



# Cyprus Real Estate Market Report

## Overview and sentiment

February 2021



Acknowledging the importance of the Real Estate industry to our economy, one of the key drivers and a major indicator of the economic activity in every country, we are pleased to present our first Deloitte Cyprus Real Estate Market report.

Our report provides insights on the economic overview of Cyprus and that of the Real Estate sector, as well as the results of our Cyprus Real Estate Pulse survey conducted in December 2020.

We hope you find our analysis useful.

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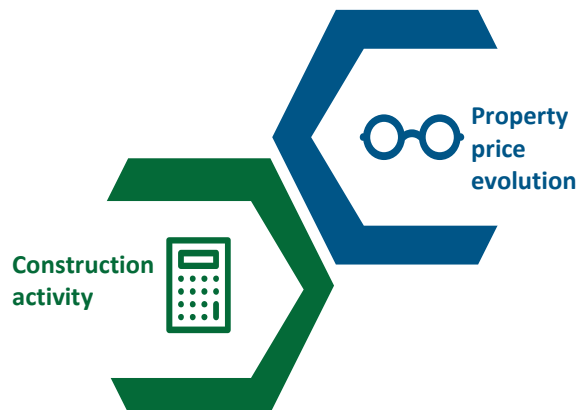
# Executive summary

- During 2020, projected nominal GDP is expected to contract by c.5%, while the gross public debt is expected to increase to 122,7% of nominal GDP.
- Yield to maturity of a 10-year Cyprus government bond tumbled to a negative yield during December 2020 of c.0,1%.
- Tourist arrivals exhibited a stabilisation during 2018 and 2019 at 3.939 and 3.977 thousand respectively. COVID-19, greatly impacted the tourism industry in 2020 exhibiting a full year decrease in arrivals of c.84% and c.85% in revenues for the period Jan-Nov of 2020 compared to the respective period of 2019.

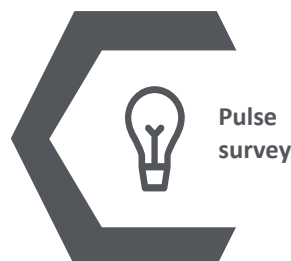
- Construction confidence indicator of Cyprus demonstrated an improvement from 2013 up to 2019. During the first 10 months of 2020, a slight decrease in confidence indicator has been observed.
- In 2020, mainly due to the pandemic and the adverse publicity in relation to the Cyprus Investment Programme (CIP), demand for large scale projects is expected to weaken.
- The number and value of building permits in 2020 have been lower compared to the previous year, affected by COVID-19 pandemic and lockdown measures. The lasting effects of COVID-19 and the recent CIP cancellation are expected to further impact the construction activity.



- During 2020, the total contracts of sales were considerably lower at 7.968 compared to 10.366 in 2019, a reduction of 23%.
- The unexpected termination of the CIP as of November 2020 is expected to negatively affect the demand for high-end residential properties, especially in the regions of Limassol and Paphos.
- Total number of title deeds transferred in 2020 in the months of March, April and May have been affected the most, exhibiting extremely reduced performance as a result of the March 2020 lockdown.



- Across Cyprus, on an annual basis (Q2 2019 to Q2 2020), capital values slightly decreased for all property types apart from apartments that remained almost unchanged.
- Rental prices, on an annual basis (Q2 2019 to Q2 2020), increased for apartments, houses and offices while decreased for retail.



- Apartment prices are expected to remain unchanged in the short term. On the contrary, office and retail space prices are anticipated to be negatively affected by the pandemic in the short term.
- Market participants believe that the majority of the additional measures towards the faster recovery of the property market should relate to various forms of tax reliefs and incentives.
- Apartments appear to be the least affected by the pandemic and are expected to be the first property type to recover.
- People would still invest in real estate with apartments being the most preferable property type exhibiting a stable demand.

# Economic overview



# Economic indicators

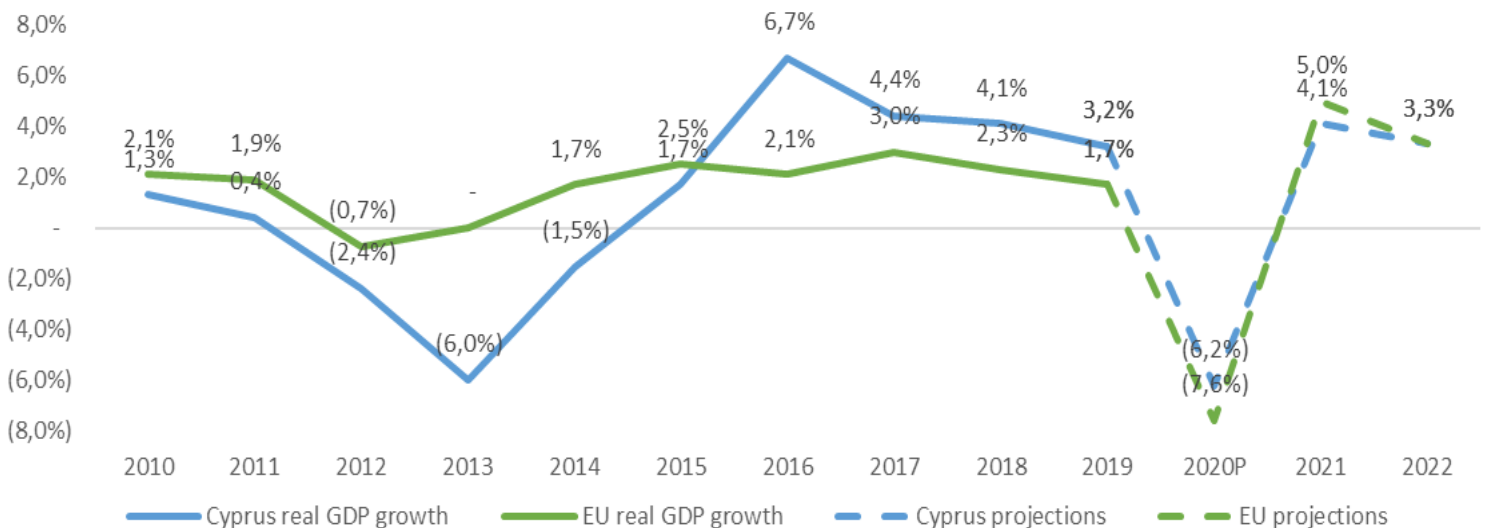
## Real GDP growth

Cyprus vs EU

Cyprus is exhibiting its first projected decline in real GDP in 2020, following a series of a 5-year positive real GDP growth since 2015.

During the period from 2015 to 2019, Cyprus exhibited growth in real Gross Domestic Product (GDP), recovering from the financial crisis of 2013. The financial crisis has driven the Cyprus real GDP to a negative 6% and is expected to be repeated in 2020 by 6,2%, a similar drop to that of the European Union (EU) GDP, which contracted by c.7,6%.

Cyprus / EU real GDP growth



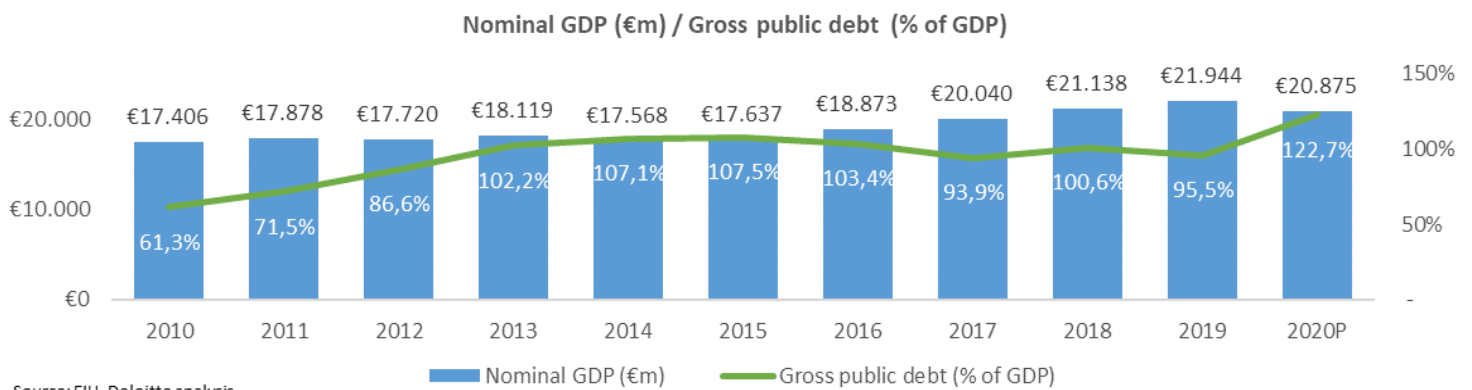
Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF), Deloitte analysis



## Gross public debt vs nominal GDP

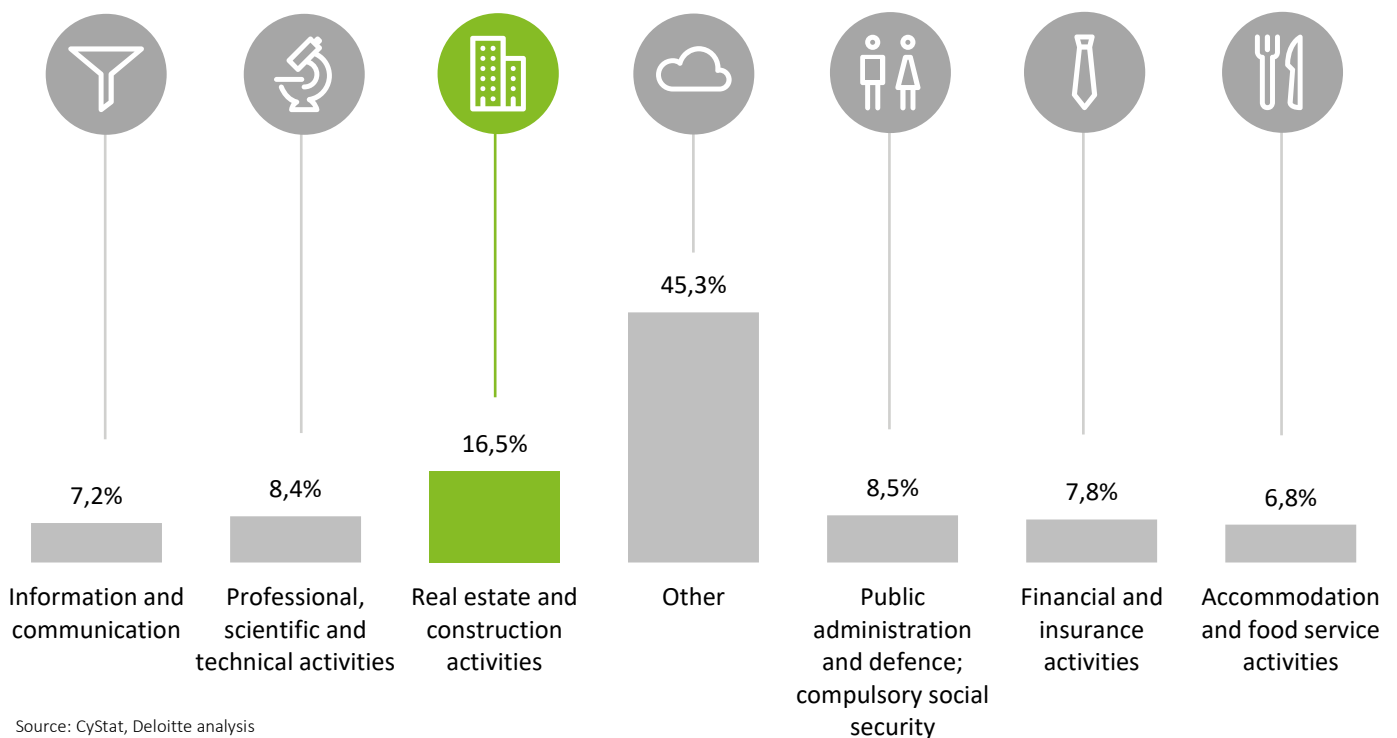
During 2020, projected nominal GDP is expected to contract by c.5%, while the gross public debt is expected to increase to 122,7% of nominal GDP.

Gross public debt as a percentage of the nominal GDP, improved during 2019 and dropped at 95,5% with further prospects for the following years, however, the negative impact of COVID-19 on the economy of Cyprus has driven the percentage to the highest level since 2010 at 122,7%.



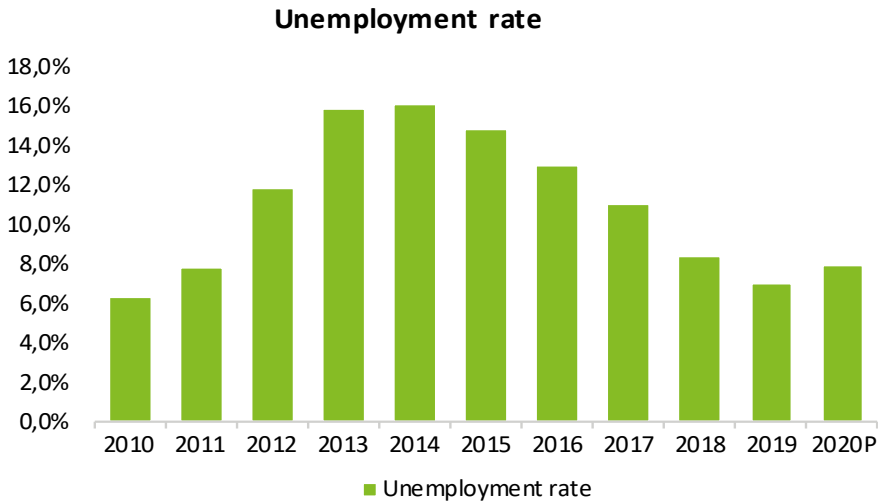
## Gross value added per sector

Real estate and construction activities represented the highest contributing gross value added sector in Cyprus' GDP for 2019 of c.17%.

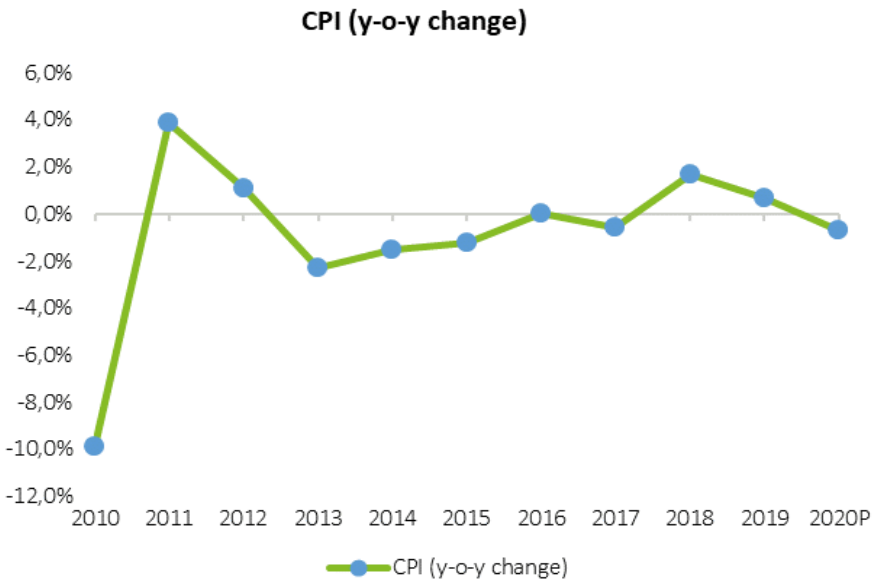


## Unemployment rate and consumer price index

Unemployment rate during 2020 is expected to reach c.8% compared to c.7% in 2019. The effects of COVID-19 are a major contributor to the increase of unemployment as well as to the movement of consumer price index from c.0,7% in 2019 to negative c.0,7% in 2020.



Source: EIU, Deloitte analysis



Source: EIU, Deloitte analysis



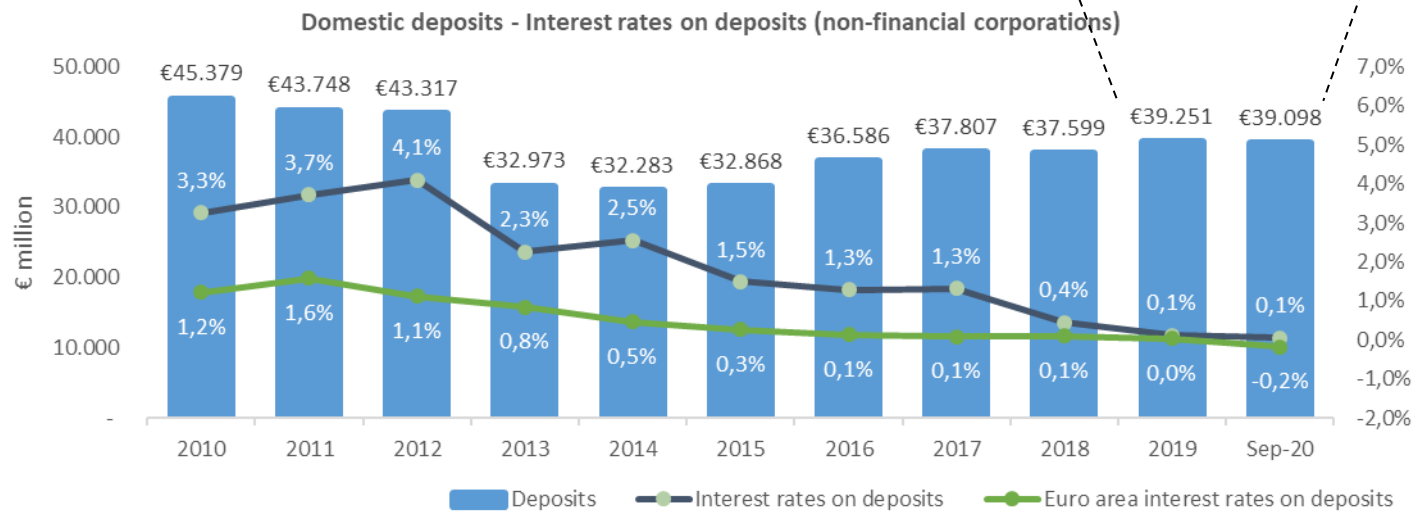
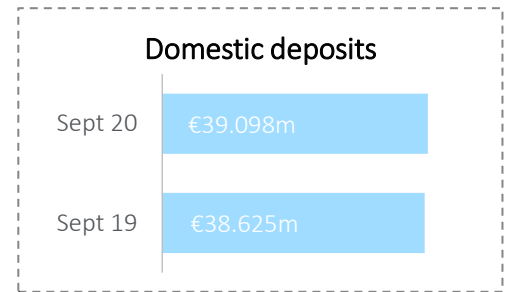
## Deposits and loans

### Domestic deposits and interest rates

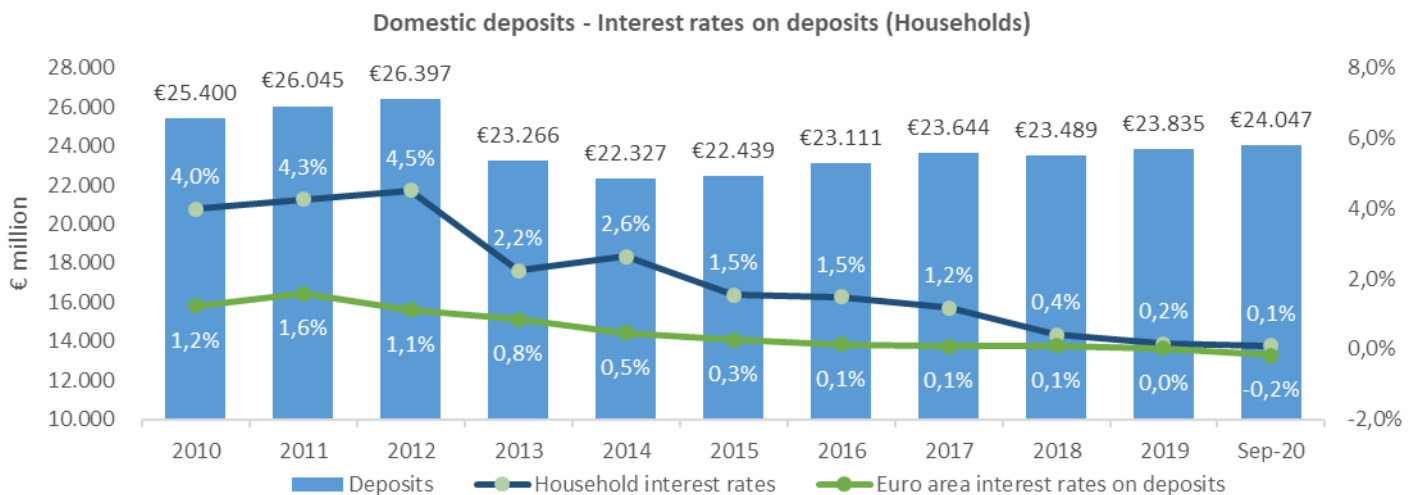
As of September 2020 and despite the downturn in GDP and generally the impact that COVID-19 had on the Cyprus economy, the domestic deposits exhibited a marginal decrease of c.0,4% while interest rates on deposits remained almost unchanged at c.0,1%.

Since 2013 there has been an increase in the level of deposits which peaked in 2019 at c.€39.251m. During the same period, there has been a downward trend in interest rates reaching 0,1% in 2019 and continuing almost unchanged as of September 2020.

Interest rates on deposits in the Euro area have been historically lower than Cyprus with a tendency to align year on year. During 2019 and until September 2020 the interest rates remained stable at the same level.



Source: Central Bank of Cyprus (CBC), European Central Bank (ECB), Deloitte analysis



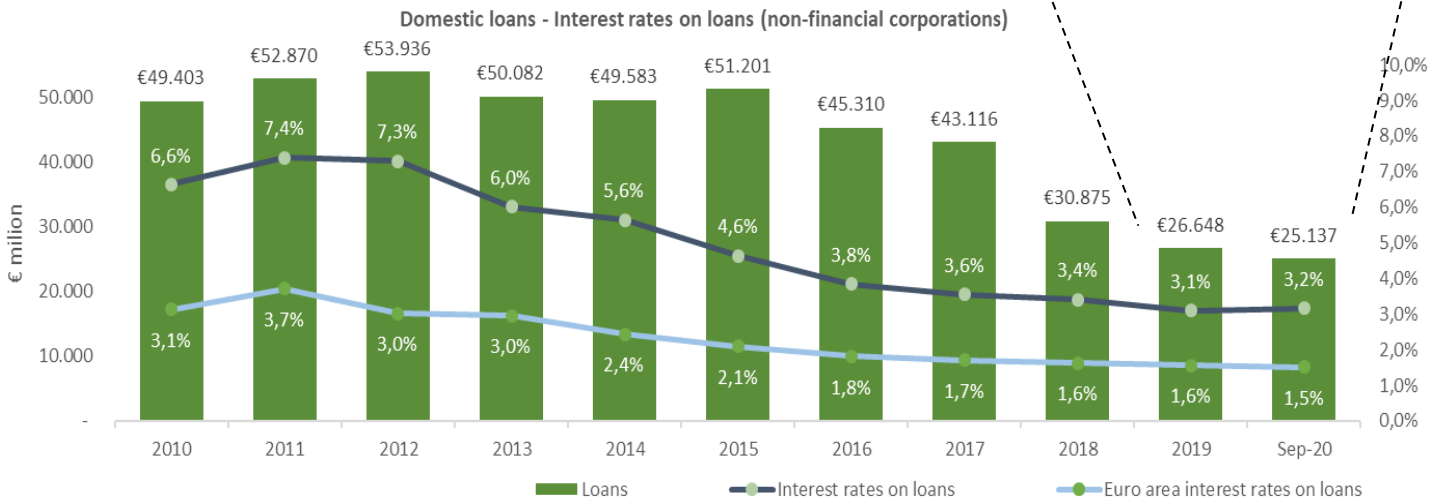
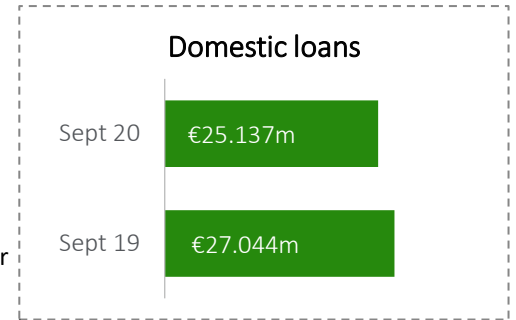
Source: Central Bank of Cyprus (CBC), European Central Bank (ECB), Deloitte analysis

## Domestic loans and interest rates

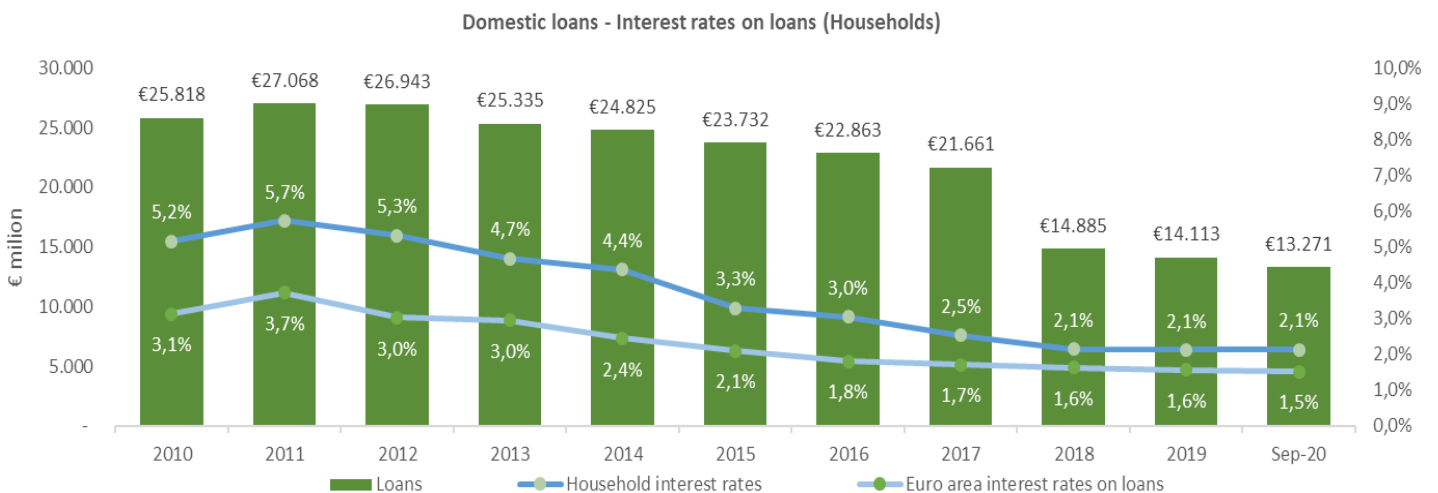
As of September 2020, domestic loans to non-financial corporations stood at c.€25b, exhibiting a drop of c.€2b compared 30 September 2019.

Since 2013, there has been a decreasing trend in domestic loans, which as of September 2019 are at the lowest since 2010 at c.€25b, while interest rates are kept low at 3,2% compared to 7,4% in 2011.

Interest rates on loans in the Euro area have been historically lower than those in Cyprus, with a tendency to align year on year. During September 2020, the interest rates on loans were 1,7% higher in Cyprus compared to the Euro area.



Source: CBC, ECB, Deloitte analysis

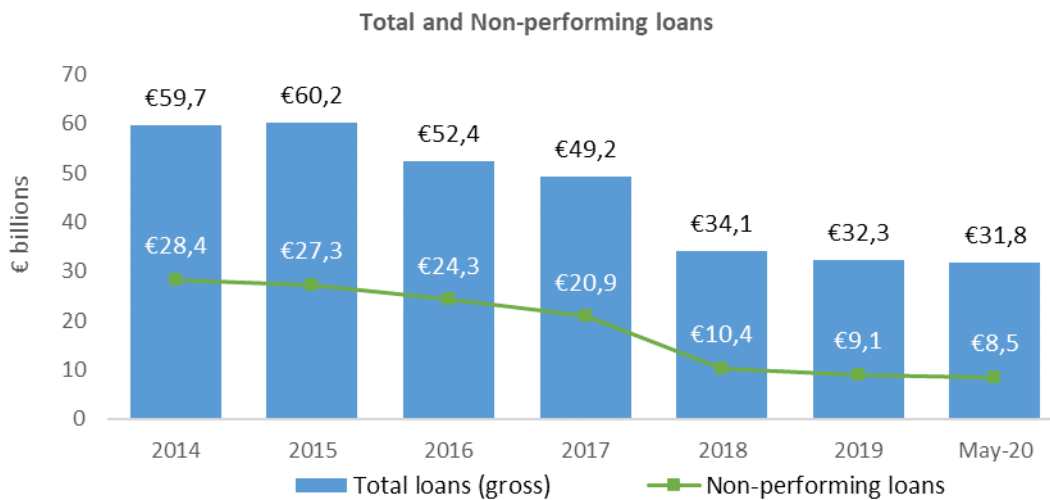


Source: CBC, ECB, Deloitte analysis

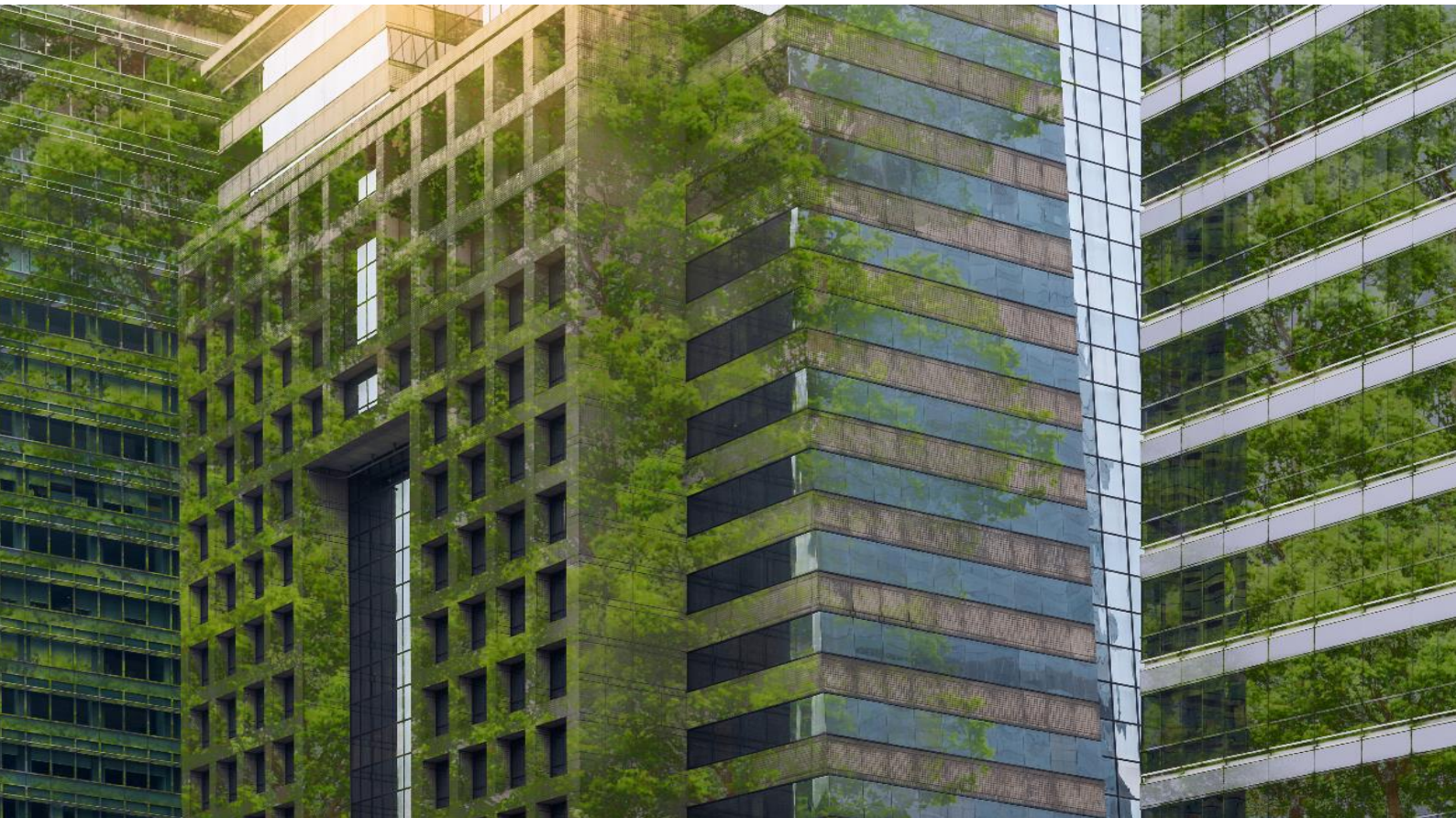
## Non-performing loans

Non-performing loans (NPLs) reduced significantly during 2018 and 2019, reaching c.€8,5b by May 2020, mainly due to bulk sales of NPLs to third parties.

Following the financial crisis of 2013, the banking sector was faced with high level of NPLs, reaching c.€28,4b by 2014 or c.47,5% of total gross loans. By May 2020, the NPLs reduced to c.26,8% of total gross loans, reaching c.€8,5b.



Source: CBC, Deloitte analysis

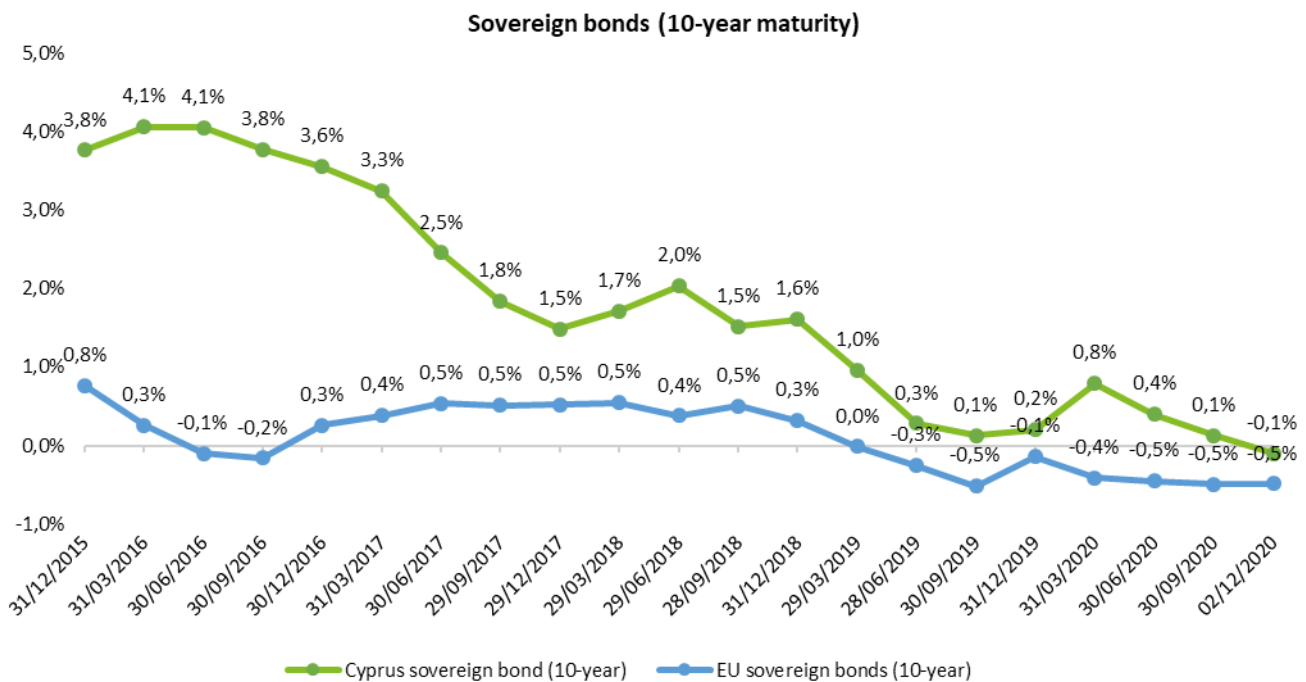


# Bonds, credit ratings and tourism

## Government bonds

### Yield to maturity of a 10-year Cyprus government bond tumbled to a negative yield during December 2020 of c.0,1%.

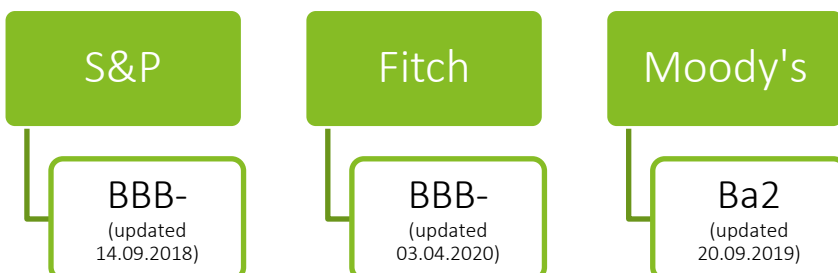
Since 2015, the yield to maturity exhibited a decreasing trend with certain short-term upturns in June 2018 of 2,0% and in March 2020 of 0,8% to converge to the EU sovereign bonds yields in December 2020.



Source: ECB, Bloomberg, Deloitte analysis

## Cyprus credit ratings (S&P, Fitch, Moody's)

Credit ratings have been obtained as at 23 December 2020. The expected outlook per S&P and Fitch is "stable" categorising Cyprus bonds as investment grade, and per Moody's is "positive" grading Cyprus bonds as "junk".



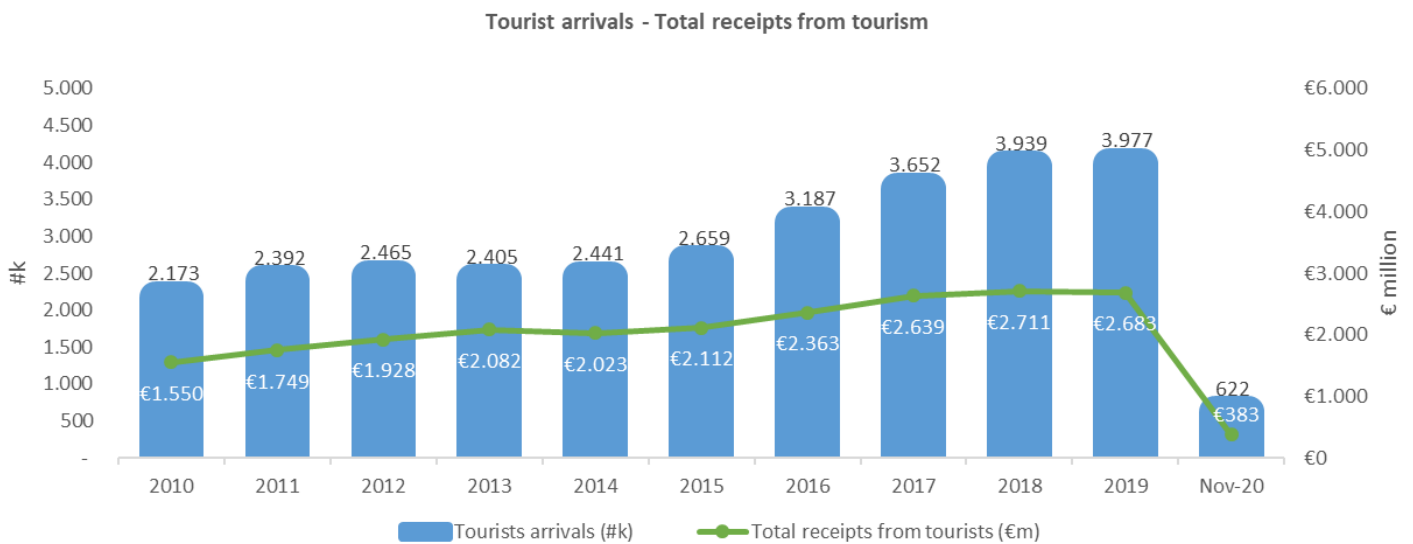
Source: S&P, Fitch, Moody's



## Tourism

Tourist arrivals exhibited a stabilisation during 2018 and 2019 at 3,9m and 4,0m respectively. The industry has been greatly disrupted by COVID-19 pandemic. In fact, for the year 2020 tourist arrivals decreased to c.632 thousand or c.84% compared to 2019. In addition, receipts from tourism for the period January-November 2020 (data available at the time of research) decreased to c.€383m or c.85% compared to the respective period of 2019.

The Tourism industry has shown a steady growth since 2010. During 2013, the tourist arrivals were stabilised, while receipts from tourism increased by c.8%. From 2014 onwards, the increasing trend in both arrivals and receipts continued up to 2019 reaching 3.977 thousand arrivals. In 2019, receipts exhibited a small decline of c.1% compared to 2018. Per CySTAT, as at the data of research, the tourist arrivals for the year 2020 (including December) were c.632 thousand exhibiting a decrease of c.84% compared to 2019.



Source: CyStat, Bloomberg, Deloitte analysis

# Real estate market overview

# Timeline of historic events

2000

Following the collapse of the Cyprus Stock Exchange, households turned their focus on property investment.

2004

The entry of Cyprus to the European Union was accompanied by increased overseas investment, particularly from Britain.

2008

Fueled by the increased availability of credit and relaxed bank lending criteria, the property market reached its peak in 2008. At the time the global financial crisis kicked in.

2011

Cyprus' offshore drilling for gas began, signaling positive steps forward for the economy.

2013

The financial recession led to the bail-in of certain banks in March 2013 accompanied by strict capital controls. Demand for real estate stagnated and prices dropped.

2016

Early signs of economic recovery. Cyprus exits its bailout programme, and a period of stability follows.

2018

The property market is showing signs of stability with an increase in the volume of sales.

2020

COVID-19 is negatively impacting the property market in transactions and values. In November 2020, the Cyprus Citizenship Investment Programme was cancelled, signaling a negative impact on the real estate market.





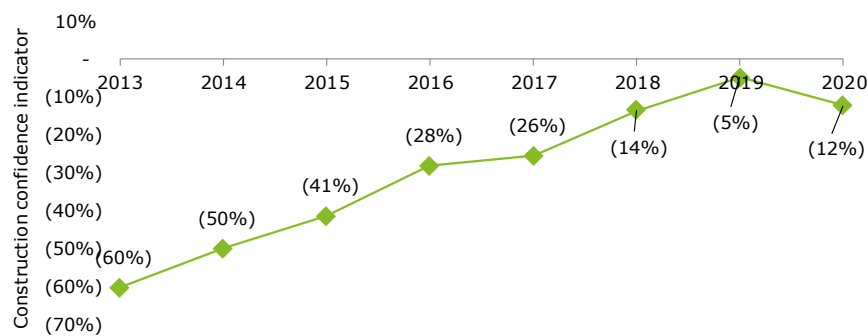
# Construction activity

## Construction confidence

As per the European Commission, the construction confidence indicator of Cyprus demonstrated an improvement from 2013 up to 2019. During the first 10 months of 2020, a slight decrease in confidence indicator has been observed. Confidence indicator is a statistical indicator based on the results of business surveys on the current situation in the construction industry and future expectation about future developments.

The construction confidence indicator is the arithmetic average of the balances (in percentage points) of the answers to the questions on order book and employment expectations. As the construction confidence indicator increases, it indicates the positive expectations from the sector at least in the short term. As at the date of our research, the data available for up to October 2020, indicated a decrease in confidence to negative 12% from negative 5% in 2019.

**Construction confidence indicator of Cyprus**



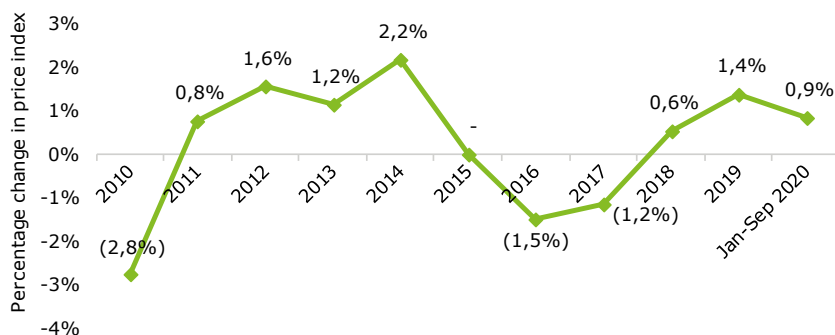
Note: 2020 represents the average confidence indicator for the first 10 months of 2020.

Source: European Commission - Directorate general for economic and financial affairs (DG ECFIN), Deloitte analysis

## Construction materials

Construction materials price index indicates the cost of construction materials prices. As per the Cyprus Statistical Service (CySTAT), the construction materials price index demonstrated a decrease of 0,5% in 2020 compared to 2019. The largest increase in the construction materials price index since 2015 (base year), was demonstrated during 2019, indicating an increase of 1,4%. As at the date of research, CySTAT provided data up to September 2020.

**Construction materials price index - percentage change y.o.y.**



Source: CySTAT, Deloitte analysis

# Building permits

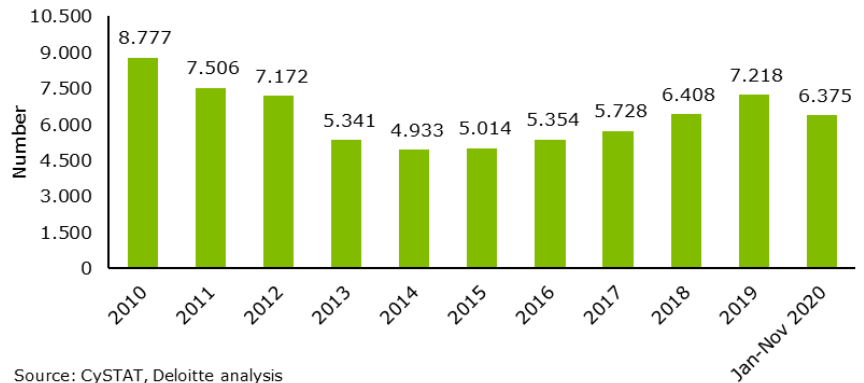
## Number of building permits

The total number of building permits reached the lowest level in 2014 since 2010 and demonstrated an increase of 46,3% from 2014 to 2019, exhibiting a Compound Annual Growth Rate (CAGR) of 7,9%.

During 2015, the total number of building permits issued demonstrated a marginal improvement for the first time since 2010 (1,6%).

As at the date of our research, CySTAT provided data up to November 2020. During the first 11 months of 2020 the number of building permits stood at 6.375.

**Number of building permits issued in Cyprus**



Source: CySTAT, Deloitte analysis

## Area of building permits

As a consequence of the contraction in the building permits issued, the total area of building permits in sq.m.had also decreased from 2010 to 2014.

During 2010 to 2014, the average area per building permit decreased by c.52,1% from 332 sq.m. to 159 sq.m, reaching the lowest point during the period covered.

From 2014 to 2019, the average area per building permit bounced back with an increase of 125,2% reaching an average of 358 sq.m. per building permit, suggesting an appetite for larger properties and developments.

During the first 11 months of 2020, the average area per building permit decreased to 329 sq.m., a reduction of c.8,2% compared to the end of 2019.

**Area of building permits issued in Cyprus**



Source: CySTAT, Deloitte analysis

## Value of building permits

Following the same trend as with the number of building permits, the preliminary cost value of building permits issued, as per the CySTAT, demonstrated a decrease of c.67,4% from 2010 to 2014, reaching the lowest value for the period at c.€859m. Thereafter, the total value of the building permits increased substantially by a CAGR of c.34,1% reaching c.€3.729m in 2019.

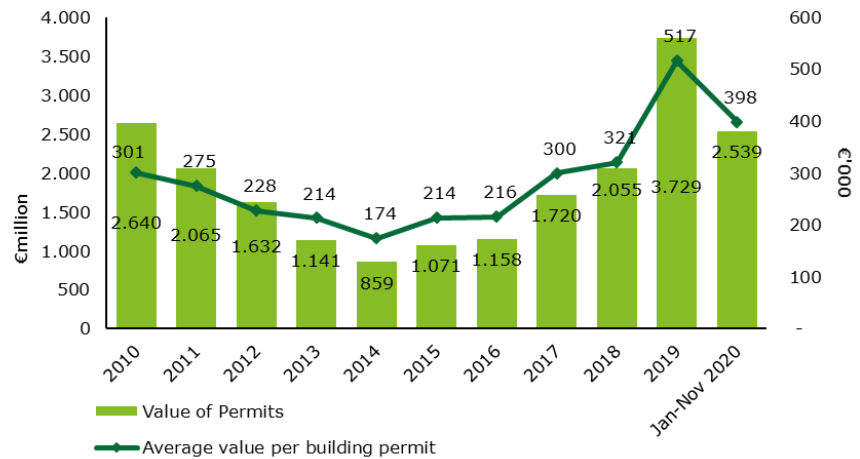
Similar to the total value of the building permits, the average value per permit, dropped to the lowest value in 2014 at €174.000 per permit and in 2019 the average increased to €517.000 per permit.

The increase in the total value and the average value per building permit issued during 2019 was mainly due to the development of larger projects.

The value of building permits during the period January to November 2020, has been €2.539m compared to €3.297m during the respective period of 2019 demonstrating a reduction of c.23%. The value of building permits is affected by COVID-19 and the lockdown measures, which limited the activity in the sector and increased uncertainty in the construction and real estate market in Cyprus.

The impact of COVID-19 pandemic and the cessation of CIP on the number, area and values of building permits, are expected to be evident from 2021 onwards.

Value of building permits issued in Cyprus



Source: CySTAT, Deloitte analysis

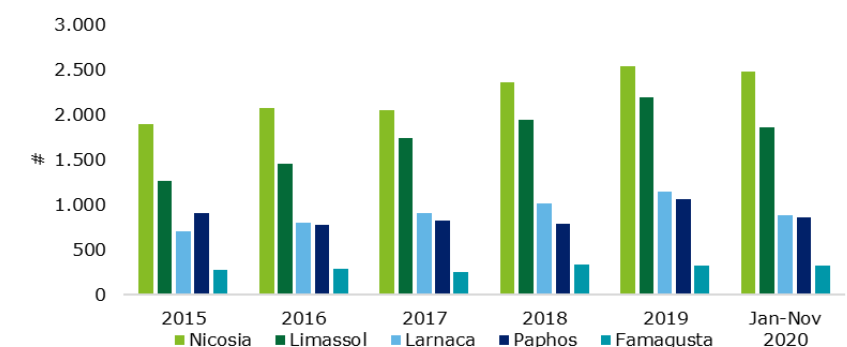
## Building permits per region

In terms of regional distribution, Nicosia represented the highest proportion of the total number of building permits issued during 2019 (35,1%), followed by Limassol (30,3%), Larnaca (15,7%), Paphos (14,6%) and Famagusta (4,3%). This is an indication of where development activity will focus in the short-term, when the relevant projects are expected to be constructed.

Limassol demonstrated the highest increase in building permits during the last five years, exhibiting a CAGR of 14,7% from 2015 to 2019.

Even though Nicosia represents the highest proportion of the total building permits in absolute numbers, it

Building permits issued per region



Source: CySTAT, Deloitte analysis

demonstrated a CAGR of 7,6% from 2015 to 2019, which denotes a stable and solid long-term increase.

In the first 11 months of 2020, building permits issued stood at lower levels compared to 2018 and 2019, mainly due to the March 2020 lockdown and the overall COVID-related turbulence in the market. However, December’s performance is expected to provide a representative outlook of how the year 2020 performed compared to 2019.

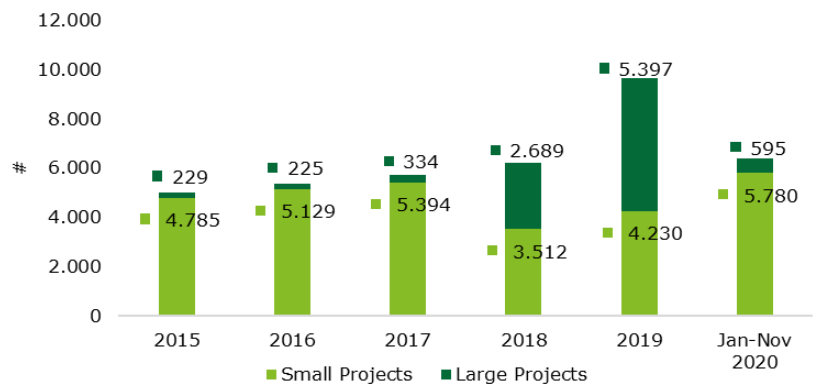
## Building permits per type

Small projects’ building permits issued posed an increasing trend during the period 2015-2017 while, thereafter (2018-2019), the permits for small projects decreased compared to the previous years.

As per CySTAT, projects categorised as large are those with a total covered area greater than 900 sq.m. Large projects exhibited a substantial increase during 2018 growing by c.7 times compared to previous year, and thereafter doubling in 2019, indicating a strong appetite for large scale projects during this period.

In 2020, mainly due to the pandemic and the adverse publicity in relation to the CIP as well as its subsequent cessation, demand for large scale projects weakened significantly.

**Building permits issued per type**



Source: CySTAT, Deloitte analysis





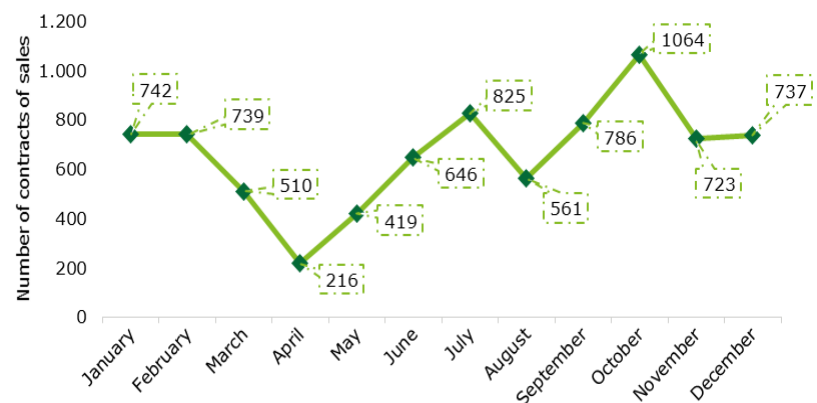
# Real estate market performance

## Contracts of sales

### Number of contracts of sales

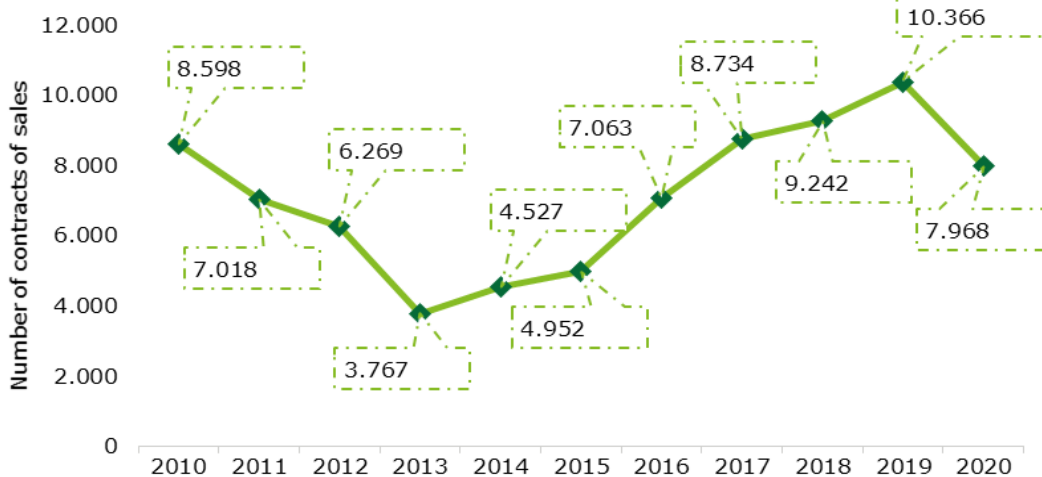
As per the Department of Lands and Surveys (DLS), during 2013 the lowest number of contracts of sales (CoS) was recorded for the period 2010-2020 with 3.767 sales. During 2019 the highest number of CoS was recorded at 10.366, exhibiting a CAGR, since 2013, of 18,4%. The 2019 CoS were c.2,75 times the number of 2013, suggesting a strong demand during the period 2013-2019. During 2020, the total CoS were considerably low at 7.968 compared to 10.366 in 2019, a reduction of c.23%, mainly as a result of COVID-19 and the lockdown imposed in March 2020. The time and rate of the expected recovery are still unknown.

**Total contracts of sales per month (2020)**



Source: DLS, Deloitte analysis

**Total contracts of sales (2010-2020)**



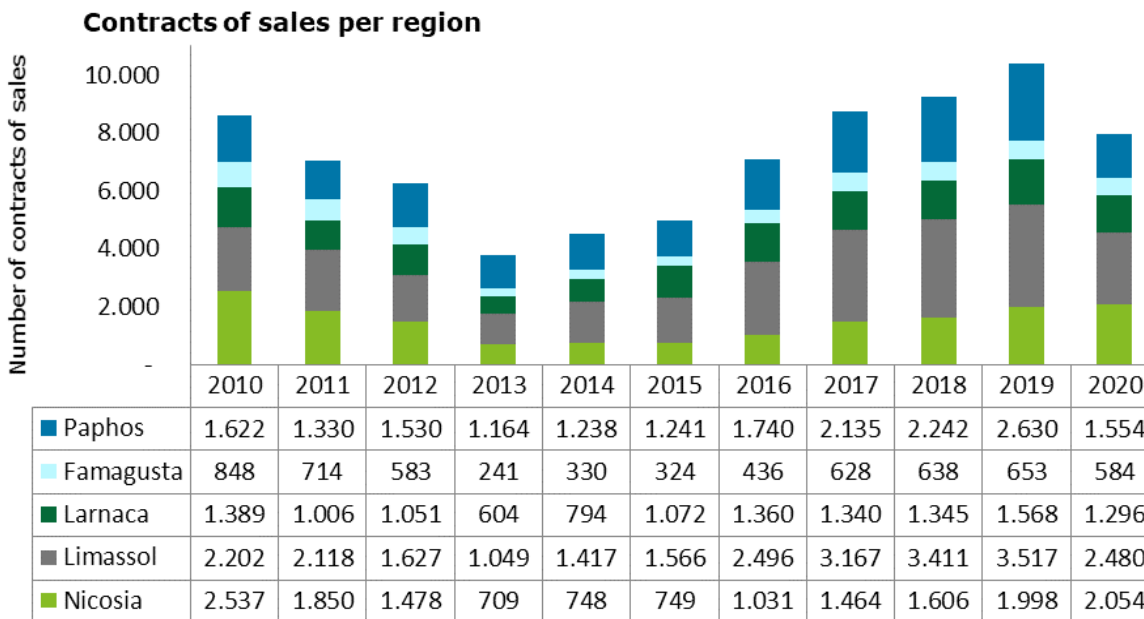
Source: DLS, Deloitte analysis

## Contracts of sales per region

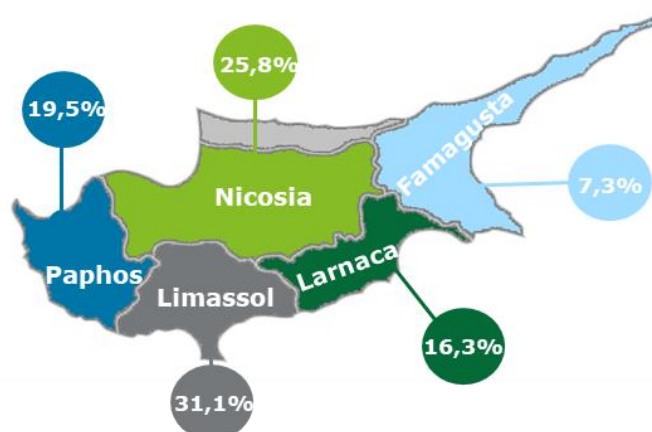
As per the DLS, in terms of regional distribution of the total CoS during 2019, the majority of the sales were in Limassol (33,9%), followed by Paphos (25,4%), Nicosia (19,3%), Larnaca (15,1%) and Famagusta (6,3%). From 2013 to 2019, the total CoS in Cyprus increased by a CAGR of c.18,4%.

Limassol demonstrated the highest increase in the total number of sales, indicating a CAGR of c.22,3%, followed by Nicosia indicating a CAGR of c.18,8% during the same period indicating strong demand in Limassol and Nicosia, evident by the development of major construction projects in both cities. Nicosia's market is mainly driven by local demand for residential properties (both houses and apartments). Limassol's market is driven by both locals and foreigners, including significant demand for real estate properties associated with CIP.

Paphos exhibited a strong increase in the number of CoS y.o.y. reaching 2.630 in 2019, an increase of 125,9% since 2013. Being a coastal city and in combination with CIP, Paphos has benefited mainly from foreign investors. The unexpected termination of the CIP as of 1 November 2020 is expected to negatively affect the demand for high-end residential properties in both regions, Limassol and Paphos.



Source: DLS, Deloitte analysis



## Foreign vs domestic buyers

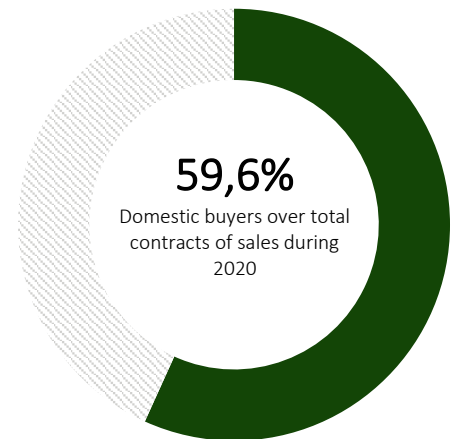
### Foreign buyers

As per the DLS, the total number of foreign buyers demonstrated an increase of c.340,6% from 2013 to 2019. The proportion of foreign buyers over total buyers during 2013 was c.27,0%, while the respective proportion during 2019 was c.43,2%. During 2020, the proportion of foreign buyers was 40,4% and domestic proportion 59,6%. The largest increase of sales to foreign buyers was demonstrated during 2018 at c.81,5% compared to 2017.

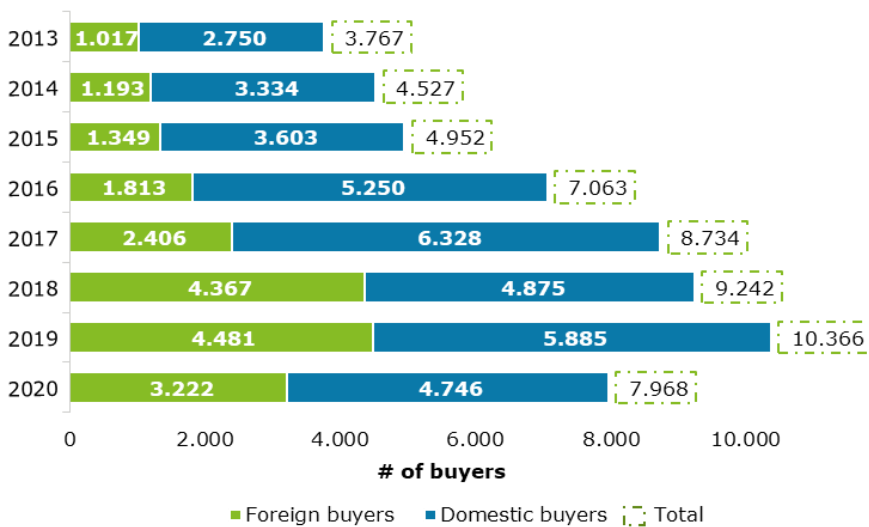


### Domestic buyers

As per the DLS, the total number of domestic buyers demonstrated an increase of c.114,0% from 2013 to 2019. The proportion of domestic buyers over total buyers during 2013 was c.73,0%, while the respective proportion during 2019 was c.56,8%. The largest increase of sales to domestic buyers was demonstrated during 2016, indicating an increase of c.45,7% compared to 2015. Domestic demand continued to be strong, mainly driven by the residential demand.



### Foreign vs domestic buyers



Source: DLS, Deloitte analysis



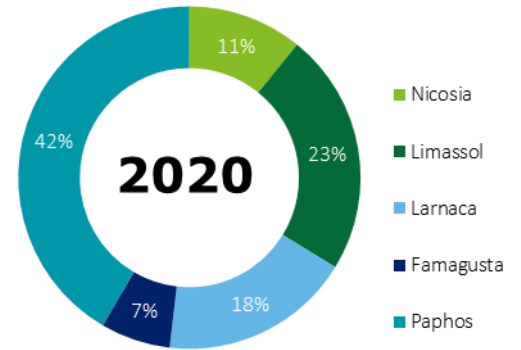
## Foreign and domestic buyers per region

As per the DLS, during the last three years, Paphos had the largest allocation of foreign buyers. Paphos demonstrated an increase of c.118,2% in transactions from foreign buyers from 2017 to 2019 reaching 1.887 sale contracts. Limassol, which has the second highest concentration of foreign buyers, exhibited an increase of 47,7% from 2017 to 2019, reaching 1.196 sale contracts with foreign investors.

Foreign buyers appear to be interested in residential properties located in coastal areas. This can be easily observed in the charts below, where coastal cities, particularly Paphos and Limassol, demonstrated the highest allocation during 2020. In 2020, figures appear to be proportionally lower compared to 2019, as a result of the pandemic and the associated travel restrictions and market uncertainties.

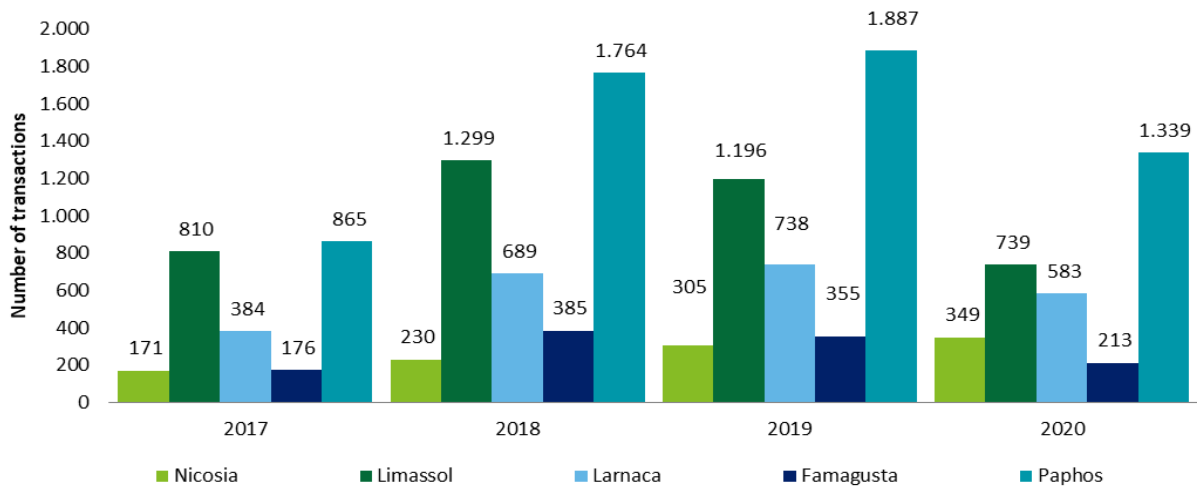
In addition, coastal cities, particularly Limassol and Paphos, are expected to be more affected by the COVID-19 pandemic and the unexpected termination of CIP as the demand for real estate properties is mainly linked to foreign buyers. In contrast, Nicosia being the capital city of Cyprus, is expected to be less sensitive in this regard, as the demand for real estate properties is driven by domestic buyers.

Foreign buyers



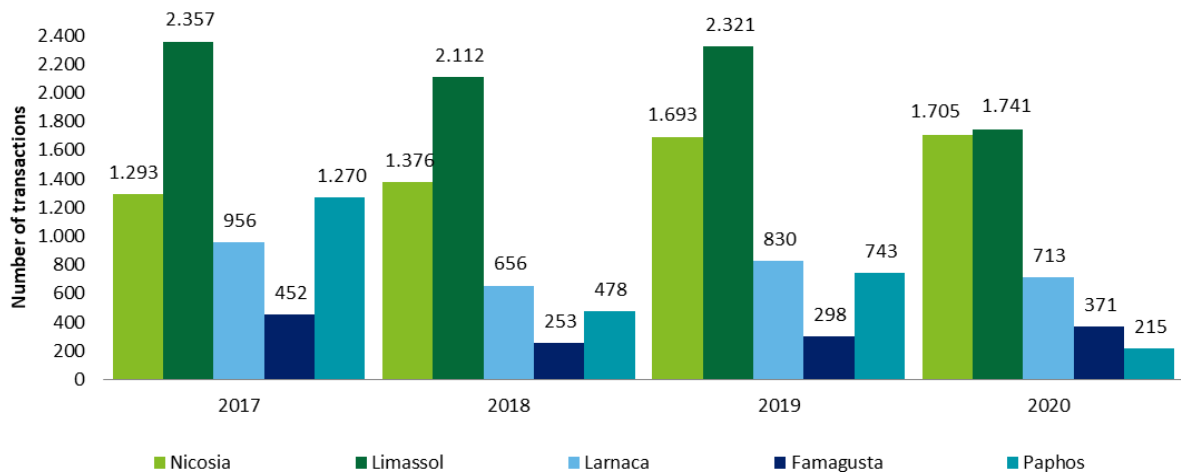
Source: DLS, Deloitte analysis

Foreign buyers per region



Source: DLS, Deloitte analysis

Domestic buyers per region



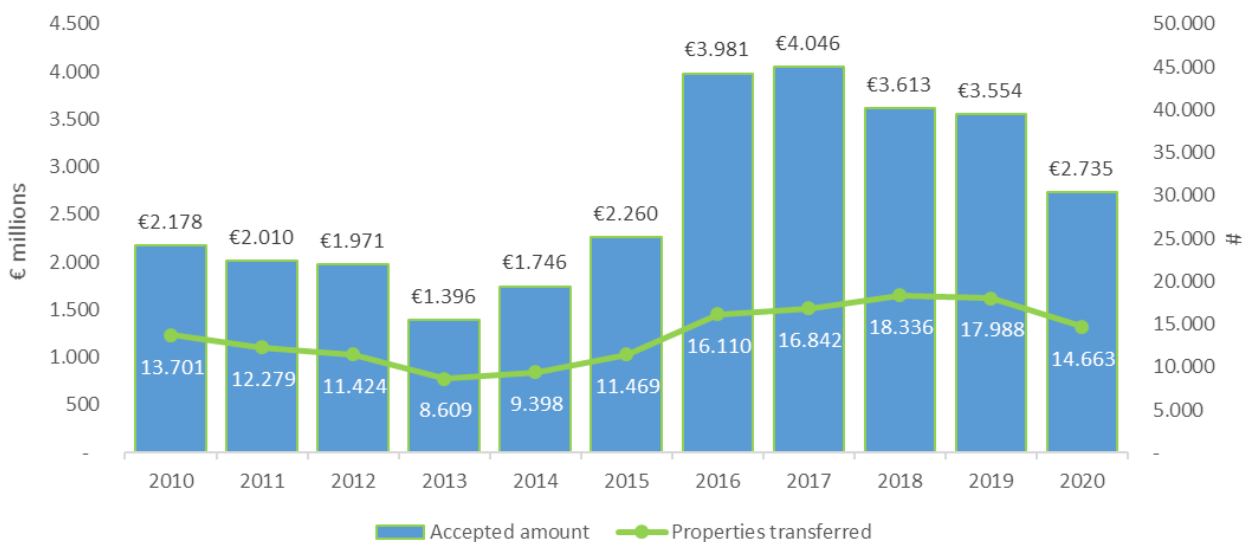
Source: DLS, Deloitte analysis

## Sales transfers (Transfers of title deeds)

As per the DLS, during 2013 the lowest number of title deeds transfer was recorded for the period 2010-2020 with 8.609 properties transferred Cyprus-wide with a total value (as accepted by the DLS) of c.€1,4b. During 2016 and 2017, the highest total property values were recorded at c.€4,0b. Years 2018 and 2019 recorded the highest number of properties transferred, reaching 18.336 and 17.988 respectively.

During 2020, the total sales transfers were considerably lower compared to the previous four years at 14.663, a reduction of 18,5% compared to 2019, and the respective values accepted by the DLS was c.€2,7b, a reduction of c.23%, apparently as a result of COVID-19 and the lockdown imposed in March 2020. March, April and May have been affected the most, exhibiting reduced performance as a result of the March 2020 lockdown and also due to problems and eventual cancellation of the CIP. The time and rate of the expected recovery are still unknown.

Property transfers and values (2010-2020)



Source: DLS, Deloitteanalysis

Property transfers and values (2020)



Source: DLS, Deloitteanalysis



# Property price evolution

## Property price indices

The behaviour of residential property prices in Cyprus is captured by two quarterly indices, one by the Central Bank of Cyprus (CBC) and the other by the Royal Institution of Chartered Surveyors (RICS) in Cyprus.

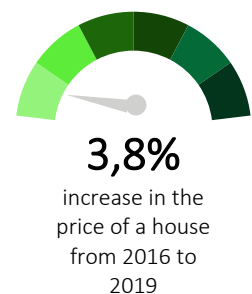
### CBC Residential Property Price Index (RPPI)

As per the CBC's RPPI, residential property prices were experiencing decline from 2010 to 2016. During 2016 the RPPI started to show stabilisation and marginal improvement and since Q3 2017 has been improving.

As per the CBC, apartments price index demonstrated an increase of c.12,3% from 2016 to 2019, while houses price index and RPPI (apartments and houses) showed an increase of 3,8% and 6,0% respectively for the same period.

As at the date of the research, the CBC's relevant data was available up to Q2 of 2020. During Q2 2020, despite the uncertainties related to the COVID-19 pandemic, small price increases continued to be exhibited. More specifically, the RPPI (apartments and houses) continued to show small increases, namely a 0,9% quarterly increase in relation to a 0,4% marginal quarterly increase during Q1 of 2020. An annual increase of 2,2% and 1,8% was recorded in the RPPI, for Q2 2020 and Q1 2020, respectively.

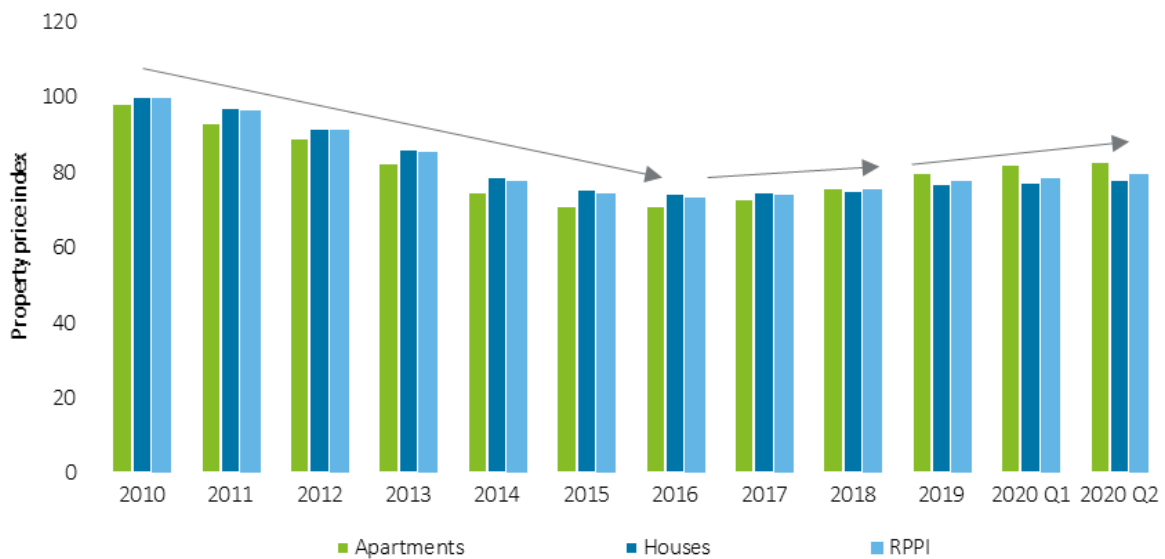
During Q2 2020, house prices exhibited a quarterly increase of 1% in relation to the nearly 0% change during Q1 2020, whereas apartment prices showed an increase of 0,8% in relation to the 1,4% increase in Q1 2020. During Q2 2020, on an annual basis, houses exhibited an increase of 1,5% in relation to the 0,8% of the previous quarter, whereas apartments showed an increase of 4,3% in relation to the 4,6% of the previous quarter.



As per the CBC, the aforementioned small increases in residential prices appear to be related to the demand from local buyers who decided to buy properties during the period before the pandemic outbreak either for own use or for investment purposes. This appears to be the case especially in the Nicosia area where traditionally the market is supported by locals. In addition, various residential property valuations performed during the lockdown period were based on data of the recent pre-pandemic period.

As per the CBC, these increases appear to be in line with the Eurostat data according to which residential prices in the EU exhibited an average annual increase of 5%. However, as stated by the CBC, the current market status remains unclear, as the extent and duration of the pandemic still remains uncertain and this negatively affects property prices. In addition, the recent termination of the CIP as of 1 November 2020, in combination with the difficulties and restrictions foreign investors face as a result of the pandemic, are expected to further affect property values negatively.

Property price index



Source: Central Bank of Cyprus, Deloitte analysis

## RICS Cyprus property price index

The RICS Cyprus Property Price Index is a quarterly price and rental index published by the Royal Institution of Chartered Surveyors (RICS) Cyprus that tracks property and rental prices and appraisal based initial yields across all districts and main property types.

The most recent RICS Cyprus publication for prices (Q2 2020) as at 30 June 2020, recorded both increases and decreases on an annual and quarterly basis. More specifically, across Cyprus, on an annual basis, market capital values marginally increased by 0,1% for apartments, whereas they decreased by -0,1% for houses, -1,9% for retail, -4,3% for warehouses and -5,5% for offices. On the contrary, rental values across Cyprus, on an annual basis, slightly increased by 0,5% for apartments and 0,8% for houses and offices, while they decreased by -1,2% for retail and -0,8% for warehouses.

## Apartments

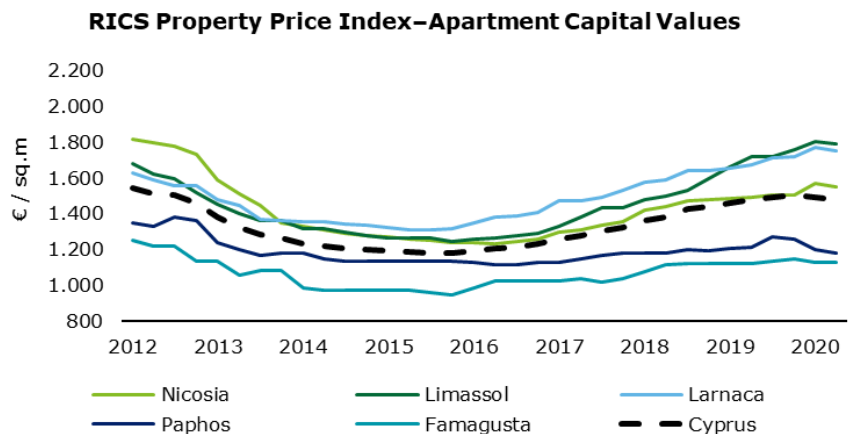
### Market capital values

As per RICS, the average sale price per sq.m. for an apartment in Cyprus, experienced a decrease from Q1 2012 to Q4 2015 and a marginal improvement during Q1 2016. The average apartment price during Q4 2015 was €1.176 per sq.m. and €1.190 per sq.m. during Q1 2016.

During 2018 and 2019, the average sale prices in Cyprus (for all quarters) for an apartment, stood at €1.402 per sq.m. and €1.482 per sq.m., respectively.

During Q1 2012, Nicosia demonstrated the highest average sale price for an apartment (€1.814 per sq.m.), whereas during Q4 2019 the average price stood at €1.502 per sq.m., falling below Limassol and Larnaca and being close to Cyprus average. It is noted that Limassol and Larnaca average sale prices in 2019 stood at €1.714/ sq.m. and €1.689/ sq.m., respectively.

In 2020 the average sale price in Cyprus started to slightly decline, due to the impact of the pandemic.



**Note:** Apartment prices and rents according to the RICS (Cyprus Property Price Index) are based on 85m<sup>2</sup>, two-bedroom apartment of medium quality.

Source: RICS, Deloitte analysis

## Rental rates

The average rental price for apartments demonstrated an increasing trend from 2014 onwards, as a result of the increasing demand for apartment renting. The increase in demand appears to be a consequence of the following three factors:

- The improvement of the overall economy in Cyprus during the last years;
- Due to the financial crisis of 2013, individuals appear to prefer to rent an apartment rather than obtaining a house mortgage loan, and at the same time banks are less willing to extend loans to low-income earners; and
- There was very low construction / development activity following the financial crisis of 2013 (therefore limited supply) given that banks continued deleveraging and reducing exposure to the real estate sector.

As expected, and apart from Limassol region, during 2020 there has been a downturn due to the impact of COVID-19.

## Houses

### Market capital values

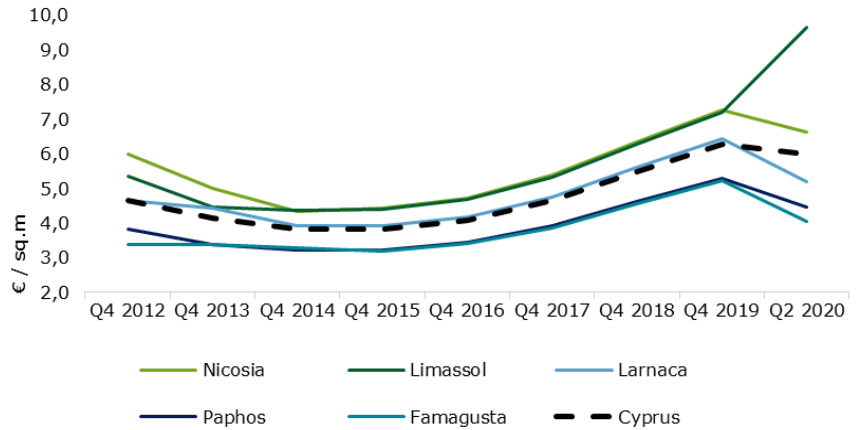
As per RICS, the average price of a house per sq.m. in Cyprus has been experiencing a decrease from Q1 2012 to Q4 2014 and a marginal improvement during Q1 2015. The average price for houses in Cyprus during Q4 of 2014 was €1.307 per sq.m. and €1.314 per sq.m. during Q1 2015.

During 2018 and 2019 the average sale price in Cyprus (for all quarters) for a house reached €1.477/sq.m. and €1.552/sq.m., respectively.

The historic highest average sale price of €1.975/sq.m. for a house in Nicosia in year 2012 has never been recovered.

Limassol exhibited a significant recovery since 2015 where it hit its lowest point at €1.216/sq.m., increasing by c.40,0% for the period 2015-2019 reaching €1.703/sq.m.

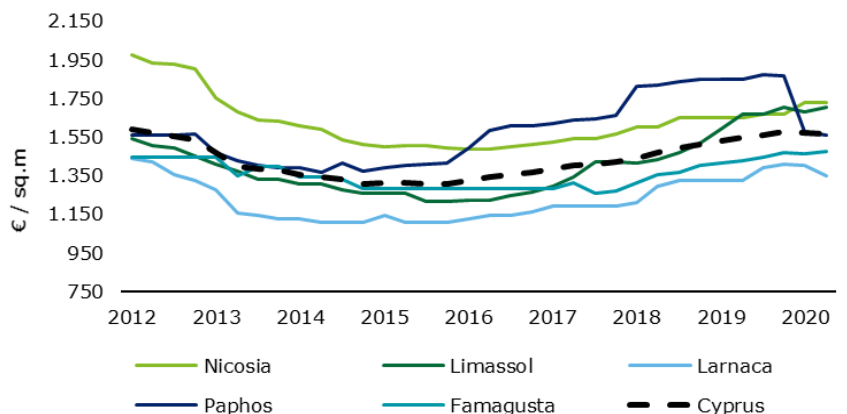
**RICS Property Price Index–Apartment Rents**



**Note:** Apartment prices and rents according to the RICS (Cyprus Property Price Index) are based on 85m<sup>2</sup>, two-bedroom apartment of medium quality.

Source: RICS, Deloitte analysis

**RICS Property Price Index–House Capital Values**



**Note:** House price and rental rates according to the RICS (Cyprus Property Price Index) are based on 250m<sup>2</sup>, three bedroom house of medium quality with garden.

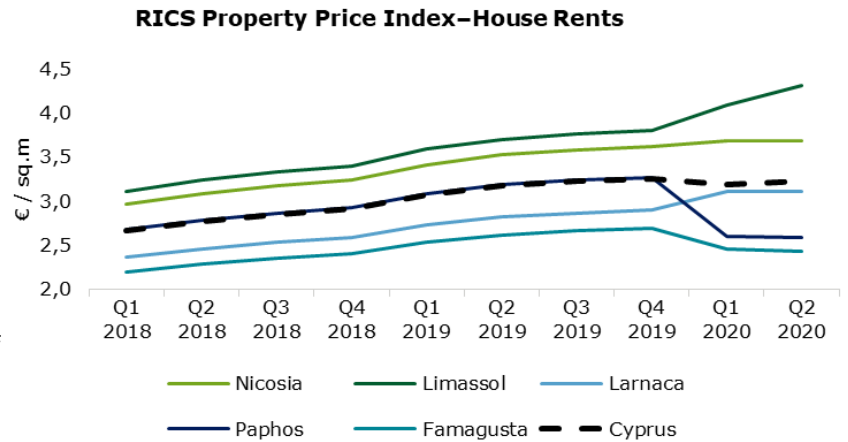
Source: RICS, Deloitte analysis



## Rental rates

As per RICS, average monthly rental prices for a house in Cyprus have demonstrated an increasing trend during the last four years, although they remained at low levels in comparison to apartment rental prices. This is mainly due to the fact that demand for house rentals is low in Cyprus, since Cypriots seem to prefer to rent an apartment instead of a house. In addition, Cypriot individuals that are willing to move to a house, appear to prefer to buy a house rather than renting.

Similarly to apartments, during the first two quarters of 2020, there has been a slight downturn in the price index for houses, for the same reason.



**Note:** House price and rental rates according to the RICS (Cyprus Property Price Index) are based on 250m<sup>2</sup>, three bedroom house of medium quality with garden.

Source: RICS, Deloitte analysis

## Offices

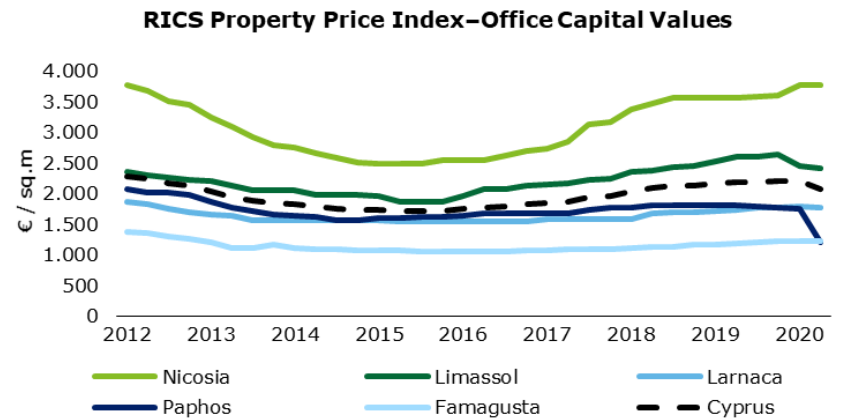
### Market capital and rental values

As per RICS, the average sale prices for an office per sq.m. in Cyprus have experienced a decrease from Q1 2012 to Q4 2015 and demonstrated marginal improvement during Q4 2015. The average office sale price during Q3 2015 was €1.711 per sq.m. and €1.723 per sq.m. during Q4 2015. From 2015 onwards, an increase in economic activity has been observed in Cyprus, which has led to a decrease in unemployment rates, hence the need for office space, as expected has demonstrated an increase.

From 2016 onwards, Limassol exhibited a growth in capital values of office spaces. By the end of 2019, the average office value of office spaces stood at €2.639/sq.m., an increase of c.42,0%, compared to the end of 2015 (€1.859/sq.m.).

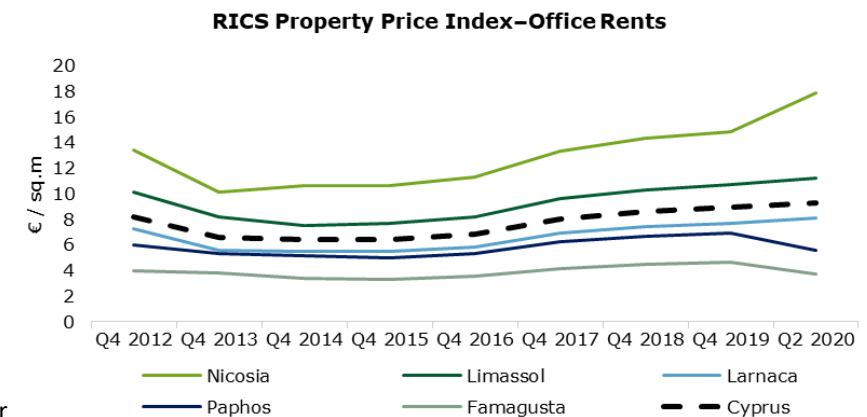
It should be noted that average office lease rates per sq.m. are relatively higher in Nicosia in comparison to other cities. Nicosia, as the capital city, hosts most of the public authorities and banks, all of which occupy office space. Lease rates exhibited a steady increase since 2016 in all cities, suggesting a strong demand for office spaces Cyprus-wide.

Limassol, as the biggest port of the country, has concentrated several international shipping companies which occupy offices and this appears to drive demand and prices to remain high in this district. Limassol also appears to have been established as a hub for a number of commercial activities, including amongst other the



**Note:** Office price and rental rates according to the RICS (Cyprus Property Price Index) are based on 200m<sup>2</sup>, city center location of Grade A office.

Source: RICS, Deloitte analysis



**Note:** Office price and rental rates according to the RICS (Cyprus Property Price Index) are based on 200m<sup>2</sup>, city center location of Grade A office.

Source: RICS, Deloitte analysis



online foreign exchange brokerage market with a number of online brokers and companies. In addition, the presence of various commercial activities in the city has created the need for relevant government authorities to be set up (e.g. Deputy Ministry of Shipping and Cyprus Gaming Commission).

It is noted that the RICS methodology for office market capital value and market lease rate indices for Limassol captures only the area in the vicinity of the District Court and Kolonakiou avenue. On the contrary, the Nicosia index covers a wider area on the central/commercial avenue of Nicosia city (Makariou & Limassol avenues). A broader inclusion of privileged locations in Limassol (e.g. Coastal and Makariou avenues) would significantly differentiate the index rates.

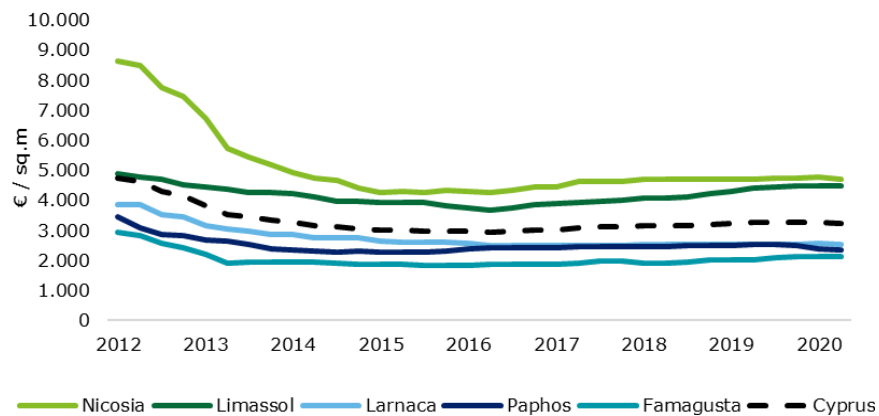
## Retail

As per RICS, the largest decrease on average retail capital and rental values per sq.m. in Cyprus occurred during 2013, indicating a decrease of c.24,6% for average retail market capital values and c.41,6% for rental values. Despite the recent improvement in the average rates per sq.m., the pre-financial crisis levels, with the historic highest average taking place in 2012, have not been recovered.

It is noted that the market capital values, Cyprus-wide, have been stabilised from 2016 onwards, with the exception of Limassol which has been exhibiting a steady growth since 2017.

Several retail stores were forced to shut down and downsized during the last few years, more specifically during and after 2013, as a result of the financial crisis and the relatively recent development of shopping malls throughout the island. Small retailers, who represented the majority of the retail sector, have never recovered since then. This has driven demand for retail stores to decrease and consequently prices have remained at low levels in relation to the pre-financial crisis prices.

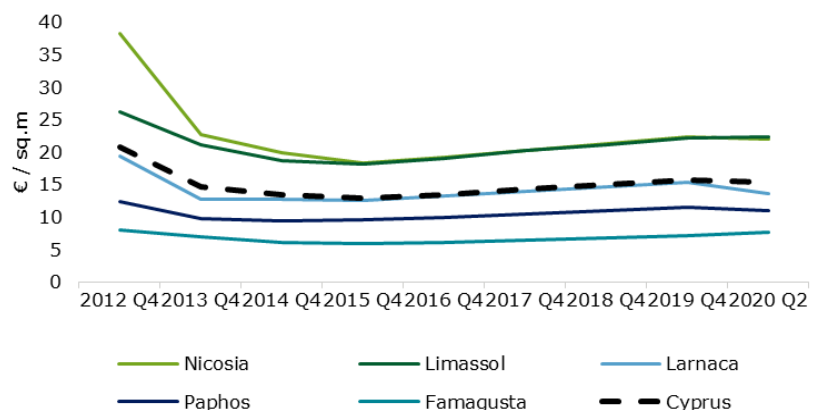
**RICS Property Price Index – Retail Capital Values**



**Note:** Retail price and rental rates according to the RICS (Cyprus Property Price Index) are based on high street retail of 100m<sup>2</sup> ground floor and 50m<sup>2</sup> mezzanine.

Source: RICS, Deloitte analysis

**RICS Property Price Index – Retail Rents**



**Note:** Retail price and rental rates according to the RICS (Cyprus Property Price Index) are based on high street retail of 100m<sup>2</sup> ground floor and 50m<sup>2</sup> mezzanine.

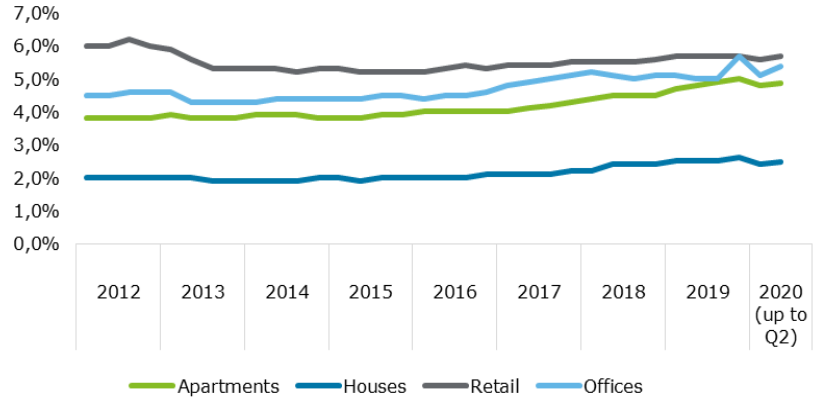
Source: RICS, Deloitte analysis

## Yields

Yield of a property represents the annual rental return of the property to the owner. It is calculated as a percentage of annual rental return over the market capital value of the property. Historically, as per RICS, retail yields in Cyprus were the highest among all categories of properties whereas house yields were the lowest.

From 2016 onwards, office yields, which stood at 4,6% (4th quarter 2016) demonstrated an increasing trend and started reaching the retail yields. During the 4th quarter of 2019, office yields reached 5,7% matching those of retail for the first time during the period (2012-2019). It is noted that apartments have been exhibiting a steady growth in yields since 2017 reaching 5,0% in Q4 2019.

### Yields in Cyprus



Source: RICS, Deloitte analysis



# Cyprus real estate market

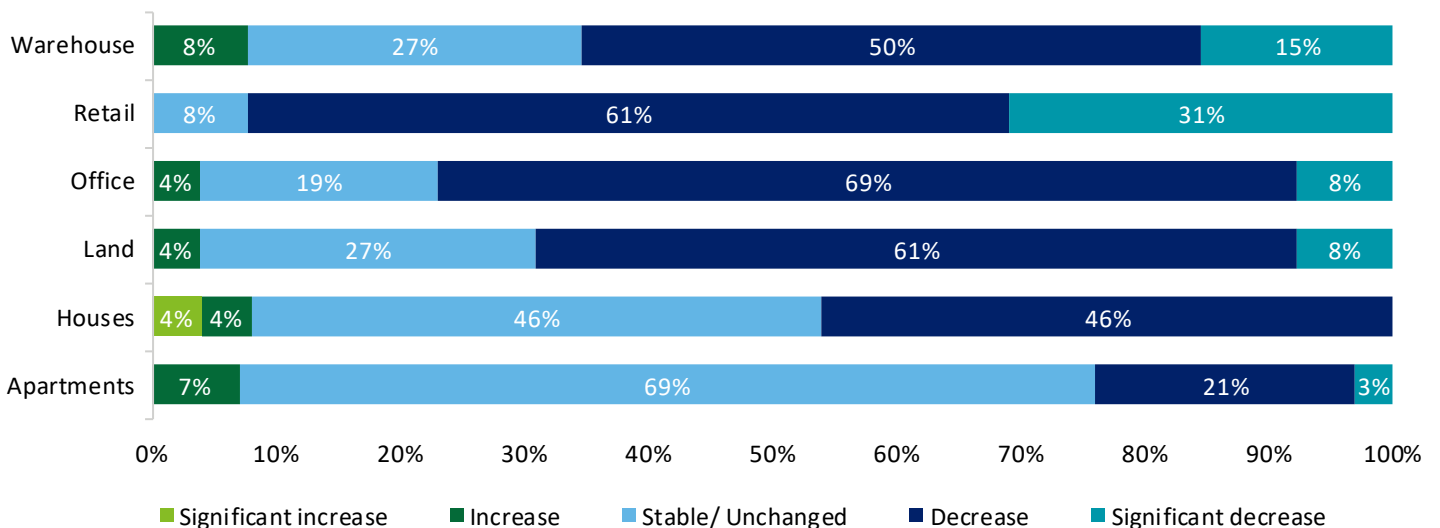
## Pulse survey



To help identify and capture the impact that COVID-19 is having on the real estate sector, Deloitte in Cyprus conducted a periodic survey of sentiment by collecting views and opinions from professionals and key stakeholders in the property market including valuers, contractors, real estate agents and property developers from all over Cyprus. The survey was conducted from 30 November to 7 December 2020, during the “second wave” of the pandemic.

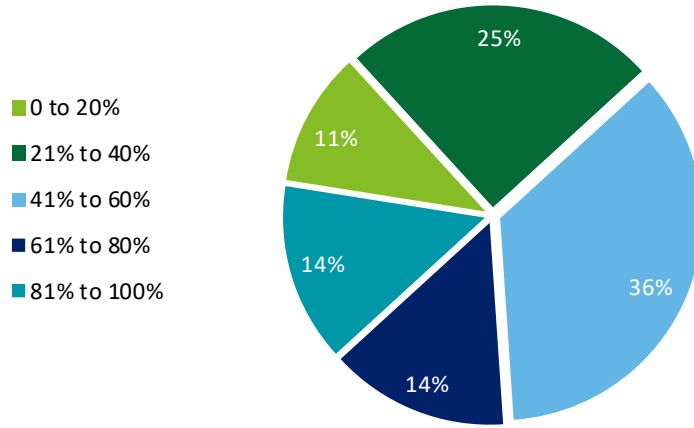
This section presents the survey results and conclusions based on the responses of the participants.

### What are your expectations of the price evolution per property type in the real estate market for the next 12 months?



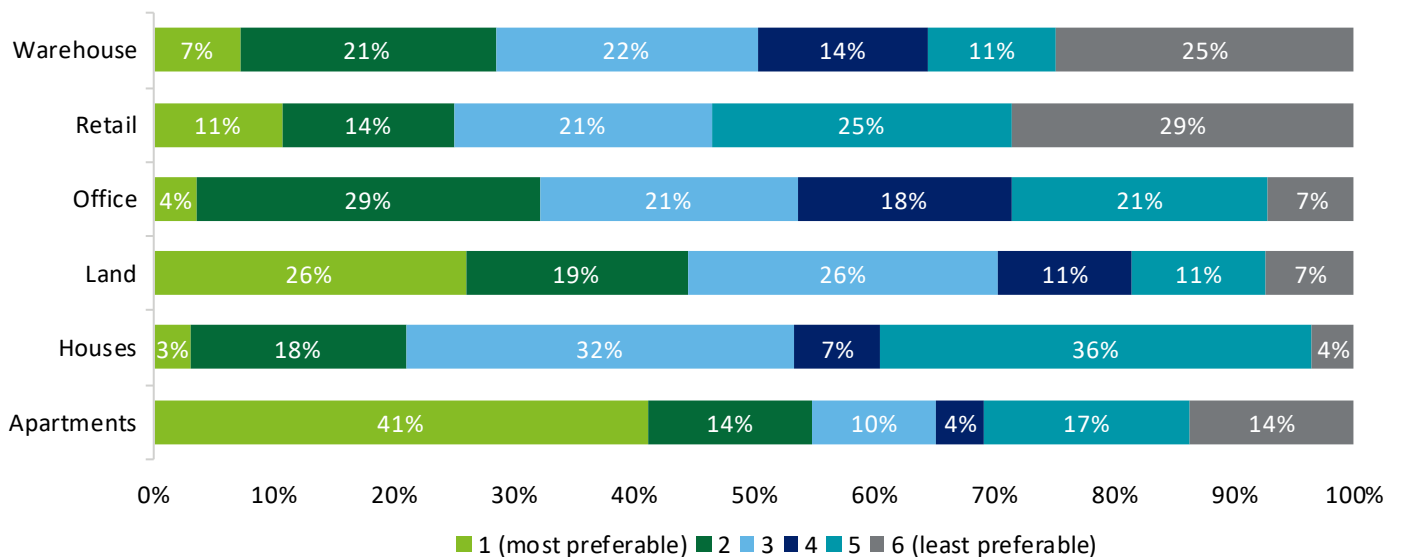
Apartment prices are expected to remain unchanged in the short term, according to 69% of the respondents. On the contrary, prices for office and retail space are expected to be negatively affected in the short term.

If you had a considerable amount to invest, what proportion of this amount would you invest in real estate over the next 12 months?



64% of the respondents would still invest more than 40% of their money in real estate in the short term, confirming the perception that investment in real estate is a popular form of investment in Cyprus.

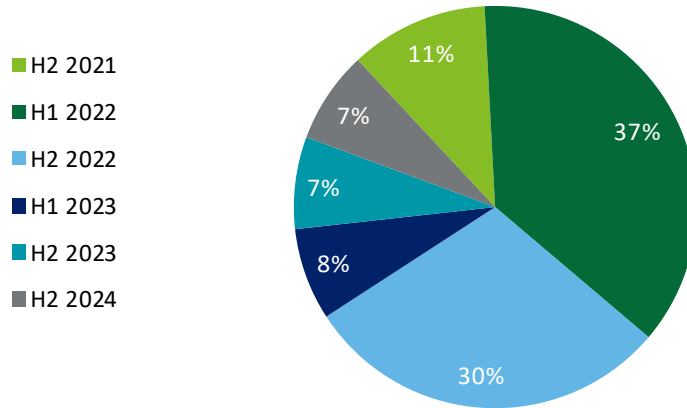
If you had a considerable amount to invest exclusively in real estate over the next 12 months, which property type would you prefer to invest in by order of preference? (starting from the most preferable: 1 to less preferable: 6)



Investing in apartments in the short term would be the most favourable option for the majority of the respondents, followed by land.

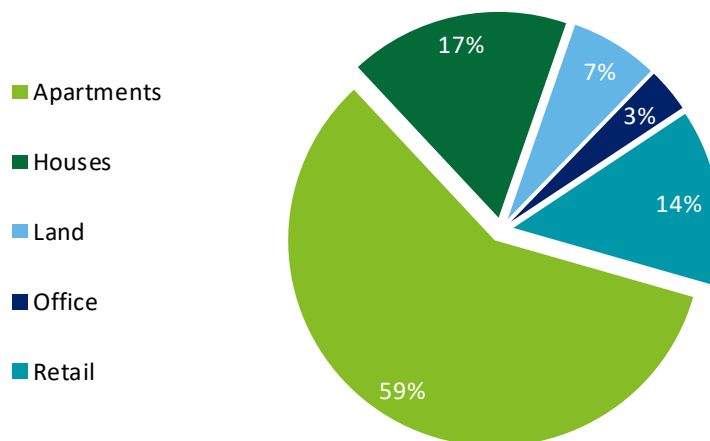


Taking into account the disruption that the real estate industry is currently facing due to the pandemic, when do you anticipate its performance to return to 2019 levels?



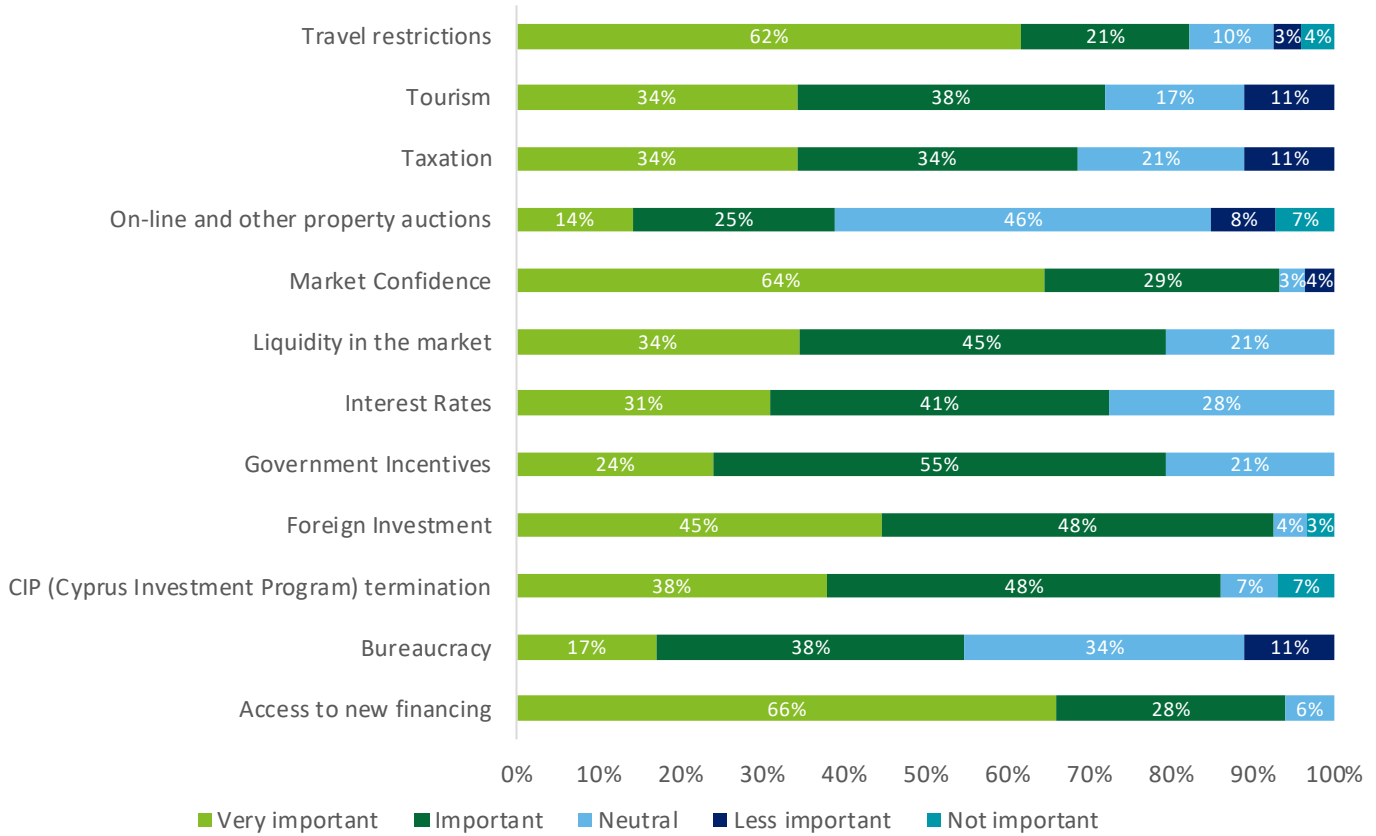
37% of the respondents believe that during H1 2022, performance will return to 2019 levels. A further 30%, consider performance will return to 2019 levels in H2 2022.

Which property type do you anticipate to recover first?



59% of the respondents anticipate that apartments will be the property type to recover first. This appears to be in line with the respondents' expectations that prices for apartments will remain unaffected during the pandemic and the respondents' preference to invest in apartments, rather than in other property type should they wanted to invest in real estate.

In your opinion, how important are the following factors affecting the real estate sector performance for the next 12 months?



According to the respondents, the most important factor affecting the property market performance is “access to financing” followed very closely by “market confidence”, “travel restrictions” and “foreign investment”.



In your opinion, what additional measures could be adopted or incentives given by the Government in order to facilitate the recovery of the real estate market?



Most of the respondents believe that the additional measures towards the faster recovery of the real estate market should relate to various forms of tax reliefs and incentives (including VAT, transfer fees, capital gains tax) as well as interest rate reductions.

# Reach out



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