



DELFI PARTNERS & CO



Cyprus Real Estate Market Expectations & Forecasts
Creative Thinking, State-of-the Art Research, Practical Approach, Tangible Results
JANUARY 2016





Forecasts: Cyprus Real Estate Property Prices

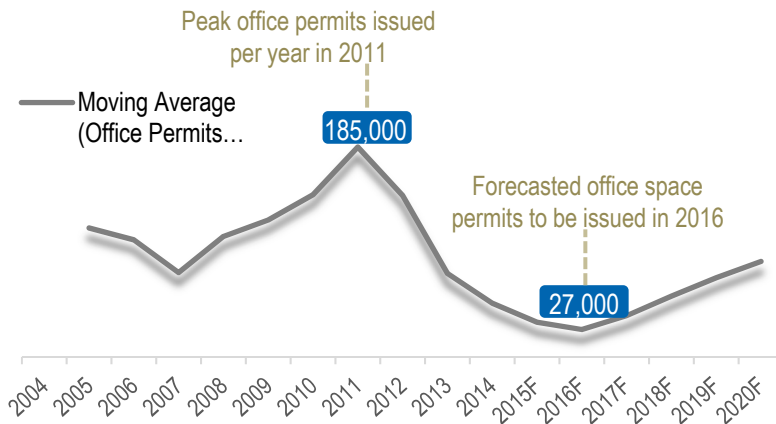
Overview

- > The residential market still dominates the sector, despite the structural impact of the crisis.
- > The sector slump is even more pronounced due to the 2004-2008 boom, partly fueled by real population growth (705,000 to 860,000 in the period 2001-2011) but mainly due to a bubble that is mainly attributed to the banking sector, but also due to significant foreign demand.
- > The haircut and MoU, accompanied by a burst in the real estate sector bubble, saw a sharp decline in prices and transactions during 2009-2013. Prices kept declining through 2014 and 2015, indicating stabilisation in the market. Price decreases during 2015 have been the lowest in the last 5 years.
- > The trading volume was increased by 20% in 2014 compared to the previous year. Even with the latest data, the sector is still experiencing declines in property prices and rents. However, stabilisation is evident and a growing trend for 2016 is not unlikely.

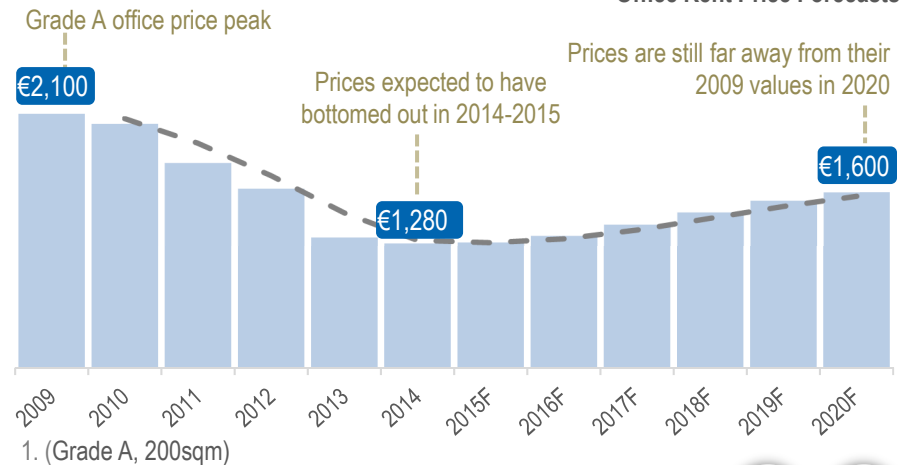
Office Sector Forecasts

- > Office building permits below show the impact of the financial crisis on supply. Offering foresight into office space supply levels, as well as construction industry activity, office permits are almost at a 7th of their 2011 level.
- > The average price of a Grade A space fell by nearly 40%, from €2,100 to €1,280 in the period 2009-2014.
- > With supply picking up in 2011, permits for offices are expected to creep up slowly, as current oversupply is eventually absorbed back into the market.
- > We forecast office permits to dip even further in 2016, as the current oversupply will take time to be absorbed by the market.
- > We forecast office rents to have remained relatively unchanged in 2015 with a slight upward trend expected for 2016 onwards.

Office Permits Forecasts



Office Rent Price Forecasts¹



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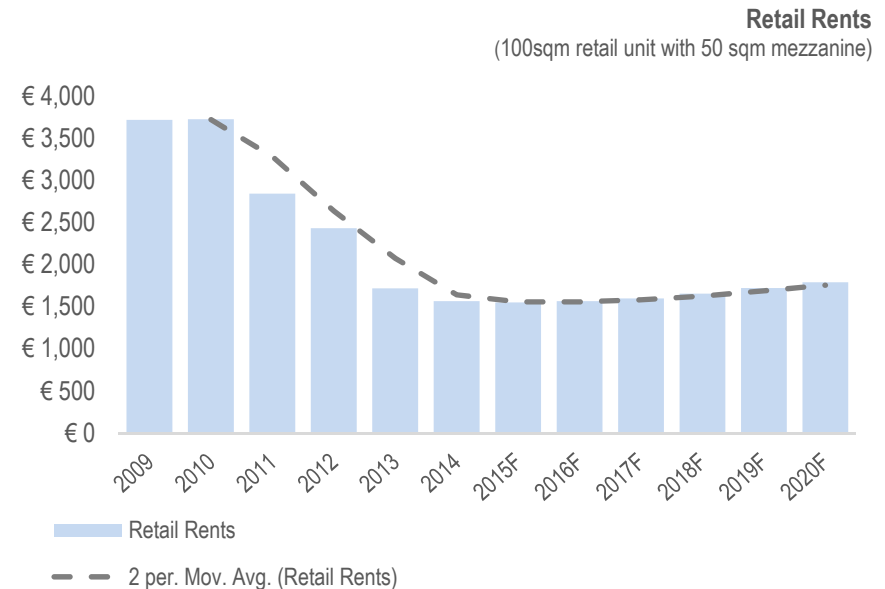
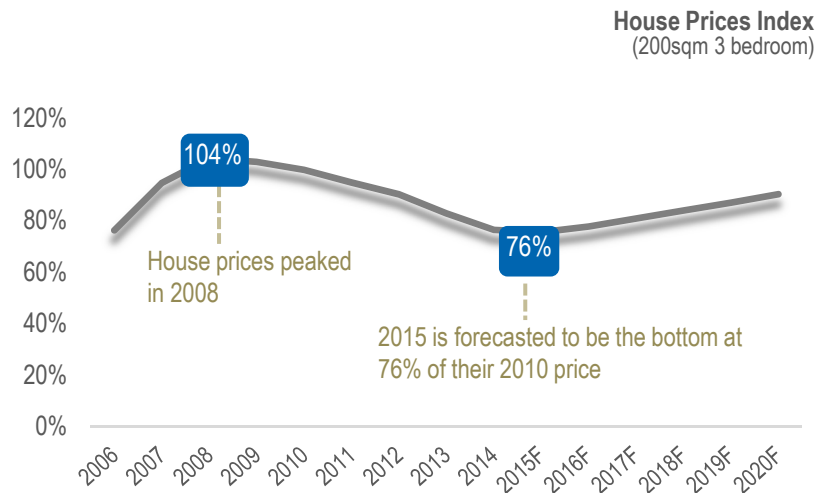
Residential Sector Forecasts

- > Stabilisation of 2015 signals an increasing trend for 2016.
- > On average, house prices are down 27% since 2008.
- > Housing permits (in square meters) will remain very low going forward, until prices recover to their peak levels.
- > In isolated cases, where demand is low and distressed assets cause excess supply, **further discounts of up to 40%** of market value are not unlikely.
- > The banking sector is expected to have a considerable impact on both the economy and the residential real estate prices, as new lending needs to stimulate demand before foreclosures oversaturate the market even further.



Retail Sector Forecasts

- > Declines in retail were much sharper than in office space. Average retail unit value fell from €3,724 to €1,564 from 2010 to 2014, a 58% decrease.
- > Retail permits are affected in much the same way as office space; the only hope for strong numbers comes from potential large scale developments.
- > Demand for retail is slowly recovering, while supply has come to a halt. Prices should stabilise and resume growth in 2016 for the first time.
- > Although many developments are in the pipeline, funding remains particularly difficult as the banking sector maintains strict lending criteria.



All the forecasts in this research were conducted using historic data from the RICS, CBC, IMF and CYSTAT.



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Conclusions

- > We expect the economy to bounce back from the recession in the next 5 years.
- > The real estate market is always sluggish compared to the economy, this is evident in our forecasts.
- > The banking sector has the potential to make or break the recovery. How the sector deals with NPL's distressed assets and the potential need for recapitalisation is pivotal to a smooth recovery.
- > We expect opportunities to arise as the economy tries to return to equilibrium. There is great potential for transactions well below the market value and extremely attractive short term returns, provided that the banking sector concerns regarding NPL levels and foreclosures do not materialise in a detrimental manner.



Forecast Methodology

- > The econometric methodology used to perform forecasts on the Cyprus real estate market draws mostly from the structural Vector Autoregressive (VAR) modelling approach, typically used for modelling real estate markets, due to their well-documented rigidity and slow adjustment process as well as the lagging effect of prices/rents on real estate demand and supply and vice versa.
- > Due to data limitations in terms of directly measuring the demand for the different property types, a two-equation forecasting system was employed in which the endogenous variables are rents/prices and new supply (permits).
- > Forecasts were conducted and evaluated for their reasonableness and wherever it was deemed appropriate they were adjusted on the basis of the error term of the respective forecasting equations.

Delfi Partners & Company



Delfi Partners & Company, the advisory, transaction management and real estate company is expanding its service offering to utilise its advisory, real estate, and data analytics expertise.

Delfi Partners has launched Delfi Analytics, creating a groundbreaking centralised databank platform that collects, analyses and stores information on the Cyprus & Greek economy. This unique platform encompasses an innovative approach to in-depth data, credit and debt analytics. In addition, Delfi Analytics has created a revolutionary Real Estate Analytics platform that enables professionals to view and analyse data (transactional, financial and economic data) and utilise in-house econometrics models to enable informed decision making.

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Delfi Partners & Co. launches its new Data Analytics Practice



DELFI ANALYTICS
by DELFI PARTNERS & CO.

Delfi Partners & Co. is expanding into Data Analytics

Delfi Partners & Company, the advisory, transaction management and real estate company is expanding its service offering to utilise its advisory, real estate, and data analytics expertise.

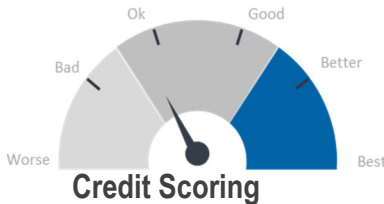
-  ✓ Real Estate & Construction
-  ✓ Economy
-  ✓ Banking
-  ✓ Services
-  ✓ Education
-  ✓ Agriculture
-  ✓ Health
-  ✓ Energy & Environment
-  ✓ Entrepreneurship
-  ✓ Innovation
-  ✓ Technology
-  ✓ Tourism

A Groundbreaking Centralised Databank

DP Data Analytics has created a groundbreaking centralised databank platform that collects, analyses and stores information on the Cyprus & Greek economy. This unique platform encompasses an innovative approach to in-depth data analytics.

Real Estate Analytics to help you achieve your investment targets

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Credit Analytics Redesigned!

DP Credit Analytics utilises its unique database in conjunction with proprietary credit scoring methodologies developed specifically for the Cyprus market by our expert credit analytics team to provide financial institutions and businesses alike with all the information they need to assess the credit worthiness of their clients. DP Credit provides a more accurate and easier to use credit scoring approach to help businesses make informed decisions about risk management practices.

Delfi Debt Analytics & Recovery Management

Delfi Debt Analytics Solutions provide strategies for every phase of the **debt lifecycle**, including pre-delinquency detection, automated communication systems, virtual agent solutions, segmented collection treatments, outsourced file management and many more. Each can be easily adopted and integrated: choose what you need most to improve performance.

