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Cyprus Real Estate Market

May 2017

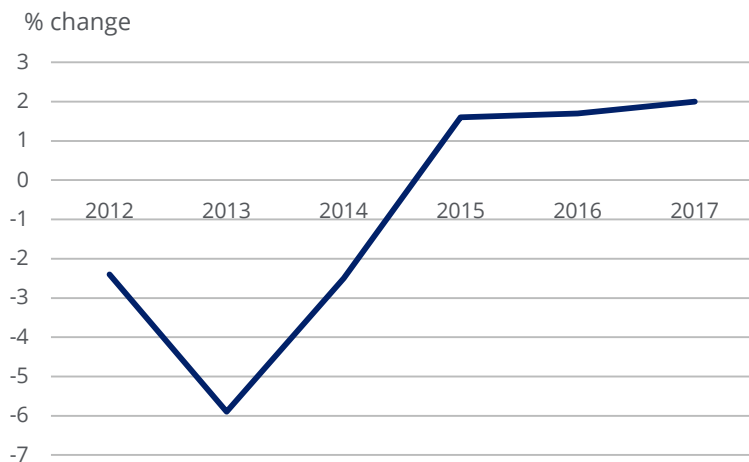
ECONOMIC OUTLOOK

Economic Outlook

Gross Domestic Product

According to the most recent European Economic Forecast (Spring 2016) issued by the European Commission, Cyprus real GDP annual growth reached 1,6% in 2015 and 1,7% in 2016. Forecasted annual growth is expected to climb up to 2,0% in 2017 (Graph 1). Tourism and professional services remain the strongest sectors of the economy while at the same time the emerging energy sector appears to provide promising prospects for Cyprus.

Graph 1 – GDP Annual Projections

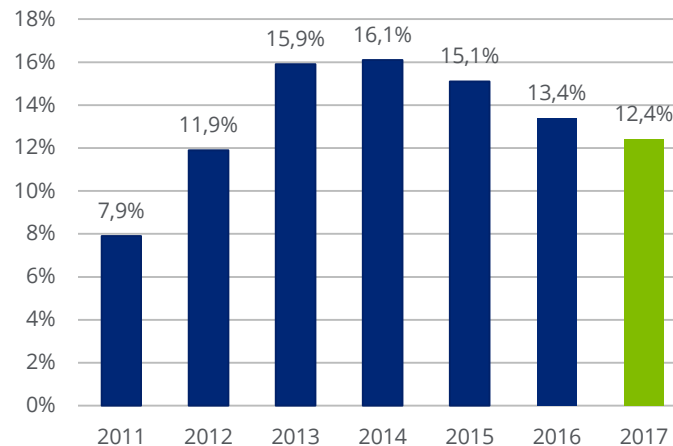


Source: European Commission

Labour Market

The high level of unemployment remains an important obstacle to the economic recovery of Cyprus. While the unemployment rate decreased to 13,4% in 2016 from 15,1% in 2015, it still remains substantially higher than the pre-recession rate of 7,9% (2011). Nonetheless, the forecasted economic growth is expected to generate improvements in the local labour market with the EC's economic forecast indicating that unemployment is expected to decrease to 12,4% in 2017.

Graph 2– Unemployment Rate Projections



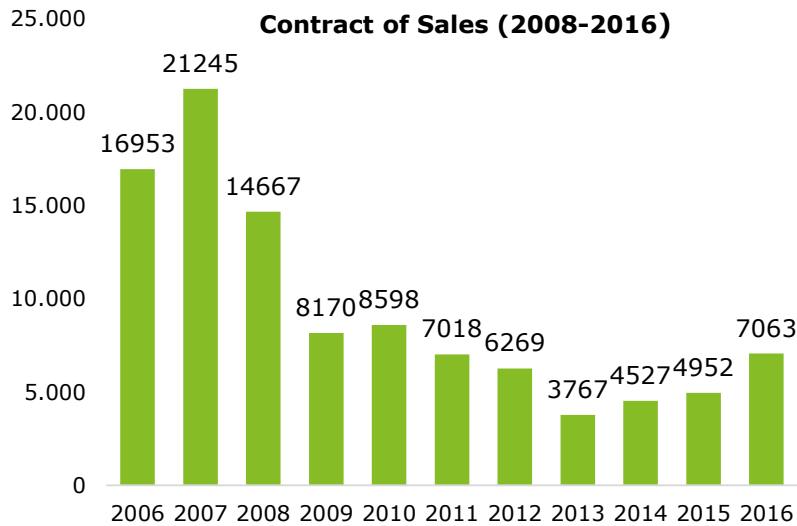
Source: European Commission

TRANSACTIONS

Transactions

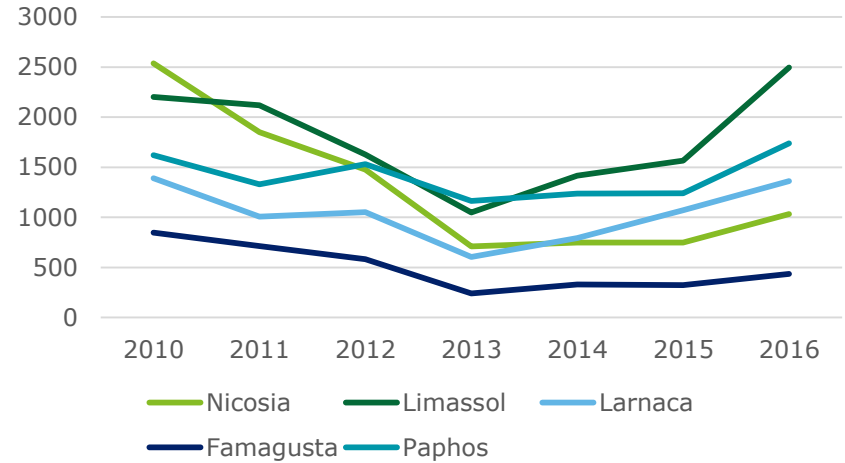
Following the market collapse in 2013, property sales in Cyprus continue to record growth for the third consecutive year, while foreign investment in real estate is also picking up. According to the statistics issued by the Department of Lands & Surveys (DLS), the number of registered contracts of sale nationally has increased by 42,5% between 2015 and 2016.

In terms of regional distribution of transactions that occurred during the first eight months of 2016, Limassol is leading the way followed by Paphos and Larnaca as shown on Graph 5.

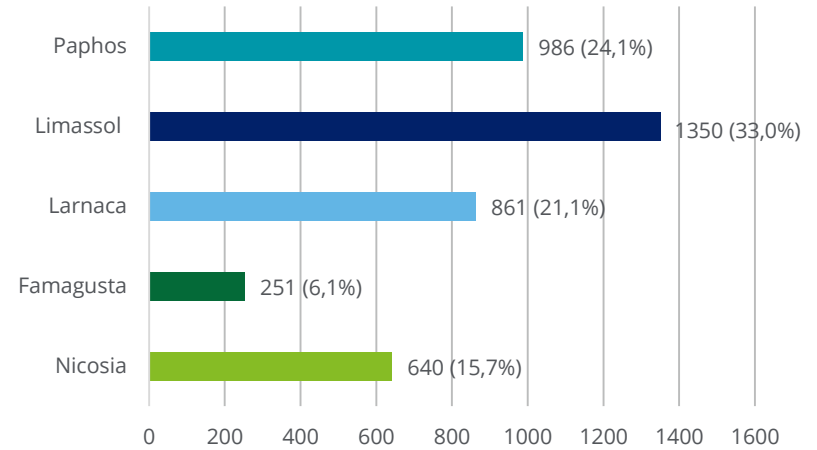


Source: Department of Lands and Surveys

Contract of Sales-Pancyprrian Regional (2010-2016)



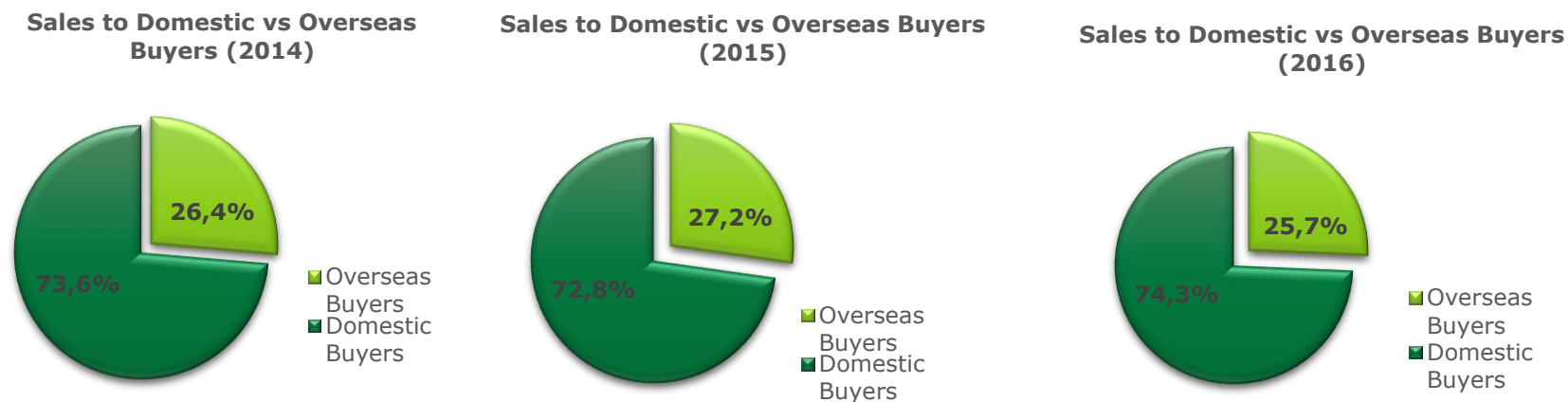
Graph 5 – Contracts of Sale per Region (2016)



Transactions

The total number of sale contracts deposited at the local Land Registry offices in favour of overseas buyers represents 26,4% (1193 sales) of the total sales completed in 2014. In 2015, the proportion of the total number of contract of sales completed by overseas buyers reached 27,2% (1349 sales), while the percentage of sales to overseas buyers in 2016 reached 25,7% (1813 sales).

The citizenship and permanent residency schemes as well as the reduction in transfer fees have played a major role in attracting foreign investors to the real estate of Cyprus.



Source: Department of Lands and Surveys

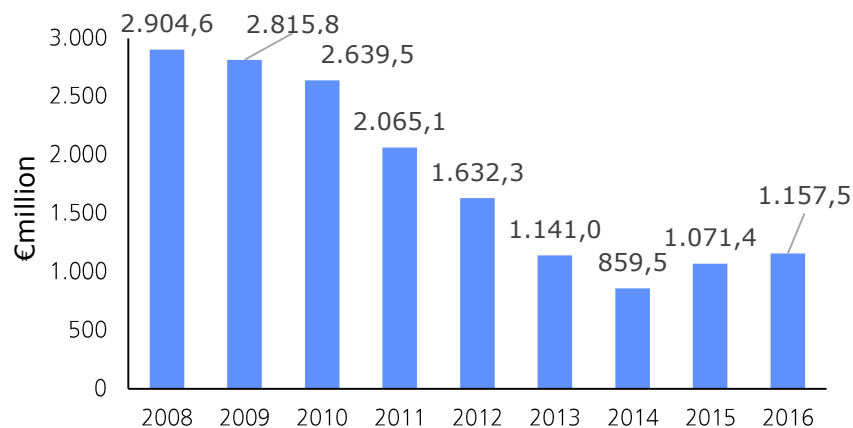
BUILDING PERMITS

Building Permits

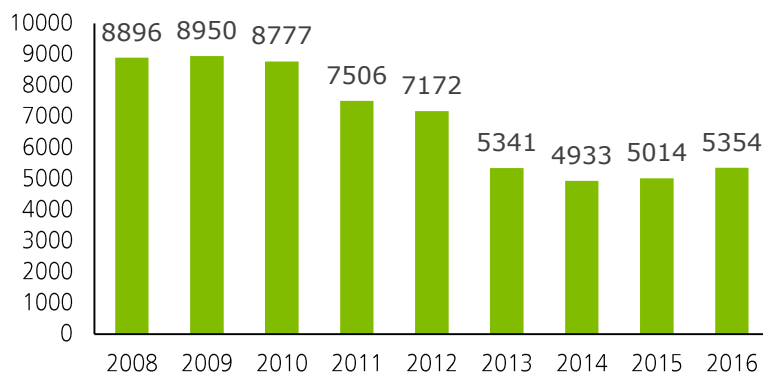
The construction sector of Cyprus has contracted severely since the peak of the market in 2008. More particularly, according to the statistics issued by the Cyprus Statistical Authority (CYSTAT) the contribution of the sector to the economy was limited to 2% in the first quarter of 2015 as opposed to nearly 11% during 2008. The weakening in construction activity is mainly attributed to the prolonged and severe recession, the drop in demand and the lack of liquidity. All these factors, along with the oversupply observed in some regions, are acting as barriers to the recovery of the sector.

Nonetheless, the production in construction index which monitors short-term developments in construction activity, has recorded positive growth in building construction especially in the number, area and value of building permits as shown on the charts below.

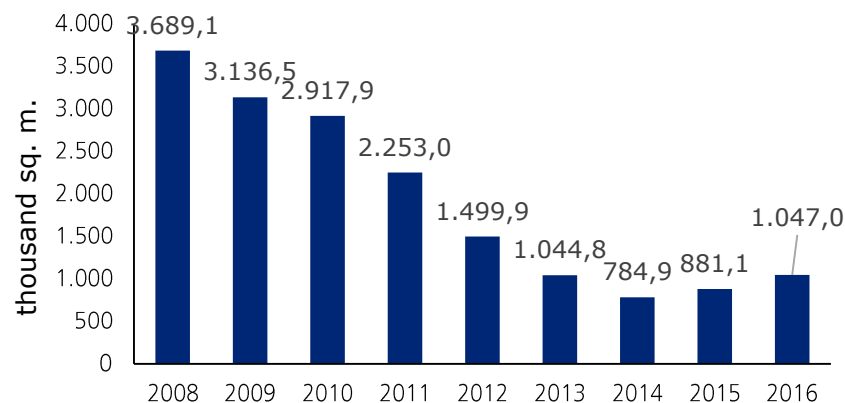
Value of Building Permits Issued Pancyprian (2008-2016)



Number of Building Permits Issued Pancyprian (2008-2016)



Area of Building Permits Issued Pancyprian (2008-2016)

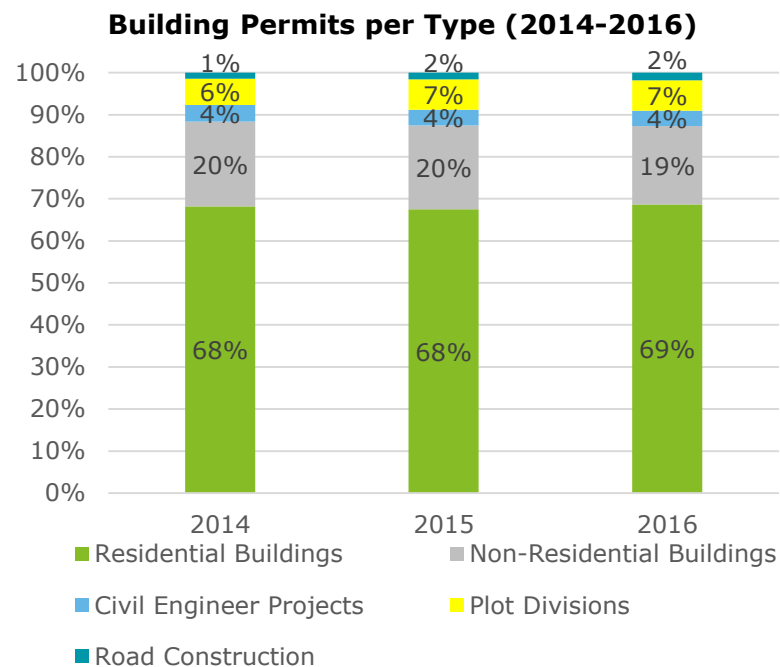
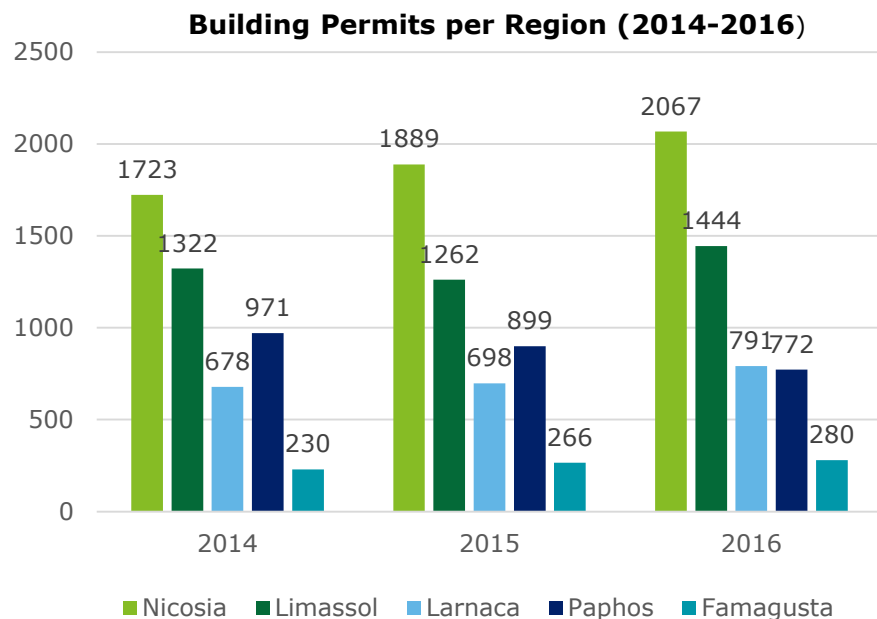


Source: Cyprus Statistical Authority

Building Permits

In terms of regional distribution, Nicosia represented the highest proportion of the total building permits 39% of total building permits issued during 2016, followed by Limassol (27%), Paphos (14%), Larnaca (15%) and Famagusta (5%). This is an indication of where development activity will focus in the short-term when the building permits will be translated into construction projects.

As far as the type of permits issued are concerned, throughout the last three years, it is obvious that the biggest proportion of permits with approximately 68% relate to Residential Buildings, followed by approximately 20% for Non-Residential (commercial) buildings. A proportion of 4% relate to civil engineer projects, around 7% for plot divisions and finally around 2% relate to road constructions.



MARKET PERFORMANCE BASED ON PROPERTY PRICE INDEX

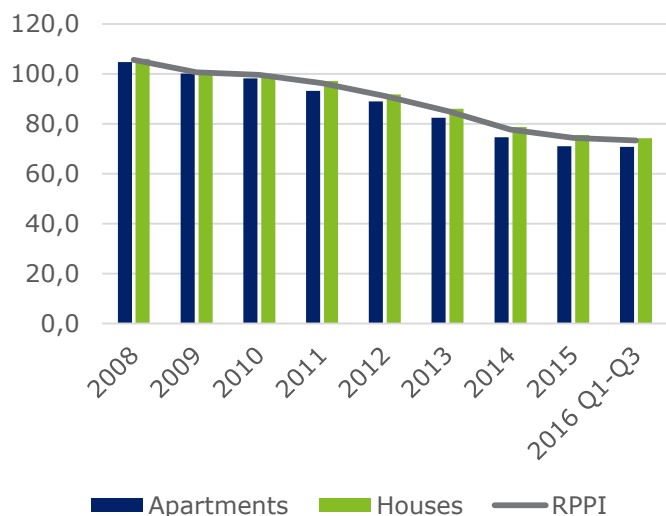
Market Performance

Capital and rental values of local real estate have been on a negative track since 2009 in line with the negative economic indicators and the decline in demand. Nonetheless, the first signs of market stabilisation appeared in 2015 with continuing deceleration in the rate of decrease of property prices as demonstrated by the relevant property price indicators.

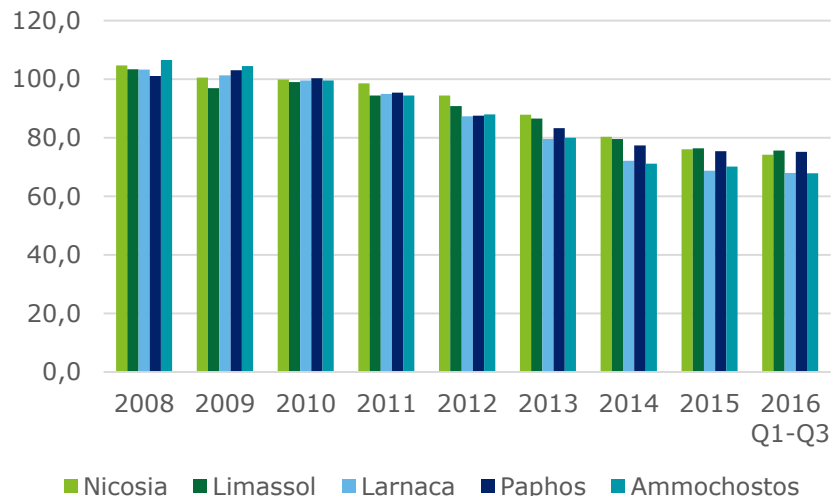
Residential Property Price Index (RPPI)

As demonstrated by the residential property price index which is issued quarterly by the CBC, residential property prices in Cyprus have been experiencing decline in prices since mid-2008.

Pancyprian Residential Property Price Index (2008-2016 Q3)



Regional Residential Property Price Index (2008-2016 Q3)



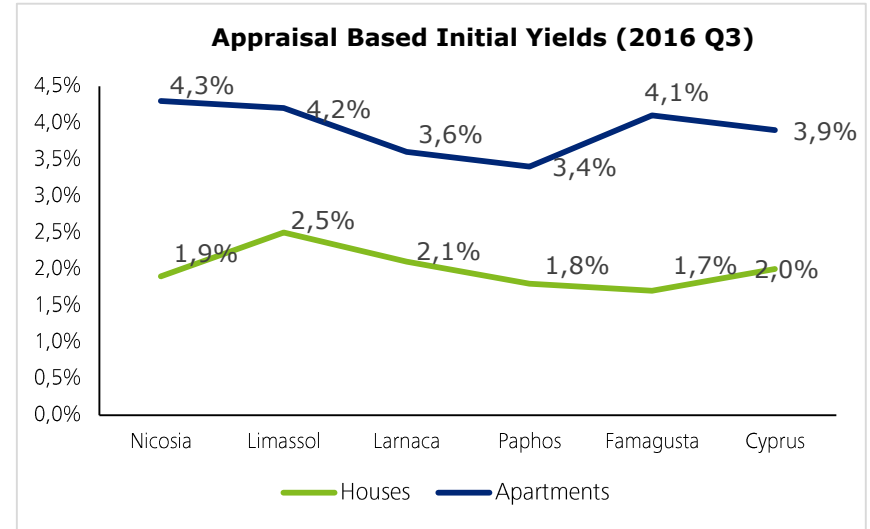
Source: Central Bank of Cyprus

Market Performance

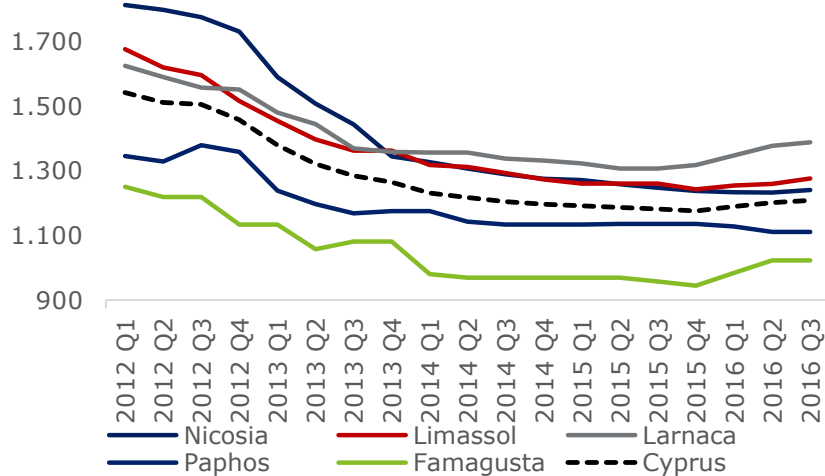
RICS Property Price Index (RPPI)

The Cyprus Property Price Index which is issued on a quarterly basis by the RICS, provides an insight on market capital and rental values and appraisal-based initial yields for the main property sectors across the urban centres of Cyprus. The 2015Q4 publication recorded signs of stability in line with the overall improvement of the economy. Capital prices decreased, nonetheless at a slower rate than previous years while for some sectors rental values recorded marginal increase. Yields remained relatively stable and at relatively low levels, indicating that there is room for further capital re-adjustment.

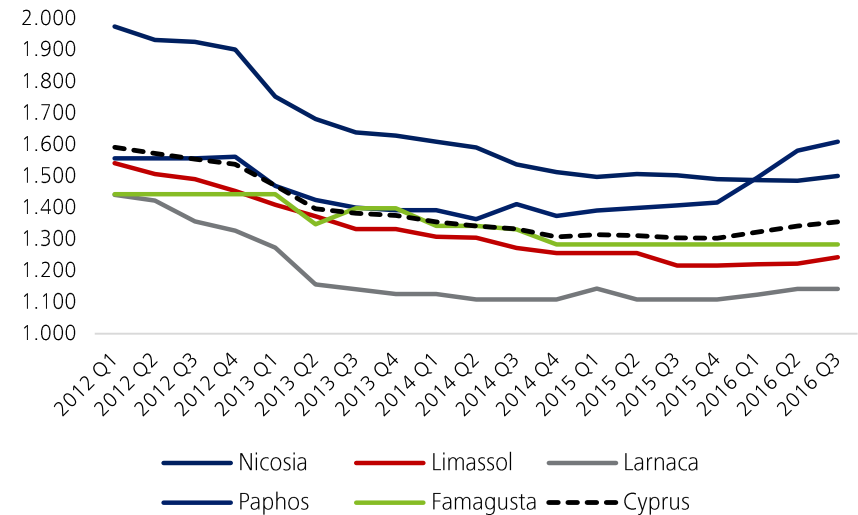
Residential (Apartment & House)



Average Apartment Price per SQM (2012-2016 Q3)

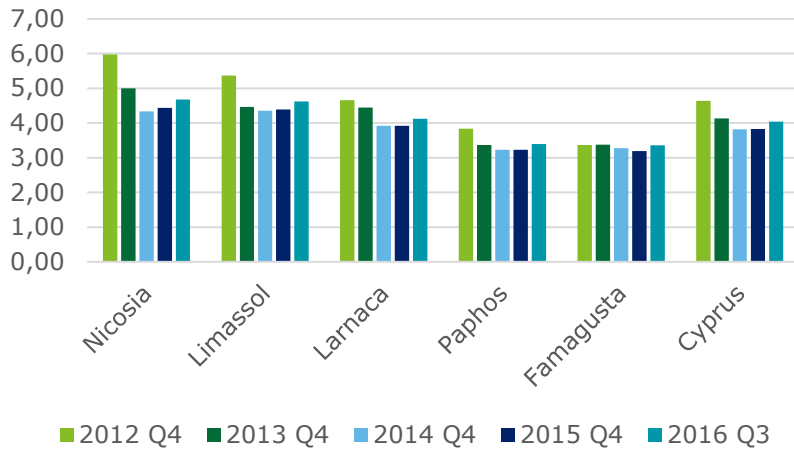


Average House Price per SQM (2012-2016 Q3)

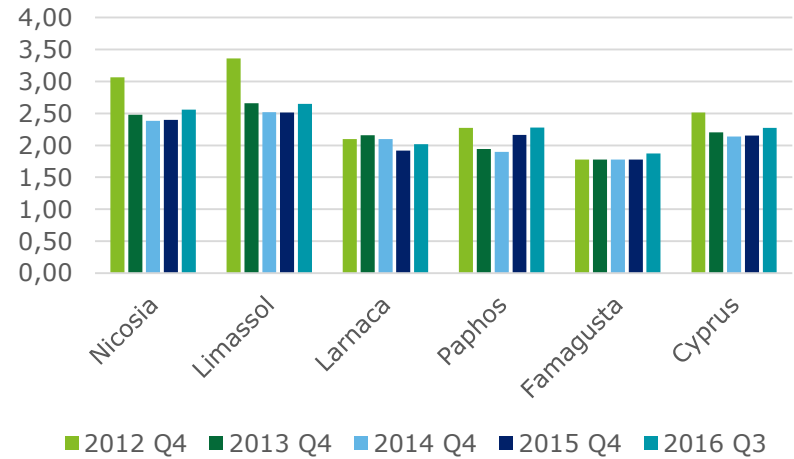


Source: RICS Cyprus (Cyprus Property Price Index)

Apartments Average Monthly Rental Price per SQM (2012-2016 Q3)



Houses Average Monthly Rental Price per SQM (2012-2016 Q3)



Outline of properties

Apartments: Two bedroom, 85sqm, Medium quality.
Houses: Three bedroom with garden, Semi-detached, 250sqm, Medium quality.
Retail: High-street retail, 100sqm ground floor area with 50sqm mezzanine.
Warehouse: Light industrial area, 2.000sqm, 200sqm office space.
Office: Grade A, City centre location, 200sqm.

Source: RICS Cyprus (Cyprus Property Price Index)

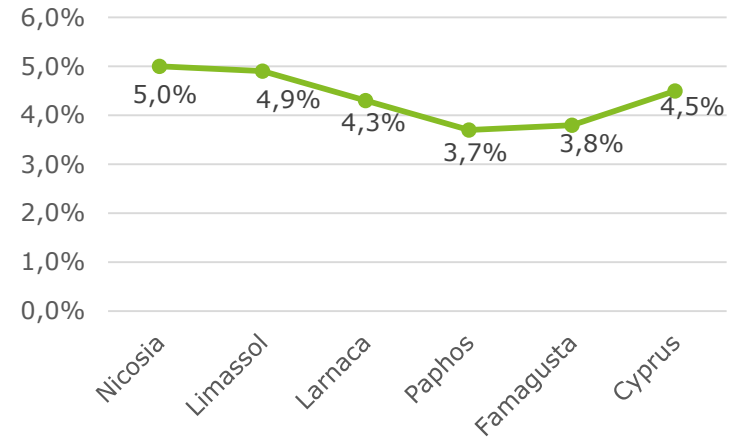
Market Performance

Offices

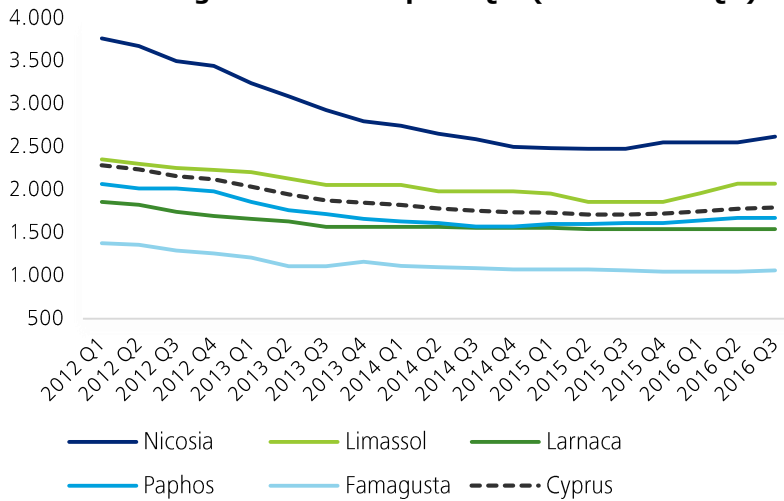
Office prices in Cyprus decreased by 21,3% between 2012 Q1 and 2016 Q3 as a result of the impact of the economic recession on business activity. The recent years saw numerous companies downsizing or even going out of business, causing the demand for office space and subsequently prices and rents to drop significantly before the signs of marginal increases in the market values were recorded in 2015 Q4.

Regionally, Nicosia experienced the highest drop in office prices between 2012 Q1 and 2016 Q3, while the smallest decrease was recorded in Larnaca.

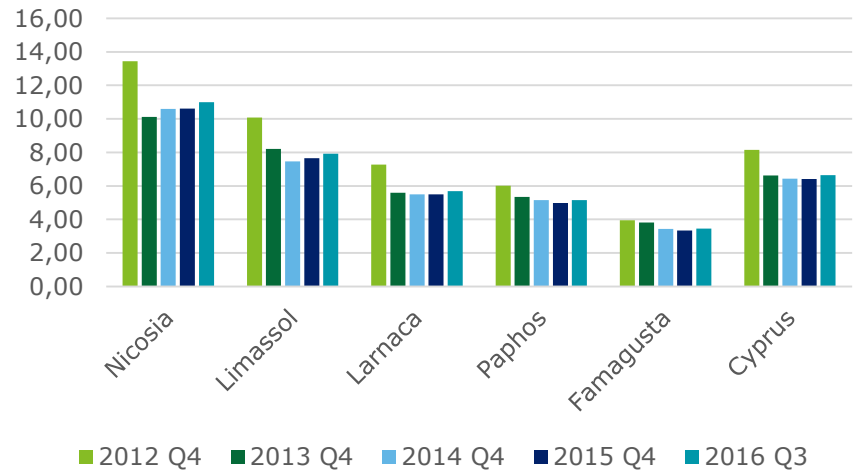
Appraisal Based Initial Yield (2016 Q3)



Average Office Price per SQM (2012-2016 Q3)



Average Monthly Office Rental Price per SQM (2012-2016 Q3)



Source: RICS Cyprus (Cyprus Property Price Index)

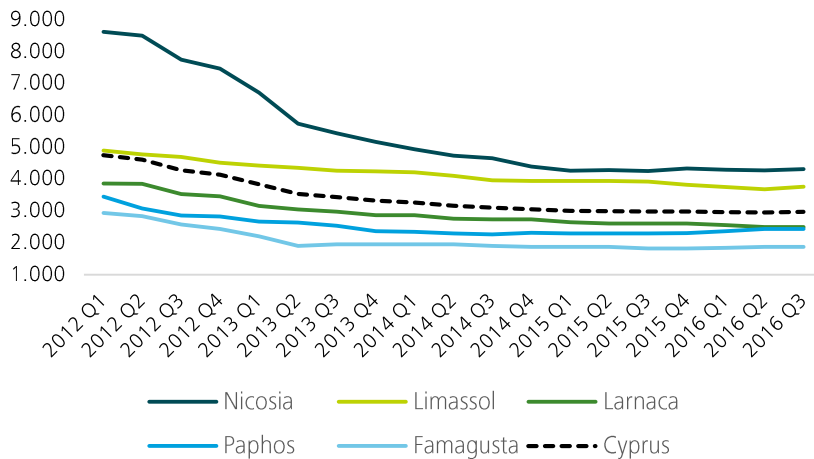
Market Performance

Retail

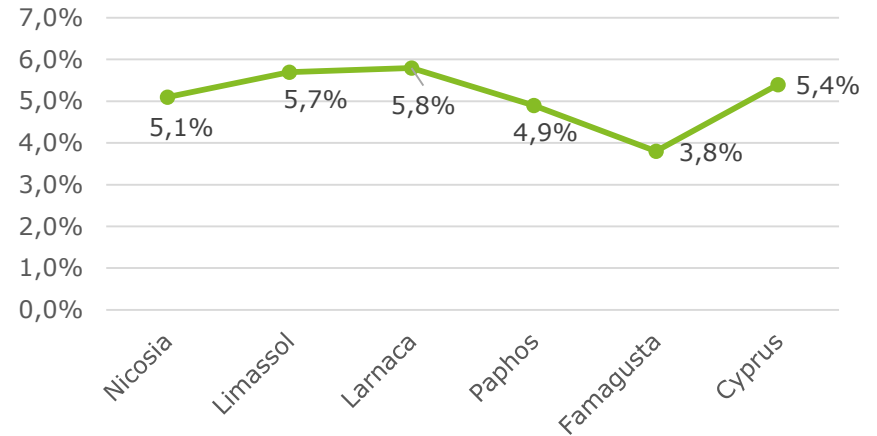
The performance of the retail property sector is directly related to household spending which is in turn affected by the state of the economy. It is therefore not surprising that the impact of the economic recession has been greater on retail properties compared to other properties. The large number of vacant shops and showrooms is representative, particularly in secondary locations.

In particular, retail property values decreased by 37,5% nationally between 2012 Q1 and 2016 Q3, with Nicosia recording the largest fall (nearly 50%).

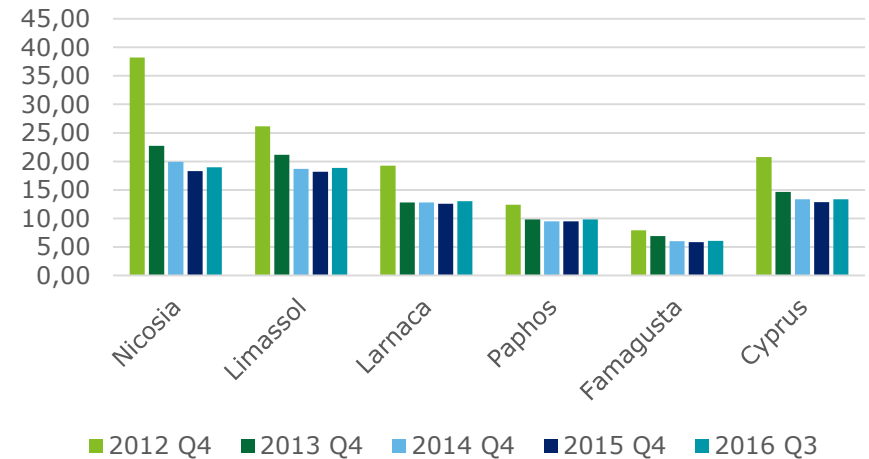
Average Retail Price per SQM (2012-2016 Q3)



Appraisal Based Initial Yield (2016 Q3)



Average Monthly Retail Rental Price per SQM (2012-2016 Q3)



Source: RICS Cyprus (Cyprus Property Price Index)

OTHER MARKET INFLUENCES

Other Market Influences

The Cyprus government has introduced a number of tax incentives in order to boost the real estate market as follows:

- Cyprus Citizenship and Permanent Residency
- Abolishment of immovable property tax
- Properties exempt from Capital Gain Taxes (for properties acquired up to 31 December 2016)
- Properties subject to exemption or reduced Transfer Fees
- Properties subject to exemption or reduced VAT
- Improved process of issuance of Title Deeds

NEW INVESTMENT TRENDS

New Investment Trends

Despite the challenges currently faced by the real estate sector of Cyprus, in the recent years the country have experienced new opportunities arising in the field of large investment projects which continue to attract strong interest from overseas investors.





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