The property valuation is done by a government assessor, organized by your lawyer or agent. Typically, the buyer's lawyer handles these payments on behalf of the buyer.

The seller generally pays the real estate agent a brokerage / commission of between 3% to 5% of the purchase value. If you appoint a real estate agent as buying agent or commission a bespoke search for your dream property, your agent may charge you a fee for this service. It is advisable to clarify whether the seller, buyer or both parties would be liable for the agents' fees, at the outset.

Foreigners Buying Freehold Property

Sri Lanka law currently restricts freehold purchases of landed property, to Sri Lanka incorporated companies which have at least 51% of shareholders who are Sri Lankan citizens (or dual citizens). Foreigners generally buy non-apartment property through a local company they set up through their lawyer.

Typically, the foreign buyer owns 49% of the property holding company and a local Trustee owns 51% but grants all legal powers and custody of the 51% shares to the buyer.

Foreigners purchasing property through their 49% owned, locally-incorporated company may also enjoy additional benefits such as longer residence visas and tax advantages.

Residency & Visas

Non-Sri Lanka citizens aged over 55 years are eligible for a two year renewable resident visa under the government's *My Dream Home* programme, if they;

- i. invest USD 15,000 (or equivalent in a major currency) in a fixed deposit with a bank in Sri Lanka for the duration of their visa, and
- ii. remit USD 1,500 each month (or equivalent in a major currency) to support their upkeep. Dependents require an additional USD750 per person per month.



- iii. Details of the *My Dream Home* programme can be found on the Sri Lanka Department of Immigration website; [Sri Lanka Immigration | My Dream Home programme](#) and a government-sponsored video can be seen here [My Dream Home Sri Lanka : YouTube video](#). The government has frequently issued statements about encouraging investment into Sri Lanka by expanding this programme.

Who does what?

Lawyers

A good lawyer is integral to the success of your purchase. Several leading lawyers in Sri Lanka specialize in providing legal services to foreign property buyers and it is advisable that you work with one of them. Some lawyers with extensive experience in representing overseas buyers are listed below for your convenience:

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Estate Agents (“Brokers”)

Generally, estate agents represent the seller and receive commissions and fees from sellers only – typically upto 5% of the purchase price.

It is not standard practice that buyers pay “finders fees” and the use of buyer’s agents is not common. Nevertheless, the services of a professionally qualified and licensed real estate agent can sometimes be helpful, to find that ‘special gem’.

In addition to working with you to find your dream property, your buying agent performs a key role in liaising with the other professionals working for you – your lawyer, your banker and any Company Secretary, Trustee and accounting firm appointed with the assistance of your lawyer for if purchasing through a company.



A good estate agent should be thoroughly familiar with the local area they cover, responsive and pro-active in their communications and have good track record supported by multiple references.

It is recommended that the scope of an estate agent arrangement including the fees and services performed are very clearly documented prior to commencing the engagement.

Taxes and Rates

The table below summarises the main taxes generally incurred when resident in Sri Lanka

Tax or Rate	%	Collected at / Payable to
Stamp Duty	4% of assessed value of property	Commencement of ownership, paid to relevant provincial council
VAT	15% of item/service	Point of sale, levied on many items/services
Nation Building Tax ("NBT")	2% of item/service	
Council Rates	Generally 15% of assessed rental value	Quarterly, paid to local council or municipality
Income Tax	Scaled upto 24% of profits and income generated while resident	Paid to central government. Interest income generally collected as source
Capital Gains Tax	10% of the gain on the sale of property (not applicable if property ownership via a company and ownership transferred via sale of shares in that company)	Paid to central government. Incurred when property sold

The tax year in Sri Lanka is calculated from 1st April, until 30th March of the following year.

Individuals are deemed residents for tax purposes if they spend more than 183 days in Sri Lanka, in that relevant tax year.



Residents are taxed on their global income, but non-citizens resident and employed in Sri Lanka are only liable for Sri Lanka-sourced income (eg. non-citizens employed through their own company, which could also be the legal owner of property)

Where to Buy Property in Sri Lanka

Sri Lanka's residential property market has been growing at a steady pace from 2013, with certain segments like apartments in Colombo and properties around Galle experiencing very significant growth. Over the last decade, the most popular areas have been in or around the major cities, but over the past five years, coastal resorts like Kalpitiya in the west and Nilaveli in the east have also seen growing demand.

COLOMBO

An apartment development boom in response to very significant price appreciation over the past decade is changing the Colombo skyline. Some commentators have cautioned about a potential correction in this market segment and the Central Bank is taking steps to steady this rate of growth.

GALLE

The quaint Dutch-style homes and buildings in and around the historic fort have appreciated very significantly due to Galle becoming a major tourist hub. Properties in the coastal belt around Galle have been very popular with expatriates and foreigners seeking second homes, holiday homes or relocating for retirement. Recently, several local developers have commenced apartment developments in the area.

KANDY

The historic and cultural capital of Sri Lanka is experiencing growth in demand for tightly-held parcels of land and homes around the picturesque centre. Like in Galle, several local developers have recently started apartment developments in Kandy.

For more information on investing in property in Sri Lanka, please visit our website

[Catalina website: Information on investing in Sri Lanka](#)

[Catalina website: Frequently-Asked Questions](#)

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