



# Cyprus Real Estate Market Report- The Insights

A summary of the key trends and major drivers of the real estate market in Cyprus.

December 2018

9<sup>th</sup> edition

[kpmg.com.cy](http://kpmg.com.cy)

**Dear Reader,**

Undoubtedly, one of the backbones of the Cypriot economy is the real estate sector, therefore we are pleased to present the KPMG Cyprus Real Estate Market Report – The Insights. This is the 9th edition of our report which provides insightful leads into the Cypriot economy and the local real estate market.

The purpose of the report is to provide an overview of the Cypriot economy and to assess the performance of the real estate sector, with a focus on Q1-Q3 2018, the latest period for which data is available.

Overcoming the challenges of recent years, the Cypriot economy has followed a solid growth path and has maintained its status as one of the fastest growing economies in Europe. Given the significance of the real estate sector for the Cypriot economy, we continue publishing our expert sectoral report. This edition delves into the key economic conditions and provides invaluable insights into demand and supply, key trends and notable sectoral developments.

We hope that you will find our report enlightening and useful in supporting your future business decisions related to the real estate sector. Kindly feel free to contact us for further inquiries. KPMG's "one-stop-shop" real estate service offerings covers advisory, audit and tax related matters customised to provide real added value to your specific needs and environment.

Christos V. Vasiliou  
Deputy Managing Director  
KPMG in Cyprus



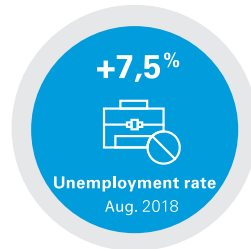
## Economy



Source: Ministry of Finance



Source: Fitch

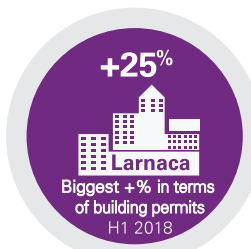
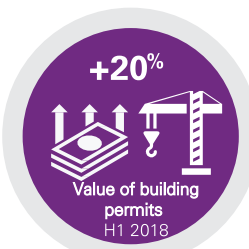


Source: Eurostat

## Construction & Building Permits



Source: CyStat



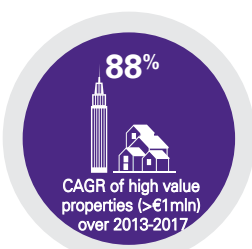
## Real Estate Sector Activity



Source: Department of Land and Surveys (DLS)



## Notable Real Estate Matters



Source: DLS



Source: CyStat



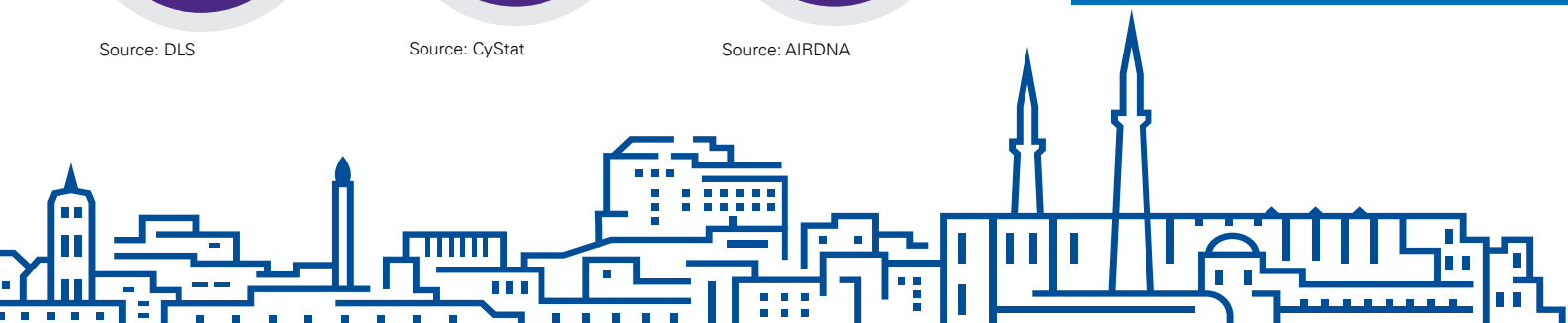
Source: AIRDNA

The Cypriot economy continued its positive growth in 2018, with GDP growth (Y-o-Y) expected at 4% (almost twice the EU average) and unemployment dropping to 7,5% in August 2018. The positive economic growth has led to a series of upgrades of the Cyprus sovereign rating from international credit rating agencies; the latest upgrade to “Investment Grade” with a stable outlook was given by Fitch in October 2018, Cyprus’ first exit from “Non-Investment” grade since 2012.

Building permits continued their upward trend both in terms of volume (+8%) and value (+20%) in the 1<sup>st</sup> half of 2018. Larnaca exhibited the biggest increase in terms of volume (25%) and Famagusta in terms of value (86%), when compared to the previous year.

Real Estate activity continued its upward trend in 2018, with Contracts of Sale exhibiting an increase of 21%. Limassol had the biggest share (37%) of the market, while Famagusta the biggest increase (+37%) in sales. Non-nationals in 2018 bought 103% more properties compared with Q1-Q3 2017, reaching a 48% share of the overall market.

Notable Real Estate Matters, include the increase in the number of transactions for high value properties (>€1mln) with a Compound Annual Growth Rate (CAGR) of 88% from 2013-2017. New building permits for hotels have exhibited a growth of +219% in terms of m² during H1 2018 when compared to the corresponding period of 2017. Bookings through Airbnb showed an increase of 49% for the first nine months of 2018.





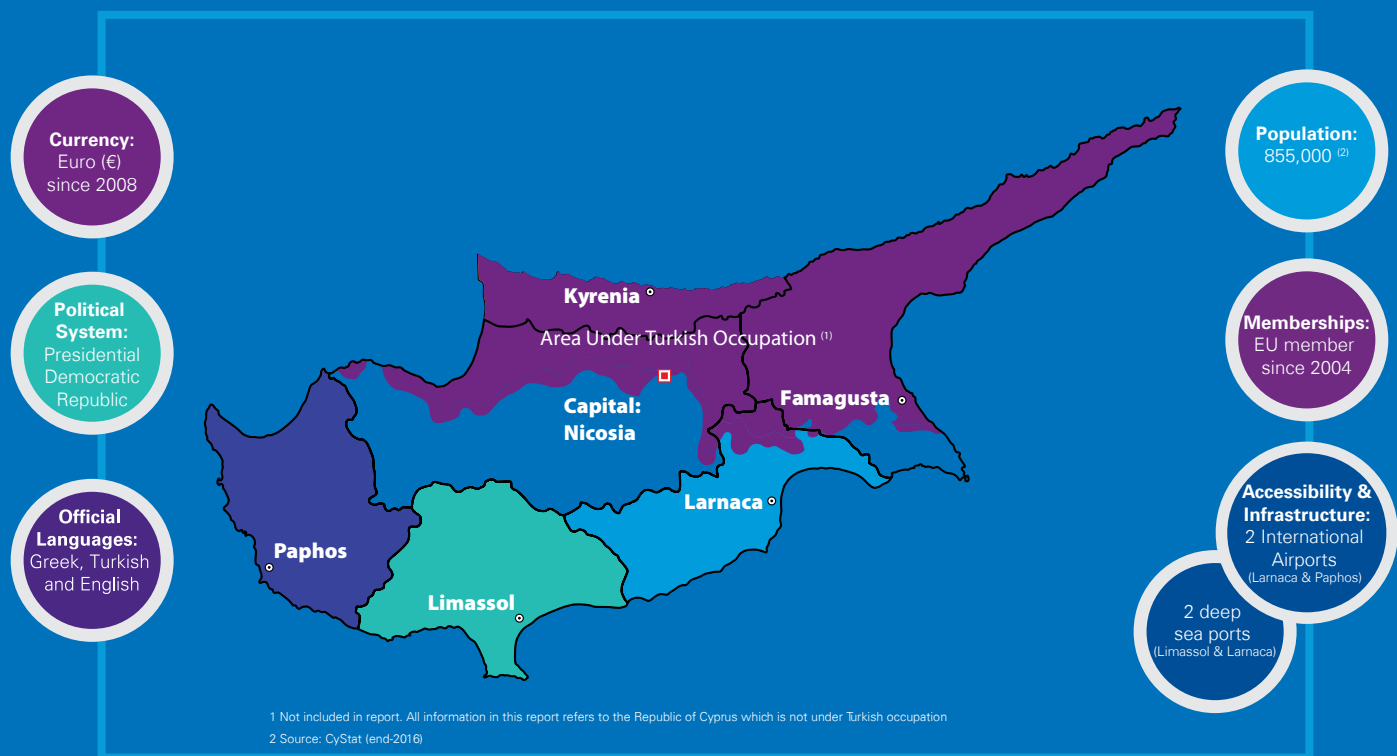


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# Cyprus at a glance





## Key Benefits

### Tax System

- Attractive tax regime: modern, simple and low rates (e.g. corporate tax 12,5%)
- A huge network of Double Tax Treaty (circa 60 countries)

### Legal and Regulatory Framework

- Excellent regulatory structure, closely aligned to the English common law legal system
- Strong protection for investment and intellectual property (IP)

### Human Capital

- Access to talent, youngest population and workforce in the EU, 55% of the workforce has tertiary degree ([investcyprus.org.cy](http://investcyprus.org.cy))
- More than 73% of Cypriots speak English ([investcyprus.org.cy](http://investcyprus.org.cy))
- Best island economy for 2017/18 in terms of lifestyle and human capital (fDi magazine)

### High Quality of Life

- One of the best climates worldwide
- Top 5 safest country in the world (Value Penguin 2015)

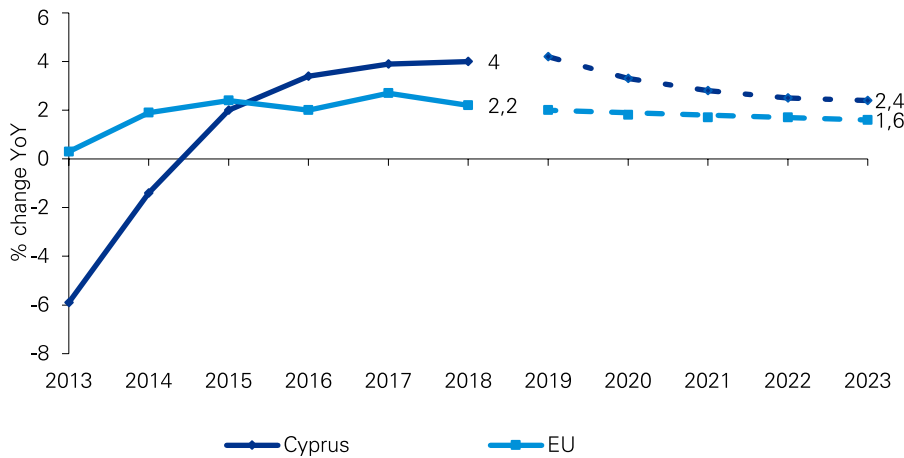
An aerial photograph of a playground with several children scattered across the grey asphalt surface. The children are wearing various colorful clothing, including jackets, hats, and pants. Some are standing, some are crouching, and some are holding hands. The image is used as a background for a presentation slide.

# Economic overview



# GDP growth, inflation and unemployment rate

## GDP YoY change - Cyprus Vs EU



Source: IMF (World Economic Outlook Database, October 2018)

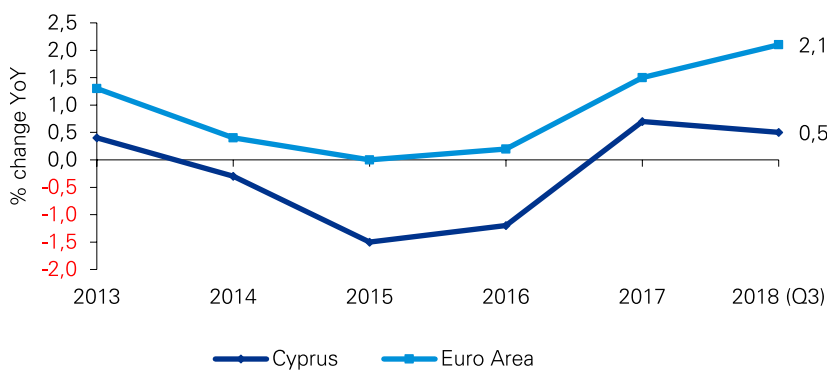
After expanding by 3,9% in 2017, a nine-year high, the Cypriot economy continued its upswing in early 2018, posting a 3,9% (y-o-y) growth in H1 2018. Cyprus' impressive annual GDP since 2013, is starting to stabilise at almost twice the EU average of 2,2%.

IMF is forecasting the growth to keep accelerating with a 4,2% rate in 2019 and then to steadily decelerate down to 2,4% in the next 5 years (but still higher than the EU average). Growth is mainly driven by solid domestic demand and, lately, exports.

Inflation in Cyprus as of Q3 2018 is down to 0,5%, significantly lower than the Euro Area average of 2,1%. Private consumption continued to expand, supported by rapidly rising employment and gradually increasing wages.

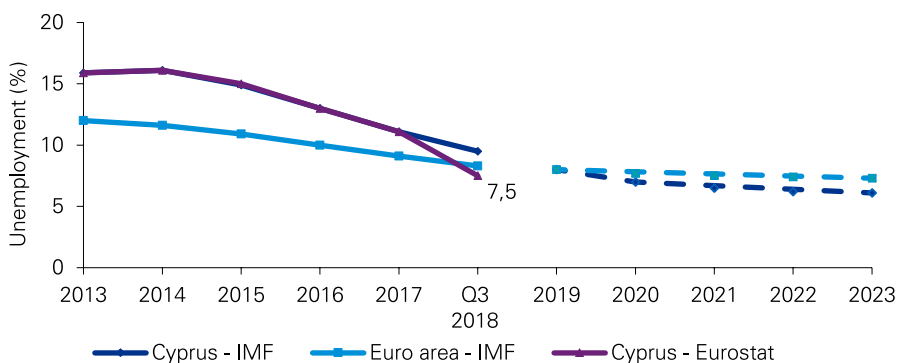
The unemployment rate experienced a big drop since the peak in 2014, converging closer to the Euro Area average. The latest Eurostat figures (August 2018) are showing a drop to 7,5%, even lower than the Euro Area average. IMF forecasts that unemployment in Cyprus will fall to 6,1% by 2023.

## Inflation % change (YoY)



Source: Ministry of Finance, Eurostat (October 2018)

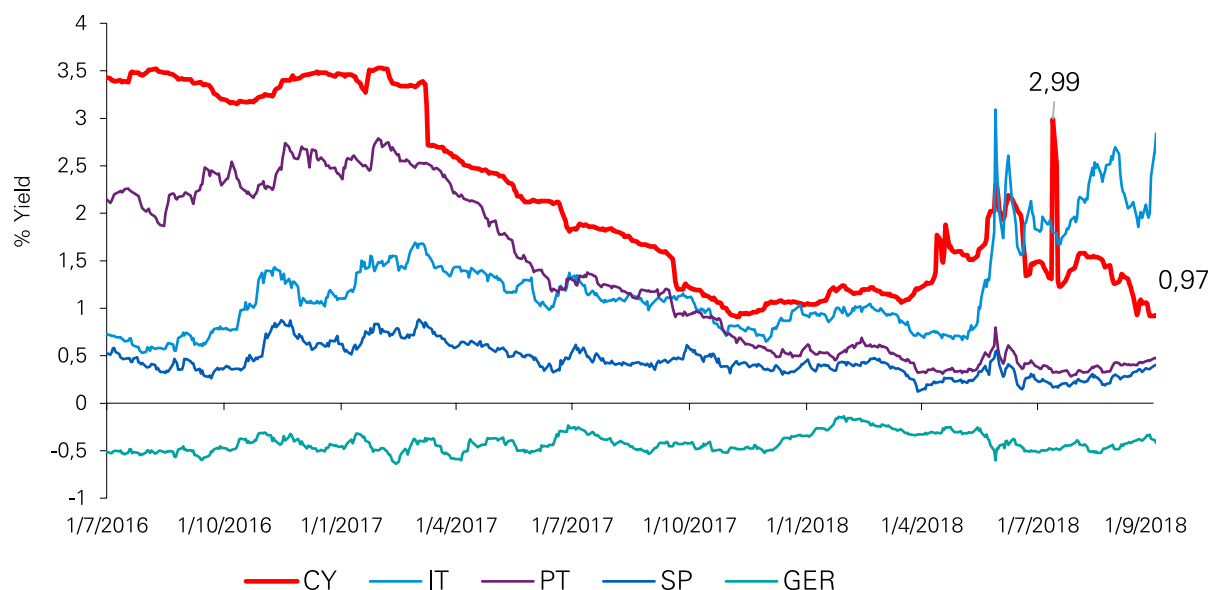
## Unemployment rate, Cyprus Vs Euro area, %



Source: IMF (World Economic Outlook Database, October 2018), Eurostat

# Government bonds and credit rating

## Government bonds comparison



Source: Stock Markets data

A Cypriot 10-year government bond yield issued in mid 2013 (July) was priced circa 3.43% and has dropped to 0.97% in August 2018, signifying the strong fiscal performance of the economy. The uncertainty surrounding the troubled Coop Bank had increased the Cypriot bond yield to circa 2.99% in July 2018, but the normal trajectory was re-established once the deal was completed. When comparing the Cypriot bond yield with other government bonds with similar maturity date (end 2022 or beginning 2023), it is noticed that the Cypriot government bond is converging closer to Spanish and Portuguese government bond yields.

Since the events of the Cypriot economic crisis in 2013 and the downgrade of Cyprus' sovereign rating by various international credit rating agencies to "Junk", the country has significantly progressed. The positive economic performance over the past years has led to a series of upgrades of Cyprus' sovereign rating by various international rating agencies. With regards to the latest update by S&P, Fitch and DBRS, Cyprus sovereign rating was upgraded to "Investment Grade" with stable outlook, signifying the strong performance and improvement of the Cypriot economy.

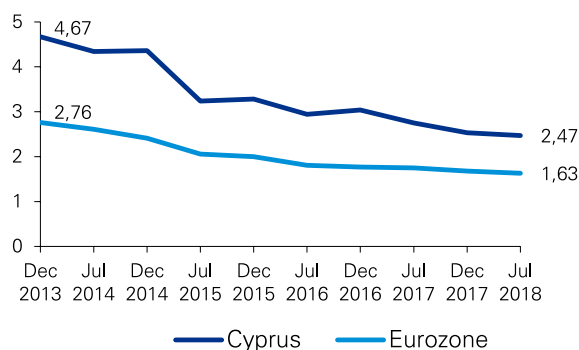
## Cyprus Credit Rating

Agency	Moody's	S&P	Fitch	DBRS
<b>Previous rating</b>	Ba3	BB+	BB+	BB
<b>Current rating</b>	Ba2	BBB-	BBB-	BBB(low)
<b>Current rating as of</b>	27 Jul 2018	14 Sep 2018	20 October 2018	23 November 2018
<b>Upgrade/ Downgrade</b>	upgrade	upgrade	upgrade	upgrade
<b>Outlook</b>	stable	stable	stable	stable

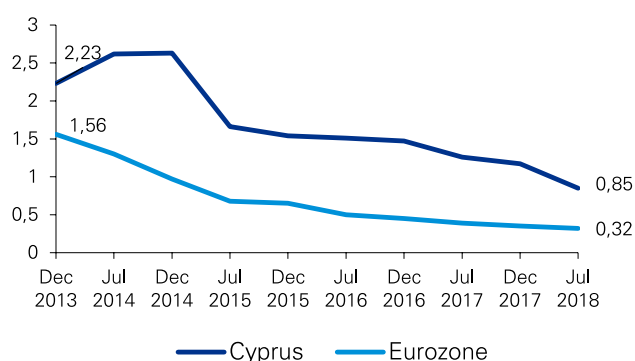
# Interest rates, deposits and loans movement

## Interest Rates (%) on:

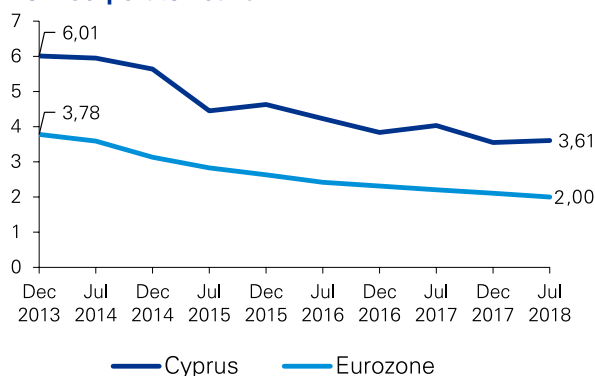
### New Housing Loans



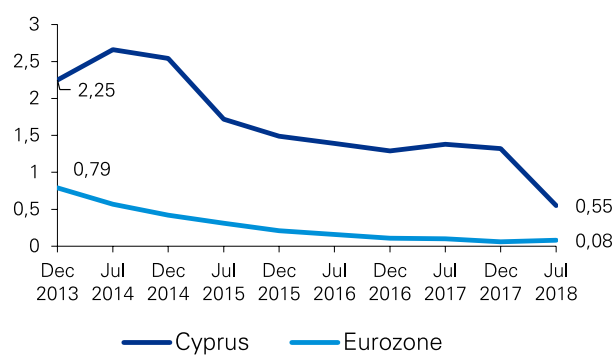
### New deposits from households



### New Corporate Loans



### New deposits from corporations

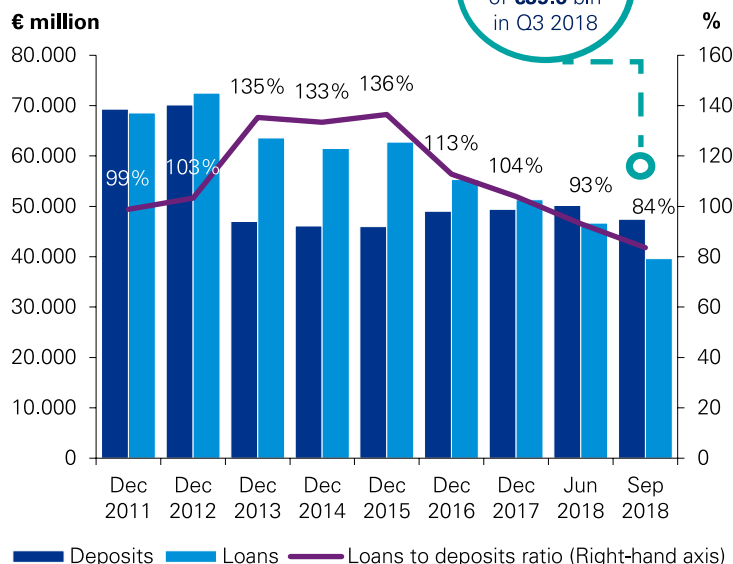


Source: Eurostat

## Loans - Deposits Interest Rates Spread

	Households		Corporate	
	Dec 2013	Jul 2018	Dec 2013	Jul 2018
Cyprus	2,44	1,62	3,76	3,06
Eurozone	1,20	1,31	2,99	1,92

## Loans - Deposits trends



Source: CBC

Interest rates have been declining since 2013. The decision of the Central Bank of Cyprus in February 2015 to lower the ceiling of its base interest rate by 1% is reflected in the declining trend.

More specifically, new housing and corporate loans interest rates continued their decline and stand at 2,47% and 3,61% respectively, as of July 2018.

However, the interest rates for both housing and corporate loans are still significantly higher than Eurozone's average.

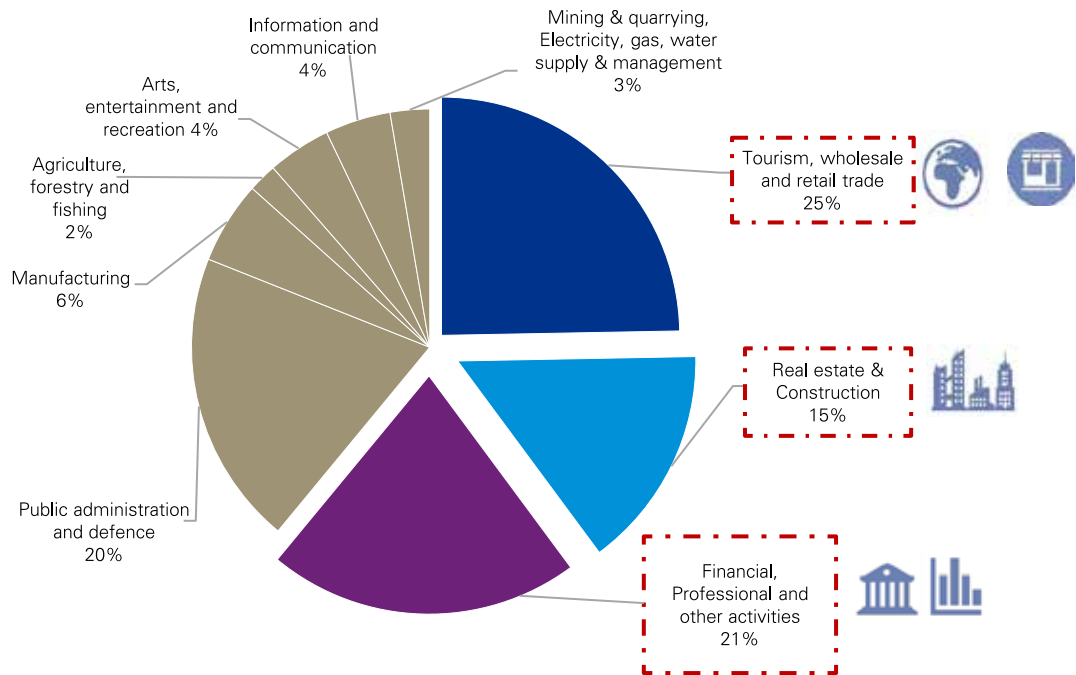
The interest rate spread between Loans and Deposits has been reduced in Cyprus for both Households and Corporates. However, Cypriot Banks are still enjoying a bigger spread than the Eurozone average.

The level of bank deposits, appears to be relatively stable over the past few years, since the events of 2013.

In contrast, loans appear to have significantly reduced in the past few years. There was a decrease of circa 23% in Q1-Q3 2018. The decline in loans is multi-faceted; it may be attributed to the banks' efforts to de-leverage their balance sheets via debt for asset swaps, write offs and cash collections, as well as the sale of their loan portfolios, which has taken off in 2018 and the recent transfer of Coop's NPL portfolio.

# Keys pillars of the economy

## Cyprus Gross Value Added (GVA) by sector (H1 2018)



Source: CyStat

## Tourism

Tourist arrivals have continued their strong growth over the past years. According to the official statistics of the government, 2018 is performing better compared to the previous year, which was the most successful year ever recorded. Tourist arrivals until September 2018 are exhibiting an increase of 7,9%, compared to the corresponding period of 2017.

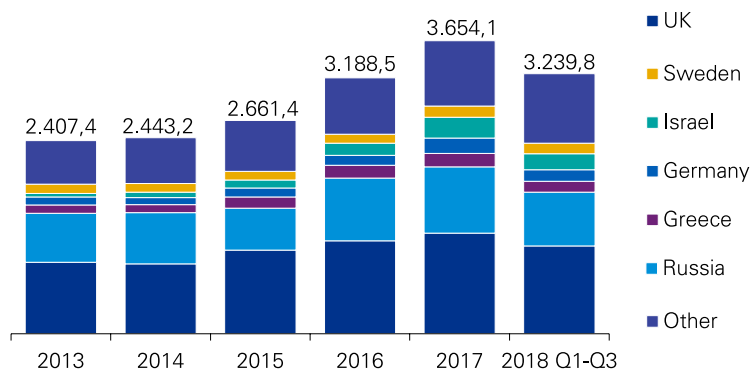
The revenues from tourism hit a double-digit percentage increase in the previous two years (11,9% and 11,7% in 2016 and 2017 respectively). In Q1-Q3 2018, revenues appear to be stabilising with a 2,3% increase. In total numbers, tourism for Q1-Q3 2018 has reached €2,3 billion in revenues.

While the strong growth may be partially attributed to geopolitical tensions in competing countries, the geographical diversification of tourists arriving in Cyprus ensures the sustainability of the sector's performance.

## Financial, Professional and Other Services

The attractive tax system, the legal and regulatory framework and the educated workforce are the drivers of the growing "service economy" in Cyprus. With a 21% share of the GVA, services formulate one of the biggest pillars of the economy. The consolidation and recovery of the Banking sector is expected to further strengthen the Services sector.

## Total Tourists Arrivals by Country (thousand)



Source: CyStat

**+50%** from 2014 to 2017

**+8%** Q1-Q3 2018 vs Q1-Q3 2017

**€2,3** billion in revenues Q1-Q3 2018



# Potential growth drivers



## Casino

The government has signed a contract with the multinational consortium, the Integrated Casino Resorts Cyprus Limited, consisting of Melco Resorts and Entertainment and Cyprus Phassouri (Zakaki) Limited, for the development of a luxurious integrated casino resort. The relevant legislation adopted in July 2015 provides for the development of a resort of international standards; including a hotel exceeding the requirements of a five-star establishment with at least 500 luxury rooms, 136 gaming tables and 1.200 gaming machines. The construction process is already in progress and it is expected to be completed by 2021. It is estimated that it will contribute €700 million/year (4% of Cyprus' annual GDP).

## 4 Satellites



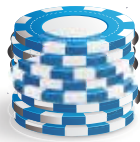
Nicosia



Larnaca



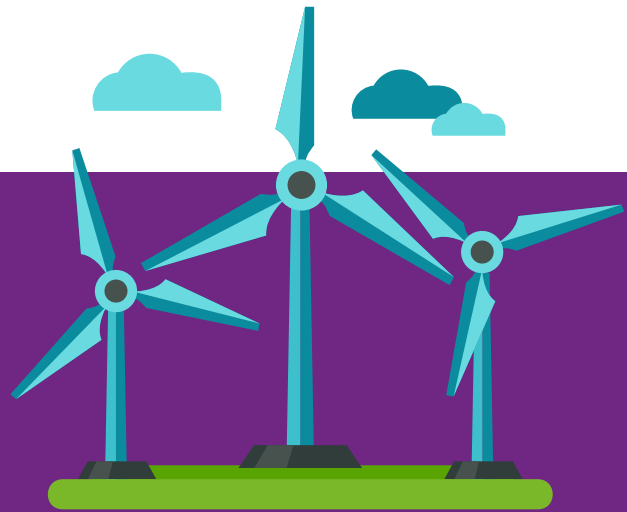
Paphos



Paralimni

## Energy Sector

In relation to the energy sector, the government signed contracts with the energy giants Exxon Mobil and Qatar Petroleum, as well as the major European companies Eni and Total, within the framework of the 3rd licensing round for offshore hydrocarbons exploration in Blocks 6, 8, and 10 in the Exclusive Economic Zone (EEZ) of Cyprus. The exploratory drilling in Block 11 (Total/ Eni) has begun in July 2017. Natural gas has already been discovered in Block 12 (Aphrodite field) by Noble Energy. Natural Gas discoveries in Cyprus' EEZ, combined with the island's strategic position, provide the springboard for Cyprus' transformation into a regional energy hub. The energy sector's development will have a positive impact on the Cypriot economy and especially on job creation, foreign investment and GDP growth.



## Shipping Industry



**3<sup>rd</sup>** largest merchant fleet in the EU and among the largest merchant fleets worldwide

Cyprus registry ranks 10<sup>th</sup> worldwide

Newly founded Deputy Ministry of Shipping

## Alternative Investment Funds

New legislation governing the AIFs

Low set-up and operation costs



Flexible structures: UCITS and AIFs

A low-angle, upward-looking photograph of a modern skyscraper with a glass facade. The building's structure is composed of a grid of dark metal frames holding large glass panels. The sky is a pale, clear blue. The perspective creates strong diagonal lines that converge towards the top of the frame, emphasizing the height and scale of the architecture. A solid blue rectangular overlay is positioned on the right side of the image, containing the text.

# Real Estate sector

# Construction

## Construction Price Index

The construction sector was probably the sector which was affected the most over the past few years as a result of the economic crisis of 2013.

The cost of construction materials as reflected by the Construction Price Index is often used as an indicator of the activity in the sector. Following an upward trajectory until 2014, there was a sharp decline in 2015-16, with a steady upward slope from 2017 onwards.

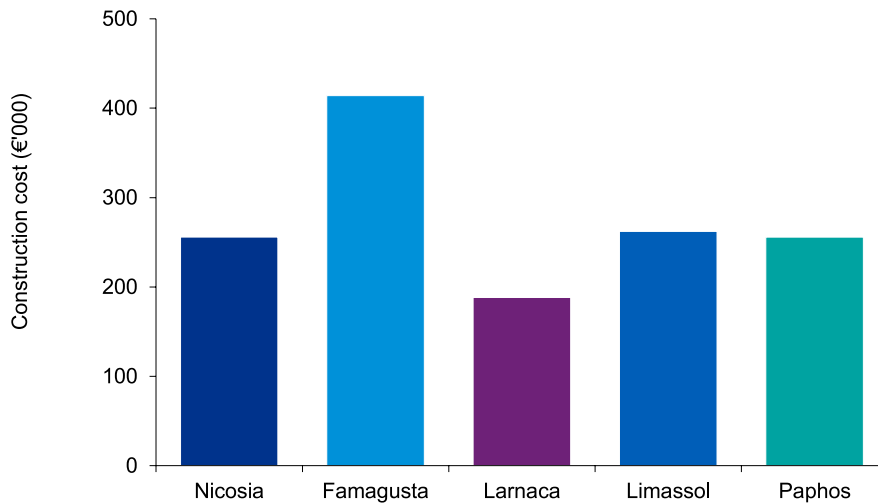
Overall, during Q1-Q3 2018, the Construction Price Index has been exhibiting an upward development, standing at 100,35 (with base 2015=100). This reflects an increase of 1,69% compared to Q3 2017.

Construction Price Index 2010 - Q3 2018



Source: CyStat

Average construction cost per building permit issued (H1 2018)



Source: CyStat

## Construction cost per Building Permit

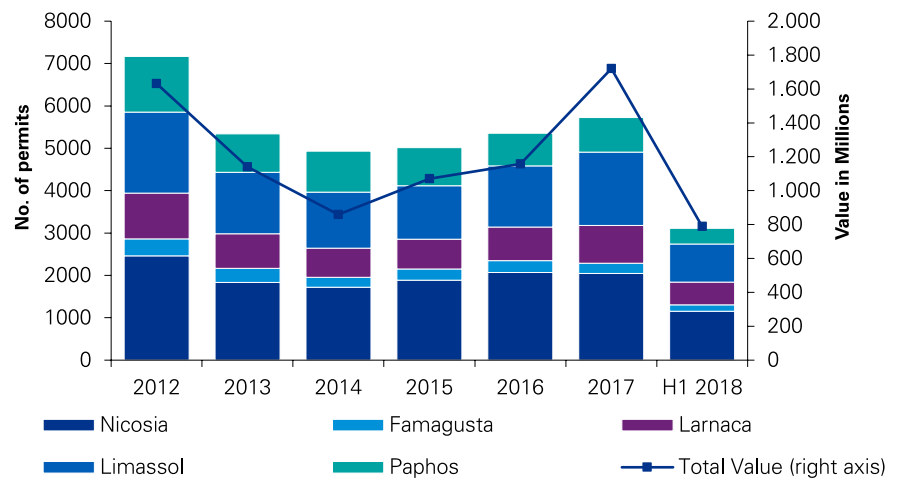
The average construction cost per building permit issued varies between regions, implying moderately higher scale developments in certain geographical areas. One such example is Famagusta, which is mainly touristic-oriented and a big percentage of the development is attributed to hotels; for H1 2018 it had the highest average construction cost (followed by Limassol).

# Building permits activity

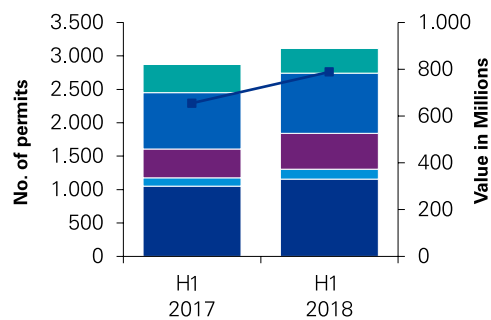
Building permits are enjoying a steady growth over the last few years, reflected in the increased construction activity of the island. Nicosia is the district with the highest number of building permits, which is likely to result in an increased development in the capital in the coming years.

The value of the new permits issued increasing at a higher rate compared to the number of permits. More specifically, it has increased by 20% comparing the H1 of 2018 and 2017. Nicosia is the district with the highest total value of building permits in the H1 2018, taking the lead from Limassol, which was the number one city in terms of total value of building permits in 2017.

### No. of Building permits vs Value



### H1 2017 vs H1 2018



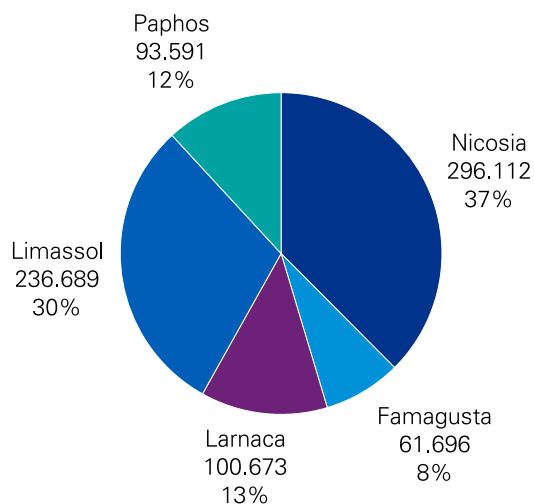
**+8%**

Permits issued  
between H1 2017 &  
H1 2018

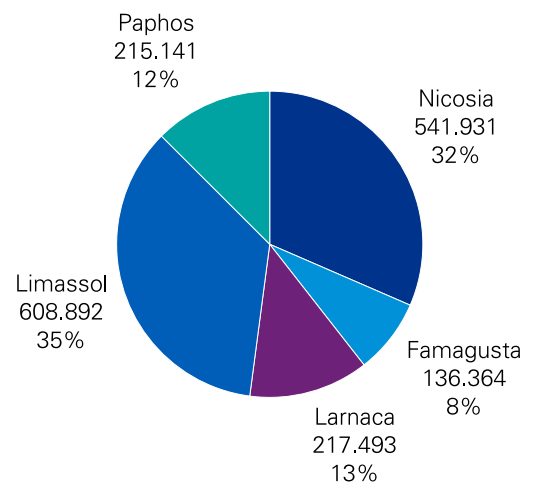
**+20%**

Value of  
permits  
between  
H1 2017 &  
H1 2018

### Building Permits Value (€000's) - H1 2018



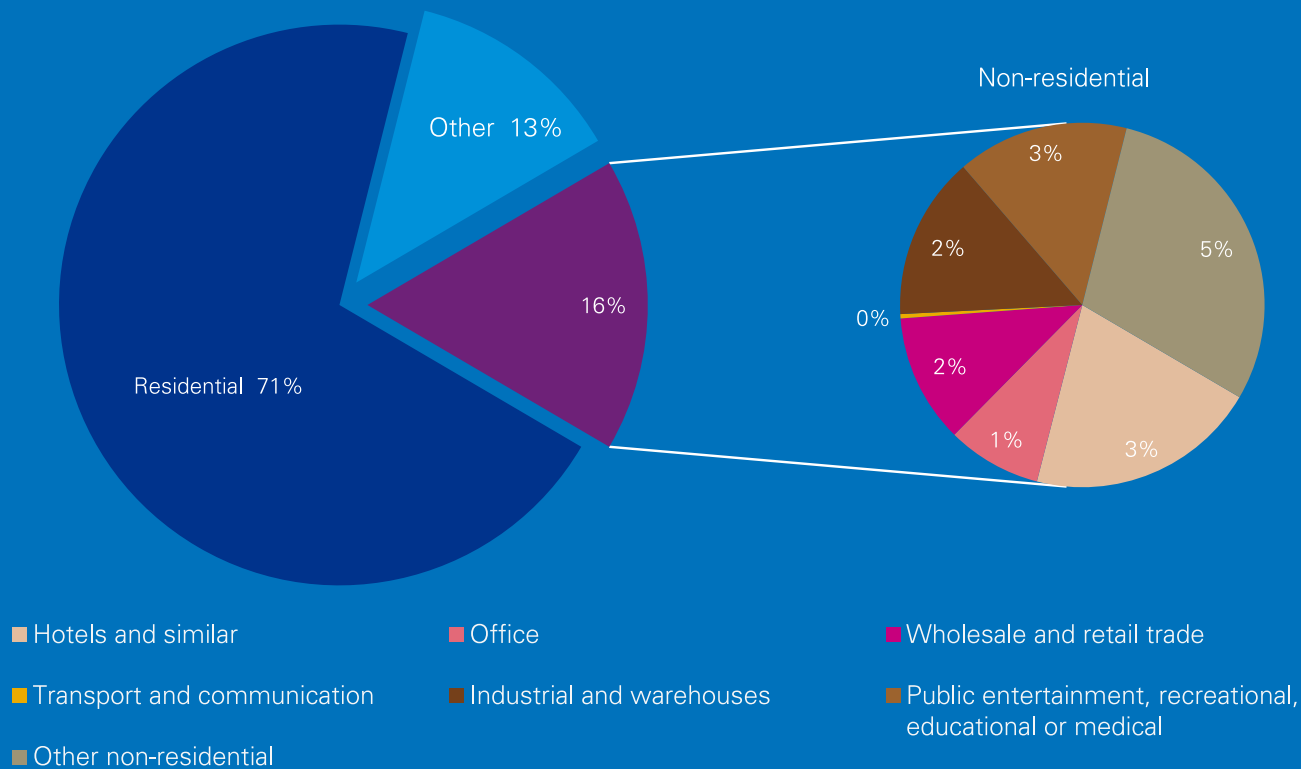
### Building Permits Value (€000's) - 2017



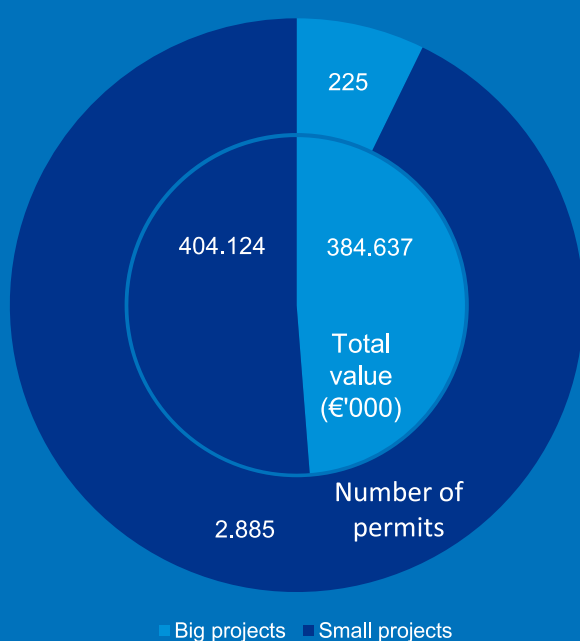


# Building permits issued by type of development (H1 2018)

The majority of building permits issued in H1 2018 are for residential developments (71%), with a total value of €590 million.



## Proportion of building permits for small and big projects (H1 2018)

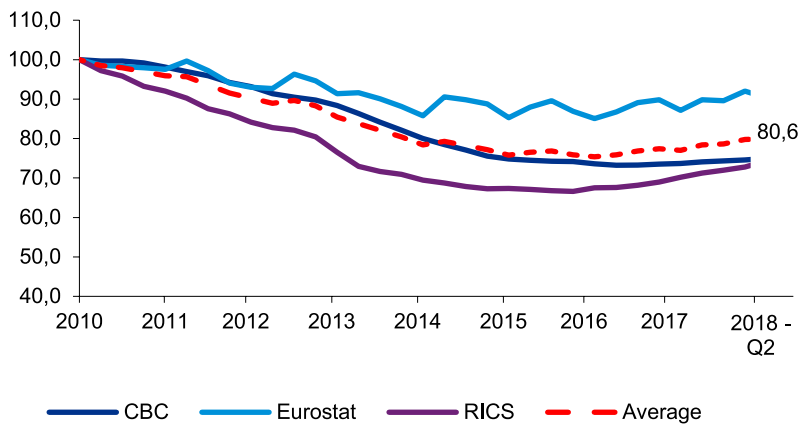


7% of the building permits provided are for projects bigger than 900 m<sup>2</sup> – value of €385 million (49% of the total building permits value).

Note: Big projects are those with area > 900 m<sup>2</sup>  
(as classified by CyStat)

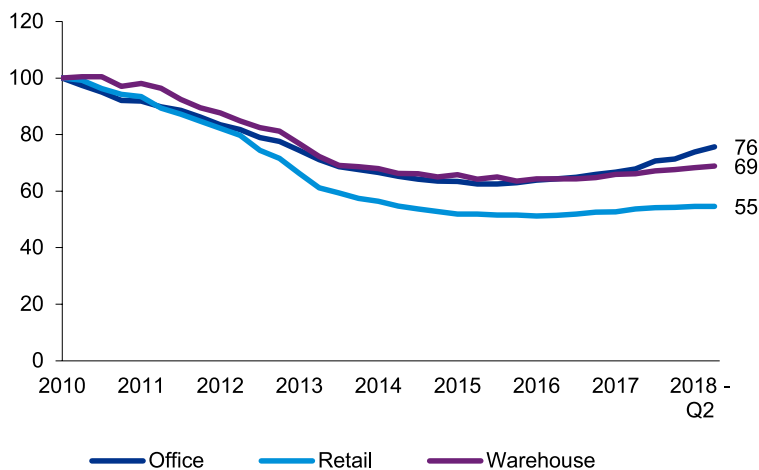
# Price evolution

## Cyprus residential price indices



Source: CBC, Eurostat, RICS, KPMG Analysis

## RICS Office, Retail & Industrial Properties Indexes



Source: RICS

The residential price evolution is monitored by both the Central Bank of Cyprus (CBC) and the Royal Institution of Chartered Surveyors (RICS). In addition to these two indices, there is a third one monitoring the residential price evolution from Eurostat (latest data from all three indices: Q2 2018).

These indices have different methodologies but all have displayed similar negative trajectories after 2010 and exhibit a positive trend from early 2017 onwards.

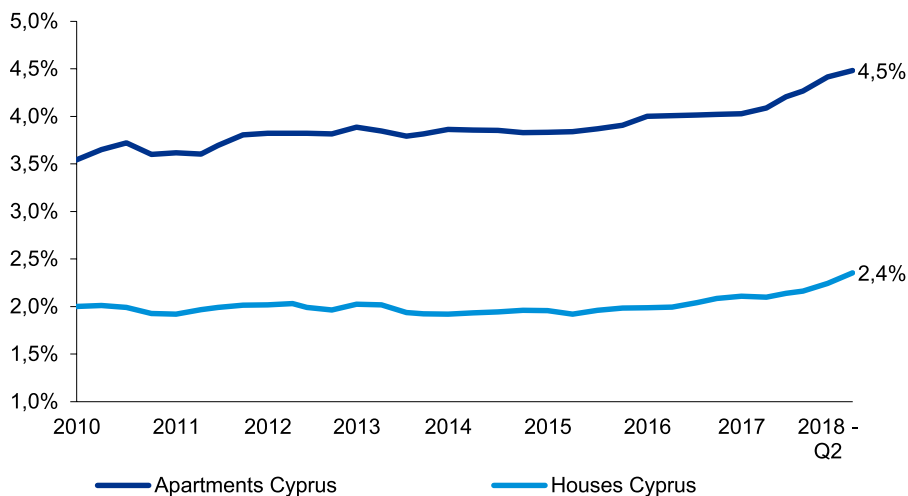
According to RICS, commercial properties have moved along similar lines, with a negative trajectory from 2010 onwards and mild growth exhibited towards the end of 2016 - beginning of 2017 onwards.

As a general observation, price indices for all property types are still much lower than the respective 2010 levels.



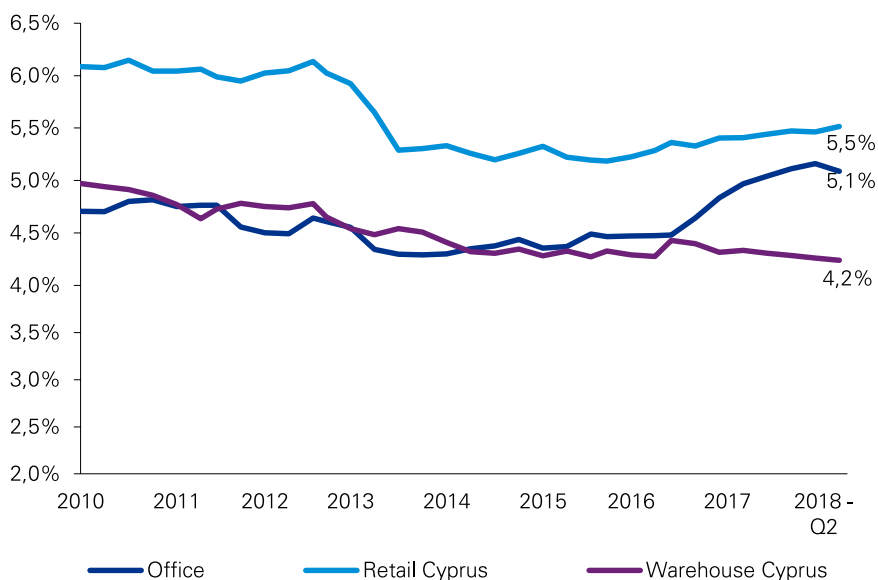
# Property yields

## RICS Residential Properties Yield



Source: RICS

## RICS Commercial Properties Yield



Source: RICS

Despite the economic crisis of 2013, Residential yields both for apartments and houses have been relatively steady according to RICS. The latest available data (Q2 2018) indicates a yield of 2,4% for houses and 4,5% for apartments.

In contrast, yields for Commercial and Industrial Properties have had more volatility as a result of the crisis. Office yields have been contracting since the economic crisis of 2013 but have shown a notable growth since the end of 2016, with the latest data by RICS (Q2 2018) suggesting yields in the region of 5,1%.

Retail properties have been constantly performing better compared to the other non-residential properties. Following the drop experienced in 2013, retail properties have been yielding a steady rate of returns with a slight increase since 2016.

Warehouse (industrial) properties have exhibited a constant decline, with no signs of recovery over the past few years.



# Transaction analysis

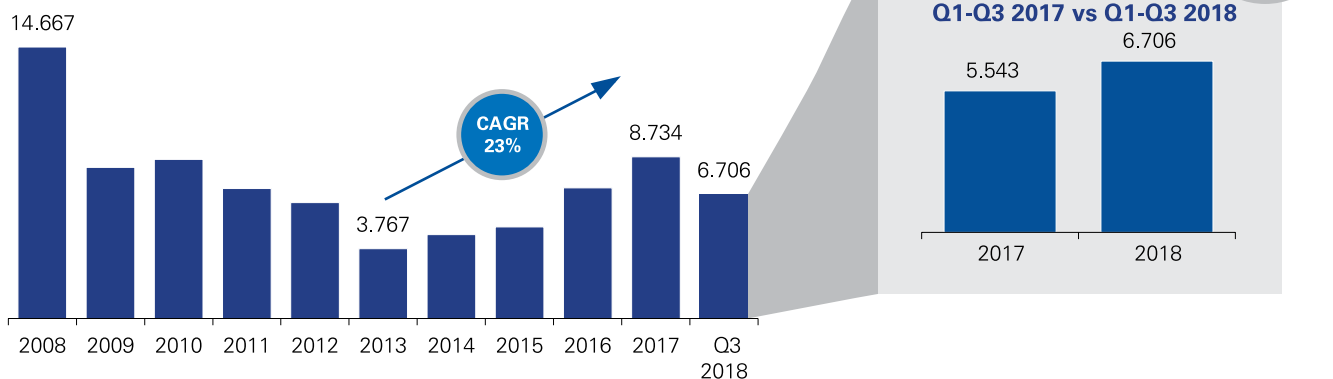
Following the 2004-2008 boom in transactions, the market experienced a sharp drop in 2009 and remained stable until 2013, mainly due to the constant local economic conditions. After the sharp drop during the peak of the Cypriot economic crisis in 2013, the market is rebounding, with continuous increases every year since 2014. The largest y-o-y increase in transactions since 2013 was recorded in 2016 (43%) followed by 2017 (24%). 2018 is on track to reach similar number of transactions as in 2017.

Arguably, the increase in property transactions has been enhanced by improved economic conditions. The latter led to improved domestic confidence levels and to an increase in domestic demand. In addition, the various government incentives have not only increased domestic demand, but have also led to a surge in foreign demand;

such measures include the abolition of immovable property taxes, schemes for permanent residency and naturalisation of investors by exception. It should be noted that a considerable number of the transactions is attributable to Debt for Asset Swap ('DFAS') transactions where properties are taken by the banks for settling debt. DFAS exemptions from taxes and levies were enacted by the government, in order to drive the reduction of the NPLs in the banks' portfolios.

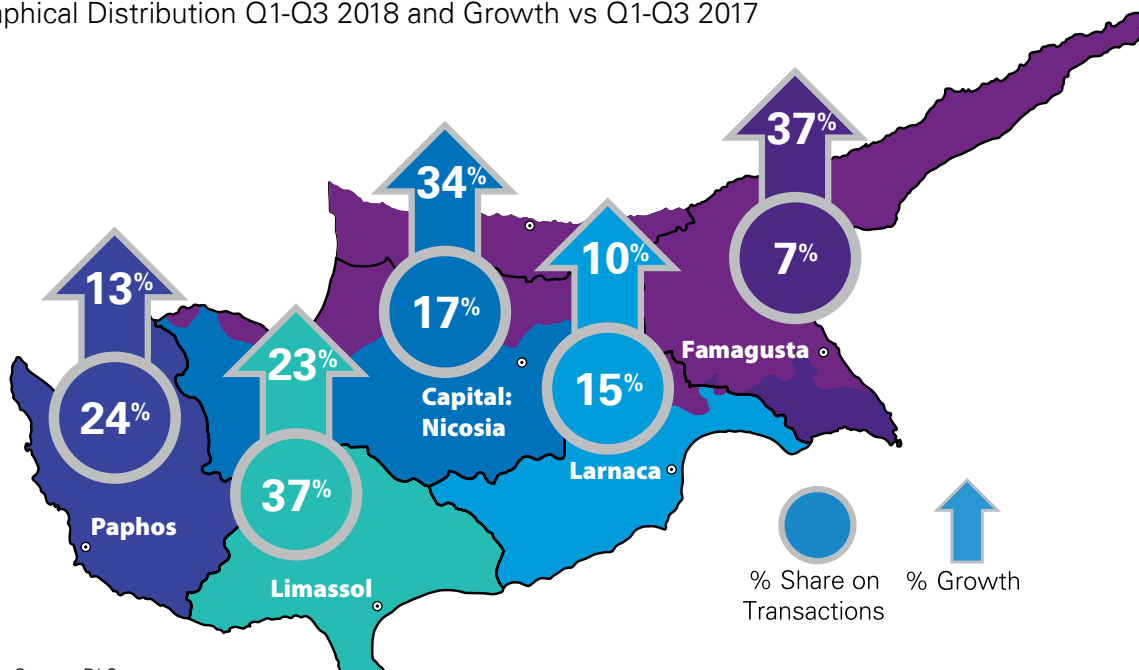
A 21% increase in the number of total Contracts of Sale submitted until Q3 2018 is observed, compared to the previous year. The majority of transactions has been recorded in Limassol (37%) followed by Paphos (24%). The largest growth in the number of transactions was recorded in Famagusta (+37%) followed by Nicosia (+34%).

## Contracts of Sale submitted to the DLS



Source: Department of Land and Surveys Disclaimer (DLS) : The data above refers to the number of Contracts of Sale; this represents the sale agreements submitted to the DLS for the acquisition of property as extracted by the DLS portal up until 01/11/2018. The data was sorted and consolidated.

## Geographical Distribution Q1-Q3 2018 and Growth vs Q1-Q3 2017





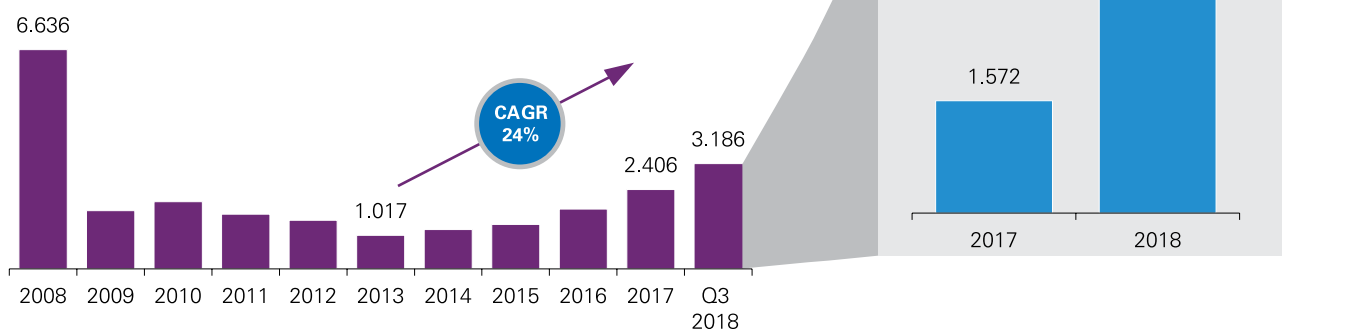
## Transaction analysis: non-nationals

In terms of transactions by non-national citizens, the growth recorded is even more pronounced. Until Q3 2018 a total of 3,186 Contracts of Sale were submitted to the DLS by non-nationals, a 103% increase when compared to the previous year.

In terms of growth, compared to the previous year, Famagusta recorded the highest increase (171%), followed by Paphos (116%), Larnaca (94%), Limassol (84%) and Nicosia (68%).

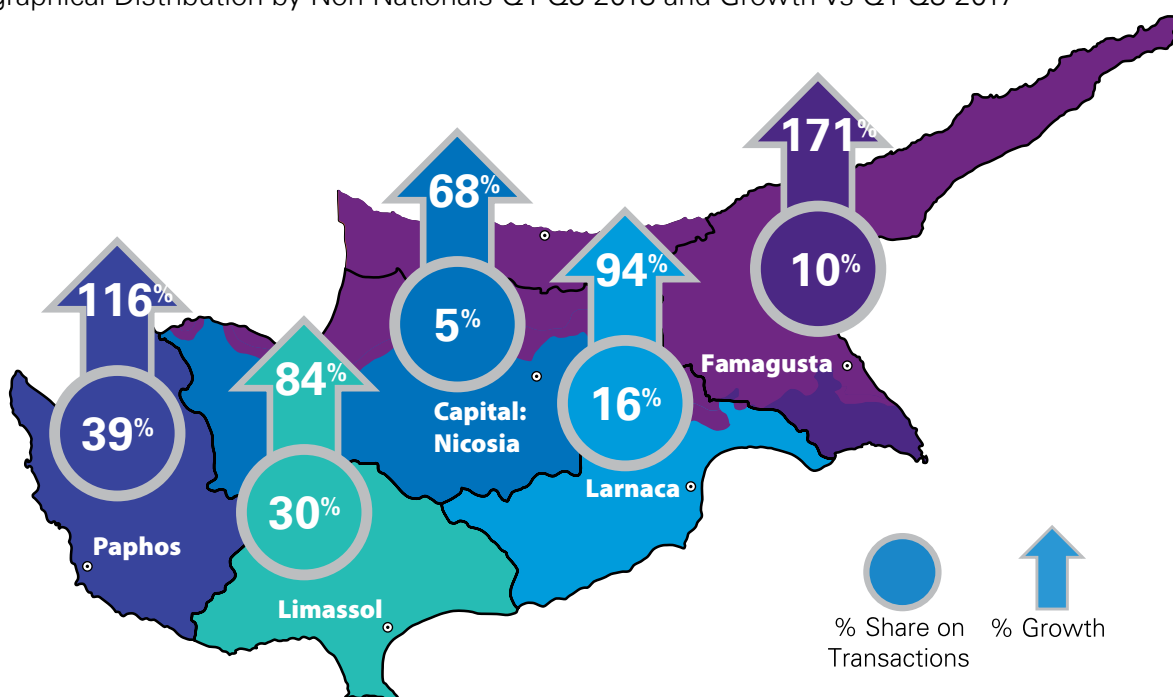
The highest share of Contracts of Sale by non-nationals was recorded in Paphos (39%), followed by Limassol (30%), Larnaca (16%), Famagusta (10%) and Nicosia (5%). Paphos and Limassol remain the preferred cities of choice by non-nationals, with Nicosia being the least preferable city.

### Non- Nationals Contracts of Sale submitted to DLS



Source: DLS: The data above refers to the number of Contracts of Sale; this represents the sale agreements submitted to the DLS for the acquisition of property as extracted by the DLS portal up until 01/11/2018. The data was sorted and consolidated.

### Geographical Distribution by Non-Nationals Q1-Q3 2018 and Growth vs Q1-Q3 2017

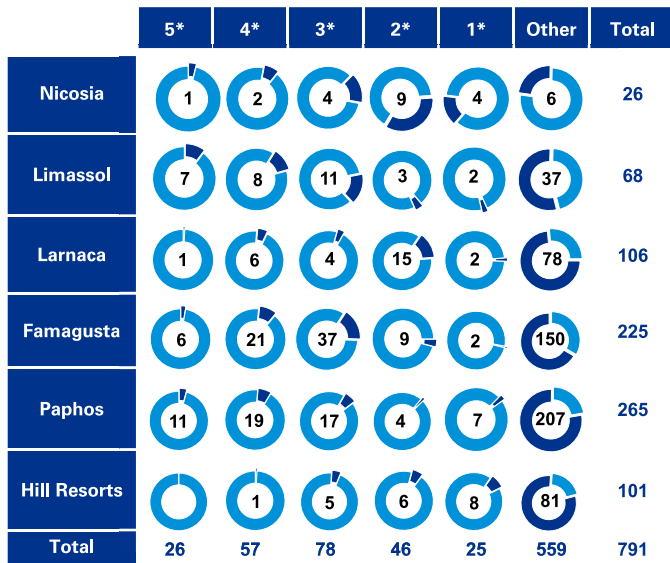




# Notable Real Estate sector matters

# Hotels overview

## Geographical Distribution of Touristic Units



Source: CTO

## Hotel locations

Famagusta and Paphos are dominating the starred hotels market, with a combined 57% of the units. They are also combining for a 69% of the 4\* & 5\* hotels.

Nicosia is the city with the fewest units, which reflects the fact that it has the lowest number of tourists.

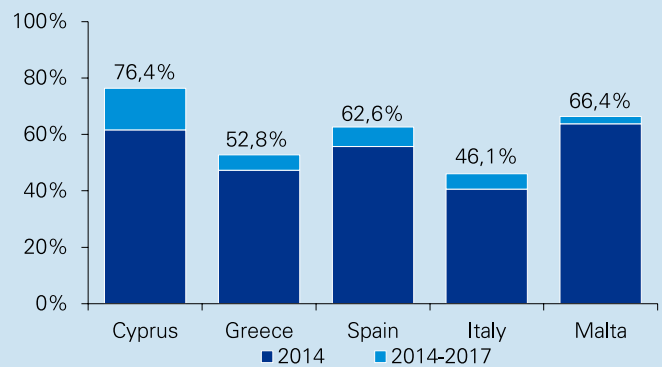
Paphos, on the other hand, has the most units in Cyprus, the majority of which belong to the "Other" category (no-star hotels, apartments, villas etc.).

The Hill Resort hotel scene is dominated by no-star agrotourism units.

## Occupancy

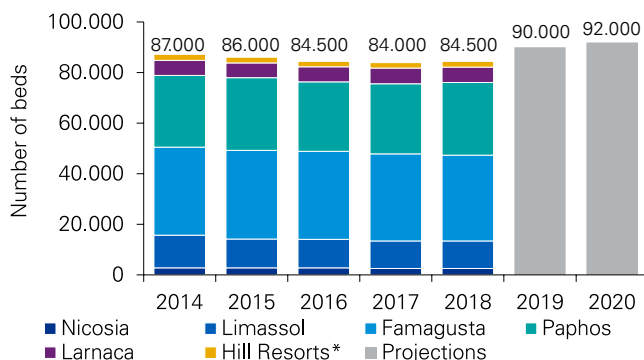
Cypriot hotels are leading the pack of direct Mediterranean competitors in terms of net occupancy, with a remarkable growth of +15% between 2014 and 2017. This is a result of the big increase in tourist arrivals, coupled with the lack of new touristic units.

## Net Occupancy for Mediterranean hotels



Source: Eurostat

## Available Beds Capacity



Source: CTO

## Capacity

The increase in tourist arrivals has driven the strong increase in Cypriot hotel occupancy, which was, however, coupled by a slightly decreasing hotel capacity during the last five years. The number of beds currently stands at 84.500 according to Cyprus Tourism Organisation (CTO), however, projections show an increase in future supply, with the number of beds reaching 90.000 by the end of 2019, followed by an additional 2.000 within 2020 from 9 new hotels.

## New Permits

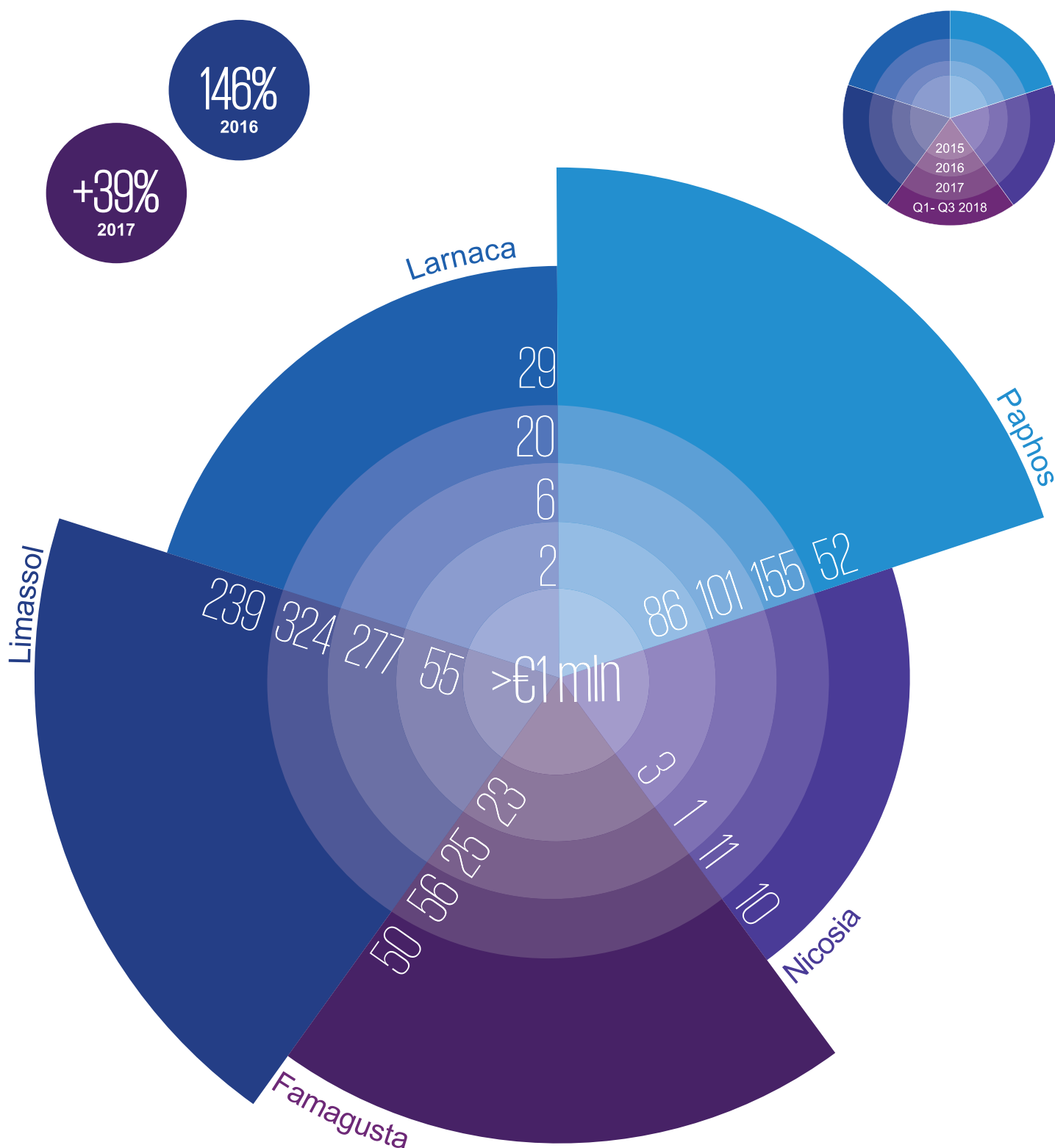
The new hotel building permits, measured by area, have more than tripled, comparing H1 2017 and H1 2018. This is another forward-looking indicator that the hotel industry is trying to catch up with the increasing demand.



Source: CyStat



# Number of high value residential properties transactions > €1 mln

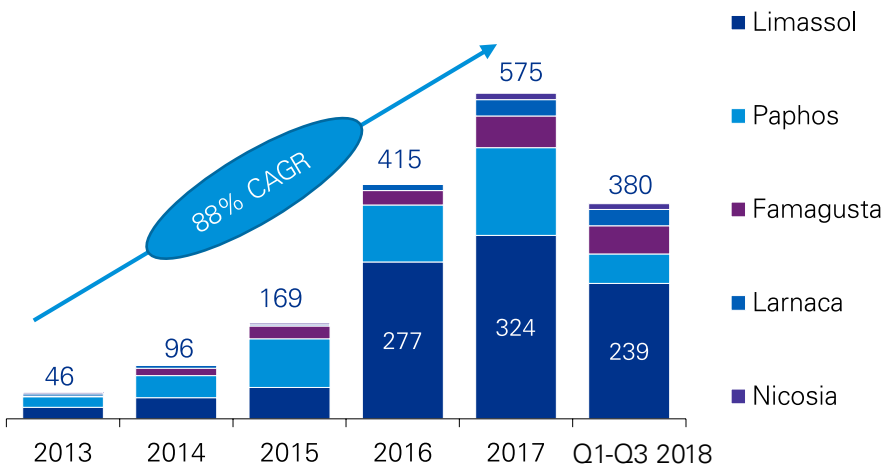


Source: DLS: The data above refers to the number of Contracts of Sale; this represents the sale agreements submitted to the DLS for the acquisition of property as extracted by the DLS portal up until 01/11/2018. The data was sorted and consolidated.



# Number of high value residential properties analysis > €1 mln

## High value residential transactions > €1 mln from 2013

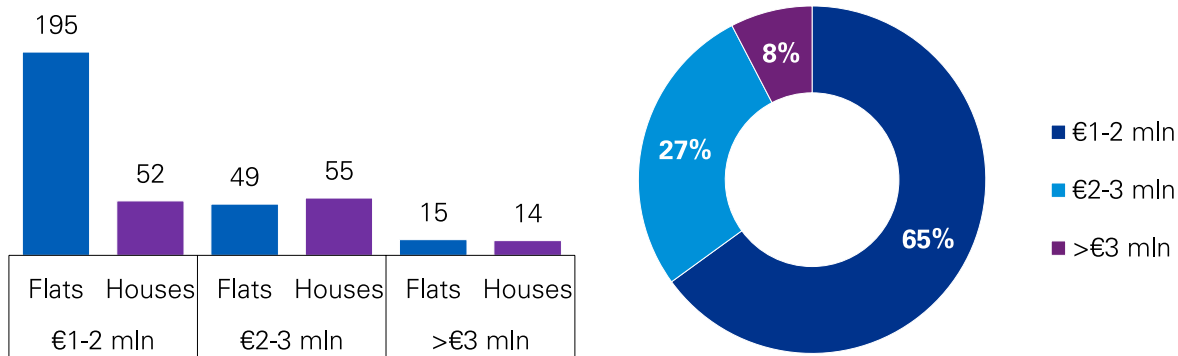


High value residential properties transactions, > €1 million, have been exhibiting a remarkable increase in the past few years. Notably, the CAGR from 2013 to 2017 was 88%.

2017 and 2016 exhibit a 39% and 146% y-o-y growth, respectively. During Q1-Q3 2018, high value residential property transactions are moving along the same lines as in 2017.

Limassol is the key player of growth, with more than half of the transactions made in the coastal city in all years since 2016.

## High value residential transactions by price band Q1-Q3 2018



## Breakdown by city and residential type Q1-Q3 2018:

Limassol	239 → 19  + 220
Paphos	52 → 51  + 1
Famagusta	50 → 39  + 11
Larnaca	29 → 6  + 23
Nicosia	10 → 4  + 6

When considering high value residential properties transactions, 65% of the volume is between €1-2 million, with 27% in the €2-3 million range and 8% over €3 million. Notably, the biggest volume for high value residential properties transactions in Limassol are flats. In contrast, the Paphos market for high value residential transactions is dominated by houses.

# Airbnb

Airbnb has been a key new trend emerging in the tourist industry. Given its rapid development, it has attracted the attention of the House of Representatives with a recent discussion regarding the introduction of related regulation for the units offered through the online platform. Looking into the numbers in detail, Airbnb is still a small part of the tourists' accommodation market but may soon emerge as a sizeable challenge to the

traditional hotel accommodation sector in the coming years, as it may partially replace the more traditional hotel accommodation market.

Particularly, it has attracted approximately 34.500 guests in Q1-Q3 2018, but the strong y-o-y growth in the number of bookings (48% for 2017-2018) is an indicator of emerging trends of this kind.

## Key Figures (2018):



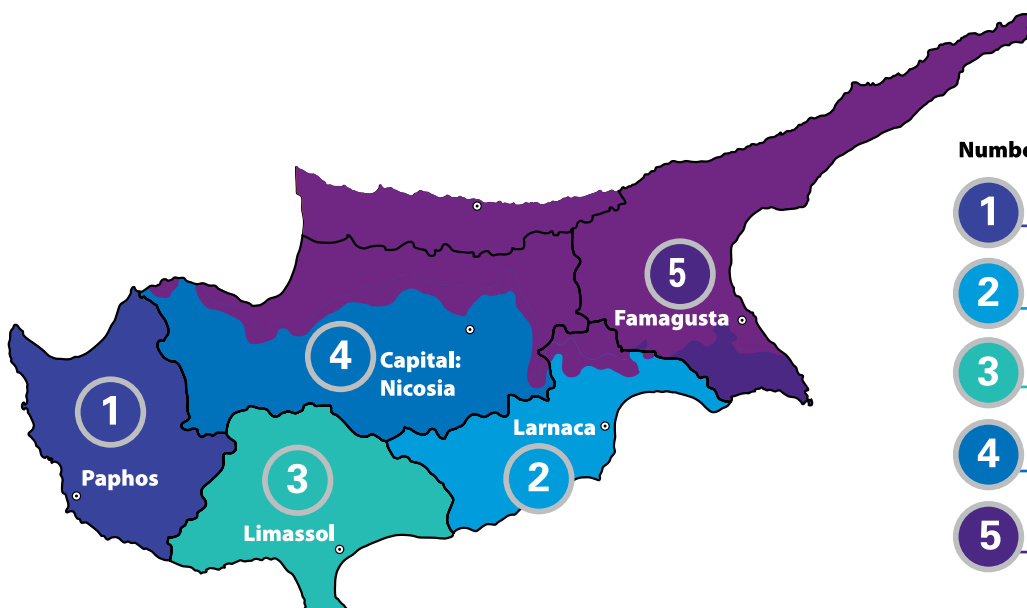
4.500  
active listings (as at Sep. '18)



20.400  
bookings made (Q1 - Q3 2018)



34.493 guests  
31.774 international  
2.719 domestic  
(Q1 - Q3 2018)



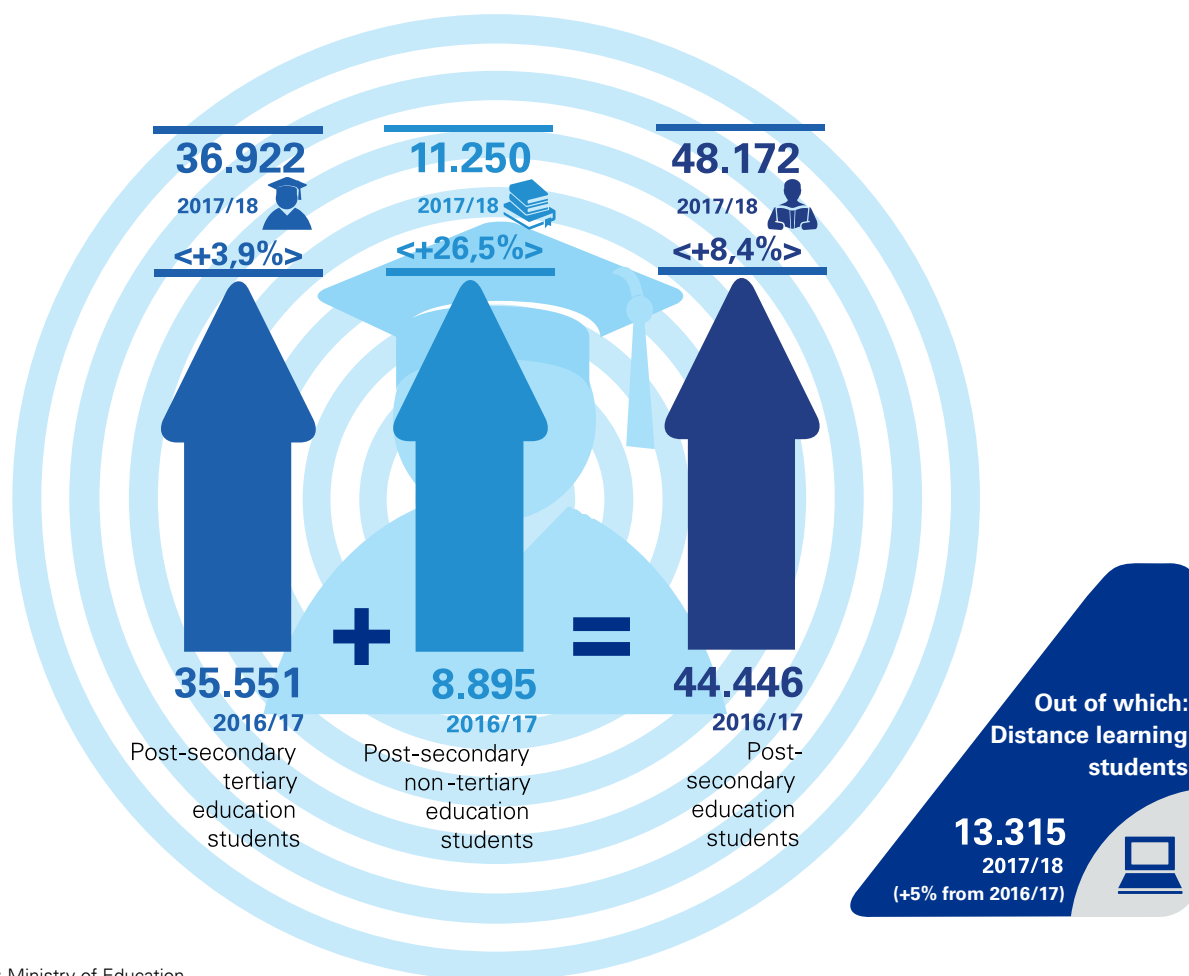
Number of Guests Q1-Q3 2018

1	Paphos	12.222
2	Larnaca	8.881
3	Limassol	7.319
4	Nicosia	3.648
5	Famagusta	2.423

# Student accommodation

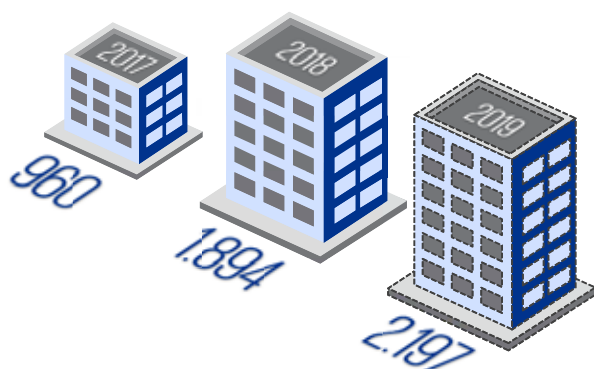
On the basis of a KPMG internet research, it is apparent that student accommodation has seen a strong growth over the last year, with an estimated 97% increase in the number of available rooms from 2017 to 2018. The new year, 2019, is expected to add another 16% to the existing stock of accommodation units. The number of university and college students saw a strong growth of 8,4% in the current year, which is reflected in the increasing demand for student accommodation units.

Unsurprisingly, Nicosia is the dominating city in regards to student accommodation units, as most of the major universities and colleges are based in the capital. Unsurprisingly, Nicosia is the dominating city in regards to student accommodation units, as most of the major universities and colleges are base in the capital.



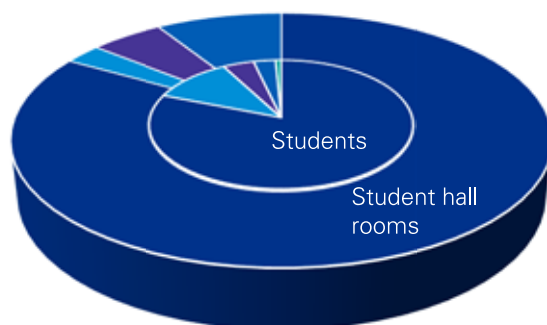
Source: Ministry of Education

## Major student hall rooms



Source: Ministry of Education, KPMG Research

## Distribution of students and rooms per city



■ Nicosia ■ Limassol ■ Paphos ■ Larnaca ■ Famagusta

# Real estate foreclosures

## Property foreclosure legislation

A new procedure was introduced in 2015 to enable the enforcement of mortgages as security rights through foreclosure. The purpose of the amendment was to remove the involvement of the DLS and the Courts of Justice in such a manner that an out of court procedure is driven by the secured creditors instead, in an attempt to expedite property foreclosures, protect creditors' rights and offer an alternative more efficient approach to security realisation.

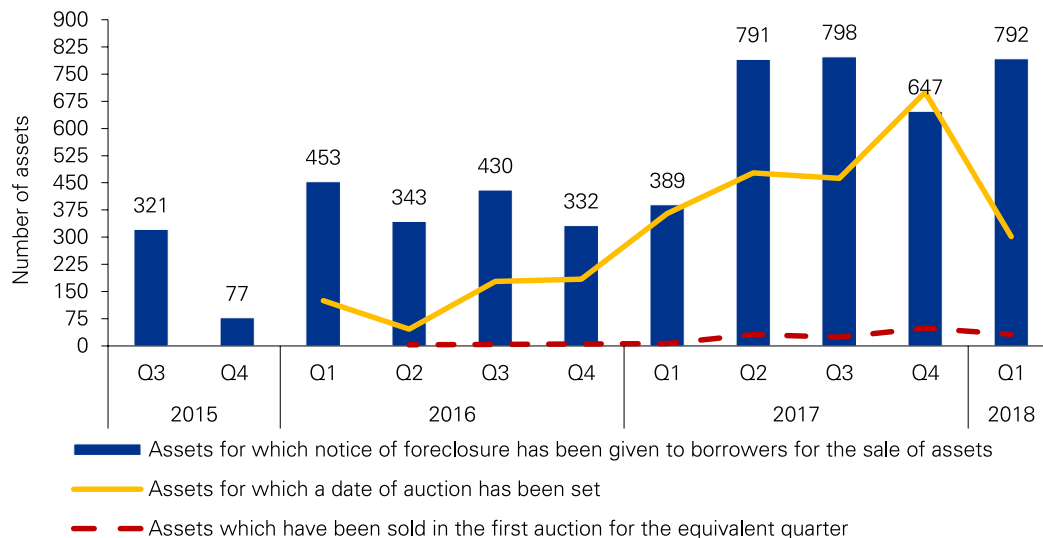
One of the most prominent features of the new procedure is the imposition of strict deadlines for adherence, in an attempt to reduce the time of completion of the process, without jeopardising the debtor's rights at the same time.

Another prominent feature of the new process is the introduction of a procedure for the valuation of properties, which aims at the participation of both the

lender and the borrower. The valuation process, as set out by the law, provides that both the secured creditor and the debtor shall appoint a valuer each, in order to establish the market value of the asset in question. The market value of the asset will be the average of the two estimates, provided that the difference between the two valuations does not exceed 25%. In such a case, a third valuer will be appointed and the market value of the asset will be considered to be the average of the two closest valuations.

The new law came into effect in April 2015. The first auctions took place within 2016, with minimal results to date. The way distressed auctions will develop in the future may have a significant bearing on the real estate market.

## Real Estate Foreclosures from Banking Institutions



Source: CBC

**173**

Assets which  
have been  
sold in the  
first auction

**2838**

Assets for which  
a date of  
auction has  
been set

**5373**

Assets for which  
a notice of  
foreclosure has  
been given





# Topics of interest



# Immovable property fees & taxes



The VAT rate for acquisition of residential property or renovation/repair purposes can be reduced to 5% provided that:

- The property is intended to be used by the beneficiary as his/her main permanent place of residence while staying or visiting Cyprus
- The reduced rate is applied only on the first 200 m<sup>2</sup> building coefficient
- The property is not used for investment or leasing purposes or to exercise any other economic activity

## Permanent residency scheme



The application form must be accompanied by a:

- Title deed; or
- Contract of sale

Related to a house, apartment or any other building in Cyprus that has already been submitted to the Department of Land and Surveys.



The minimum market value of the above mentioned property should be **€300 thousand** (+VAT).

A proof of payment for at least **€200 thousand** (+VAT) should be submitted.



Eligible applicants:

- Applicants whose children are under 18 years old
- Applicants whose unmarried children are between 18 to 25 years old and are students abroad for a study period of at least 6 months remaining from the application submitted date and are financially dependent on the applicant
- Applicant's parents and parents in law

## Citizenship by investment scheme



The applicant must:  
be 18+ years old; acquire  
a permanent residence in  
Cyprus valued at least

**€500 thousand**  
excluding VAT; and have a  
clean criminal record.



**€1,5 million** + VAT investment in Residential Real Estate or **€2,0 million** + VAT investment in Commercial Real Estate.

OR



An investment of at least **€2,0 million** in Cyprus companies or organisations. There should be at least **5** Cypriot or EU citizens employed in the business/company for a period of 5 years or more.

OR



A purchase of financial assets amounting to at least **€2,0 million**. They must be registered and issued in the Republic of Cyprus, in companies or organisations with substantial economic activity which are regulated by the CySEC.

OR



A mixture of the aforementioned criteria for at least **€2,0 million**. Governmental bonds can be purchased by an additional maximum amount of **€500 thousand**.

# KPMG real estate services



## We have outstanding experience in the Cyprus and European real estate sectors

We have significant expertise in real estate transactions, valuations and advising on tax structuring in the real estate sector.



## We are part of a global network and can leverage our reach to your benefit

Our Cyprus real estate team is part of a global real estate network. This global reach will enable us to support your investment strategy and quickly mobilise effective cross-border teams at short notice.

### Transaction Services



#### Buy side services

Buyer Assistance  
Buyer Due Diligence

#### Vendor Services

Vendor Assistance  
Vendor Due Diligence

### Corporate Finance



#### Real Estate M&A / Finance

Corporate M&A  
Direct Property Sales  
Debt Financing Advice

#### Strategic Real Estate Advisory

Strategy Assessment  
(Portfolio Management)  
Organisational Development  
(Real Estate Management)

#### Real Estate Transaction Advisory

Property Due Diligence

#### Property Valuation

Property Valuation Reviews  
Valuation of Portfolios  
Valuation of Real Estate Companies  
Purchase Price Agreement

### Business Modelling



#### Options Analysis

Identifying / Testing  
Alternative Scenarios  
and Mitigating Actions

#### Business Planning

Improving Planning and  
Decision Making  
Processes

#### Transaction Modeling

Supporting Deal Negotiation,  
Structuring and Execution

### Tax



#### Tax Structuring

Funds Related Tax work  
Tax Compliance

#### Related Tax work

M&A Tax Assessment

# KPMG debt management services



## Real results achieved by integrated specialists

One stop end-to-end service backed by years of accumulated international and local expertise in:

- Financial services
- Credit analysis, evaluation and management
- Debt portfolio strategy and management
- Real estate portfolio management and optimisation
- M&A – sell-side and buy-side assistance

### BORROWER & OPTION EVALUATION



- Lender and Borrower assistance
- Market and financial feasibility study or Independent Business Review
- Financial and/or operational restructuring
- Restructuring options identification, review and assessment impact analysis and monetisation
- Stakeholder negotiations assistance
- Receiverships
- Liquidations
- Examinerships

### DFAS EVALUATION/DUE DILIGENCE (PROPERTY, LEGAL, TAX)



- Zoning, town planning and building permissions check
- Title deeds check
- Encumbrances and other restrictions check
- High-level review of existing valuation reports
- Ascertain property-related tax obligations
- Ascertain property-related communal / utility obligations
- Ascertain company-related tax obligations which may affect the transaction
- Valuations

### DFAS STRATEGY, ADVICE & NEGOTIATION



- Negotiation assistance with tax and other state/communal authorities
- Assistance in drafting the property transfer agreements and negotiation assistance with borrower, mortgagor and their lawyer

### DFAS EXECUTION & IMPLEMENTATION



- Implementation assistance - obtain clearances (tax, utilities)
- Implementation / execution assistance for obtaining clearance from LRO and to effect the property transfer
- SPV set-up

### ASSET MANAGEMENT & STRATEGY



- Asset management
- Strategy optimisation - market and financial feasibility study, alternative use assessment
- Project conceptualisation and investment planning
- Financial modelling and business plan preparation
- Tax-structuring advice
- Project management assistance

### SALES OF ASSETS



- Project commercialisation
- Portfolio optimisation
- Information memorandum, teasers
- Search for investors
- Real estate fund structuring, set-up, and implementation / execution advice





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