

Cyprus Real Estate Market

First Half | 2017

Key Market Highlights

November 2017





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Foreword



This publication provides a snapshot of the key market developments, focusing on the performance of the real estate sector during the 1st half of 2017 (H1 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 June 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, valuation advice, as well as accounting advice on real estate assets and leases.

Our dedicated team comprises 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 beneficial decision based on your specific circumstances and requirements.

Evgenios C Evgeniou
CEO
PwC Cyprus

Overview and key market highlights of H1 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 positive developments in the economy as indicated through the improvement of economic performance indicators, such as the growth in real GDP of 2,8% in 2016, the International Monetary Fund's projections for further growth (year-on-year increase of 3,4% in 2017), various upgrades of Cyprus' credit ratings as well as increase in tourist arrivals (16,6% growth in H1 2017 Vs H1 2016) positively affected also the Real Estate market.

On the back of a strong market performance in 2016, the first six months of 2017 continue to show improved confidence in the property sector as is evident by the increased activity levels, both in terms of transactions as well as issued building permits.

Government schemes encouraging foreign direct investments, have stipulated interest from foreign buyers, which has been a driving force for the market.

Tax incentives, such as the reduction in the real estate transfer fees and the abolishment of immovable property tax, also contributed to the increased transaction activity.

Moreover, real estate transactions from banks in the context of the restructuring of Non-Performing Loans and the increased availability of financing at a relatively low cost, also constitute key contributing factors.

1st Half 2017 - Highlights

Transaction Volume

- **20% increase** in sale contracts across Cyprus
- Limassol recorded the highest growth in no. of sale contracts during H1 2017 (33,4%), compared to H1 2016, followed by Famagusta (28%) and Nicosia (23%)

Real estate price evolution

- Residential property prices increased by **4%** as per RICS Index in Q1 2017 compared to Q4 2016
- Commercial property prices as per the RICS index recorded a quarterly growth of **4%** for retail properties, **3%** for industrial properties and **3%** for offices

Foreign Transaction Activity

- **106% increase** in sale contracts filed by foreign buyers compared to H1 2016
- Paphos and Limassol appear to be the preferred cities by foreign buyers during this period

High-end Residential Property Segment (≥€1,5mln)

- **59% increase** in sale contracts for high-end residential properties compared to H1 2016
- Limassol attracts c.60% of transactions in the high-end residential property segment

Construction Activity

- In terms of value, **34% increase** was recorded in building permits issued across Cyprus



Transaction Volume: Sale contracts

The number of sale contracts filed at the DLS across Cyprus exhibited a 20% increase compared to H1 2016

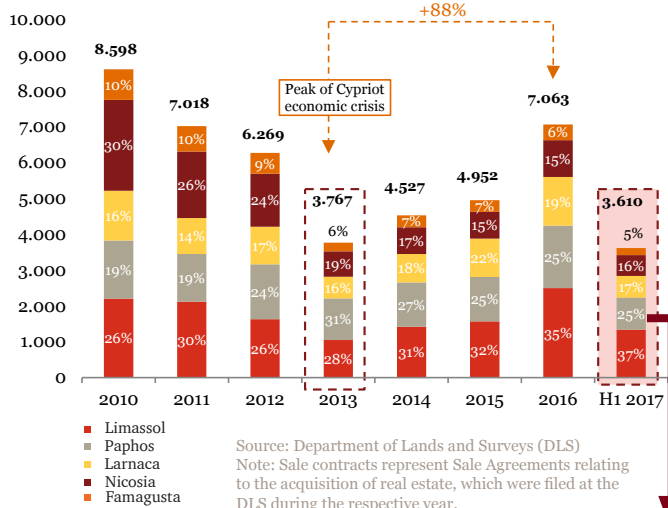
Recovery of the real estate market continued during the first half of 2017

The number of sale contracts filed at the DLS during H1 2017 reached 3.610 compared to 3.012 in H1 2016, representing an increase of 20%.

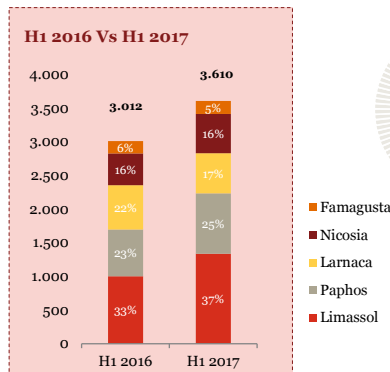
The increase in real estate property transactions observed in H1 2017 was largely driven by:

- The continuation of property tax incentives and the government's schemes encouraging direct investments in Cyprus, which have attracted mainly non-EU buyers (Chinese, Russian, Indian and UAE);
- Increase in the demand from the domestic market in the residential property sector.

No. of sale contracts filed at the DLS per district (2010 - H1 2017)



No. of sale contracts filed at the DLS per district (H1 2017 Vs H1 2016)



Geographical Distribution of transactions

The majority of real estate property transactions during H1 2017 were in Limassol (37% of total sale contracts filed). The number of sale contracts filed at the DLS for Limassol during H1 2017 recorded the highest increase compared to H1 2016 (33,4%)

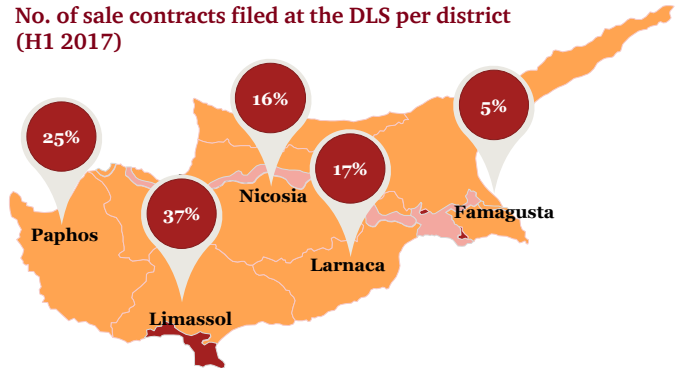
Distribution of sale contracts filed at the DLS per district (H1 2017)

In terms of the number of sale contracts submitted to the DLS during H1 2017, the majority of transactions (37%) were in Limassol, followed by Paphos (25%), Larnaca (17%), Nicosia (16%) and Famagusta (5%).

Limassol also demonstrated the highest growth in no. of sale contracts filed at the DLS during H1 2017 (33,4%), compared to H1 2016, followed by Famagusta (28%) and Nicosia (23%).

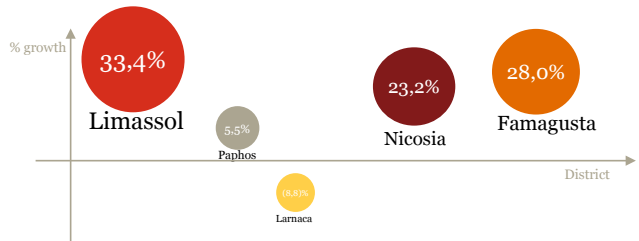
Larnaca is the only district in Cyprus where the number of sale contracts declined during the first half of the year (-9% compared to H1 2016).

No. of sale contracts filed at the DLS per district (H1 2017)



Source: Department of Lands and Surveys (DLS)

% growth in number of sale contracts filed at the DLS (H1 2017 Vs H1 2016)



Source: Department of Lands and Surveys (DLS)

Real estate price evolution

Increase in both residential and commercial property price indices during Q1 2017, reflecting the higher demand and transaction activity

Residential Property Prices

Following a negative trajectory in both CBC and RICS indices during the years 2010-2015 which turned positive in 2016, there was a further 4% increase as per the RICS Index during Q1 2017.

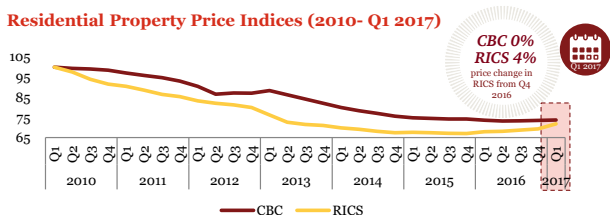
The CBC residential property price index remained at the same levels in 2017 (0% growth).

Commercial Property Prices

Following the marginal improvement in the price index during 2016, further improvement was recorded during Q1 2017.

Specifically, the quarterly price increase for retail properties was €4%, while for industrial properties and offices, prices exhibited growth of 3%.

Residential Property Price Indices (2010- Q1 2017)

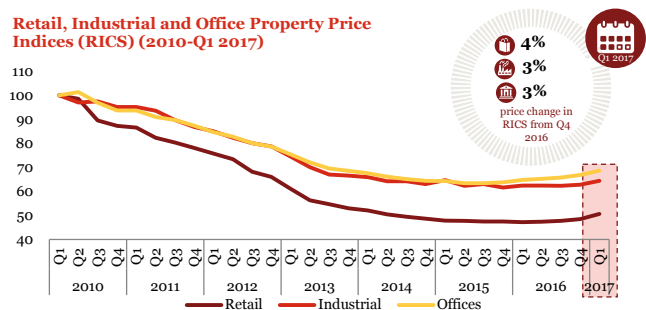


Source: RICS and CBC

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

Annual price change	2011	2012	2013	2014	2015	2016	Q1 2017 (QoQ)
RICS (Residential Index)	(7%)	(6%)	(11%)	(5%)	(1%)	3%	4%
CBC (Housing Index)	(5%)	(6%)	(6%)	(8%)	(2%)	(1%)	0%

Retail, Industrial and Office Property Price Indices (RICS) (2010-Q1 2017)



Source: RICS

(Base Year - 2010)

*Indicative characteristics for the RICS index: Retail – high-street retail, 100m², ground floor area with 50m² mezzanine; Industrial – Light industrial area 2.000m², office space 200m²; Office space – Grade A, city centre location, 200m².

Annual price change	2011	2012	2013	2014	2015	2016	Q1 2017 (QoQ)
Retail	(10%)	(16%)	(20%)	(8%)	(2%)	2%	4%
Industrial	(9%)	(9%)	(15%)	(5%)	(2%)	2%	3%
Offices	(7%)	(10%)	(13%)	(6%)	(1%)	5%	3%

Foreign transaction activity

Further increase in demand from foreign buyers was recorded during H1 2017, with sale contracts filed by foreigners recording a 106% increase compared to H1 2016. Paphos and Limassol appear to be the preferred cities by foreigners during this period

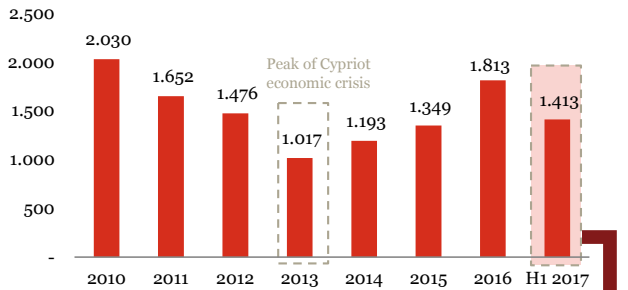
Foreign Buyers

Transactions from foreign buyers more than doubled during H1 2017, with total contracts reaching 1,413 (compared to 685 in H1 2016).

During H1 2017, the highest number of sale contracts filed by foreign buyers, was recorded in Paphos (37%), followed by Limassol (33%) and Larnaca (16%).

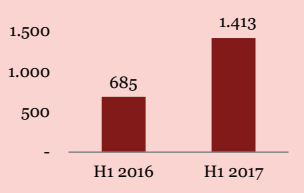
The large majority of sales to foreigners relate to residential properties.

No. of sale contracts filed by foreign buyers (2010 - H1 2017)



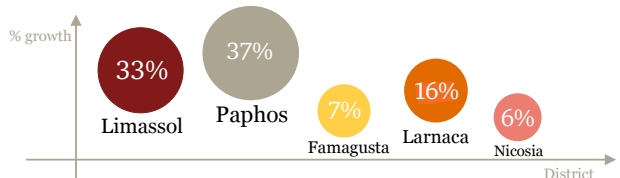
Source: Department of Lands and Surveys (DLS)

H1 2016 Vs H1 2017



Source: Department of Lands and Surveys (DLS)

Foreign Transactions: Geographic distribution of properties based on sale contracts filed at DLS (H1 2017)



Source: Department of Lands and Surveys (DLS)

High-end residential property segment (≥ €1,5 mln)

Significant increase in demand for high-end residential properties during H1 2017 (59% increase compared to H1 2016). Limassol continues to be the preferred city for high-end residential property transactions

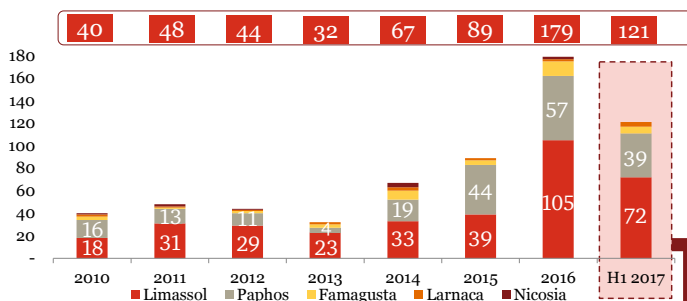
Demand for high-end residential property (≥ €1,5mln)

During H1 2017, the total number of high-end residential transactions reached 121, representing 59% increase compared to high-end residential property transactions recorded during H1 2016.

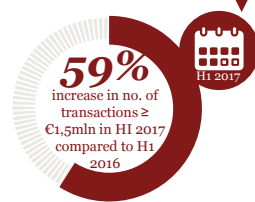
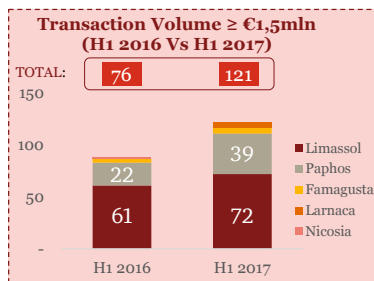
Distribution of high-end residential transactions per district.

Limassol continues to be the preferred location as regards high-end residential property transactions (59% of total transactions for H1 2017) followed by Paphos (32%). During H1 2017, 81% of high-end residential property transactions in Limassol related to apartments, with the remainder 19% relating to villas. Nicosia, Larnaca and Famagusta represent the least active districts in this segment, with transactions ranging between 1 and 6 per annum in total.

No. of Transactions ≥ €1,5 mln

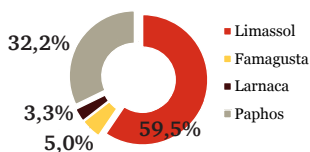


Source: Department of Lands and Surveys (DLS), PwC analysis*

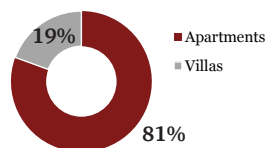


Source: Department of Lands and Surveys (DLS), PwC analysis *

Distribution of high-end residential property transactions per district (H1 2017)



Distribution of Limassol high-end residential property transactions per type of property (H1 2017)



Source: Department of Lands and Surveys (DLS), PwC analysis*

*The analysis has been based on transaction data by the DLS in a digital format as well as data extracted from DLS Portal on 13/09/2017 and relate to transactions with an agreement date up to 30/06/2017

High-end residential property segment (≥ €1,5 mln)

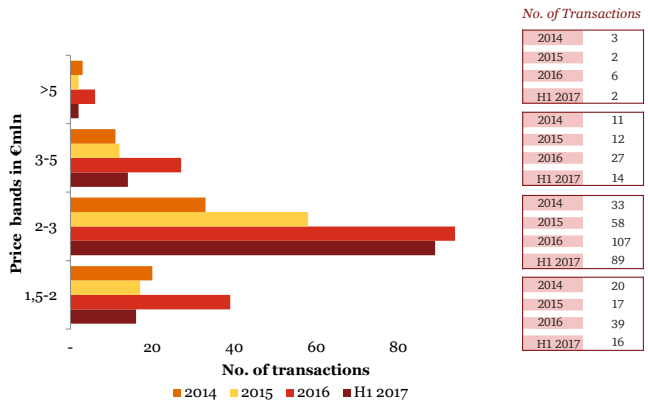
Residential properties in the range of €2mln-€3mln appear to be the preference of high-end residential buyers. Transactions within this price range more than doubled during H1 2017 compared to H1 2016

Transaction Volume by Price Band

The majority of transactions in the high-end residential segment is within the €2mln-€3mln band.

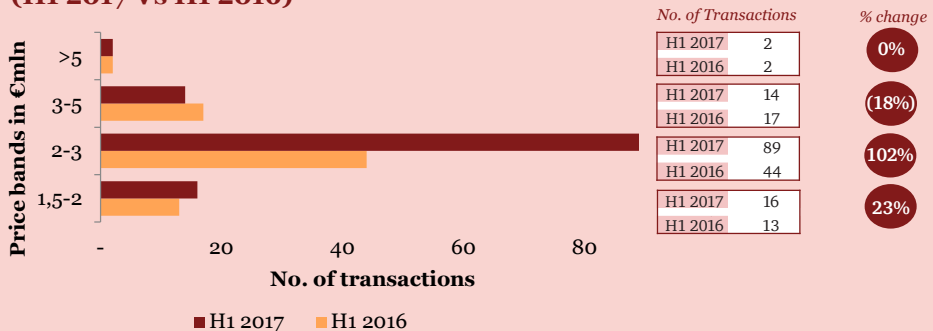
Demand for properties in excess of €3mln has been increasing over the years; this is largely the result of the launch of new high-end residential developments in the market increasing the supply of units in this price range.

Transaction Volume by Price Band



Source: Department of Lands and Surveys (DLS), PwC analysis

Transaction volume by price band (H1 2017 Vs H1 2016)



Source: Department of Lands and Surveys (DLS), PwC analysis

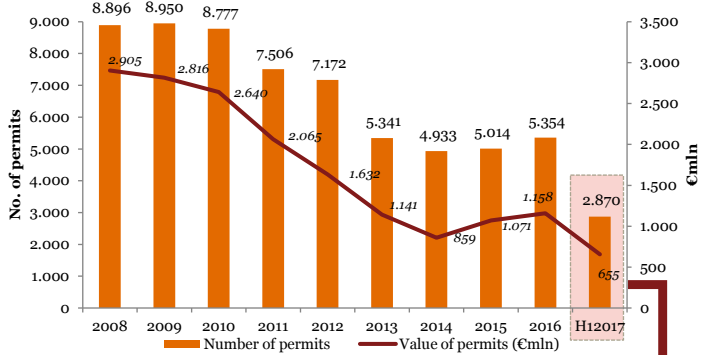
Construction activity

A further increase both in terms of number and value of building permits issued in Cyprus has been recorded during H1 2017

Increase in Building Permits during H1 2017

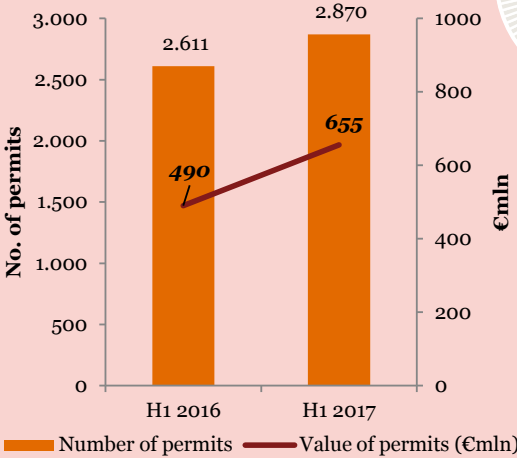
In line with the higher demand, construction activity has been rising, with the number of building permits exhibiting a growth of 10% in number and a 34% in value terms during H1 2017.

Building Permits Number vs. Value



Source: Department of Lands and Surveys (DLS)

Building Permits Number vs. Value (H1 2016 Vs H1 2017)



Source: Department of Lands and Surveys (DLS)

10%

increase in no. of building permits in H1 2017 compared to H1 2016

H1 2017

34%

increase in value of building permits in H1 2017 compared to H1 2016

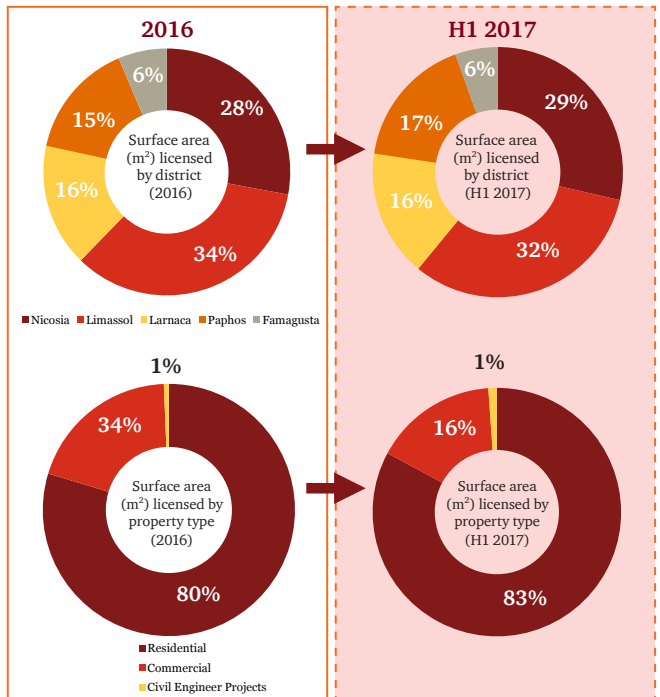
During H1 2017, almost a third of licensed surface area (m²) related to developments in Limassol. The majority of building permits issued during H1 2017 related to residential developments (83%)

Distribution of building permits per district and surface area (m²) during H1 2017

Although there was a slight decrease in the percentage of licensed surface area relating to developments in Limassol during H1 2017 (32% in H1 2017 compared to 34% in H1 2016), Limassol remains the city with the majority of licensed development surface.

During H1 2017, Nicosia comprised 29% of total building permits issued.

The percentage of licensed surface relating to projects in Paphos increased over the period from 15% in 2016 to 17% in H1 2017.



Source: CyStat



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



Our services





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 236.235 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.

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

Funds
Real Estate & Construction
Investment Firms
Insurance
Telecommunications

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