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## At a glance...

The construction and real estate sectors in Cyprus have been hit hard by the economic crisis (GDP is down 6.4% since 2008) and continue to face significant headwinds. The subdued demand has driven property prices lower, while building permits and construction activity continued to fall in 2014, albeit at slower rates than 2013. However, unemployment related to the construction sector as a fraction of total unemployment, fell from a high of 17% in 2012 (6,177 persons) to 11.6% in January 2015 (5,826 persons).

Encouragingly, in 2014, the total transfers and deeds of sale registered at the Department of Lands and Surveys (DLS), increased by 20.2% and 9.2% YoY (Year on Year) respectively. The average mortgage interest rates declined by 25 basis points YoY to 4.43% in December 2014 and the average lending rates for new business loans for amounts up to €1.0m stood at 5.66% as of December 2014, down by 35 basis points from December 2013.

In September 2014, the Cyprus Parliament approved amendments to the property foreclosures legislation that provide enhanced tools for the Banks to be able to repossess collaterals from delinquent debtors faster than before. The amendments were a prerequisite for the Cyprus government to receive the 6<sup>th</sup> bailout tranche from the Troika (European Commission (EC), International Monetary Fund (IMF) and European Central Bank (ECB)). The enforcement of the foreclosures law, however, was later suspended until March 2015, forcing a delay in the payment of the next bailout tranche by Troika.

The Cypriot Authorities published new valuations for all properties in Cyprus as at January 1, 2013. The valuation exercise was completed in less than a year using site inspections, satellite images, price analysis based on sales, cost of construction and other variables. The 2013 valuations will form the basis for the calculation of the Immovable Property Tax (IPT) for the tax year 2015. After a period of consultation and appeals, the Cypriot Authorities are expected to adopt the final provisions of the IPT by 1Q2015 (as envisaged in the updated Memorandum of Understanding on Specific Economic Policy Conditionality (MoU), September 2014)).

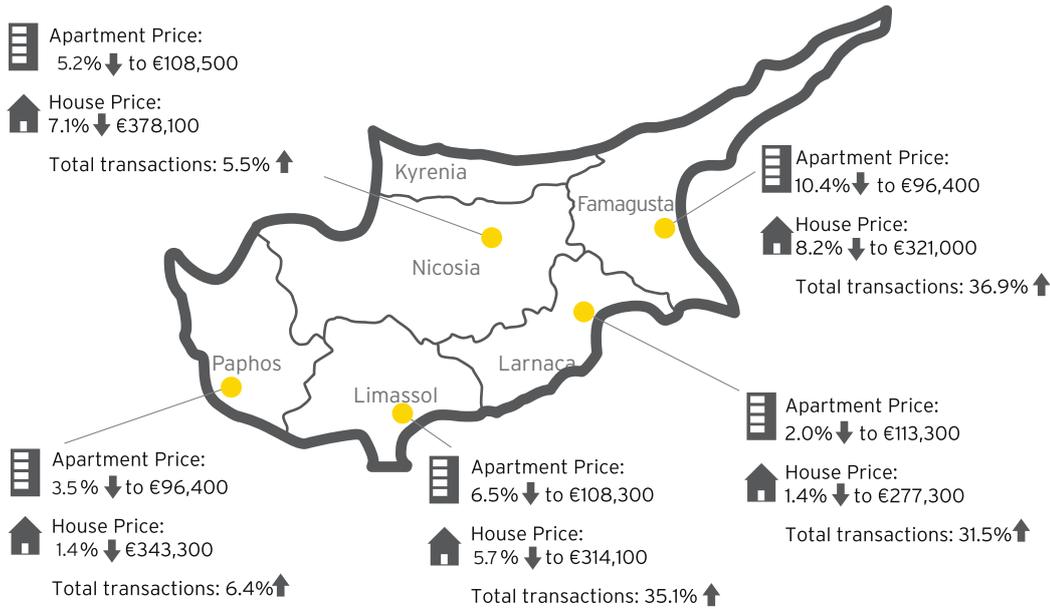
Key Indicators	2010	2011	2012	2013	2014
Residential Property Price index (RPPI, CBC)	99.2	95.2	90.2	84.0	77.2*
Residential building permits area (% YoY change)	-10.1	-33.2	-28.4	-28.3	-29.2
Average mortgage rates (for new business) (%)	4.73	5.31	5.33	5.03	4.44
Deeds of sale	8,598	7,018	6,269	3,767	4,527
Transfers of sale (units)	13,701	12,279	11,424	8,609	9,398
Local sales of cement (ktonnes**)	1,355	535	781	178	453
Production in construction index	100	91.1	72.7	51.1	40.1*
Registered unemployed in the construction sector	3,497	4,424	6,177	7,263	6,510
Contribution of construction sector to GDP (%)	7.4	6.1	4.9	3.4	2.1*
Contribution of real estate sector to GDP (%)	18.5	19.1	19.0	19.2	18.9*

\*Data for January-September 2014 \*\* kilotonnes  
Source: CyStat, DLS, CBC (Central Bank of Cyprus)



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## Real Estate<sup>1</sup> Market\*



\*Annual changes to average values as at December 2014.

Source: RICS (Royal Institution of Chartered Surveyors), DLS

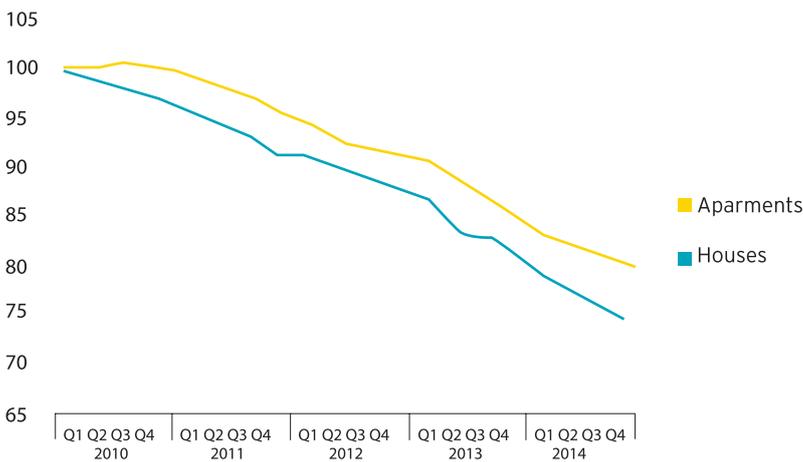
## Property prices

### Central Bank of Cyprus Residential Property Price Index

The Central Bank of Cyprus Residential Property Price Index continued its downward trend in 3Q2014, decreasing by 1.9% QoQ (Quarter on Quarter) and by 8.8% YoY. Most affected by the deteriorating market conditions were the residential property prices in Famagusta, which declined by 3% QoQ and 9.9% YoY.

### CBC Residential property price index

2010=100



Source: CBC

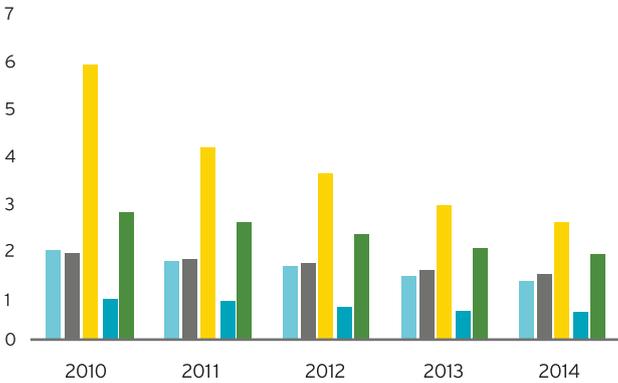
<sup>1</sup> Description of properties according to RICS. Apartments: 2-bedroom, 85sqm, medium quality. Houses: 3-bedroom with garden, semi-detached, 250sqm, medium quality. Retail: High-street retail, 100sqm ground floor area with 50sqm mezzanine. Warehouses: Light industrial area, 2000sqm, 200sqm office space. Office: Grade A, City Centre Location, 200sqm The total transactions refer to the total deeds of sale for the period January-December 2014, compared to the period January-December 2013.

## Property prices (RICS)

According to the data released by RICS, property prices decreased further in 4Q2014. The highest annual decline in property prices was noted in the retail sector (-8.1%) and the lowest in the house prices (-5.0%). Compared to 4Q2013, office prices fell by 6.1%, while apartments and warehouse prices fell by 5.4% and 5.3% respectively. Additionally, monthly property rental prices in 4Q2014 dropped by 8.9% for retail property, 8.8% for warehouses, 5.0% for apartments, 3.1% for houses and 2.8% for offices relative to their 4Q2013 levels.

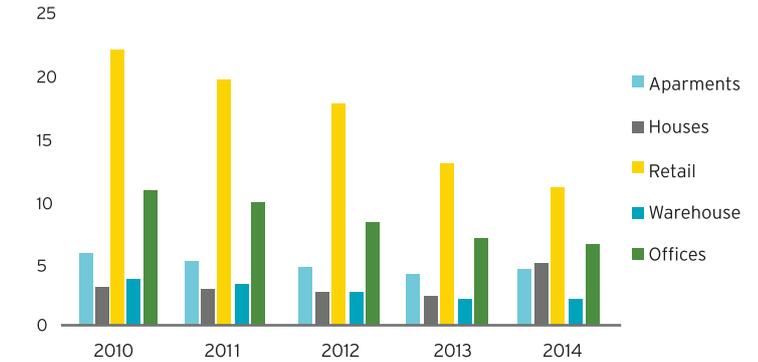
### Property prices

€000's per sqm



### Monthly property rental prices

€ per sqm



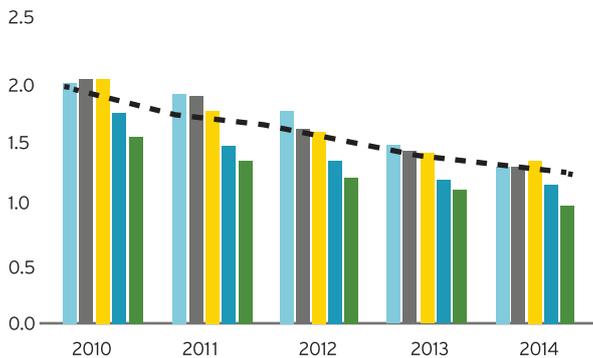
Since 2010 retail property prices across Cyprus fell by 44%. The average retail property price in 4Q2014 was €2,380 per sqm

## Apartments

In 4Q2014, apartment prices and rents across Cyprus experienced a considerable annual decline. The biggest decline in prices was recorded in Famagusta (-10.4%) and in Limassol (-6.5%), while the lowest decline was recorded in Larnaca (-2.0%). Furthermore, Nicosia recorded the highest annual decrease in rental prices (-13.4%), while rental prices in Larnaca remained relatively unchanged.

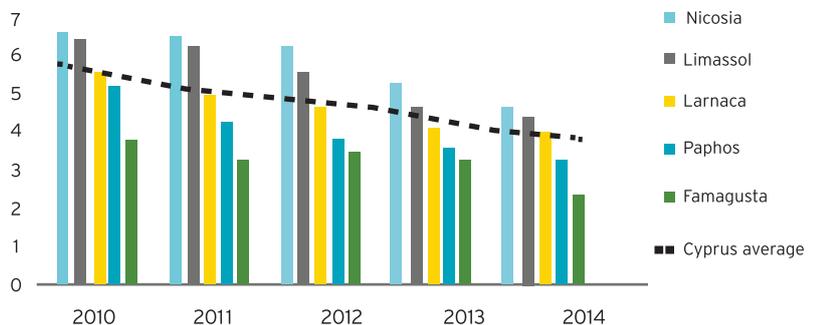
### Apartment prices

€000's per sqm



### Monthly apartment rental prices

€ per sqm

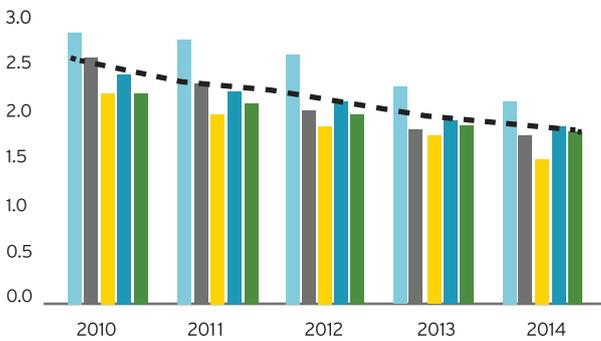


## Houses

In 4Q2014, house prices across Cyprus declined on average by 4.8% YoY. During 4Q2014, rental prices for houses in Famagusta fell sharply by 8.2% YoY, whilst those in Larnaca and Paphos declined marginally by 1.4%. Rental prices for houses in Famagusta remained remarkably stable in 4Q2014, contrary to the declining trend recorded in the rental prices for houses in the other districts.

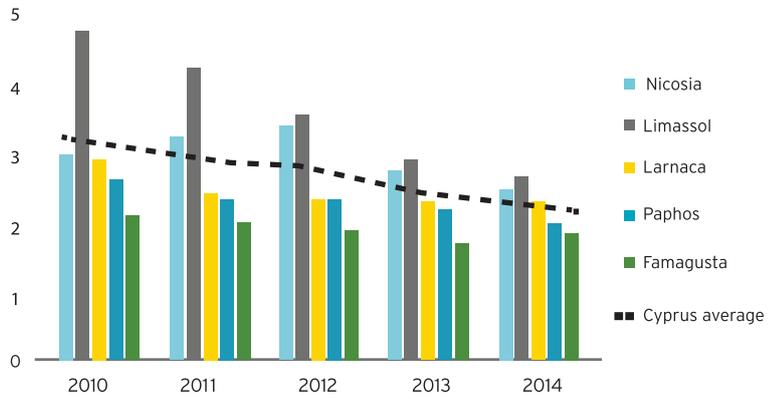
### House prices

€000's per sqm



### Monthly house rental prices

€ per sqm



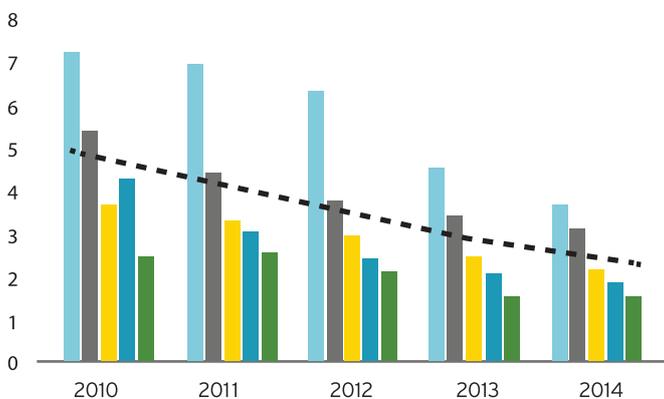
**According to the Global Housing Watch survey conducted by the IMF, Cyprus recorded the tenth highest decrease in house prices worldwide in 2Q2014**

## Retail Property

In 4Q2014, retail property prices in Nicosia fell dramatically (-15.0% YoY), whilst the smallest decline was recorded in Paphos (-2.1%). A similar trend was evident in the rental prices of retail properties in Nicosia (-12.3% YoY), while the highest annual decline was recorded in Famagusta (-13.0% YoY). Retail rental prices across Cyprus fell, with the exception of rental prices for retail property in Larnaca, which remained flat compared to their 4Q2013 prices.

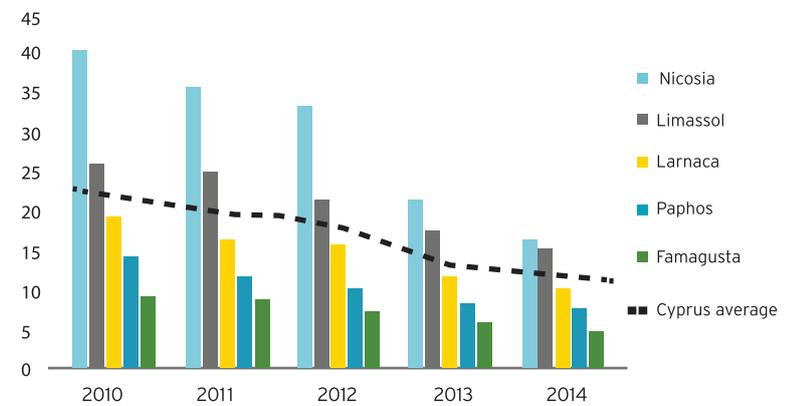
### Retail property prices

€000's per sqm



### Monthly retail property rental prices

€ per sqm

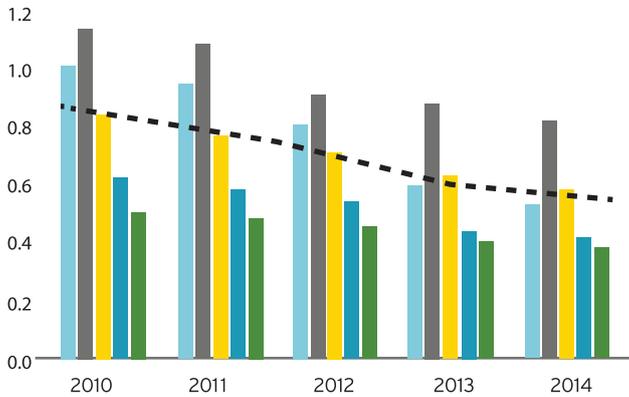


## Warehouses

In 4Q2014, both Nicosia and Famagusta experienced the sharpest decline in warehouse prices (-11.8% YoY and -10.7% YoY respectively). In all other districts, warehouse prices declined slightly, with an annual decline of around 2%-3%. Rental prices for warehouses continued declining in all districts in 4Q2014. Rental prices in Famagusta declined by 17.8% YoY, whilst a milder decline was recorded in the other districts, which decreased by 3% to 10% YoY.

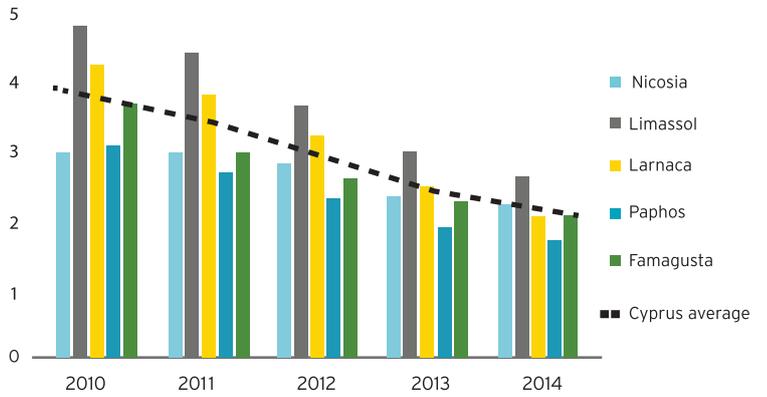
### Warehouse prices

€000's per sqm



### Monthly warehouse rental prices

€ per sqm



## Offices

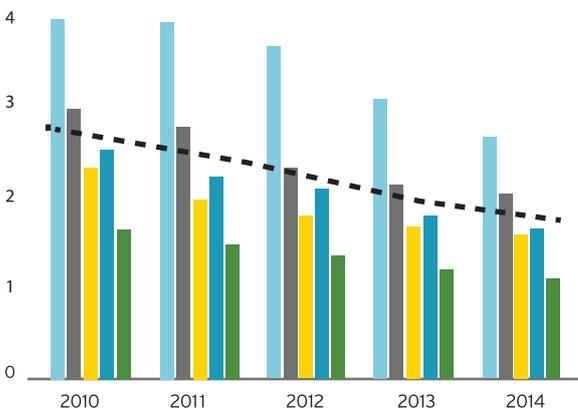
In 4Q2014, office prices in Nicosia recorded the highest annual decrease (-10.6% YoY), while office prices in Larnaca remained fairly stable (-0.7% YoY). Office rental prices declined in all districts; the highest decline was recorded in Famagusta (-10.3% YoY), and the lowest in Larnaca (-1.9% YoY).



**Office rental prices across Cyprus fell by 36.9% since 2010. The average rental office price in 2014 was €6.4 per sqm.**

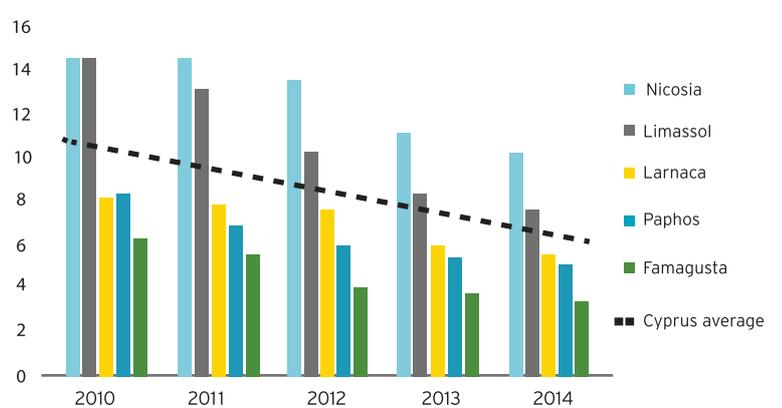
### Office Prices

€000's per sqm



### Monthly Office Rental Prices

€ per sqm

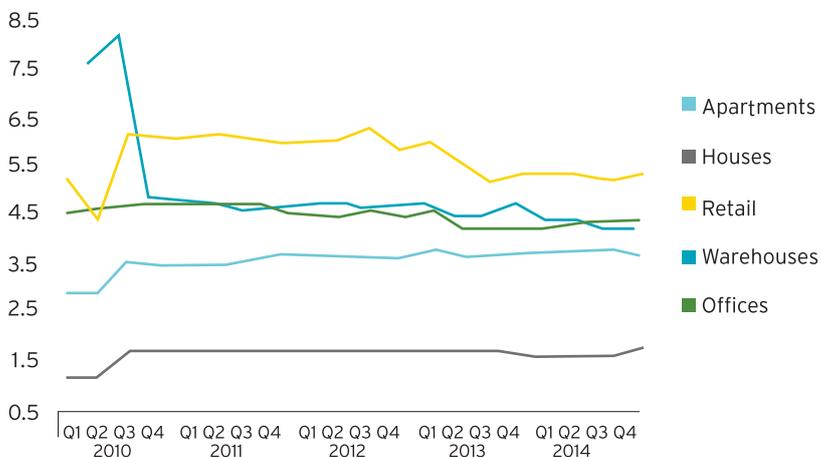


## Return on investment (initial yields)

The annual decline in property values in tandem with the reduction in property rental prices meant that the return on investment for all properties remained remarkably stable, albeit at the low levels of 4Q2014. The average gross yields stood at 5.3% for retail property, 4.4% for offices, 4.3% for warehouses, 3.8% for apartments and 2% for houses.

### Initial yields

€000's per sqm



Source: RICS

## Property tax and incentives

- ▶ The letting of property is exempt from Value Added Tax (VAT).
- ▶ Real estate supplies, including land and second-hand buildings are exempt from VAT.
- ▶ The acquisition and construction of property used as the primary and permanent place of residence incurs a reduced VAT rate of 5%.
- ▶ Expenses related to the acquisition and disposal of property are deducted from capital gains, subject to certain conditions (eg. transfer fees and legal expenses).
- ▶ The capital gains tax on gains from the disposal of property in Cyprus is 20%.
- ▶ 20% of rental income is deductible from income tax.

## Immovable Property Tax (IPT)

Under the revised provisions of the IPT Law, which was passed by the House of Representatives in July 2014, all property owners in Cyprus with property value in excess of €12,500 (as per the 1980 valuation) are liable to pay an annual tax to the Inland Revenue Department (IRD). In effect, the 2014 IPT rates remained unchanged from 2013. The IPT rates apply at the owner level and not at the property level. So, a person that owns 2 properties valued at €10,000 each will pay IPT at the rate that applies to a property value of €20,000 (6‰, €120).

IPT rates*			
Value of property	Immovable property tax rate	Tax(€)	Accumulated Tax (€)
1-€40,000	6‰	240	240
€40,001-€120,000	8‰	640	880
€120,001 - €170,000	9‰	450	1,330
€170,001-€300,000	11‰	1,430	2,760
€300,001 - €500,000	13‰	2,600	5,360
€500,001 - €800,000	15‰	4,500	9,860
€800,001 - €3,000,000	17‰	37,400	47,260
Over €3,000,001	19‰		

\*Owners of immovable property in the Republic whose property value does not exceed €12,500 do not pay any IPT.

## Market activity

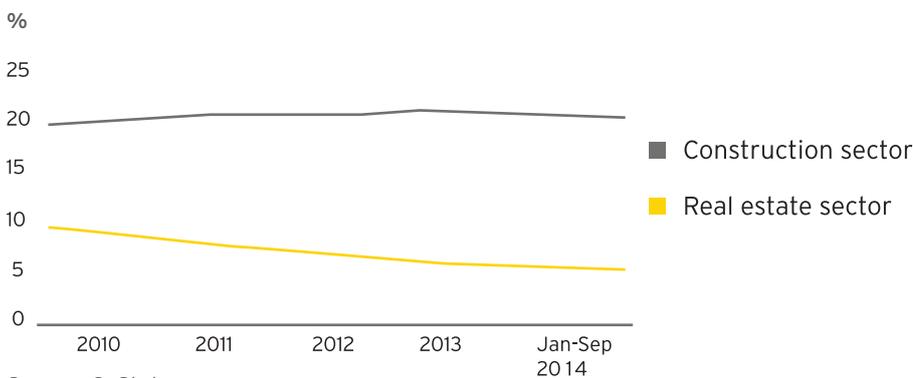
During the last several years, market activity in the construction and real estate sectors has been negatively affected, inter alia, by the high cost of borrowing. Recently, the market has also been affected by the uncertainty surrounding the implementation of the foreclosures legislation passed last year, which has still not been implemented. The implementation of the foreclosures legislation is expected to dramatically shorten the amount of time required to repossess property collateral, ultimately leading to enhanced market activity.

## Economic importance

Despite its dramatic contraction since 2008, the construction sector continues to add significant value to the country's GDP (2.1%). In absolute amounts, the contribution of the construction sector to the country's GDP in 3Q2014 (€113.8m) was down by 77.4% versus its high value of 3Q2008 (€502.5m, 10.7% of GDP).

On the other hand, the contribution of the real estate sector to the GDP is up by 5.1% in 3Q2014, compared to 3Q2008, when the financial crisis was at its infancy. It is estimated that the real estate sector accounted for about one fifth of the country's GDP for the first nine months of 2014 (18.9% or €2,488m).

## Construction and real estate sectors contribution to GDP



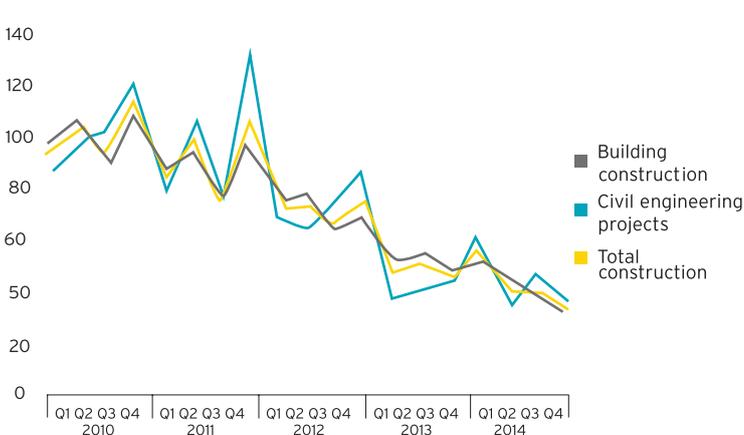
Source: CyStat

## Production in construction

In 2013, both the annual turnover index in the construction sector and the index for civil engineering projects fell considerably (27.1% and 36.2% respectively). In 3Q2014, the building construction sector contracted by 26.3% YoY whilst the sector of civil engineering projects contracted by 18.5% YoY. Overall, according to CyStat's index of production in construction, in 3Q2014 the sector contracted by 25.6% YoY. On the other hand, the Construction Confidence Indicator<sup>2</sup> improved by 13 points in January 2015, compared to the previous year, but it still remains in negative territory (January 2015:-45 points, January 2014:-58 points).

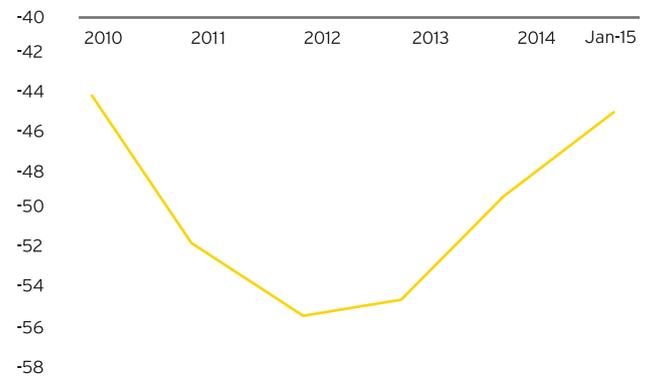
## Index of production in construction

2010=100



Source: CyStat

## Construction Confidence Indicator



Source: CypERC<sup>2</sup>

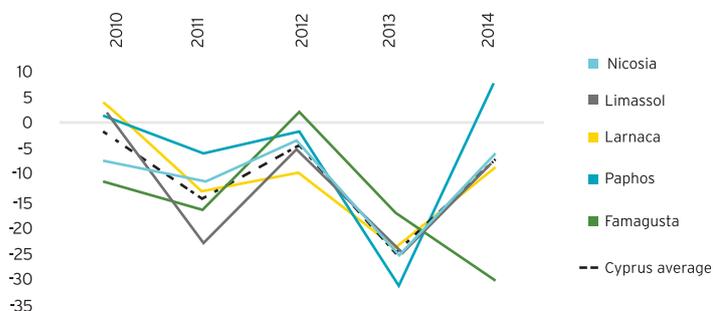
<sup>2</sup> The Construction Confidence Indicator is a component of the Economic Sentiment Indicator of the Economics Research Centre of University of Cyprus (CypERC). The economic sentiment indicator is compiled on a monthly basis by the Economics Research Centre of the University of Cyprus, and consists of weighted answers regarding the current status of all sectors and consumers. The sectors that are included in the indicator are services, retail trade, construction, industry and consumers. The weights used in the calculation of the Economic Sentiment Indicator reflect the contribution of each sector to the GDP.

## Building permits

In 2014, building permits declined by 7.6% YoY, reaching a total of 4,933 (2013: 5,341). The number of building permits in Famagusta declined the most (-30.3% YoY), whereas the building permits in Paphos increased by 6.8% YoY. The downward trend in building permits applied to both civil engineering projects (-31.5% YoY) and residential buildings (-9.0% YoY). On the other hand, the non-residential building permits increased by 16% YoY.

### Building Permits\*

% YoY change



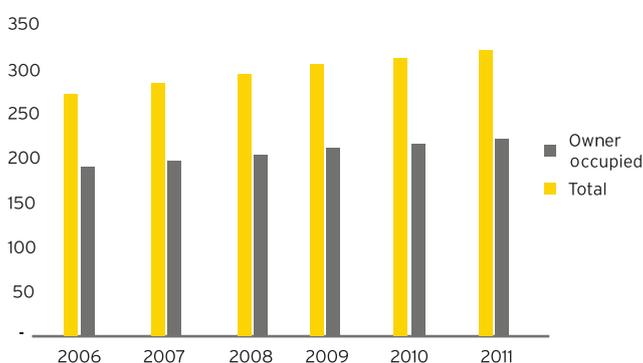
\*Number of units

Source: CyStat

According to figures extrapolated from CyStat, housing stock in Cyprus amounted to 300,964 units of residential buildings in 2011. From those, single and semi-detached houses accounted for 59.1% of all residential units, while units in apartment blocks accounted for 23.9% of the total. It is of note that 68.2% of all the residential units are owner occupied.

### Housing stock

000's



 **More than one fifth of the total residential units in Cyprus were completed during the 1990s**

Source: CyStat

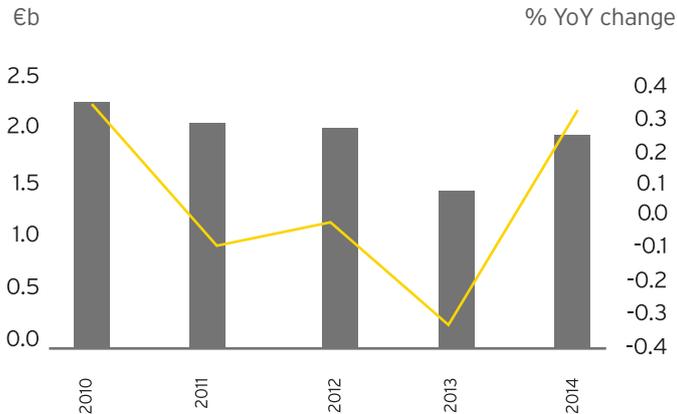
### Transfers of sale

The total transfers of sale in 2014, (both the number of units and the total value transferred), significantly increased relative to 2013. In 2014, the total amount of transfers of sale increased by 25.1% YoY, following a substantial decrease of nearly 30% in 2013. In monetary terms, the total amount of property transferred reached €1.7b in 2014, up from €1.4b in 2013. The total number of units transferred increased by 9.2% YoY, reaching a total of 9,398 units. In January 2015, the positive trend continued, with the total units transferred increasing by 14.2% YoY.

The increase in the transfers of sale is mainly attributed to demand by foreign buyers (transfers of sale to foreigners were up by 30.3% YoY, reaching 443 units in 2014). As indicated by the total number of units transferred in 2014, the most appealing regions to foreign buyers are Paphos and Limassol. In 2014, the transfers of sale to foreigners in Paphos, accounted for 35.9% (159 units) of the total foreign sales in Cyprus. Notably, foreign demand in all districts is still substantially lower compared to 2008. Indicatively, foreign demand in Nicosia is down by 74.4% compared to 2008, while foreign demand in Famagusta recorded the smallest decline (-36.6%).

On the other hand, the most appealing regions for domestic residents are Nicosia and Limassol, comprising 27.7% and 26.3% of transaction volume to domestic residents. Not surprisingly, transfers of sale to domestic residents in both Limassol and Nicosia declined the most relative to 2008 (-57.1% and -55% respectively).

### Transfers of sale



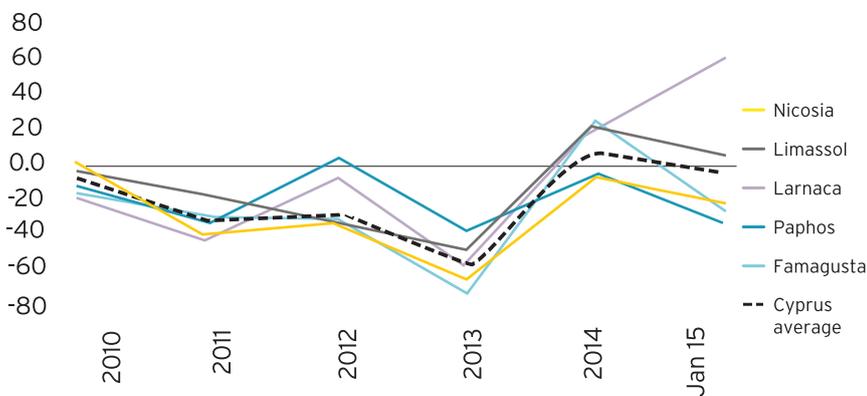
Source: DLS

### Deeds of sale

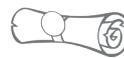
Encouragingly, total sales deeds in 2014 were up by 20.2% YoY, reaching a total of 4,527. Much of the increase in sales can be attributed to foreign buyers (sales to foreigners were up by 17.3% YoY reaching 1,193 transactions in 2014). Across Cyprus, in 2014, the deeds of sales in Paphos increased marginally (6.4% YoY), whereas the deeds in Famagusta increased considerably by 36.9%. In January 2015, the total deeds of sale registered in the DLS increased by 9.6% YoY.

### Deeds of sale

% YoY change



Source: DLS



**The completion of the property revaluation process showed that the total value of private property in Cyprus is €200b, based on the values as at 01/01/2013.**

## Challenges

### Mortgage rates

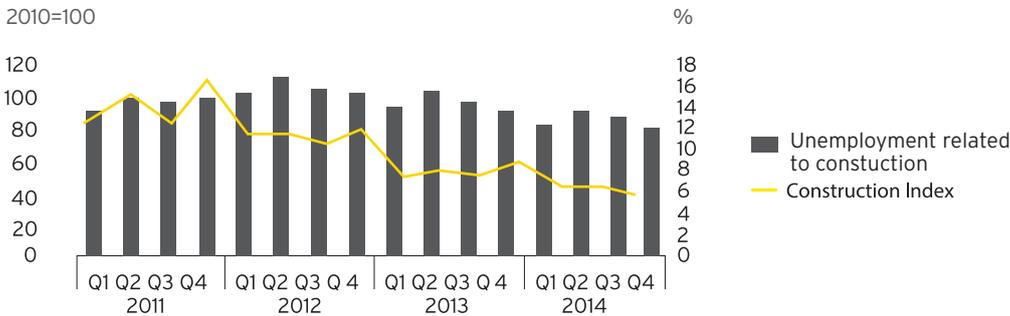
Mortgage interest rates in Cyprus have decreased over the last year (December 2014: 4.43%, December 2013: 4.67%). These rates however, are still considerably higher than the Eurozone average mortgage interest rates (December 2014: 2.47%). Interest rates on corporate loans<sup>4</sup> declined slightly in December 2014 by 39 basis points to 5.66% compared to those in December 2013, (6.01%), and again these rates are much higher than the Eurozone average (December 2014: 3.13%). High interest rates reduce demand for real estate assets and are a major headwind for the Cypriot economy as a whole.

## Unemployment in the construction sector

During 2014, there were on average 47,197 registered unemployed persons in Cyprus, of which the construction sector made up 13.8% of the total (6,510 persons). The contribution of the construction sector to the unemployment rate is second in size only to the wholesale and retail trade sector, which accounted for 17.7% of the total.

In January 2015, the total registered unemployed in the construction industry fell by 14.7% to a total of 5,826 persons.

### Construction Index vs Unemployment Rate



Source: Eurostat, CyStat

## Key events

<b>June 2014</b>	<p>According to the Global Housing Watch survey conducted by the International Monetary Fund, Cyprus recorded the fourth highest decrease in house prices worldwide in 4Q2013 (-6.5%).</p> <p>The revaluation process of the immovable property in Cyprus was completed.</p> <p>The Limassol Marina, which cost an estimated €350m, opened officially for business. 30% of the marina work and 70% of the residential development and infrastructure work is in progress.</p>
<b>July 2014</b>	<p>The Cyprus Parliament decided that the IPT for 2014 will be levied on the 1980 property prices. The updated valuations of all immovable properties based on the Prices as at 01/01/2013, were released on July 28 2014.</p>
<b>September 2014</b>	<p>The Cyprus Parliament approved amendments to the foreclosures legislation. The Ministry of Energy, Commerce, Industry and Tourism put forward a draft law regarding the creation of an integrated casino resort in Cyprus. It expects to publish a call for proposals by interested investors in early 2015. The casino location will be decided by the selected investors.</p>
<b>October 2014</b>	<p>The Supreme Court rejected as unconstitutional four of the six bills related to the foreclosures legislation, previously approved by the House of Parliament.</p>
<b>November 2014</b>	<p>The Cyprus Parliament approved the extension of the deadline for submission of appeals with regard to the general valuation of the new immovable property prices, until April 2015.</p>
<b>January 2015</b>	<p>The enforcement of the foreclosures law was suspended until March 2015.</p>

## Abbreviations

CBC - Central Bank of Cyprus  
CyStat - Cyprus Statistical Service  
DLS - Department of Lands and Surveys  
EC - European Commission  
ECB - European Central Bank  
Eurostat - European Statistical Office  
EU - European Union  
GDP - Gross Domestic Product  
IMF - International Monetary Fund  
IPT - Immovable Property Tax  
IRD - Inland Revenue Department  
MoU - Memorandum of Understanding on Specific Economic Conditionality  
QoQ - Quarter on Quarter  
RICS - Royal Institution of Chartered Surveyors  
RPPI - Residential Property Price Index  
sqm - Square Metres  
Troika - EC, ECB, IMF  
VAT - Value added tax  
YoY - Year on Year

## References

*"Business and Consumer Surveys"*, Economics Research Centre of University of Cyprus, 2015  
*"Cyprus Property Price Indices"*, RICS, 2015  
*"Global Housing Watch"*, IMF, 2014  
*"Immovable Property Tax Rates"*, IRD, 2014  
*"Residential Property Indices"*, CBC, 2014

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