

Q4 | 2019

Cyprus Economy & Real Estate Updates

A quarterly update of Cyprus Real Estate Market

February 2019







contents

- 4 overview
- 5 economy update
- 7 real estate market
- 13 industry news
- 15 who we are
- 15 what we do
- 16 work with us

overview

The fourth edition of LGA's Real Estate Market report provides an outline of the main economic factors affecting the Cyprus property market and an outlook of the performance of the market during the period January – December 2018.

Cyprus economy has followed a strong growth path for 2018 and maintained its status as one of fastest growing economies in Europe. GDP in 2018 reached 3.9% (almost twice the EU average) and is forecasted to grow further in 2019. The positive economic growth has certainly led to a series of sovereign rating upgrades which signify a stable outlook. Labour market developments reflect the continuous improvement in economic activity, while business confidence across major sectors either increased or levelled off, suggesting continued momentum in the coming years. A booming tourism industry and a strengthening job market will continue to prop up economic activity. The key risks however, are still the very high levels of public and private debt as well as the elevated non-performing loan ratio burdening the banking system.

The positive developments in the economy of the country directly affects the Cyprus real estate market which there is no doubt that the previous years has concluded with significant signs of stability. According to the latest data released by the department of land and survey (DLS), sales transactions recorded for 2018 amounted to 9,242 while 2017, sales transactions were 8,734, recording an overall increase of 6%. Interest from overseas buyers, which has been a driving force for the sector, has been increased significantly during 2018, with half of the transactions occurred related to foreign buyers. Furthermore, an increase in the trend of development companies is the construction of office facilities intended mainly for multinational companies attracted by the island. Grade A offices are continuing its great appeal to foreign investors and the prime yield reached 5.5% in 2018. Generally, residential rental yields remained relatively low despite the significant correction in prices, depressing the investment value of real estate.



economy update

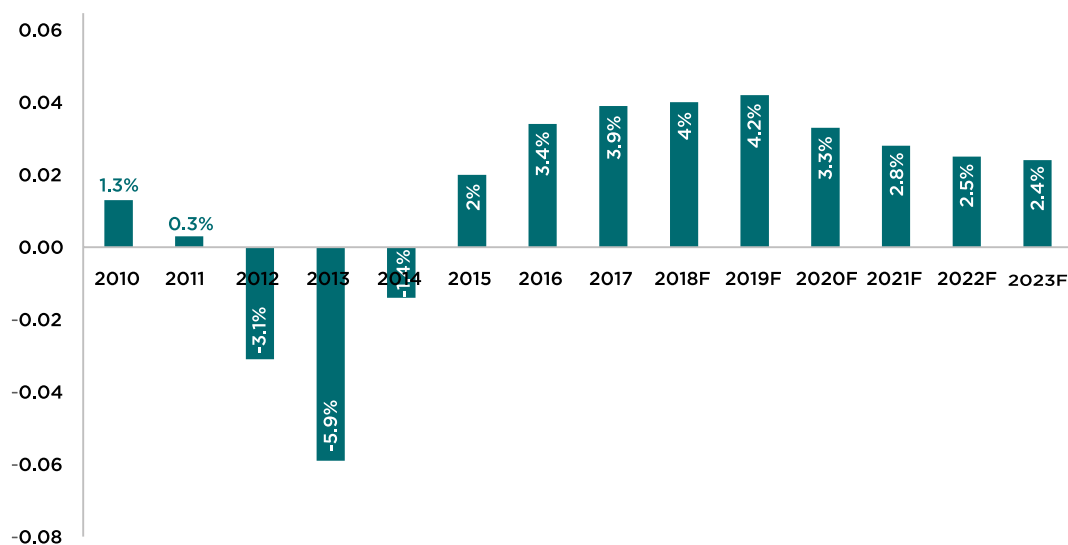
Key Economic Indicators

GDP Growth rate

After expanding by 3.9% in 2017, a nine-year high, Cyprus' economy continued its cyclical upswing in early 2018, posting 3.9% (y-o-y) growth in the first half of 2018. Growth was driven by solid domestic demand and, lately, exports. Consumer sentiment continued to improve, while business confidence across major sectors either increased or levelled off, suggesting continued momentum in the coming quarters.

(Source: CYSTAT and European Commission Summer 2018 Economic Forecast)

GDP Growth rate



Graph 1| Source: IMF (World Economic Outlook),2018

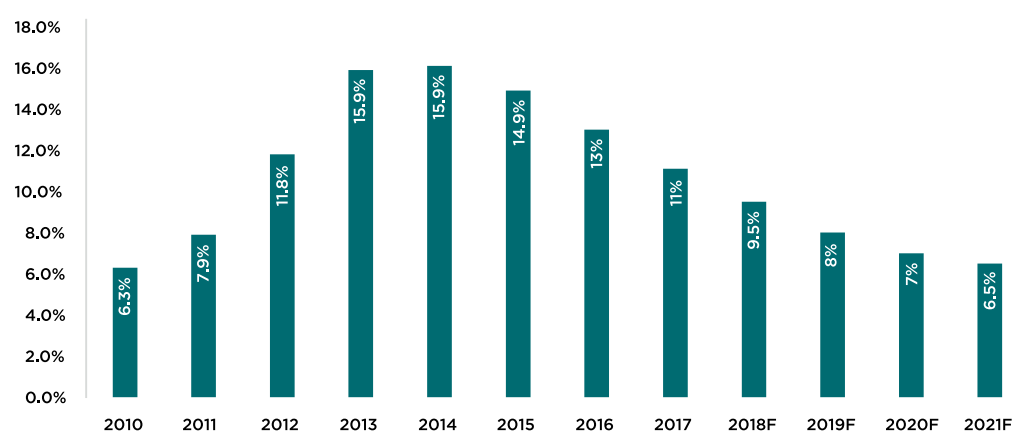


Unemployment

According to Cystat, in December 2018-the unemployed persons, registered at the District Labour Offices on the last day of December, reached 29,800 persons. Based on the seasonally adjusted data that show the trend of unemployment, the number of registered unemployed for December 2018 decreased to 23,929 persons in comparison to 24,589 in the previous month.

In comparison with December 2017, a decrease of 5,971 persons or 16.7% was recorded which was mainly observed in the sectors of trade (a decrease of 1,193 unemployed persons), public administration (a decrease of 1,137), accommodation and food service activities (a decrease of 794), manufacturing (a decrease of 607), construction (a decrease of 529), education (a decrease of 189) and to newcomers in the labour market (a decrease of 1,521).

Unemployment rate in Cyprus



Graph 2| Source: IMF (World Economic Outlook), 2018

Credit Rating

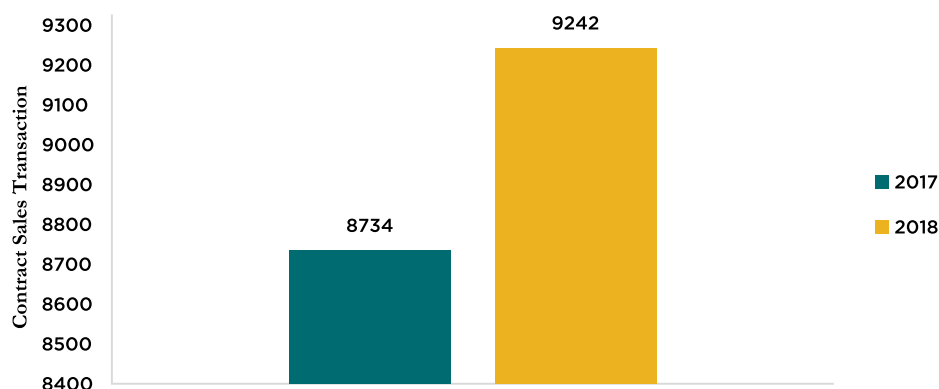
Driven mainly by the positive economic performance of the country, with the upcoming rating dates in 2019 for the agencies shown below, these can further increase in credit grade which in turn will signify an increase in creditworthiness due to the country's positive economic performance.

Credit Rating Agency	Rating	Outlook	Date
S&P	BBB-	Positive	September 2018
Fitch	BBB-	Positive	October 2018
Moody's	Ba2	Positive	July 2018

Real estate market

Property transactions

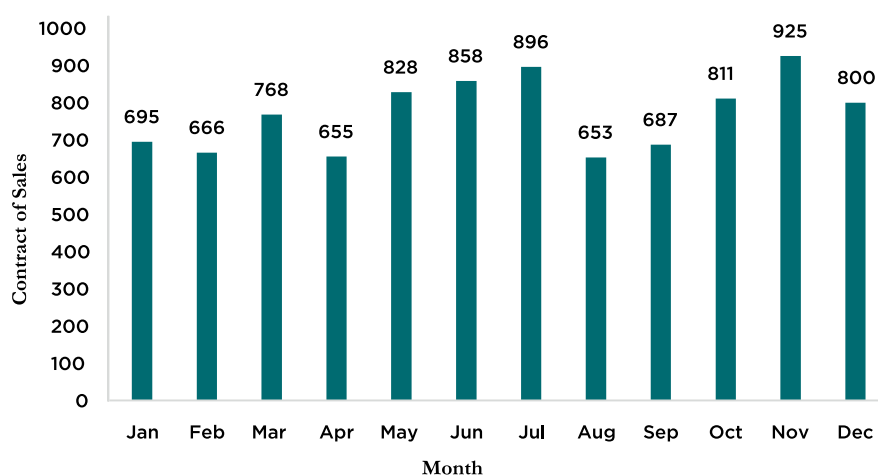
Contract of Sales filed at the DLS for 2017/2018



Graph 3| Source: Department of Land and Surveys (DLS)

According to the latest data released by the Department of Land and Surveys for the whole of 2018, the number of property sales contracts submitted in all areas of Cyprus by both Cypriots and Non-Cypriots amounted to 9,242 while in the equivalent period of last year they were 8,734, recording an increase of 6% (Graph 3).

Contract of Sales filed at DLS per Month for 2018



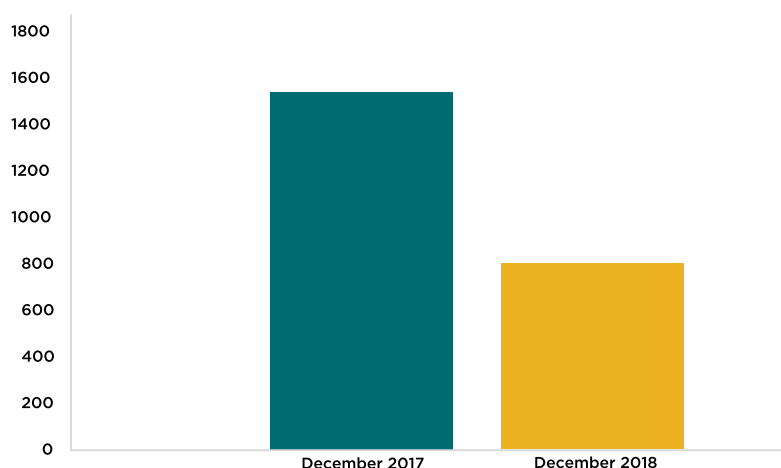
Graph 4| Source: Department of Land and Surveys (DLS)

Based on the data released by the DLS, November 2018 was the month with the highest level of transactions during the year (925) and August was the month with the lowest (653) (Graph 4).

During December a total of 800 contracts were deposited at Land Registry offices for the sale of commercial and residential properties and land compared with 1,537 in December 2017; a fall of 48 per cent.

However, this fall may not be as significant as it may first appear. In December 2017, there was a spike in sales of building land following the decision by Parliament in November 2017 to introduce 19% VAT on land sales from 2nd January 2018.

Contract of Sales filed at DLS for December 2018 vs 2017

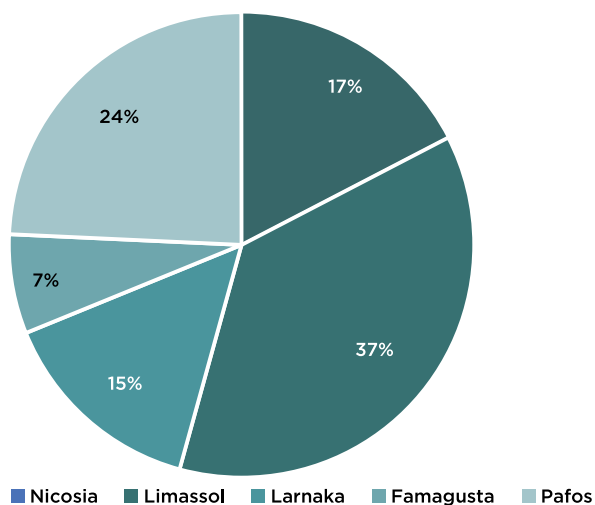


Graph 5| Source: Department of Land and Surveys (DLS)

Geographical distribution of transactions

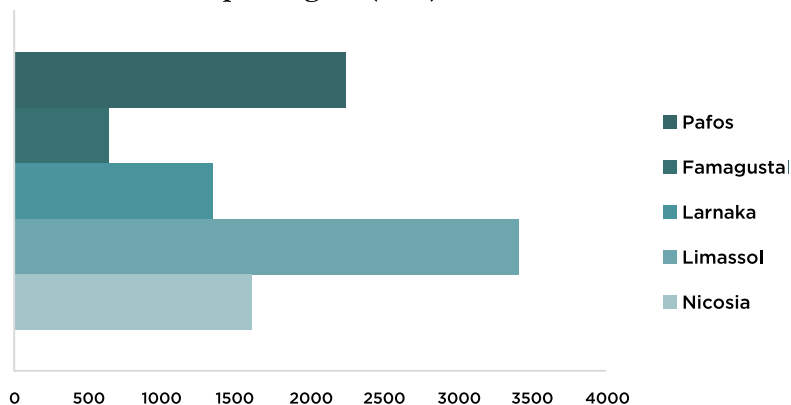
In terms of the number of sale contracts submitted to the DLS during the year 2018, the majority of transactions (c.,37%) were in Limassol, followed by Paphos (c.,24%). Nicosia district, which is a market predominantly appealing to the local segment, comprised c.,17% of total transactions. Larnaca and Famagusta districts had c.,15% and c.,7% of the market share respectively.

Contract of Sales per Region (2018)



Graph 6| Source: Department of Land and Surveys (DLS)

Contract of Sales per Region (2018)



Graph 7| Source: Department of Land and Surveys (DLS)

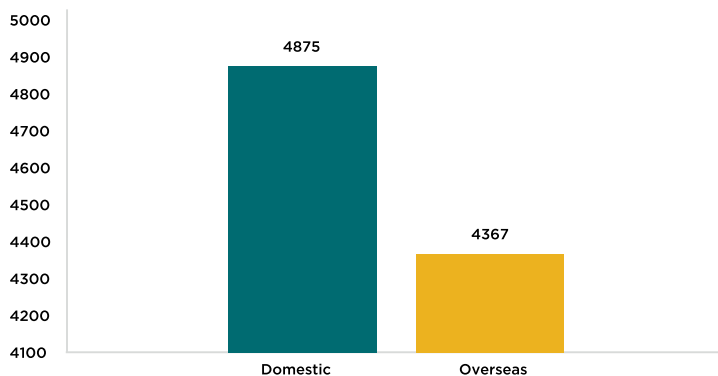


Foreign transaction activity

The foreign segment of the real estate sector continues to be of great importance to Cyprus. This is reflected through the statistics of transactions relating to foreign buyers.

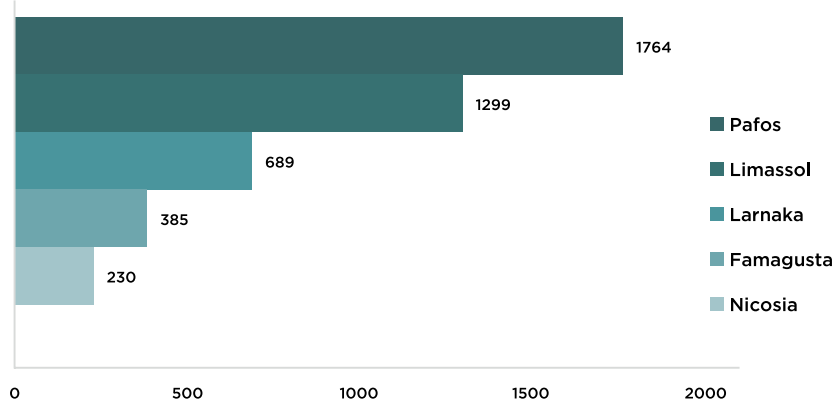
Out of the total number of sales contracts submitted at the DLS for the year 2018, 47% related to overseas buyers (4,367 sales). It is worth mentioning that out of these transactions, c.,60% (2,792 sales) were deposited by buyers outside the EU while c.,40% (1,870 sales) were deposited by buyers within the EU.

Overseas vs Domestic Buyers (2018)



Graph 8| Source: Department of Land and Surveys (DLS)

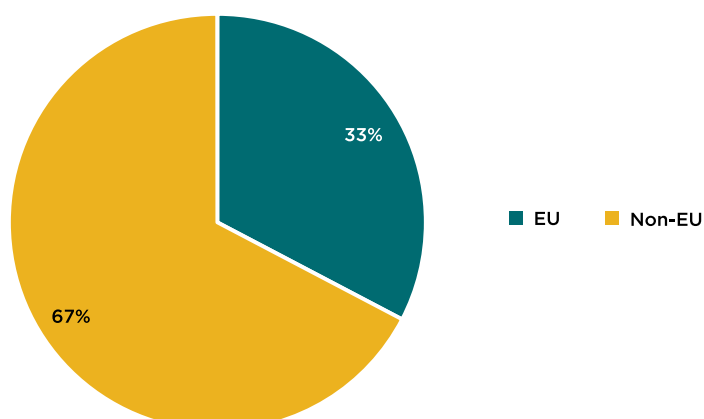
Foreign Transaction Activity (2018)



Graph 9| Source: Department of Land and Surveys (DLS)

During 2018, the highest level of transactions by overseas buyers, was recorded in Paphos (1,764 sales), followed by Limassol (1,299 sales) and Larnaca (689 sales). Nicosia is the district with the lowest number of sales contracts filed at the DLS by overseas buyers (230 sales).

EU vs Non EU Buyers 2018





Construction activity

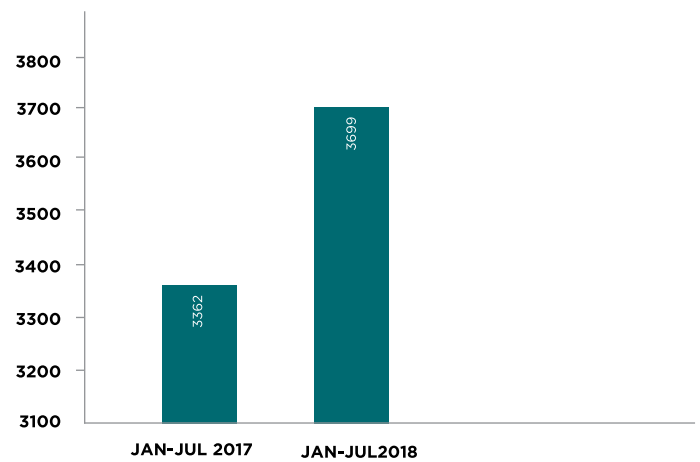
Price Index of Construction Materials

The Price Index of Construction Materials for December 2018 reached 101,15 units (base year 2015=100,00), recording a marginal increase of 0,04% compared to the previous month. For the period January - December 2018, the index recorded an increase of 1,73% compared to the same period of 2017.

(Source: CYSTAT)

Building permits

Building permits (Jan-Jul 2017 vs Jan-Jul 2018)



Graph 10| Source: CYSTAT

The Statistical Service announced that the number of building permits authorized by the municipal authorities and the district administration offices during September 2018 stood at 588. The total value of these permits reached €160,2 million and the total area 155,2 thousand square metres. These building permits provide for the construction of 576 dwelling units.

During the period January - September 2018, 4,702 building permits were issued compared to 4,281 in the corresponding period of the previous year. The total value of these permits increased by 45.8% and the total area by 32.2%. The number of dwelling units recorded an increase of 31.8%.

Building permits constitute a leading indicator of future activity in the construction sector.

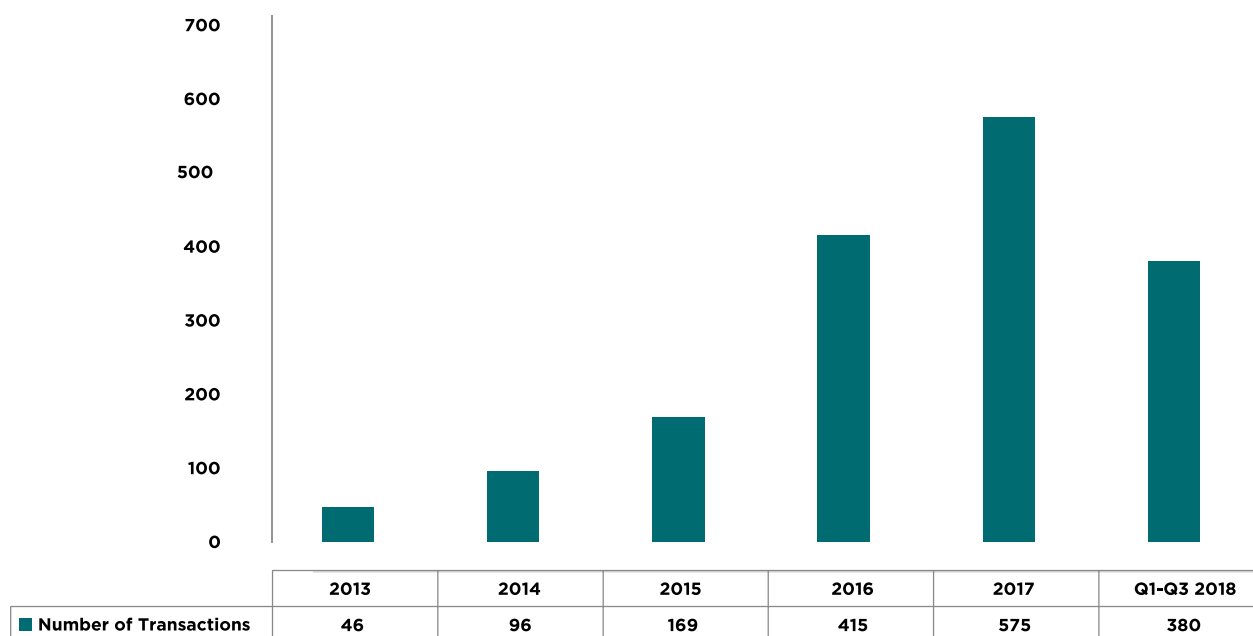
(Source: CYSTAT)

High value residential properties transactions over 1 million euro, have been displaying a notable increase in the past few years. 2017 and 2016 exhibited a 39% and 146% YoY growth, respectively. During Q1-Q3 2018, high value residential property transactions were moving along the same lines as in 2017.

Limassol is the main player of growth, with more than half of the transactions made in the city.

The graph below indicates the high value residential transactions over 1mln euro for all.

High value residential transactions > 1mln from 2013



Graph 11| Source: Department of Land and Surveys (DLS)

Residential Property Price Indices

House Price Index (HPI)

The Cyprus house price index (HPI) rose by 0.2 per cent in the third quarter of 2018 and by 1.7 per cent on an annual basis according to a preliminary estimate by the Cyprus Statistical Service.

An annual change of 0.7% on the House Price Index for the third quarter of 2018. According to preliminary estimate of the Statistical Service, the House Price Index (HPI) for the third quarter of 2018 amounts to 104,19 units

HPI is a quarterly index which measures the change in the average prices of residential dwellings. It captures all types of residential properties, both new and existing. The land component of the residential property is included.

(Source: CYSTAT)

RICS – Residential prices

The Royal Institute of Chartered Surveyors ('RICS') Cyprus Property Price index is published on a quarterly basis and focused on both residential and non-residential property (including retail and offices) and also tracks trends on rental rates. The information provided by RICS is based on the average price and rent of the sub-districts monitored per urban centre per sector.

Across Cyprus in Q2 2018, residential prices for both houses and flats increased on a quarterly basis by 2.1% and 1.3% respectively, with the biggest increase being in Famagusta, 4.0% for flats and Larnaca 6.7% for houses. Notably Paphos remained stable for residential prices. Values for holiday homes on a quarterly basis across Cyprus increased by 2.8% for flats and 1.5% for houses. Larnaca showed the highest quarterly increases for holiday flats and houses with an increase of 7% respectively. Across Cyprus, on an annual basis flats increased by 7.6%, houses by 4.8%, offices by 11.6%, warehouses by 4.2% and retail by 1.7%.

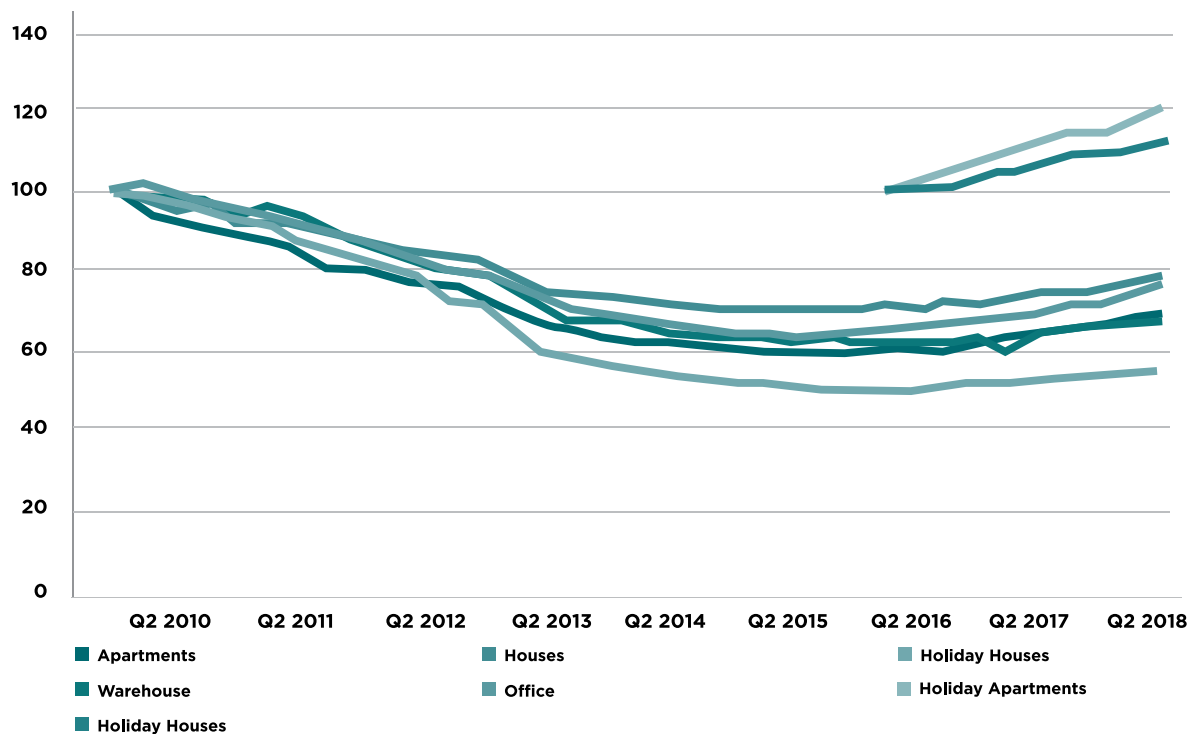
Market Rental Values

Across Cyprus, on a quarterly basis rental values increased by 2.9% for apartments, 3.9% for houses, 1.0% for retail, 1.0% for offices and 0.4% for warehouses. On an annual basis, rents increased by 18.0% for flats, 17.7% for houses, 3.8% for retail, 14.3% for offices and for warehouses 1.9%. All asset classes have shown a consecutive quarterly growth.

Appraisal based initial yields

At the Q2 of 2018 average gross yields stood at 4.5% for apartments, 2.4% for houses, 5.5% for retail, 4.2% for warehouses, and 5.1% for offices. The proportionately higher quarterly rental increases compared to quarterly price increases have marginally improved yields for apartments and offices.

Average price index (all types)



(Source: RICS, Cyprus Property Price Index Q2 2018)



Industry news

Larnaca Port and Marina

The Larnaca port and marina is set to be the largest in Cyprus, with the new 1,000 berth marina and port involving a development of up to 510,000 square meters and could include the construction of a large number of small to medium-sized apartments, a few luxury villas, a hotel, offices and a commercial centre.

A proposal on the development of Larnaca's port and marina was submitted in November 2018, with the proposal set to be evaluated in line with the timeframes and procedures specified by the law. Plans for expanding and privatising the Larnaca marina have been plagued by years of delays and failure to find investors.

Back in 2010 the government struck a deal with Zenon Consortium for a €700 million project to transform both the existing port and marina. The consortium failed to raise the necessary funds even though the government extended the deadline up to 20 times until 2015 when the deal fell through. Much of the blame fell on the recession and the 2013 banking crisis.

(Source: Cyprus Property News)

Paralimni Marina

The construction of the Paralimni marina has commenced Q4 2018 according to an announcement by the Department of Fisheries and Marine Research.

The project, estimated to cost around €110 million, is anticipated to contribute to the upgrading of the tourism infrastructure of the Famagusta district and to the promotion of nautical tourism in Cyprus in general. The Paralimni marina will be constructed in the area of the Agios Nikolaos fishing shelter in Paralimni, on state land and marine area and will have a capacity of approximately 300 boats.

Under the agreement, PMV Maritime Holdings Ltd will manage the marina for 125 years. The project will include administration buildings, residential and commercial developments. Based on the design, there will be 195 residential units – mostly luxury apartments – and 27 commercial spaces (restaurants, cafes, bars). The plans detail construction of 14,250 metres for residential buildings and 2500 metres will be for commercial buildings.

The Paralimni Marina is a partnership between PMV Maritime Holdings Ltd and J & P (Joannou & Paraskevaides) Marina Projects Ltd, who manage marinas in Britain as well as Nicolaides & Kountouris Metal Company Ltd. Architect of the project is the British company Harper Downie. The Paralimni Marina will be considered as an official point of entry

into the Republic, therefore it will have facilities for port police, customs and medical services.

(Source: Cyprus Property News)

Cyprus Passport

Cyprus' passport was ranked 16th worldwide in terms of global access, according to the Henley Passport index. Holders can travel without visa to 173 countries in the world and require visas for 53. Based on IATA data, the Henley Passport Index offers an in-depth picture of which countries passport-holders can access with which type of visa, how the passport has changed over the last 14 years, how it compares to other passports, and why it has the level of access it does.

(Source: <https://www.henleypassportindex.com/>)

Cyprus Casinos “C2”

Cyprus Casinos has opened 'C2 Larnaca at the airport, following the Nicosia opening this month and the Limasol casino earlier in the year. C2 Larnaca is located in two different spaces in the airport terminal, features 42 state-of-the-art slot machines in total. The first location in the departures area is accessible only to departing passengers, whilst the second in the arrivals area, is accessible to the general public.

In addition, Hong Kong-listed casino investor Melco International Development Ltd says it expects to have the results of the tendering process for construction of its new casino project in Limassol by the end of January 2019

(Source: www.cityofdreamsmed.com.cy)

Affordable Housing on Political Agenda

Sky-high rents have put affordable housing on political agenda with the government drafting a new housing policy in efforts to persuade the construction sector to build cheaper apartments.

The scheme is being prepared by the Ministry of Interior in cooperation with the Technical Chamber of Cyprus (ETEK) and involves incentives for the construction of affordable apartments. One part of the housing policy will see the government raising the building coefficient by 25% or 30% for apartment blocks. In the context of the “affordable housing” scheme, developers will be allowed to keep part of the construction built with the additional space, while the remainder will be used to accommodate vulnerable groups. Another part of the government's strategy is to reduce the minimum size allowed for flats so that smaller apartments can be built.

(Source: Cyprus Property News)

EU commission on Cyprus Investment Scheme

Cyprus is moving to change its rules for its investment for passports program after it was criticized by the European Commission as potentially dangerous for security and for money laundering purposes. European Commission expressed to the Cypriot parliamentary committees that the Commission was concerned that Cyprus was not following a transparent process in issuing so called "golden passports" to foreign investors and that its checks on the origin of the applicant's wealth were insufficient.

The sources said that a key requirement for an applicant would be to obtain a Schengen Visa before making an application. A Schengen Visa is issued by any of 21 EU countries, plus Iceland, Norway, Switzerland and Liechtenstein, which enables its holder to move freely in the Schengen Area. Holding such a visa means that the applicant has been checked by all Schengen area countries and that none of them has rejected him before.

The amount required for investment is also expected to be increased from 2 million euros to 2.5 million euros, and can be invested not only in land development but also in any other existing or new business, and in government bonds, according to the sources.

The Cypriot government hopes the changes to be introduced will be considered by the European Commission sufficient, so as to allow the continuation of its investment program.

(Source: Cyprus Property News)

Cyprus Investment Programme - Updates

New rules introduced by the Government in February 2019 are more growth oriented and would require applicants to contribute, on top of investing 2 million euros in land development, an extra 75,000 euros to research and development and an equal amount to the land development organization to fund affordable social housing schemes.

Part of the investment must go towards a permanent residence for the applicant, or otherwise the applicant must spend an additional 500,000 for a permanent residence and also "remain closely engaged with Cyprus.

Among stricter criteria approved for applicants is a requirement that they must possess a Schengen visa prior to filing their application and to be checked by an independent agency specializing in forensic vetting. Applicants who have already been rejected by other EU states will be excluded from the program.



who we are

As markets grow, contract and fluctuate, intelligent real estate decisions depend on accurate insights into markets and sectors around the world. Our professionals strive to consistently deliver levels of service and success beyond our clients' expectations. By developing a long-term relationship with Lionlobal Advisors (LGA), you can be sure that you have the industry's most talented and committed people working toward the success of your business. We use our market intelligence, expertise and influence to help you achieve, and surpass, your business goals.

LGA's real estate consultant team can assist you turn complex real estate matters into opportunities for growth. From business owners and investors to lenders and corporate groups, we offer you the experience, know-how, and the strategic planning that helps lead to better decisions.

what we do

We will follow the **journey** with you throughout every step of the real estate cycle:

Phase 1: Identify opportunity and analysis

- Market analysis
- Investment appraisal
- Feasibility study
- Research on town planning issues
- Evaluation of development options

Phase 2: Asset Acquisition

- Acquisition/purchase management
 - Business plan
 - Due diligence
 - Valuation advice
- Assistance in raising finance



Phase 4: Asset management

- Property management
- Sales management
- Contracts negotiation and administration
- Annual operations budget

Phase 3: Development

- Construction management (Pre-construction stage, Construction stage and Rectification period)
- Construction administration services
- Marketing and branding
- Interior design
- Cost control
- Insurance advice

work with us

We look forward to sharing our experiences with you, and exploring the possibility of working together to achieve your vision. Please get in touch with your LGA contact or visit our website.

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