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# *Cyprus Real Estate Market*

Year in Review | 2017

March 2018





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## Foreword



This is the 3rd edition of the PwC Cyprus Real Estate Market publication which provides information about the Cyprus economy in general and a snapshot of key real estate market developments focusing on the performance of the sector during 2017. Our analysis includes a summary presentation of the transaction activity exhibited across the island, evolution of prices, the behaviour of the high-end residential property sector and the levels of construction activity. The analysis of the Cyprus real estate market presented in the publication is based on available market data up until December 2017 and using PwC's rich and in-depth market expertise.

At PwC, we provide a “one-stop-shop” solution offering, handling all issues relating to real estate, including investment support, M&A advisory, legal and tax structuring, as well as accounting advice on real estate assets and leases.

Our dedicated team comprises of real estate professionals with robust local expertise. Combined with our strong international network, we are able to offer tailor-made solutions in support of our clients' needs. Whether you are looking to develop, invest, own, lease or dispose real estate property, we can help you make the most suitable decision based on your specific circumstances and requirements.

Evgenios C Evgeniou  
CEO  
PwC Cyprus

# Overview and key market highlights in 2017

## Overview

The real estate market, and in particular the residential property sector, is directly affected by the overall economic performance of the country.

The confidence level that is currently exhibited across the Cyprus real estate market largely reflects the positive developments in the economy of the country as well as the improvement of economic performance indicators, such as the growth in GDP of 3,4% in 2017, the International Monetary Fund's projections for further growth (year-on-year increase of 2,6% in 2018), various upgrades of Cyprus' credit ratings as well as the substantial growth observed in tourist arrivals (14% growth in 2017).

On the back of a strong market performance in 2016, increased activity levels, both in terms of transactions as well as new permits for development, continue through to 2017, demonstrating the improved confidence in the property sector.

Interest from foreign buyers, which has been a driving force for the market, has increased significantly during the year with transactions relating to the high-end residential property segment ( $\geq \text{€}1,5\text{mln}$ ), increasing by 45% in 2017 on an annual basis.

Growth in all property price indices was recorded during 2017, reflecting the increased demand and activity levels in the real estate sector.

## 2017 Year End - Highlights

### Transaction Volume



- **24% increase** in sale contracts across Cyprus
- Majority of transactions were recorded in Limassol (36% of total)
- Famagusta recorded the highest annual growth in number of sale contracts during 2017 (44%), followed by Nicosia (42%)

### Foreign Transaction Activity



- **33% increase** in sale contracts filed by foreign buyers
- **Paphos** and **Limassol** appear to be the preferred districts for foreign buyers (together the two districts comprise 70% of foreign transactions)

### High-end Residential Property Segment ( $\geq \text{€}1,5\text{mln}$ )



- **45% increase** in sale contracts for high-end residential properties
- **Limassol** attracts c.52% of transactions in the high-end residential property segment

### Real estate price evolution



- The RICS and CBC residential property price indices indicate a **4%** and **1%** growth respectively up to Q3 2017 compared to Q4 2016
- Commercial property prices as per the RICS index recorded a growth of **3%** for retail properties and **7%** for offices during the same period

### Construction Activity



- The value of new building permits issued in 2017 increased by **49%** on an annual basis across Cyprus
- **Nicosia** is the district with the highest concentration of new development licensed area (35% of total)





# Overview of the Cyprus Economy

## Positive Economic Outlook

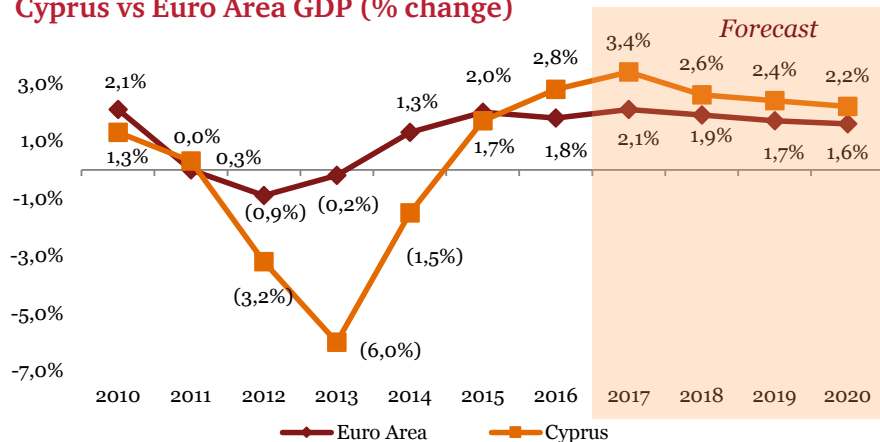
Since 2013, when the economic crisis was at its peak (GDP contracted by c6%), Cyprus economic growth and fiscal performance continuously surpassed expectations while macro-economic projections have constantly been revised favourably.

The Cyprus economy exhibited positive GDP growth as early as 2015, just 2 years following the peak of the economic crisis. The upward trend was maintained in 2016, following the earlier than scheduled exit from the financial assistance program (having utilised €7,3bn out of the €10bn made available).

GDP growth accelerated further in 2017, placing the island amongst the highest accelerating economies in Europe (2017 expected growth of 3,4%). According to IMF forecasts, the Cyprus economy will sustain a positive outlook with projected GDP growth of c2,6% in 2018 and c2,4% in 2019.

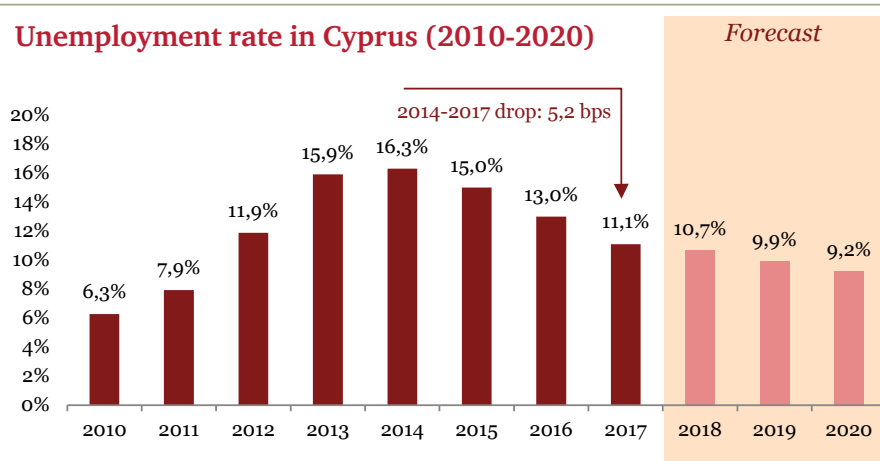
Employment is on the rise and unemployment is rapidly decreasing, even though it still stands high among young people and the long-term unemployed. With unemployment falling to 11,1% in 2017 IMF forecasts, unemployment is expected to drop to 9,2% by 2020.

**Cyprus vs Euro Area GDP (% change)**



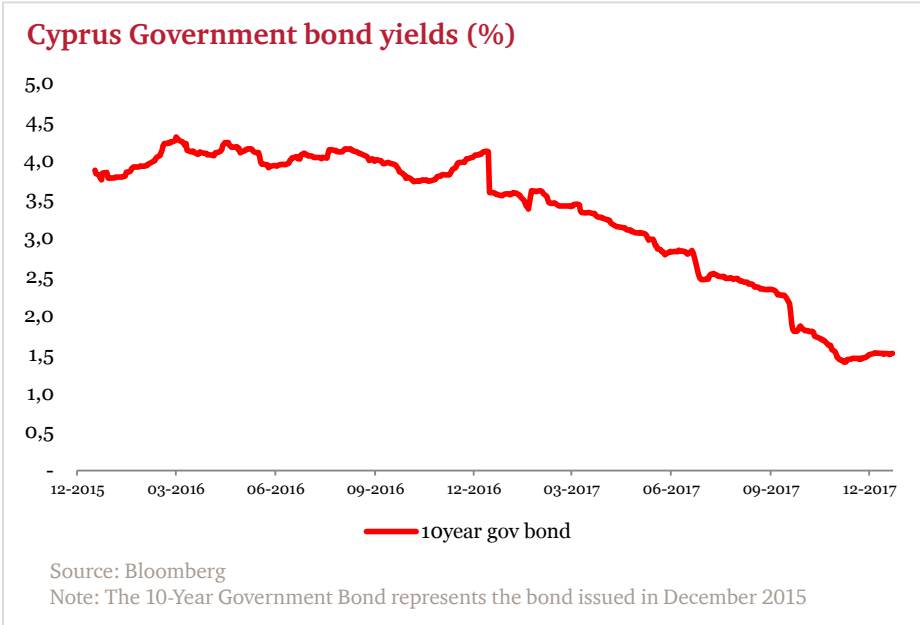
Source: IMF (World Economic Outlook Database, October 2017)

**Unemployment rate in Cyprus (2010-2020)**



Source: Actual 2010-2017: Eurostat, Projected 2018-2020: IMF World Economic Outlook Database, October 2017

The better-than-expected macro-economic performance has also led to a series of credit rating upgrades for Cyprus, enabling the country to tap the capital markets. Yields on 10-year Government bonds, which were priced at c3,9% at issue date (mid-December 2015) have fallen to 1,5% by the end of 2017, reflecting the strong fiscal performance of the country.



Driven mainly by the positive economic performance of the country, the international rating agencies have upgraded the sovereign’s rating over their last reviews by one notch, while maintaining at the same time a positive outlook.

Credit Rating Agency	Previous Credit Rating	Date Changed	LT Credit Rating (12/2017)	Outlook
Moody's	B1	28/07/2017	Ba3	Positive
S&P	BB	17/03/2017	BB+	Positive
Fitch	BB-	20/10/2017	BB	Positive

Source: Rating Agencies, PwC Research

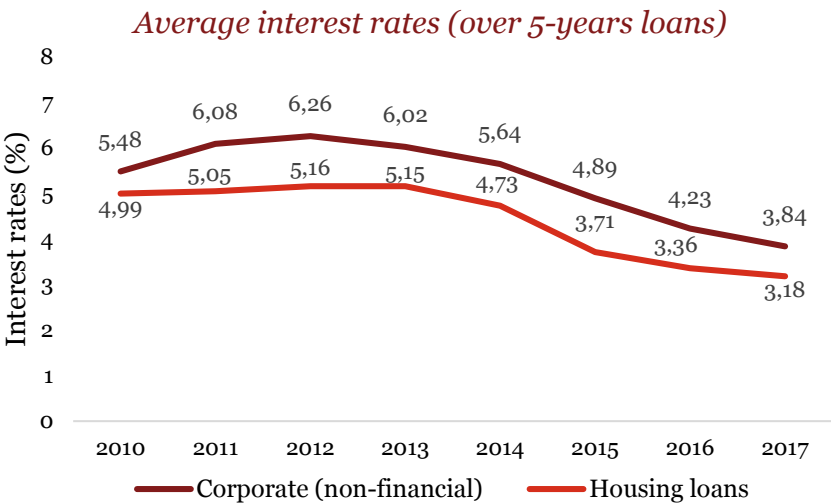
2017 GDP% change (constant prices)	
Malta	5,1
Ireland	4,1
Slovenia	4,0
Estonia	4,0
Luxembourg	3,9
Latvia	3,8
Lithuania	3,5
Cyprus	3,4
Slovak Republic	3,3
Spain	3,1
Netherlands	3,1
Finland	2,8
Portugal	2,5
Austria	2,3
Euro Area	2,1
Germany	2,1
Greece	1,8
France	1,6
Belgium	1,6
Italy	1,5

Source: IMF (World Economic Outlook Database, Estimates, October 2017)

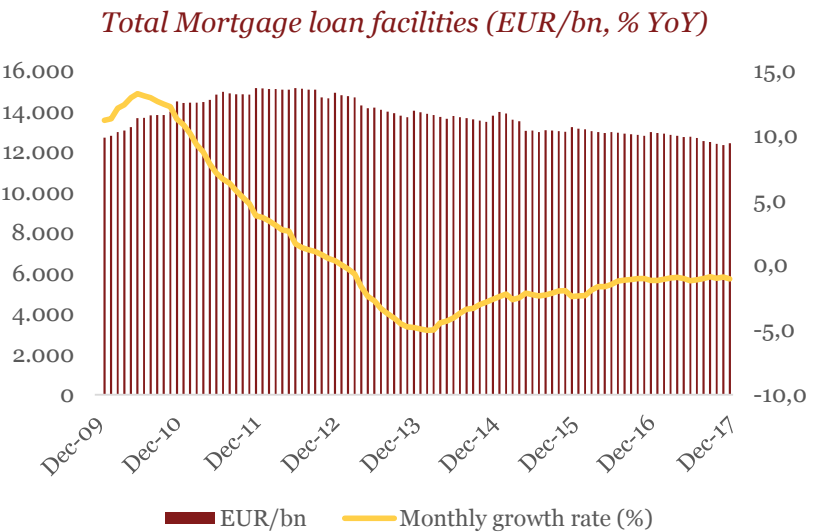
**Interest Rates and total mortgage loan facilities**

Interest rates on housing loans have been declining continuously since 2012. By the end of 2017, average housing loans interest rates dropped to 3,18% (2012 peak: 5,16%).

Banks remain very cautious when it comes to granting new mortgage loans given the sizeable proportion of NPLs. Total mortgage loan facilities across the Cyprus banking sector have been in decline since 2011, although at a more marginal rate during the past year (2017). By the end of 2017, total mortgage loan facilities stood at €12,4bn.



Source: Central Bank of Cyprus (CBC)  
Note: Non-financial corporate loans represent loans issued to Cypriot corporations not related to the financial sector. The interest rates presented above, correspond to the average rates of greater than 5 year terms



Source: Central Bank of Cyprus (CBC)



# Pillars of the Cyprus Economy

## The three pillars



Tourism, trade and transport

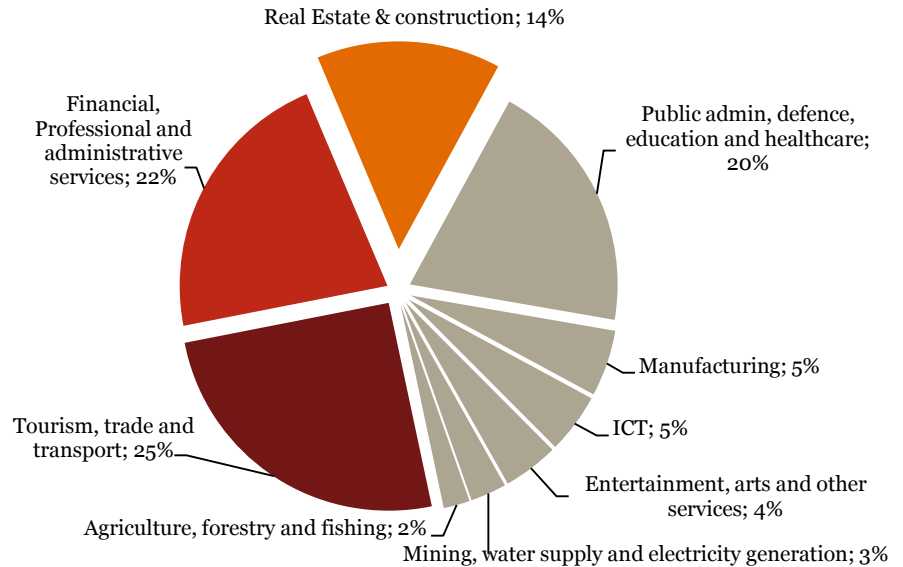


Financial, Professional and administrative services



Real Estate and Construction

## Cyprus Gross Value Added (GVA) by sector (2017)



Source: CyStat



# Tourism

## Tourist Arrivals

Cyprus constitutes one of the most popular travel destinations in south-eastern Europe. Over the period 2004 to 2014, the average number of tourist arrivals were in the range of 2,4mln. Tourist arrivals increased significantly both in 2015 and 2016 reaching 2,7mln and 3,2mln respectively. In 2017 tourist arrivals recorded a historical high in 2017 reaching 3,65mln, representing a 14% annual increase. This increase was largely attributed to the political instability in neighbouring tourist markets, growth in the key source markets of UK and Russia and the introduction of new routes and air carriers providers enhancing access to Cyprus from alternative markets.

As per the latest available data (Q3 2017), on average, c35% of the tourists visit Paphos, c36% visit the Famagusta area (Ayia Napa and Paralimni), whereas Limassol and Larnaca account for c11% and c9% of tourist visits each.

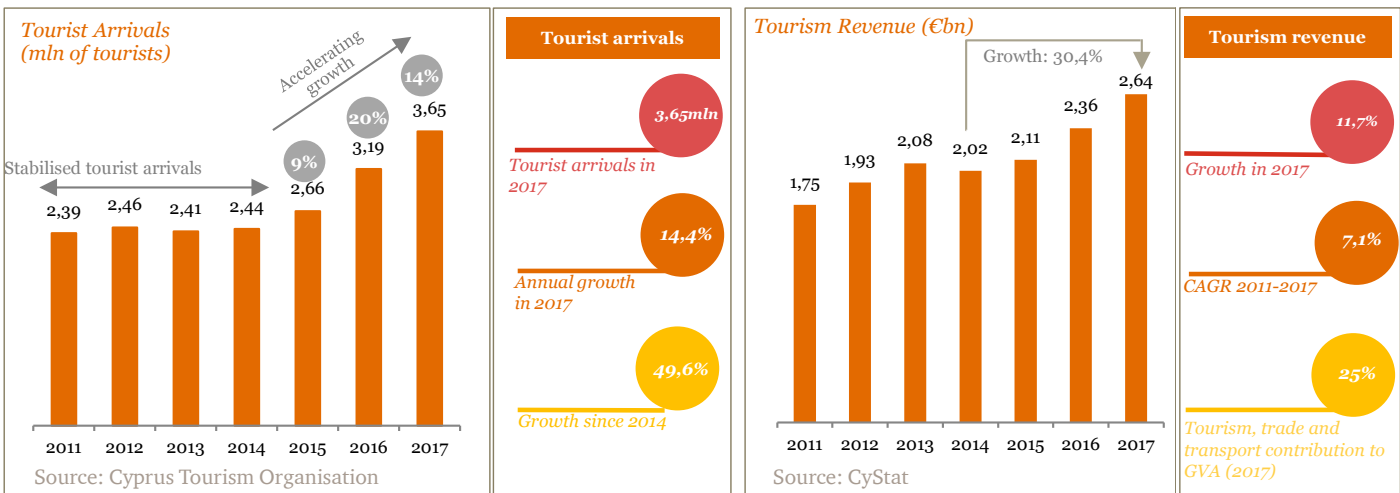
The United Kingdom and the Russian Federation constitute the main markets for the tourism industry with visitors from the two countries making up around 57% of total tourist arrivals in 2017.

## Tourism Revenue

The evolution of revenue from tourism appears to be in line with the trend in tourist arrivals. Total revenue from tourism has been increasing since 2011, reaching it's peak of €2,64bn in 2017 (30% since 2014).

## Sector Outlook

As per the World Travel & Tourism Council, tourist arrivals are forecasted to reach 4,8mln by 2027, through diversification and expansion of product offerings. Possible increase in the tourism revenue, as a result of enhancements in the tourist product, access to new categories of tourists (e.g. casinos, medical tourism, sports tourism etc.) and prolongation of the tourism season, will have a positive impact on the whole of the economy.





### *Financial, Professional and administrative services*

The financial and professional services sector has become increasingly important over the years as indicated by its almost 22% contribution to GVA and its sizeable share in employment. The size and rate of growth of this sector have transformed Cyprus into a “service economy”.

Financial and professional services include amongst others banking, accounting, legal and human capital services.

Despite the economic crisis, and particularly the banking crisis of 2013, the international business services sector was not as severely affected, as it was originally expected, as the competitive advantages of the country have remained intact (e.g. tax regime, educated workforce, developed business infrastructure).



### *Real Estate and Construction*

The Cyprus economy relies heavily on the real estate sector, as Cyprus has one of the highest home ownership rates in Europe and there is a significant overseas market for holiday and second homes.

From 2014 onwards, the improvements recorded in the economic performance of the country, were also reflected in the real estate sector, leading to improved transaction activity across the market. Signs of stabilisation and marginal improvement in the market were recorded in 2016, followed by a strong sector performance in 2017 which saw growth in transactions and price indices. The contribution of the real estate and construction sector to Cyprus GVA amounted to 14% in 2017 and it is anticipated that the sector will continue to expand in the short-to-medium term.

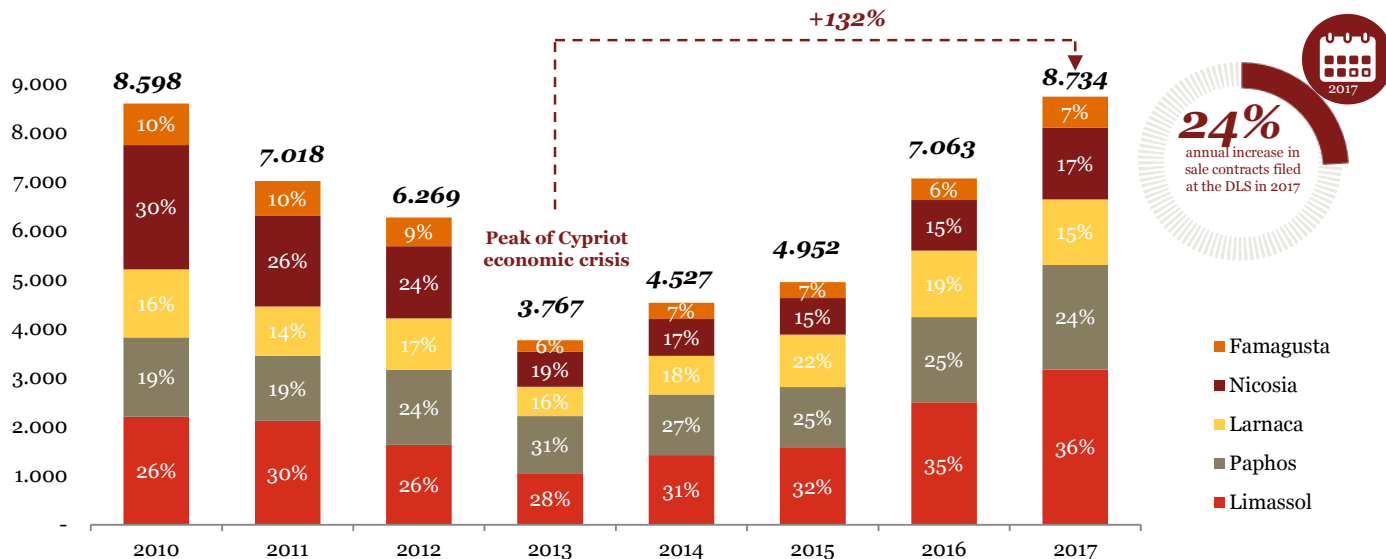
# Transaction Volume: Sale Contracts

From 2014 onwards, there were signs of improved confidence in the Cyprus economy and the real estate market, leading to increased transaction activity in the market. A further significant increase was recorded in 2016 (YoY increase of 43%) with a subsequent increase of 24% during 2017. The total number of contracts filed at the DLS during 2017 reached an eight-year high of 8.734 (2016: 7.063).

The increase in real estate property transactions observed during the past couple of years was largely driven by:

- The introduction of property tax incentives and the scheme for naturalisation of investors in Cyprus by exception, which has attracted mainly non-EU (Chinese, Russian, Indian and UAE) buyers;
- Increased demand from the domestic sector;
- Transactions recorded by local banks in the context of implementing Debt-for-Asset (DFA) swaps for the restructuring of their Non-Performing Exposures (NPEs).

## No. of contracts of sale filed at the DLS per district (2010-2017)



Source: Department of Lands and Surveys (DLS)

Note: Contracts of sale represent Sale Agreements relating to the acquisition of real estate, which were filed at the DLS during the respective year



# Geographical Distribution of Transactions

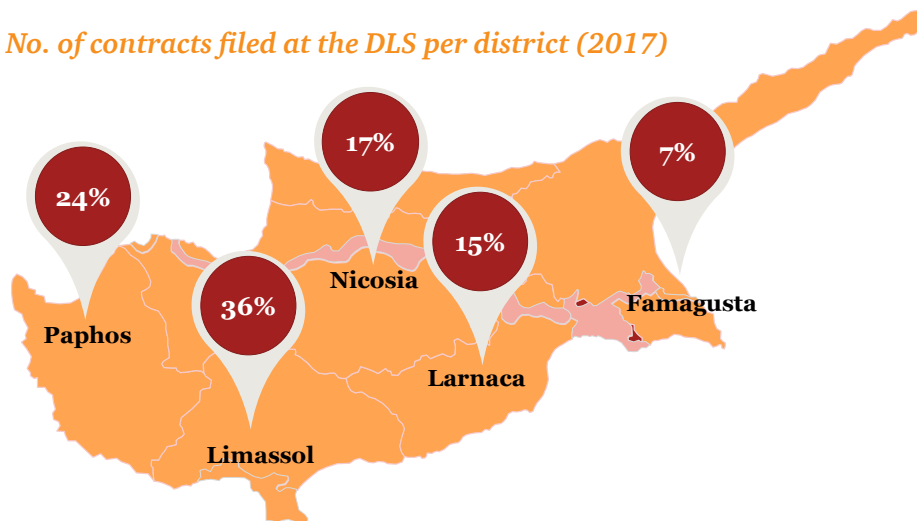
## Distribution of contracts of sales filed at the DLS per district (2017)

In terms of the number of sale contracts submitted to the DLS during 2017, the majority of transactions (36%) were in Limassol, followed by Paphos (24%), Nicosia (17%), Larnaca (15%) and Famagusta (7%).

Famagusta demonstrated the highest growth in the number of sale contracts filed at the DLS during 2017 (44%), compared to 2016, followed by Nicosia (42%).

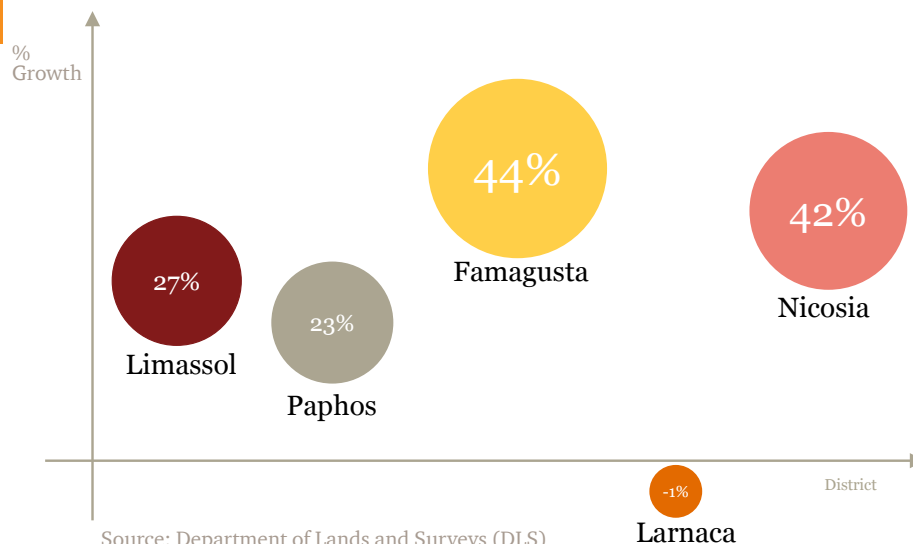
Larnaca is the only district of Cyprus where the number of sale contracts appear to have declined during the year (-1% compared to 2016).

No. of contracts filed at the DLS per district (2017)



Source: Department of Lands and Surveys (DLS)

% growth in number of sale contracts filed at the DLS (2017 Vs 2016)



Source: Department of Lands and Surveys (DLS)

# Foreign Transaction activity

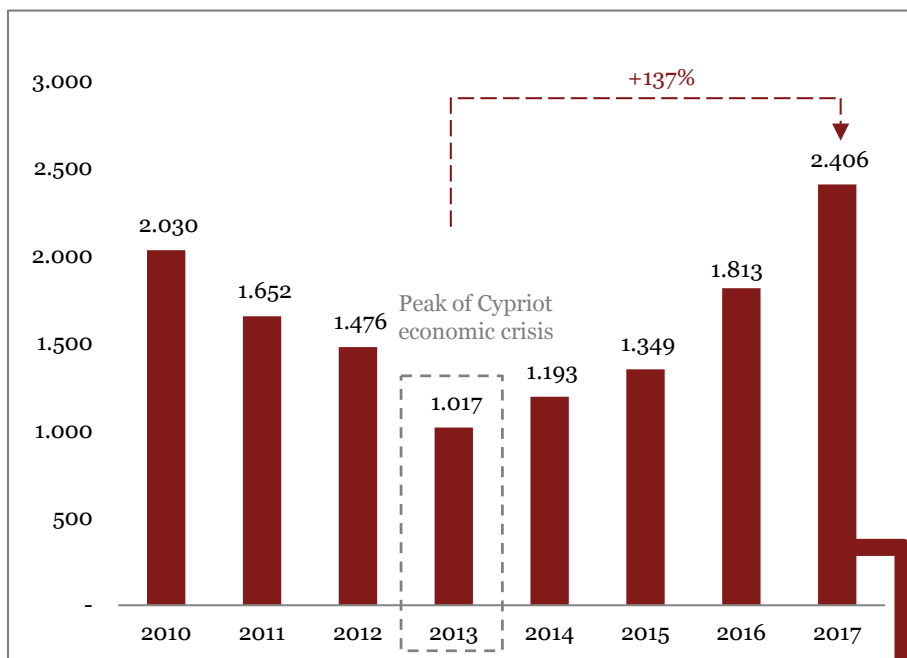
## Foreign Buyers

During the period 2010-2013, the number of properties for which sale contracts were filed at the DLS by foreigners, dropped by 50% reaching 1.017 in 2013.

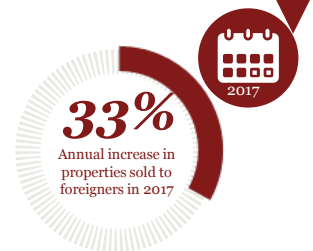
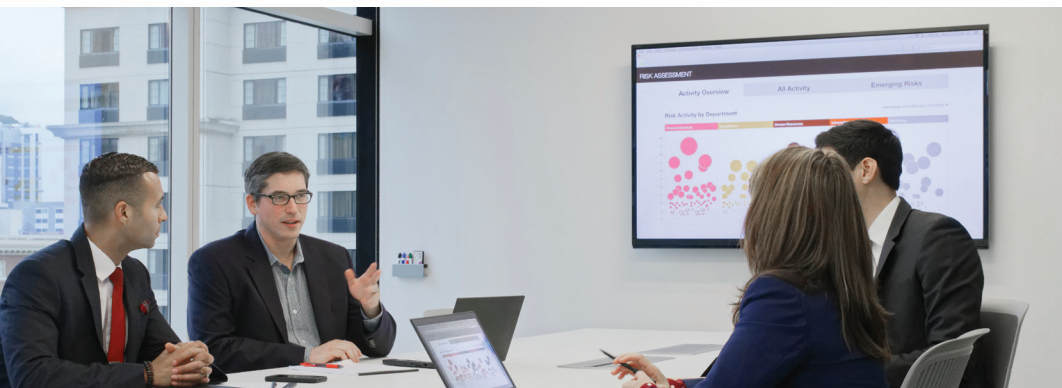
Throughout 2014 to 2016, demand from foreign buyers followed an increasing trend, demonstrating a CAGR of c23%.

In 2017, a further significant increase was recorded with total properties reaching an eight-year high of 2.406 (YOY increase of 33%). The transaction activity levels observed in 2017 appear to have more than doubled compared to the volume of transactions recorded in 2014.

*Foreign Transactions: No. of properties for which sale contracts were filed by foreigners (2010-2017)*



Source: Department of Lands and Surveys (DLS)

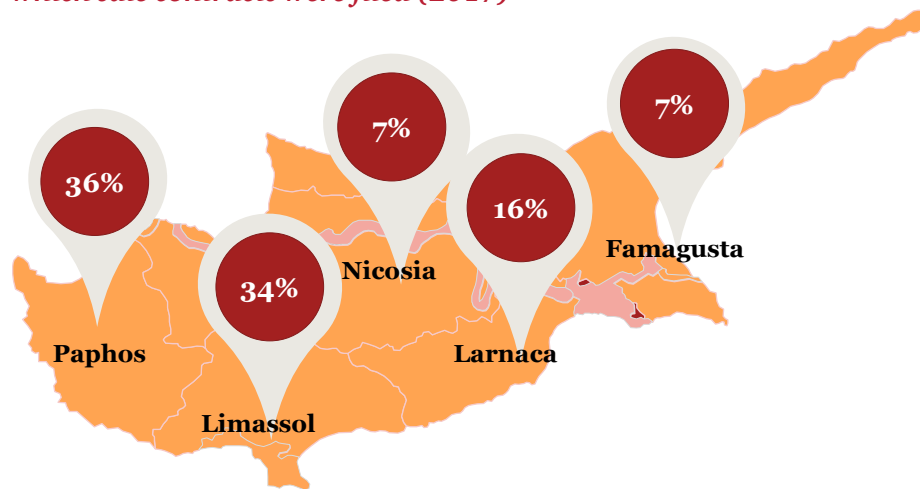


During 2017, the highest volume of properties for which sale contracts were filed by foreign buyers, was recorded in Paphos (36%), followed by Limassol (34%) and Larnaca (16%).

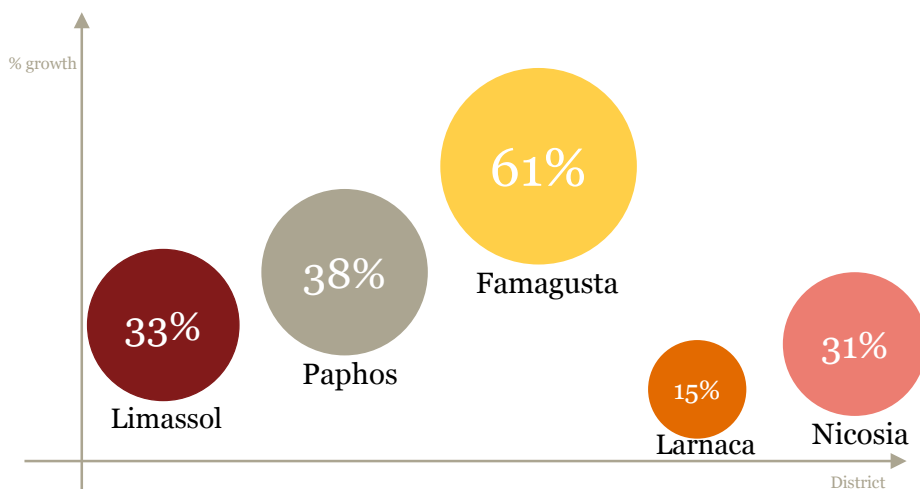
The vast majority of sales to foreigners relate to residential properties. During the past few years, such sales have been increasing predominantly as a result of the revisions to the scheme for naturalisation of investors in Cyprus by exception.

Double-digit growth rates in foreign transactions were exhibited across all districts of Cyprus in 2017. The highest annual growth was recorded in Famagusta (61%), followed by Paphos (38%) and Limassol (33%).

### Foreign Transactions: Geographic distribution of properties for which sale contracts were filed (2017)



### Foreign Transactions: % growth in number of properties for which sale contracts were filed by foreigners (2017 Vs 2016)



Source: Department of Lands and Surveys (DLS)

# High-end residential property segment ( $\geq \text{€}1,5\text{mln}$ )

## Demand for high-end residential property ( $\geq \text{€}1,5\text{mln}$ )

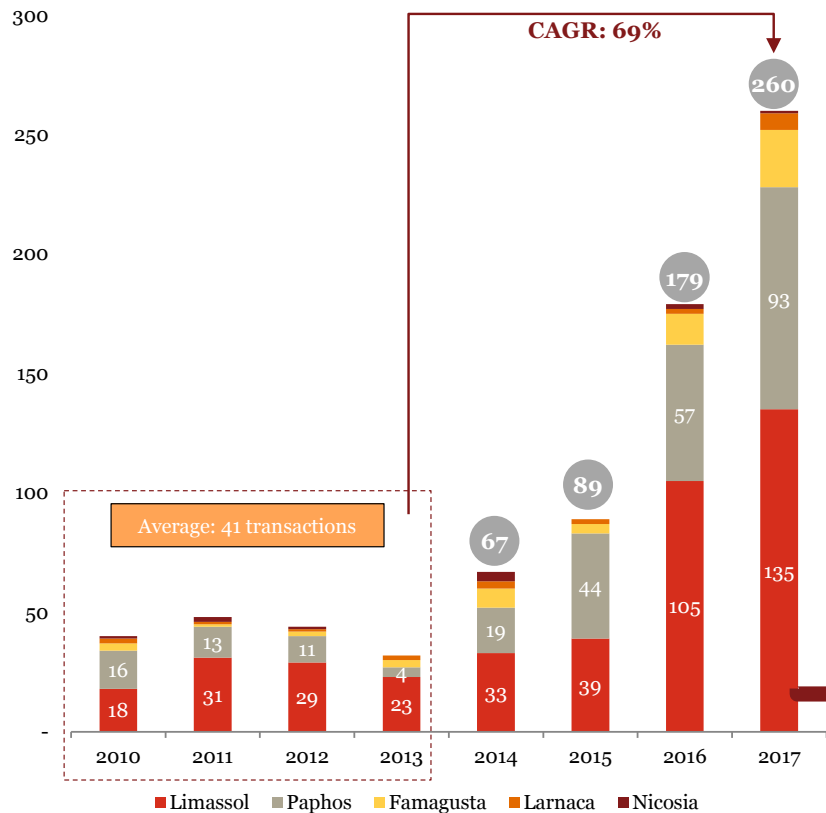
During the period 2010-2013, the volume of sales of high-end residential properties across Cyprus was stable, averaging around 41 units per annum.

From 2014 onwards and following revisions to the scheme for naturalisation of investors in Cyprus, demand for this type of properties has been increasing continuously.

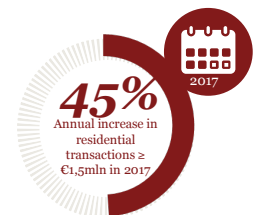
During 2017, the total number of high-end residential transactions reached 260, which corresponds to an annual increase of 45% (2016: 179).



## No. of high-end residential transactions $\geq \text{€}1,5 \text{ mln}$



Source: Department of Lands and Surveys (DLS), PwC Real Estate Cleansing Tool  
The PwC analysis has been based on transaction data by the DLS in a digital format as well as data extracted from DLS Portal on 23/02/2018 and relate to transactions with an agreement date up to 31/12/2017





**Distribution of high-end residential transactions per district**

Limassol continues to be the preferred location for high-end residential properties (c52% of total transactions of 2017), followed by Paphos (36%) and Famagusta (9%).

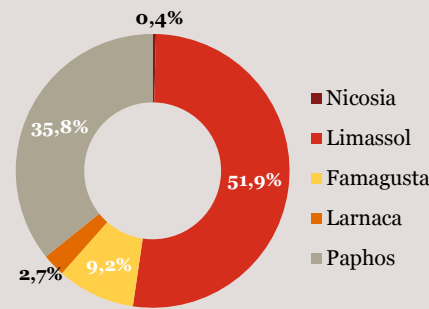
Nicosia and Larnaca represent the least active districts, with total transactions among the two districts representing 3% of total (8 transactions).

As per Land Registry data, during 2017, 66% of high-end residential property transactions in Limassol related to apartments with the remainder 34% relating to villas. As regards Paphos, almost entirely high-end residential transactions recorded in 2017 related to villas.

The majority of transactions in the high-end residential segment across Cyprus is within the €1,5mln-€2mln band.

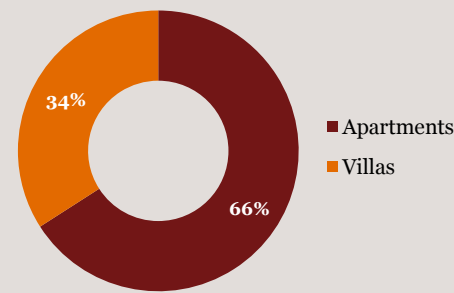
Demand for properties in excess of €2mln continued to rise, largely as the result of the launch of new high-end residential developments in the market increasing the supply of units of this price range.

**Distribution of high-end residential property transactions per district (2017)**



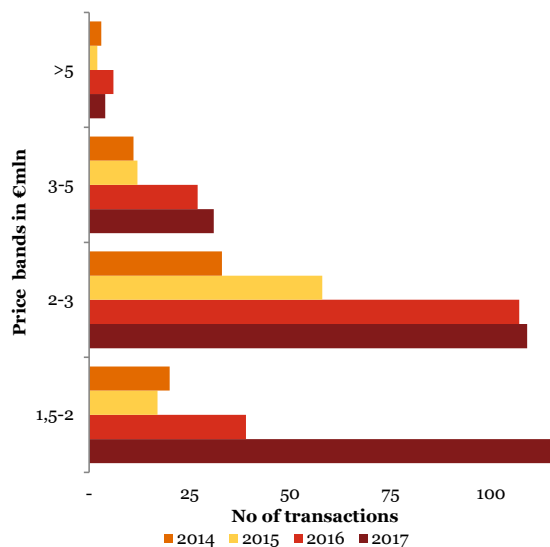
Source: Department of Lands and Surveys (DLS), PwC Real Estate Cleansing Tool

**Distribution of Limassol high-end residential property transactions per type of property (2017)**



Source: Department of Lands and Surveys (DLS), PwC Real Estate Cleansing Tool

**Transaction Volume by Price Band**



**No. of transactions**

2014	3
2015	2
2016	6
2017	4

2014	11
2015	12
2016	27
2017	31

2014	33
2015	58
2016	107
2017	109

2014	20
2015	17
2016	39
2017	116

Source: Department of Lands and Surveys (DLS), PwC Real Estate Cleansing Tool and Analysis

# Real Estate Price Evolution

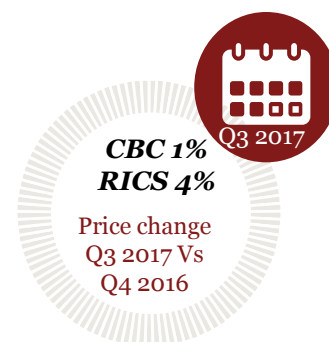
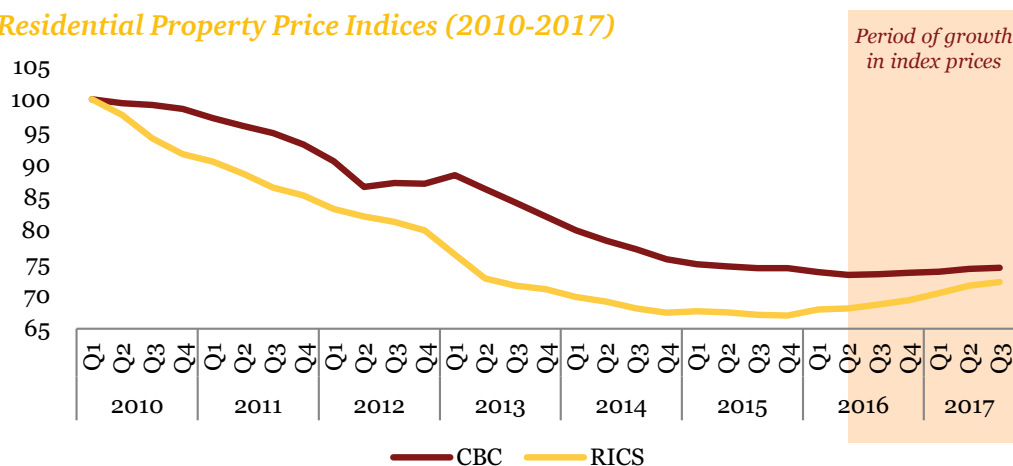
## Residential Property Prices

The behaviour of residential property prices across Cyprus is captured by two indices, namely Central Bank of Cyprus (CBC) index and the Royal Institution of Chartered Surveyors Cyprus (RICS) index.

Both indices have exhibited a negative trajectory since 2010, reflecting the declining trend in demand for residential property, including demand for holiday homes by foreign buyers. This negative trajectory continued until 2015, resulting in an overall drop in residential property prices for the period in the region of 26% to 33% compared to 2010 values.

In 2016, price index movements demonstrated signs of marginal improvement and stabilisation. In 2017, for the first time during the 8-year period 2010-2017, both price indices behaved positively. Up until Q3 2017, the CBC index indicated a 1% growth compared to Q4 2016, whereas the RICS Residential index demonstrated a 4% growth for the same period.

### Residential Property Price Indices (2010-2017)



Source: RICS Cyprus Property Price Index- Q3 2017 issue and CBC RPPI

Note: RICS represents the weighted average of the houses and apartments indices

Annual price change	2011	2012	2013	2014	2015	2016	Q3 2017 (from Q4 2016)
RICS (Residential Index)	(7%)	(6%)	(11%)	(5%)	(1%)	3%	4%
CBC (Housing Index)	(5%)	(6%)	(6%)	(8%)	(2%)	(1%)	1%

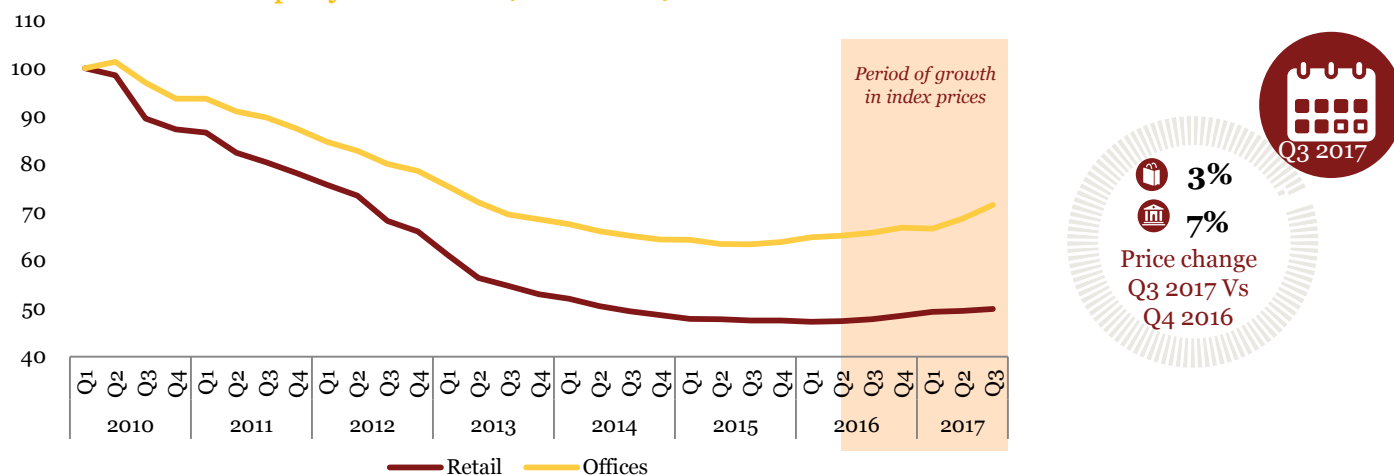
## Commercial Property Prices

The behaviour of commercial property prices across Cyprus is captured by the RICS index. Commercial properties include retail properties and office space\*.

Both commercial property price indices followed a steep declining trend during the period 2010 to mid-2016 with prices exhibiting an overall drop of 53% for retail properties and 37% for offices.

In 2016, prices showed signs of stabilisation up until the first half of the year and marginal growth in the second half. During 2017, increases recorded for retail properties stood at 3% whilst for offices, prices increased by 7% primarily due signs of increased demand for Grade A office space.

### RICS Commercial Property Price Index (2010-2017)



Source: RICS Cyprus Property Price Index- Q3 2017 issue  
(Base Year-2010)

Annual price change	2011	2012	2013	2014	2015	2016	Q3 2017 (from Q4 2016)
Retail	(10%)	(16%)	(20%)	(8%)	(2%)	2%	3%
Offices	(7%)	(10%)	(13%)	(6%)	(1%)	(1%)	7%

\* Indicative characteristics for the RICS index: Retail-high-street, 100m<sup>2</sup>, ground floor area with 50m<sup>2</sup> mezzanine;  
Office space-Grade A, city centre location, 200m<sup>2</sup>

# Construction Activity

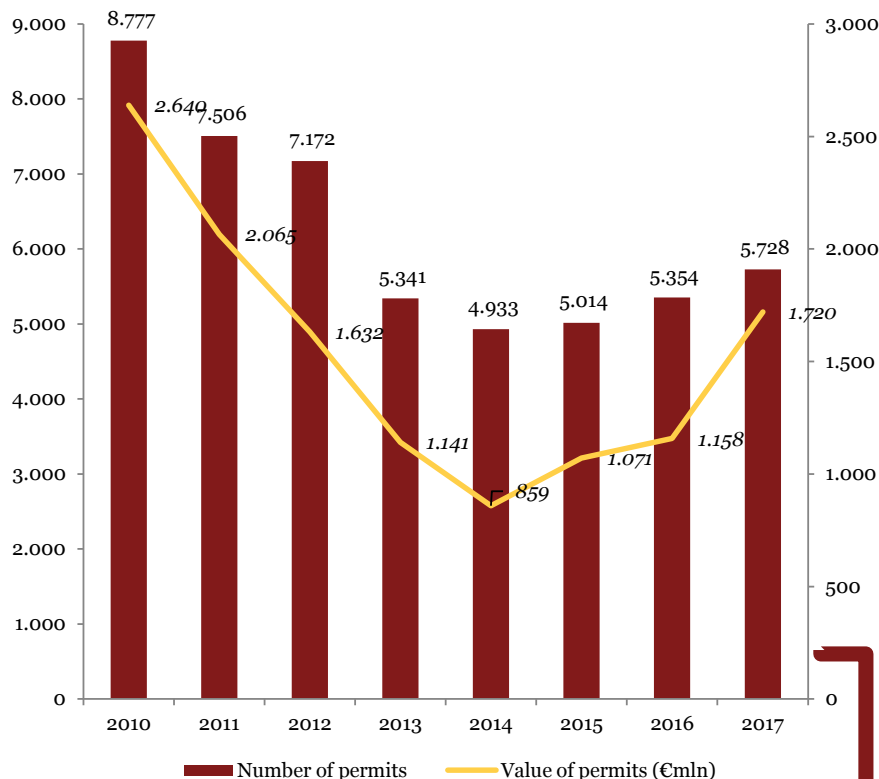
## Building Permits

In line with transaction activity trends observed in the sector, construction activity has been on the rise since mid 2016. In addition, there are signs that this trend will continue as building permits are growing, both in volume but also in size. The number of building permits increased by 7% in 2017 while the value of new building permits exhibited an annual growth of 49%.

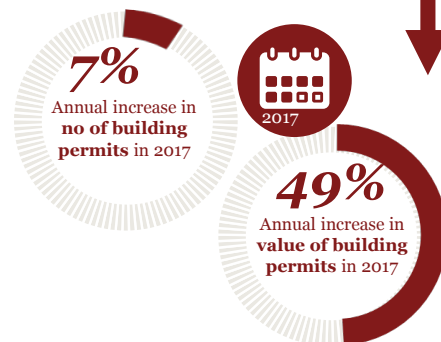
This indicates that new real estate developments being planned, are on average of higher value.



## Building Permits Number vs. Value (m2/€mln)



Source: CyStat

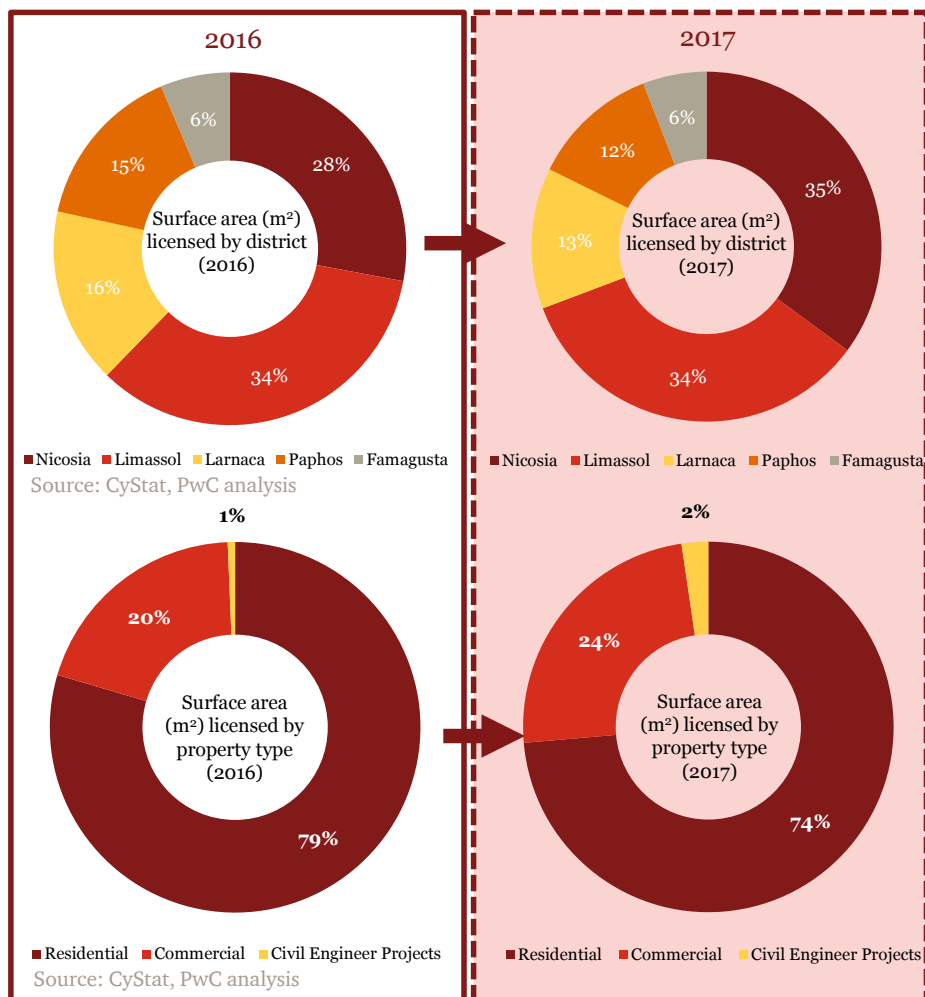




## Distribution of building permits per district and surface area (m<sup>2</sup>) during 2017

The district of Nicosia has the highest share of licensed surface area (35%) closely followed by Limassol district (34%).

With respect to the type of properties licenced for development during 2017, the large majority of building permits, measured by licensed surface area (m<sup>2</sup>), relates to residential properties (74%) followed by commercial properties (24%) and other infrastructure projects (2%).



# *Real Estate Advisory Services*



## *How PwC can help*

Our experts offer our clients the value they are looking for, value that is based on the knowledge drawn from our extensive international presence and on experience shaped from the local environment and needs.

Through our extensive and diverse track record, we have gained a deep understanding of the local real estate market and its behaviour.

- Our experienced real estate focused team provides tailored-made solutions of high quality for specific needs to clients who develop, invest, own, lease, dispose or acquire all types of property.
- Our clients draw comfort from working with PwC, the leading organisation of its kind in the world, and from the integrity, reliability and security that it brings with it.
- Our strong international network combined with our local expertise, enable us to support our clients' needs in all their countries of operation.

## What we bring to our clients



Qualified Chartered Surveyors, *Members of RICS*



In-depth *understanding of the changing market forces* that are affecting the local real estate industry



Ongoing monitoring of the behaviour of the market and its dynamics



Data analytics of official Land Registry transaction records



*In-depth knowledge* of Town Planning Regulations and Land Registry workings



Extensive experience of qualitative and quantitative *research techniques for real estate transaction activity*

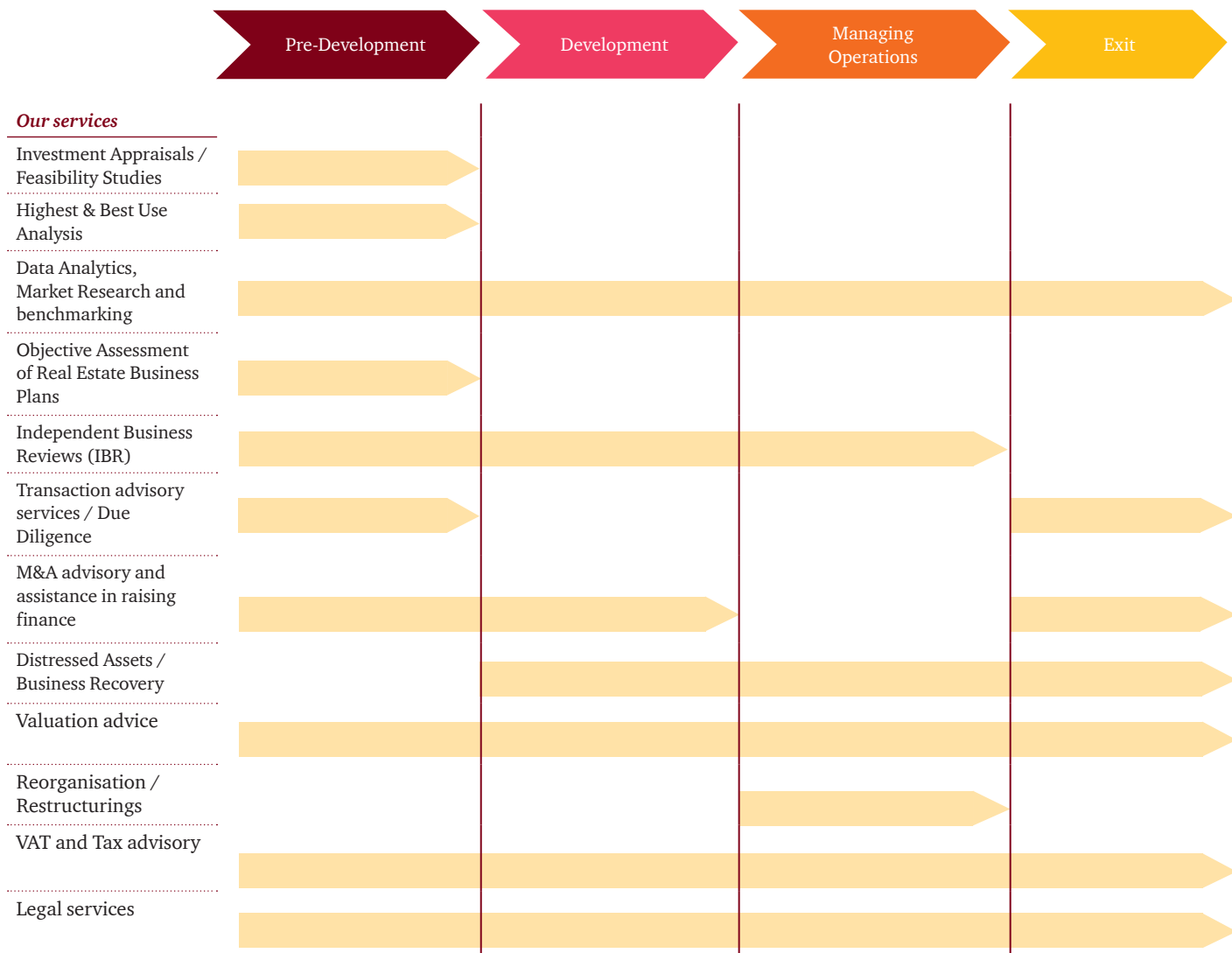


*Regularly updated own-database of property transactions*



A strong *reputation* for rigour, *independence and impartiality*

# Real Estate Life Cycle



## PwC in Cyprus

We support you to create the value you are looking for by providing specialised solutions based on quality. Together we build relationships based on trust and we say things as they are, to assist you to deal with issues that tomorrow will prove important.

We adapt the expertise of our almost 1.000 professionals in Cyprus and the power of our global network of 236.000 experts in 158 countries to your specific needs, helping you make the difference.

In a demanding and challenging business environment, our diverse teams of experts are sharing deep knowledge and experience. We provide a broad range of services as listed below to meet your increasingly complex needs.



Assurance  
Advisory

Tax Advisory  
Indirect Tax Advisory  
Legal Advisory  
International Private Clients  
Tax Reporting & Strategy

Our industry specialisation in the following sectors, gives you the benefit of our in-depth industry knowledge and experience.

Banking  
Transportation & Logistics  
Energy  
Hospitality & Leisure  
Retail, Consumer & Manufacturing

Funds  
Real Estate & Construction  
Investment Firms  
Insurance  
Telecommunications

Visit [www.pwc.com.cy](http://www.pwc.com.cy) to discover the benefits we can bring to you.



## ***PwC offices in Cyprus***

### ***Nicosia***

**Address:** PwC Central, 43 Demostheni Severi Avenue, CY-1080 Nicosia  
P O Box 21612, CY-1591 Nicosia, Cyprus  
Tel. +357 - 22555000, Fax +357 - 22555001

### ***Limassol***

**Address:** City House, 6 Karaïskakis Street, CY-3032 Limassol, Cyprus  
P O Box 53034, CY-3300 Limassol, Cyprus  
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### ***Paphos***

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