

Q2 | 2018

# Cyprus Economy & Real Estate Updates

*A quarterly update of Cyprus Real Estate Market*

July 2018



LIONGLOBAL  
ADVISORS





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# overview

The second edition of LGA's Real Estate Market report provides an outline of the main economic factors affecting the Cyprus property market and an outlook of the performance of the market during the first half of 2018.

The Cyprus Economy has experience a very strong recovery in the previous years and is back on a growth track, ranked as one of the fastest growing EU Economies. Unemployment is expected to decline to 9% in 2018, while inflation to remain at relatively low levels. Although the GDP of Cyprus is rebounding, the challenges of Cyprus Economy remain, with the volume of Non-performing loans, public and private debt remain at high levels.

The positive developments in the economy of the country directly affects the Cyprus real Estate market which there is no doubt that the previous years has concluded with significant signs of stability. The near term outlook for investment is very positive, supported by foreign-funded large scale projects and leading to improved transaction activity across the market.



# economy update

## European Commission Spring Economic forecast

- Economic growth is expected to be strong, fuelled by foreign-funded investment and solid private consumption.
- Unemployment has fallen below 10% and is expected to continue decreasing.
- Inflation remains very low and is set to stay moderate. The budget surplus is projected to further improve, although risks to the fiscal outlook remain.
- Public debt is expected to increase in 2018 but to decline again in 2019.

	1998-2013	2014	2015	2016	2017	2018	2019
	Annual percentage change (%)						
GDP	2.3	-1.4	2.0	3.4	3.9	3.6	3.3
Exports (goods and services)	1.8	4.2	5.8	4.0	3.4	2.3	1.9
Imports (goods and services)	1.6	4.6	7.4	6.8	10.1	4.8	3.7
Unemployment rate	6.0	16.1	15.0	13.0	11.1	9.0	7.1
Harmonised index of consumer prices	2.5	-0.3	-1.5	-1.2	0.7	0.7	1.2
General government balance	-3.2	-9.0	-1.3	0.3	1.8	2.0	2.2
General government gross debt	61.6	107.5	107.5	106.6	97.5	105.7	99.5

Table 1 | Source: European Commission Autumn Spring Forecast 2018

## Cyprus upgraded by Fitch

Fitch Ratings has upgraded Cyprus's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'BB+' from 'BB' with a positive outlook. The rating is just one step before the investment scale.

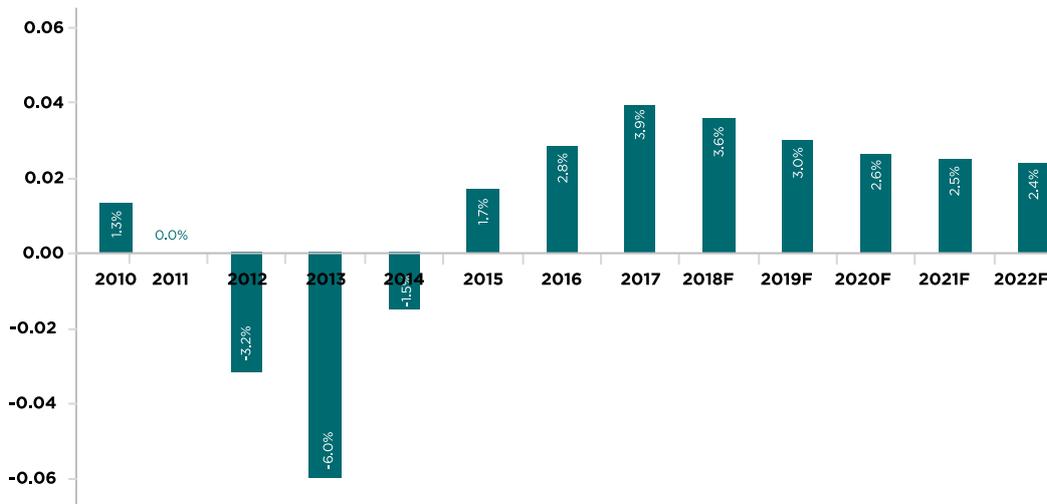
Credit Rating Agency	Rating	Outlook	Date
S&P	BB+	Positive	September 2017
Fitch	BB+	Positive	April 2018
Moody's	Ba3	Positive	July 2017

Table 2 | Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

## GDP Growth rate

- Cyprus is experiencing a very strong recovery over the last four years, with GDP growth rate placing the island among the highest accelerating economies in Europe.
- According to IMF forecasts, the Cyprus economy will sustain a positive outlook with projected GDP growth of c3.6% in 2018, c3.0% in 2019 and c2.6% in 2020.

### GDP Growth rate

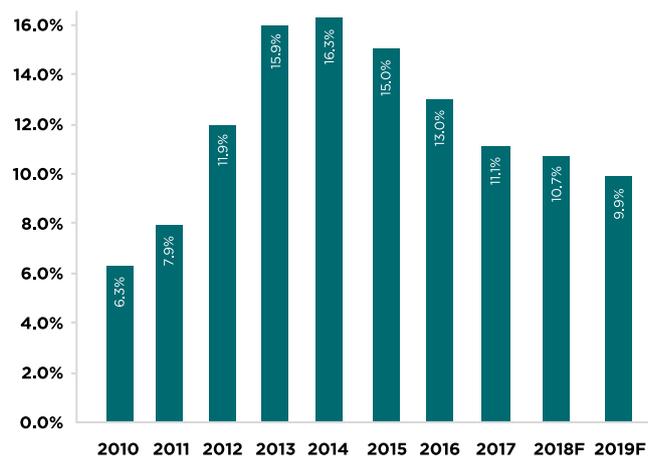


Graph 1 | Source: IMF (World Economic Outlook), April 2018

## Registered unemployment

- Unemployment is set to continue its decline on the island, although tackling youth and recent graduate unemployment continues to be a substantial task.
- Most sectors of the economy have markedly increased the number of employees and the unemployment rate fell below 10% in early 2018.
- Employment expectations and consumer confidence are on the rise, supporting the outlook.
- According to the latest data released by CYPSTAT, the unemployed persons, registered at the District Labour Offices on the last day of June 2018, reached 23,808 persons.

### Unemployment rate in Cyprus

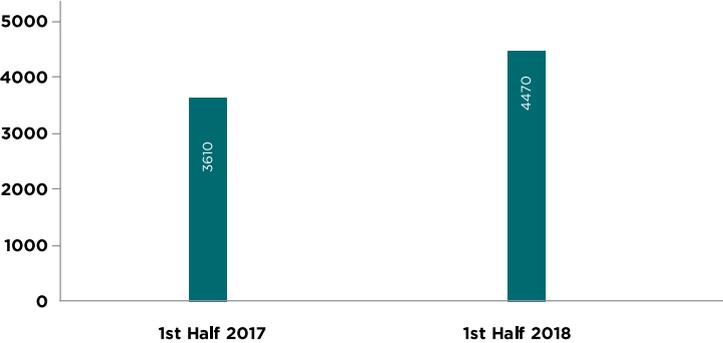


Graph 2 | Source: European Economic Forecast – Spring 2018

# real estate update

## Property Transactions

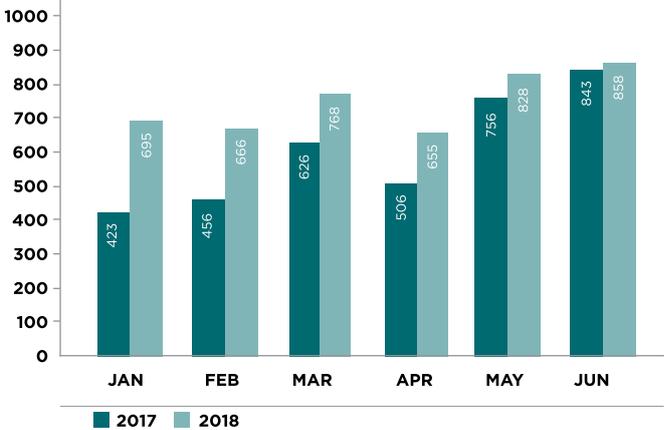
Contracts of sales files at the DLS (1st Half 2018 vs 1st Half 2017)



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

- **24%** increase in property contracts submitted to the DLS in first half of 2018 compared to first half of 2017.
- It is noted that the equivalent increase in number of contracts filed at the DLS in first half of 2017 compared to first half of 2016 was 20%. This supports the expectations of the market experts, who have predicted a steady recovery in the Cyprus real estate market for 2018.

Contracts of sales filed at the DLS (1st Half 2018)

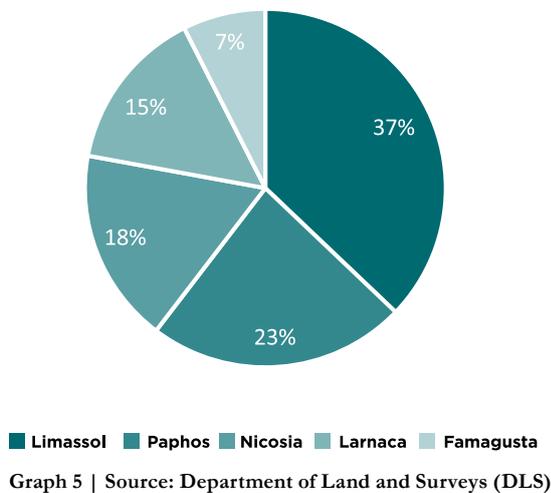


Graph 4 | Source: Department of Land and Surveys (DLS)

- Based on the data realised by the DLS, sales transactions recorded in first months of 2018 were above expectations, with January sales recorded 64% increase compared to the equivalent month of the previous year.
- This trend tends to weaken in the following months with May and June standing almost at the same levels as the previous year.

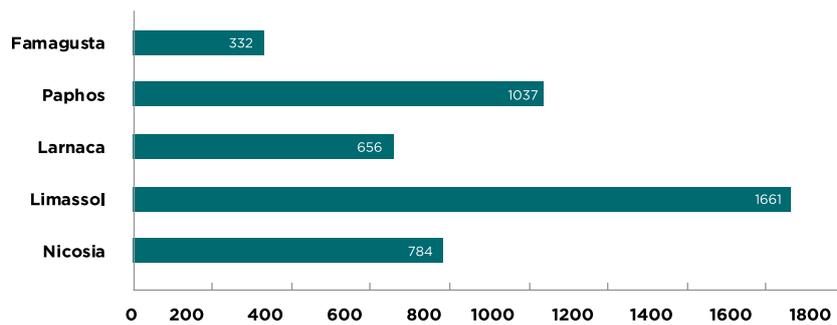
## Geographical distribution of transactions

Contracts of sales per region (1st Half 2018)



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

Contracts of sales per region (1st Half 2018)



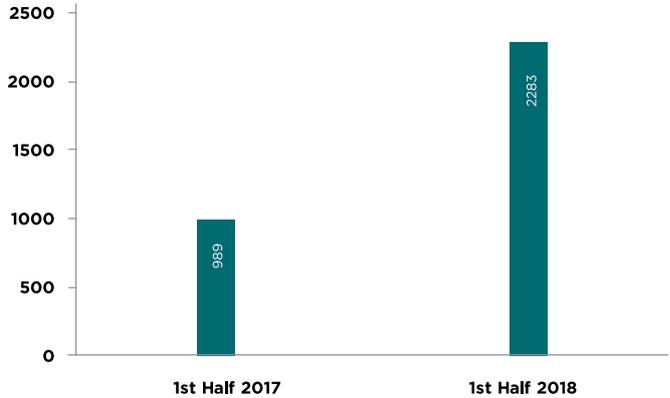
Graph 6 | Source: Department of Land and Surveys (DLS)

- In terms of regional distribution of transactions that occurred in the first half of 2018, Limassol is leading the way (37%) followed by Paphos (23%) and Nicosia (18%)
- Famagusta demonstrated the highest growth in the number of sale contacts filed at the DLS during the first quarter of 2018 (72%) compared to the equivalent period of last year, followed by Nicosia (34%).



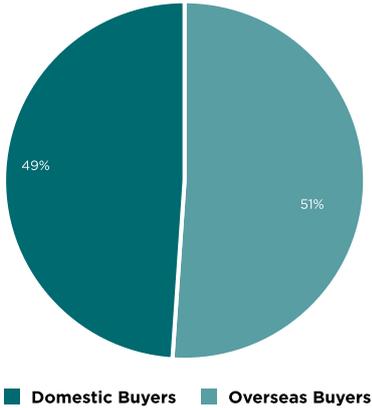
# Foreign transaction activity

Foreign transaction activity (1st Half 2018 vs 1st Half 2017)



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

## Foreign transaction activity

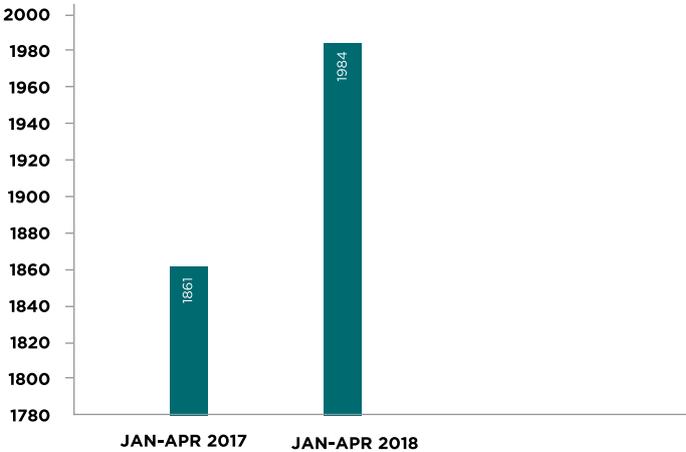


Graph 8 | Source: Department of Land and Surveys (DLS)

- **51%** of property sales contracts submitted during the first half of 2018 in all areas of Cyprus relates to overseas buyers.
- **131%** increase in number of properties sold to foreigners in first half of 2018 (2283 sales) compared to first half of 2017 (989 sales).
- Foreign interest is primarily focused on the residential sector in prime locations with close proximity to the sea.

# Construction activity

Building permits (January - April 2017 vs January - April 2018)



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

- The Statistical Service announces that the number of building permits authorized by the municipal authorities and the district administration offices during April 2018 stood at 469.
- The total value of these permits reached €106.6 million and the total area 101,5 thousand square metres.
- During the period January - April 2018, 1,984 building permits were issued compared to 1,861 in the corresponding period of the previous year. The total value of these permits increased by 27.5% and the total area by 24.5%.

(Source: CYSTAT)

## Price index of Construction Materials

The Price Index of Construction Materials for May 2018 reached 99.99 units (base year 2015=100,00), recording an increase of 0.10% compared to April 2018.

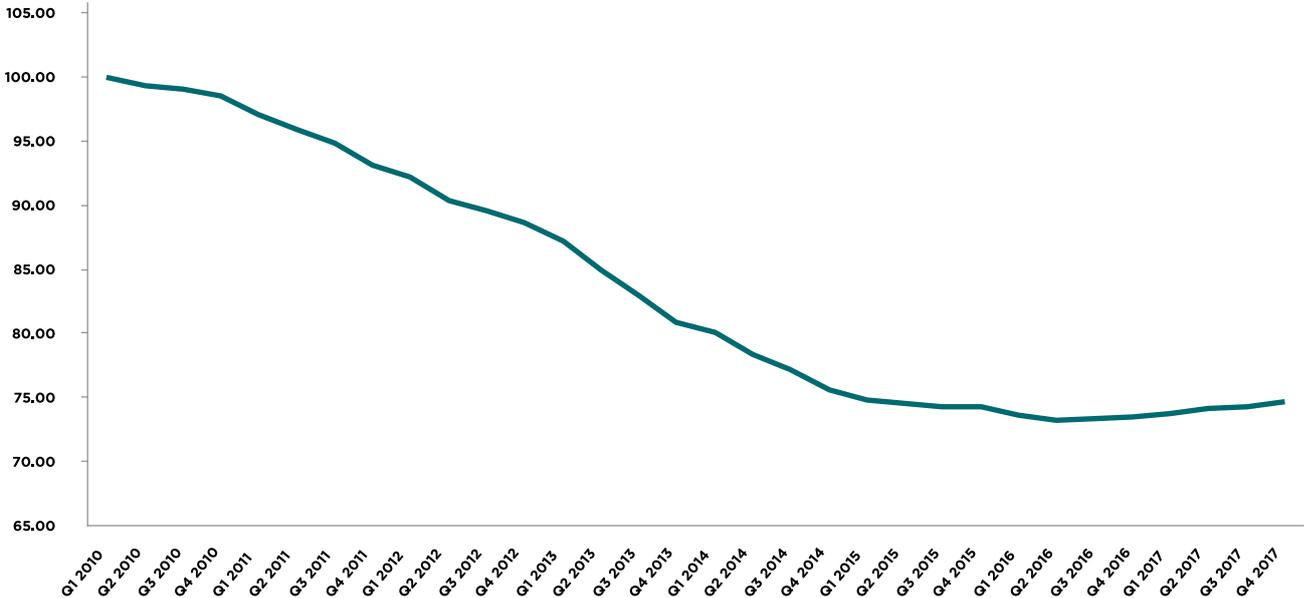
For the period January - May 2018, the index recorded an increase of 1.06% compared to the same period of 2017.

(Source: CYSTAT)



# Residential Property Price Indices

House Price Index (2010 - 2017)



Graph 10 | Source: CBC, House Price Index Q4 2017

## a. House Price Index (HPI)

- House Price Index (HPI) is a quarterly index which measures the change in the average prices of residential dwellings. It captures all types of residential properties, both new and existing. The land component of the residential property is included.
- According to the latest report issued by the Central Bank of Cyprus (CBC), for the fourth quarter of 2017, the HPI recorded a quarterly increase of 0.4%.
- On an annual basis, for the fourth quarter of 2017 HPI recorded an increase of 1.5%. In terms of regional distribution, all cities have recorded an increase with the highest increase recorded in Limassol (2.9%) and the lowest in Larnaca (0.5%).

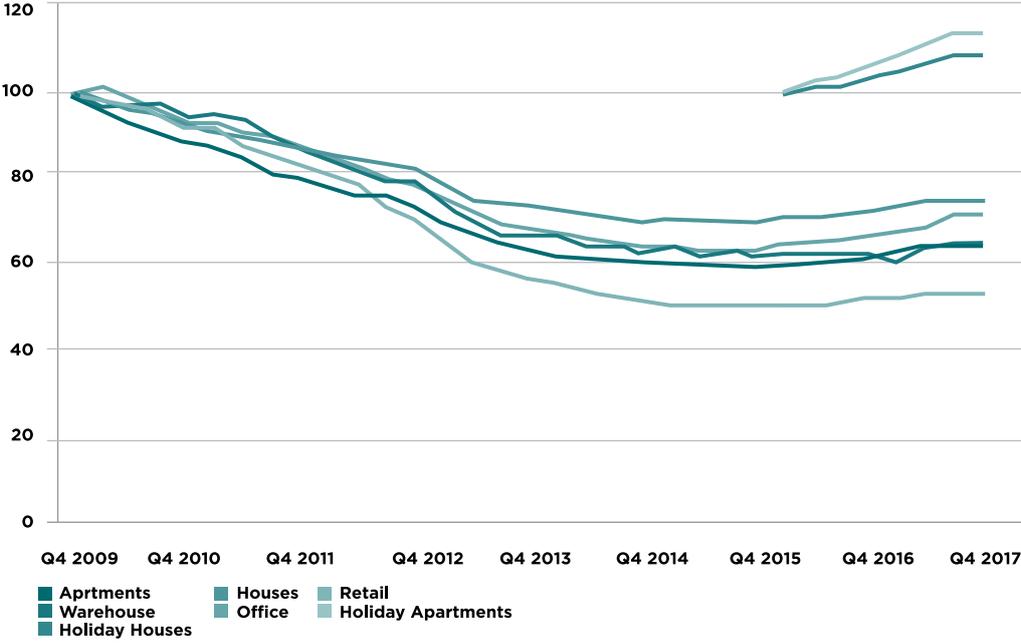
(Source: CBC, House Price Index Q4 2017)



**b. RICS**

- The Royal Institute of Chartered Surveyors ('RICS') Cyprus Property Price index is published on a quarterly basis and focused on both residential and non-residential property (including retail and offices) and also tracks trends on rental rates. The information provided by RICS is based on the average price and rent of the sub-districts monitored per urban centre per sector.
- Across Cyprus, residential prices for both houses and flats increased on a quarterly basis by 0.8% and 1.4% respectively, with the biggest increase being in Larnaca with quarterly increase of 2.7% for flats and in Limassol with a quarterly increase of 1.5% for houses.
- Values for holiday homes on a quarterly basis across Cyprus increased by 0.4% for flats and 0.3% for houses. Paphos showed the highest quarterly increases for holiday apartments with an increase of 1.33% and Paralimni for holiday homes with an increase of 0.9%.
- Across Cyprus, on an annual basis (compared to Q4 2016), flats increased by 7.1%, houses by 4.3%, offices by 8.3%, warehouses by 4.4% and retail by 3.1%.
- Across Cyprus, on an annual basis for flats and houses the highest increase was in Limassol with 11.1% and 12.6% respectively, for offices Nicosia with 17.7%, for warehouses and retail the highest increase was in Nicosia with 9.3% and 4.2% respectively.

Average price index (all types)



Graph 11 | Source: RICS, Cyprus Property Price Index Q4 2017

**Market Rental Values**

According to RICS Cyprus Property Price Index Q4 2017, across Cyprus on a quarterly basis rental values increased by 2.9% for apartments, 1.9% for houses, 0.6% for retail, 2.5% for offices and 0.2% for warehouses.

Compared to Q4 2016, rents increased annually by 13.7% for flats, 8.2% for houses, 5.9% for retail, 19.2% for offices and 1.8% for warehouses. All asset classes have shown a consecutive quarterly growth.

(Source: RICS, Cyprus Property Price Index Q4 2017)

## Appraisal based initial yields

At the Q4 of 2017 average gross yields stood at 4.3% for apartments, 2.2% for houses, 5.5% for retail, 4.3% for warehouses, and 5.1% for offices. The investment yields are relatively stable with slight improvement is the Office sector noted after a long time of yields of 4.4%-4.5%.

(Source: RICS, Cyprus Property Price Index Q4 2017)

## Conclusions | 1st Half 2018

- While the property sector has been considerably affected by the economic crisis, 2016 and 2017 marked as years of evident progress and improving confidence in the real estate market. This trend continues for the first half of 2018 as is evident by the number of property transactions as well as the increase in building permits issued.
- The property sales by foreigners continue to have a positive increase which is further stimulated by the government's initiative regarding the Cypriot citizenship program, the permanent residency program as well as the various tax incentives offered. As a result, more than half of property sales contracts submitted in the first half of 2018 involve overseas buyers.
- The significant increase in property prices recorded in some areas (especially in Limassol) has led to whispers and discussions for another property bubble. However, the historic records do not support this conclusion. On the basis of the property sales of the last decade, there is clear observations that sales rose significantly, but still not reach the levels of the real estate boom of early 2000s. The downturn of the sector has bottomed out, and the signs of recovery are clear, and there are no expectations that circumstances will repeat themselves so as to fuel another bubble.
- The property sector in Cyprus currently appears to be healthy and is moving into a stabilization path, away from the dangerous moves and bad practises of the past.

# Industry news

## **Groundbreaking ceremony hosted at City of Dreams Mediterranean**

On June 8, the President of the Republic of Cyprus, Mr. Nicos Anastasiades, Chairman and CEO of Melco, Mr. Lawrence Ho and Managing Director of CNS Group, Mr. Melis Shiacolas took part in the groundbreaking ceremony of Europe's biggest casino resort, City of Dreams Mediterranean. Set to open in Limassol in 2021, the resort will offer a range of attractions and entertainment options beyond gaming, including recreation and MICE facilities currently not available in Cyprus, making City of Dreams Mediterranean a must-visit destination.

## **Mondrian Residences, new project by Imperio Properties**

Located in the heart of Limassol, near Neapolis area, the new project of Imperio Properties impresses with the elegant and contemporary design. The construction of Mondrian Residences is expected to begin within the next two months and according to the programme, it will be completed in April 2020.

## **Strategic plan for the development of Troodos**

Troodos can become a model for the sustainable management and development of mountain areas in the European Union under a master plan being drawn up with the help of Greek experts.

The aim is to stem rural depopulation and harness the beauty and resources of the area to create jobs for residents and attract visitors.

The consultants, brought in from the Polytechnic School of the University of Thessaly, will deliver their report in September – one year after they were brought in to help develop a master plan for the mountain communities of the Troodos Mountains.

## **Limit on citizenship scheme announced**

On June 2018, the council of ministers has decided to limit the number of naturalizations of investors granted under the citizenship by investment scheme to 700 a year, starting this year. The citizenship-by-investment scheme will also be renamed the “Cypriot Investment Scheme. It is noted that during 2017, the government issued 503 passports to an equal number of investors and 510 additional passports to

members of their respective families, compared to 443 and 461 in 2016, 337 and 342 in 2015, and 214 and 186 in 2014.

There are no further updates relating to PRP and Citizenship by investment. For further details please refer to previous versions of our report.

## **Paphos marina contract awarded**

Following nearly three decades of bureaucratic delays and legal wrangles, the contract to build the Paphos marina has been awarded to Pafilia by the ‘new’ Marina Management Committee.

The Paphos marina will be built at Potima bay, between Kissonerga and Pegeia and will be a crucial project for Paphos. It will have a capacity of 1,000 berths. The project will take approximately three years to be completed. In addition to berthing for 1,000 vessels, the project will include more than 42,000 square metres of residential and commercial developments.

## **Energy saving grant scheme ‘I Save I Upgrade’**

The Ministry of Energy opened the second call for proposals for the grant scheme “I Save I Upgrade” for existing homes belonging to individuals residing permanently in the Republic of Cyprus and with a Planning permit application before 21/12/2007. It aims to increase energy savings and it covers the purchase and installation of new equipment and materials, with the available grant per case amounted 50% of the total cost. For proposals for an upgrade to a “near zero energy level” the grant could reach €25K for houses and €20K for apartment units.

## **Limassol in top 100 Mercer’s Quality of Living Ranking**

Limassol is amongst the top 100 cities of the world according in the ‘Quality of Living Index’ produced by Mercer, one of the world’s largest HR consultancy firms, that evaluated local living conditions in more than 450 cities.

Vienna remains the highest ranking city in Europe and globally, providing resident and expatriates with high security, well-structured public transportation and a variety of cultural and recreation facilities.

# who we are

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

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

# what we do

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

## **Phase 1: Identify opportunity and analysis**

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

## **Phase 2: Asset Acquisition**

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



## **Phase 4: Asset management**

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

## **Phase 3: Development**

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

# work with us

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

## Yiannis Misirlis

Director

T: +35725586582

yiannis@imperio-group.com



## Antonis Misirlis

Director

T: +35725586582

antonis@imperio-group.com



## Nicolas Gavriel

Business Development Manager

T: +35725586582

M: +35796770808

nicolas@lionglobal.eu



### Cyprus Office:

LionGlobal Advisors  
131 Gladstonos street  
3032, Limassol  
Cyprus

 lionglobal-advisors

 www.lionglobal.eu

 +357 25581005

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131 Gladstonos street,  
3032 Limassol, Cyprus  
[www.lionglobal.eu](http://www.lionglobal.eu)

 +357 25 581005

