



# Cyprus Real Estate Market Report - The Insights

## 11<sup>th</sup> edition

Annual report outlining the key trends  
and major drivers of the Real Estate  
Market for 2019 and the first part of  
2020

July 2020





**Dear Reader,**

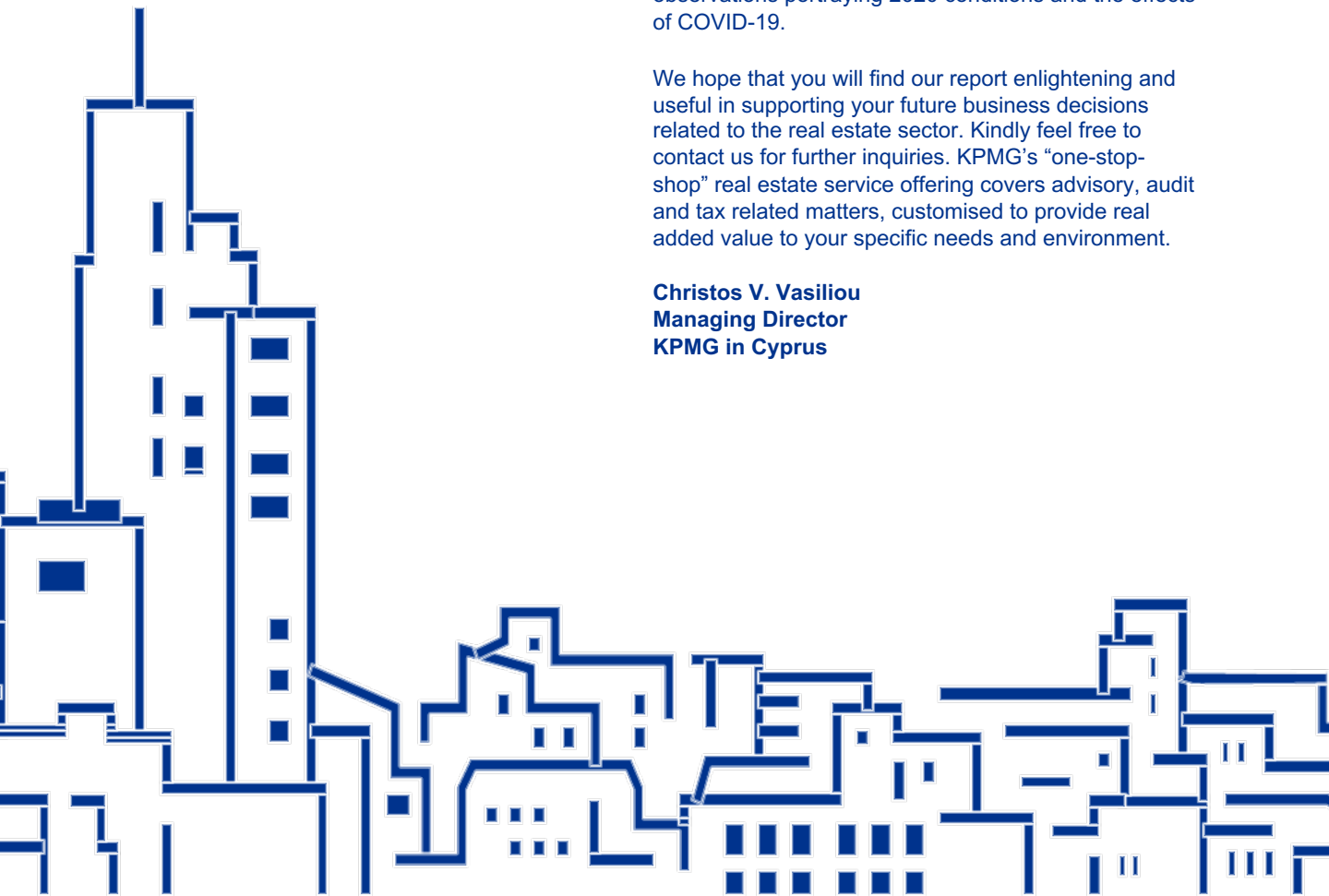
We are pleased to present KPMG Cyprus Real Estate Market Report – The Insights 11<sup>th</sup> edition. This year's report comes in an unprecedented period for Cyprus and the whole world, as a result of the COVID-19 pandemic.

In recent years, the Cypriot economy and the Real Estate sector in particular, have experienced a solid and continuous growth. Given recent developments, the outlook is hard to predict and currently there is little visibility of how the market will respond.

Our report provides valuable information about the Cypriot economy and the local real estate market for 2019, but also looks into the evolving conditions in 2020. The report provides a snapshot of key economic conditions and invaluable insights into the real estate sector, including demand and supply, price evolution, notable sectoral developments, alongside certain observations portraying 2020 conditions and the effects of COVID-19.

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 offering covers advisory, audit and tax related matters, customised to provide real added value to your specific needs and environment.

**Christos V. Vasiliou**  
**Managing Director**  
**KPMG in Cyprus**



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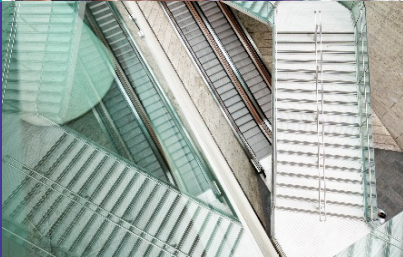
3 Real estate sector



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5 KPMG Cyprus Real estate market sentiment survey



6 Topics of interest

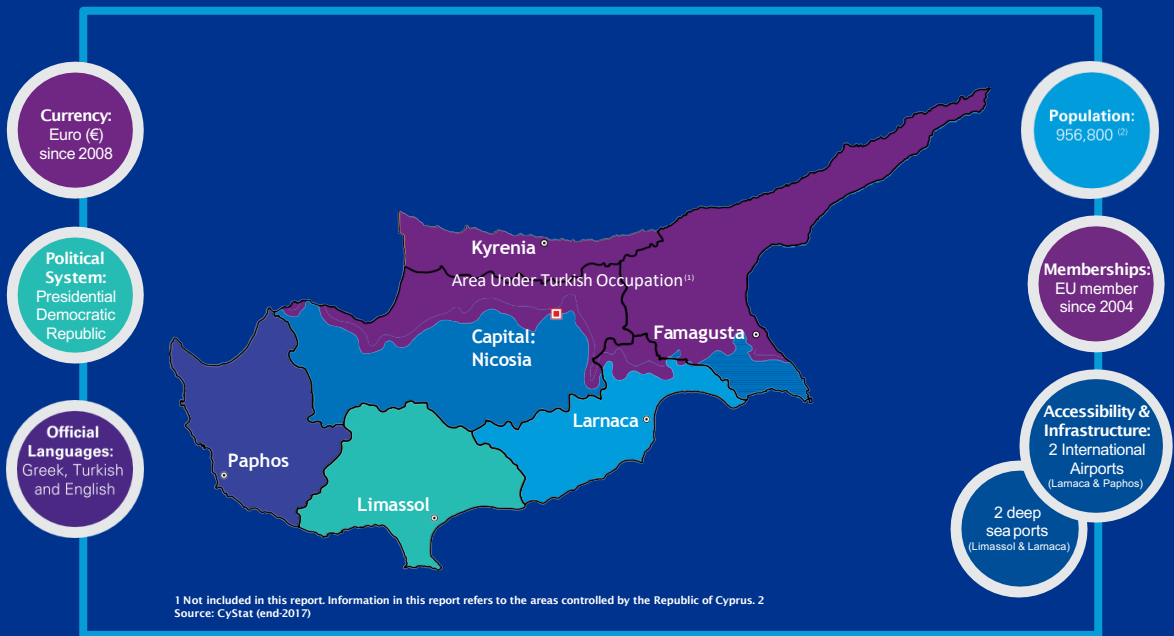
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Cyprus at  
a glance





### 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**
  - Robust 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)
  - More than 73% of Cypriots speak English (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, ranked as the 5th best relocation destination worldwide by the 2013 Knight Frank Global Lifestyle Review
  - Top 5 safest country in the world (Value Penguin 2015)

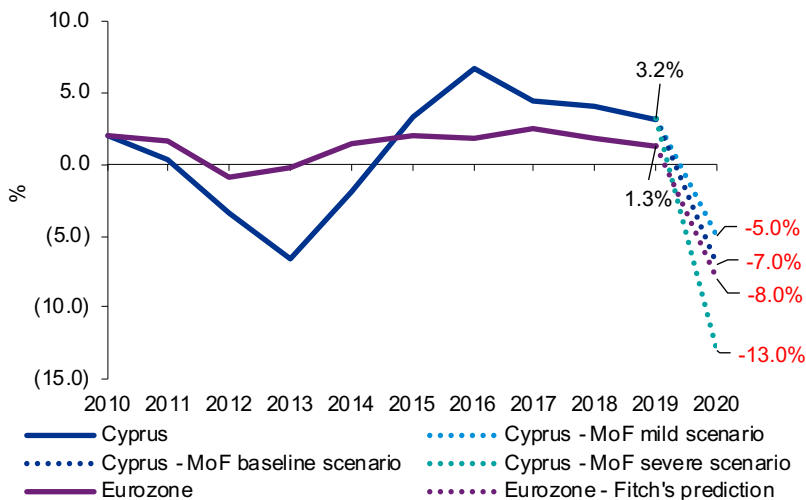




# Economic overview

# Key economic indicators

## Gross domestic product (y-o-y % change)



Source: Eurostat, Ministry of Finance (MoF), Fitch Ratings

### Most important GDP growth drivers in 2019

Information and communication	+0,83%
Construction	+0,81%
Tourism, Wholesale and retail trade	+0,65%
Real estate activities	+0,42%

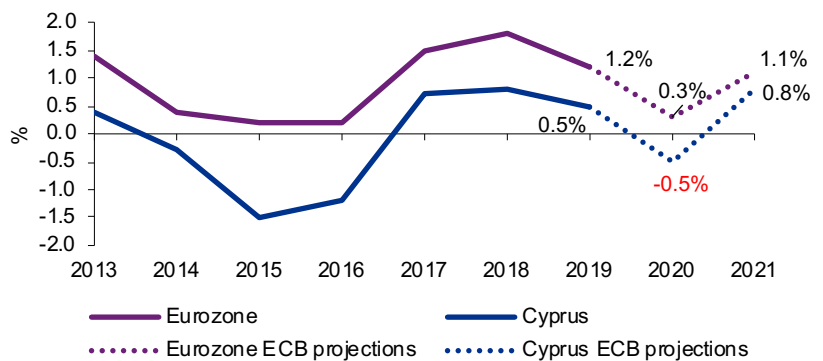
- Positive y-o-y growth in 2019 at 3,2%
- Cyprus' annual GDP growth has been approximately double the Euro Area average for the last 3 years

### COVID-19 EFFECT:

- Cyprus Ministry of Finance is expecting a drop in GDP in the range of -5% to -13%
- Fitch is expecting a -8% in the Eurozone's overall GDP

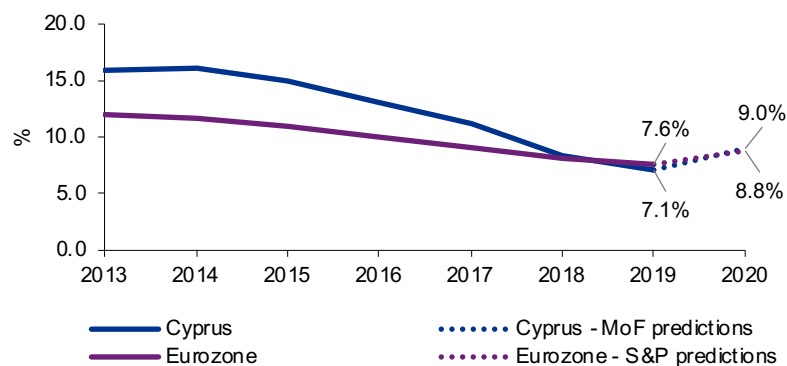


## Inflation (y-o-y % change)



Source: Eurostat, ECB

## Unemployment rate



Source: CyStat, MoF, Eurostat, Standard & Poor's (S&P)

- The latest CyStat figures show a drop of unemployment to 7,1% in 2019, dropping below the Eurozone average

### COVID-19 EFFECT:

- Cyprus Ministry of Finance is expecting unemployment to rise to 9% in 2020
- S&P is expecting a milder rise in the Eurozone unemployment to 8,8%





# Credit ratings and government bond yields

Cyprus Credit Rating				
Agency	Moody's	S&P	Fitch	DBRS
Previous rating	Ba2	BBB-	BBB-	BBB (low)
Current rating	Ba2	BBB-	BBB-	BBB (low)
Explanation	Non-Investment grade	Investment grade	Investment grade	Adequate credit quality
Current rating as of	20-Sep-19	06-Mar-20	03-Apr-20	15-May-20
Upgrade/ Outlook	- <b>positive</b>	- <b>stable</b>	- <b>stable</b>	- <b>stable</b>

Source: Moody's, S&P, Fitch, DBRS

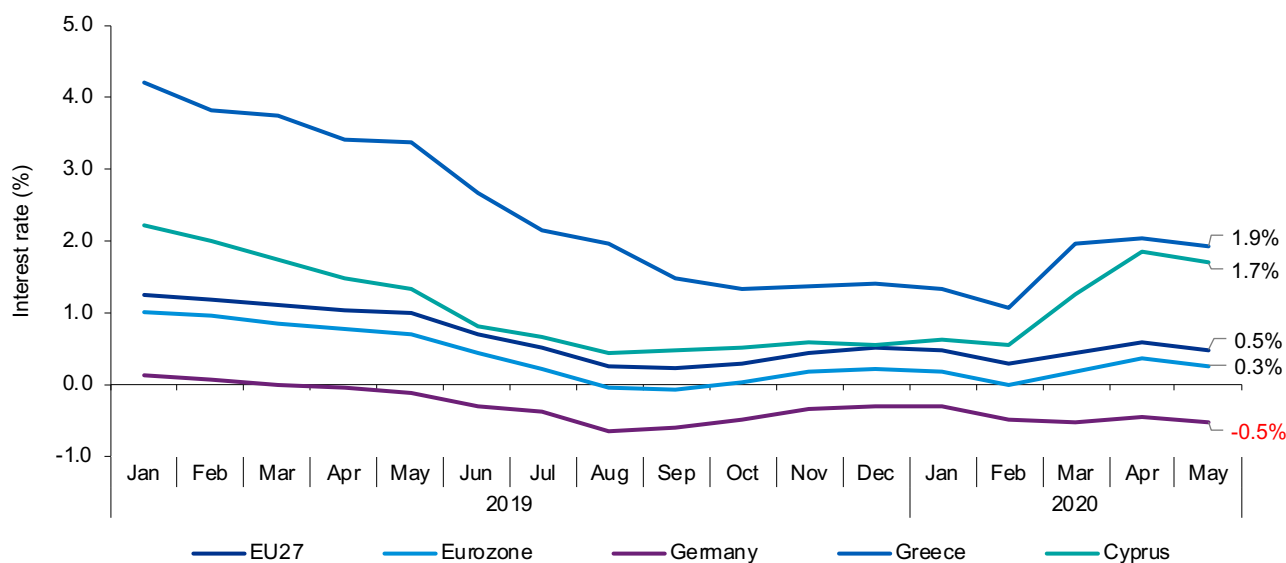
## Credit ratings

- Fitch and DBRS latest credit ratings have accounted for the effects of the COVID-19 pandemic, reduced the outlook to “stable” from “positive”, but did not downgrade the country’s investment grade
- Although Moody’s have not changed their Credit Rating, their latest announcement on 01 July 2020 regarding Cyprus’ credit profile (Ba2, positive) stated that “We expect that Cyprus’s debt reduction will resume at a sustained pace after the 2020 coronavirus crisis”

## Government bond yields

- The average long-term return on Cyprus government bonds rose significantly between February and April 2020, from 0,56% to 1,87%, followed by a decrease in May 2020 to 1,69%
- The average long-term return on Cyprus government bonds remains significantly higher than the EU27 and Eurozone average

## Long-term bond yields

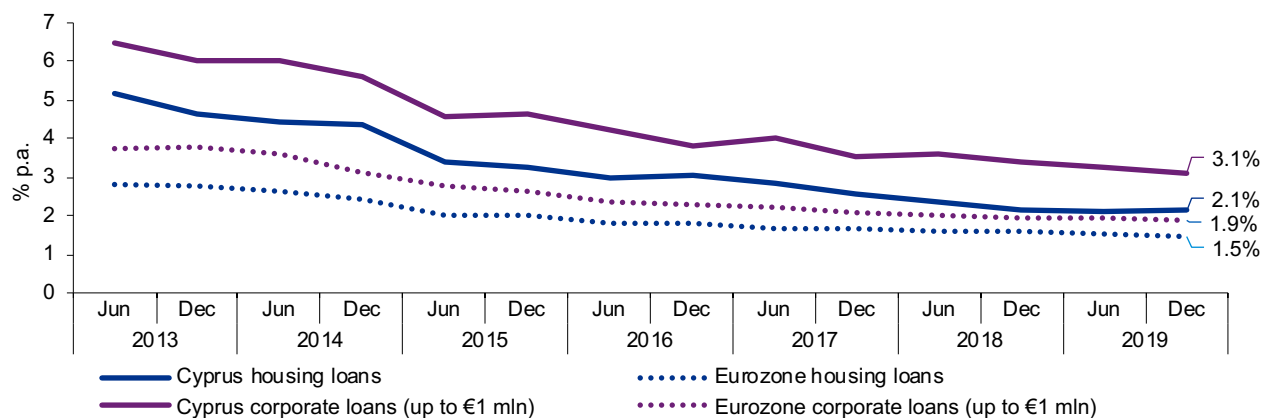


Source: Eurostat

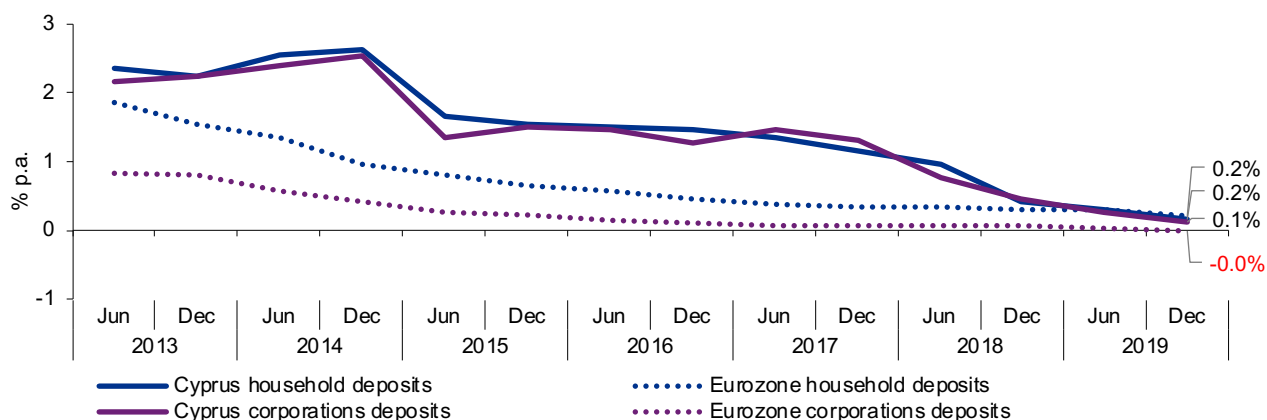
# Bank interest rates vs Eurozone

## Bank interest rates (%):

### New loans



### New deposits



### Loans - Deposits interest rate spread

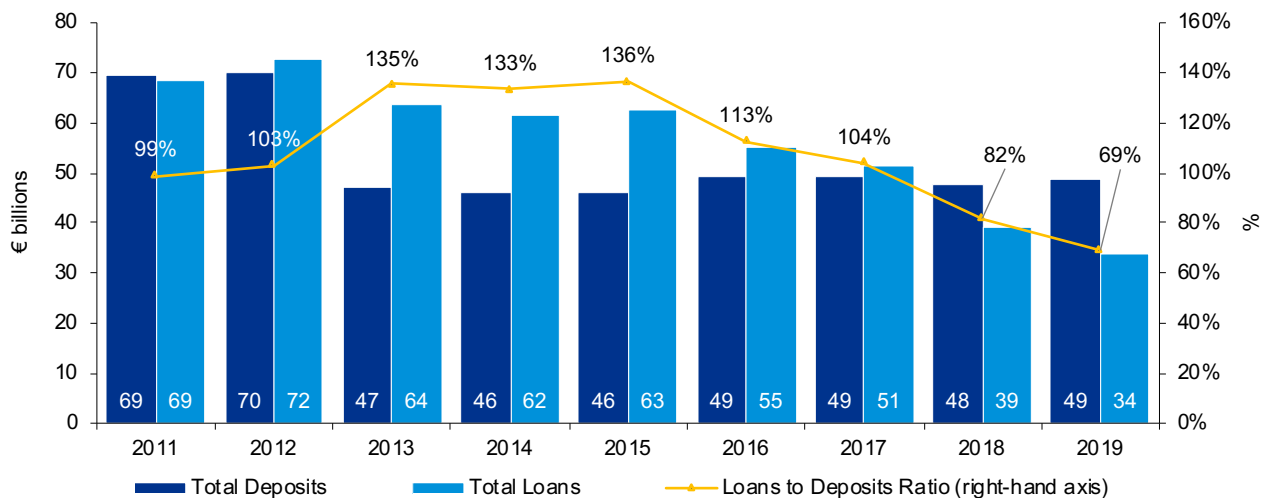
	Households			Corporate		
	Dec 2013	Dec 2019	May 2020	Dec 2013	Dec 2019	May 2020
<b>Cyprus</b>	2,44	1,96	1,96	3,76	2,98	3,06
<b>Eurozone</b>	1,20	1,25	1,27	2,99	1,89	1,55

Source: ECB, KPMG Analysis

- Interest rates have been declining since 2013
- Household and corporate loan interest rates have recorded record lows in 2019
- Loans to Cypriot households and corporates are still more “expensive”, compared to their Eurozone counterparts
- 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

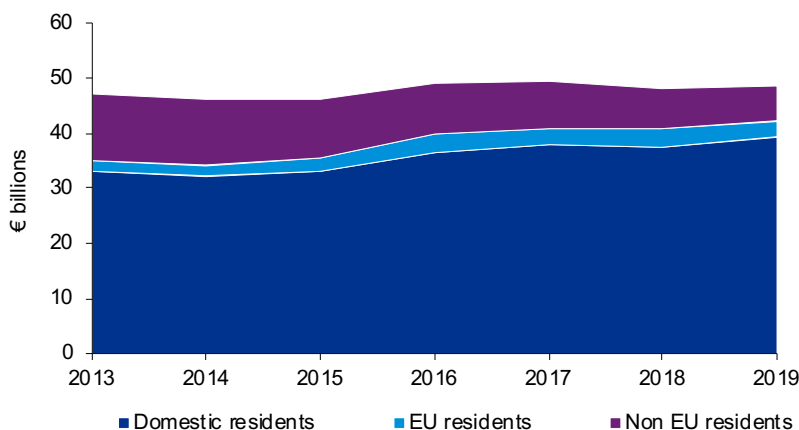
# Deposits and loans breakdown

## Loans - Deposits trends in Monetary Financial Institutions in Cyprus

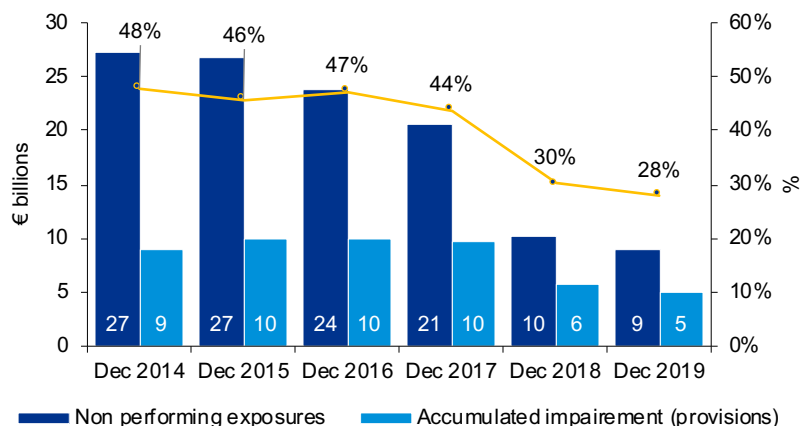


Source: Central Bank of Cyprus (CBC)

## Deposits in Monetary Financial Institutions in Cyprus



## Non-performing loans in Monetary Financial Institutions in Cyprus

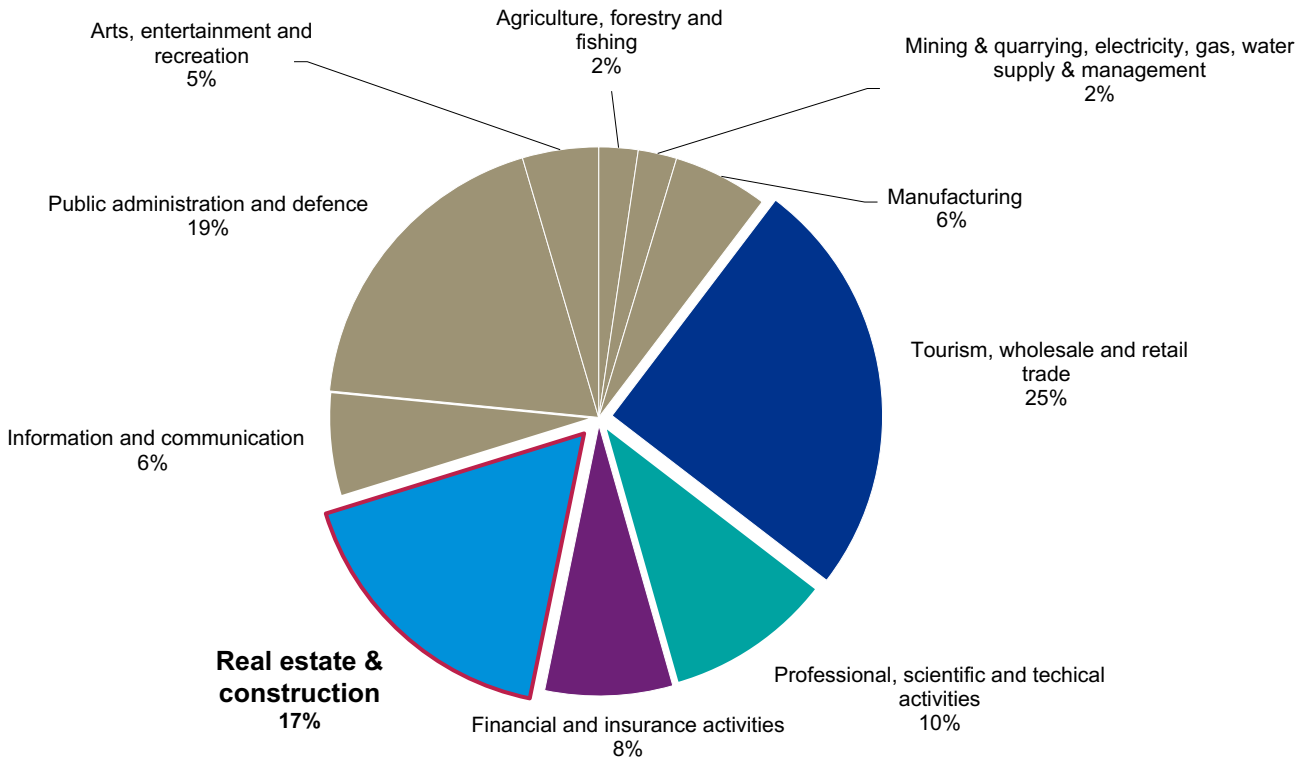


Source: CBC, KPMG Analysis

- The aggregate level of total bank deposits appears to be relatively stable in 2013
- Local deposits have been gradually increasing, while foreign deposits are decreasing over the last four years
- Loans have more than halved since 2011. There was a decrease of circa 14% between 2018 and 2019
- The decline in loans is multi-faceted; it is attributed to the banks' efforts to de-leverage their balance sheets via debt for asset swaps, write offs and cash collections, but more importantly, particularly in 2018 and 2019, to the shifting of NPL portfolios outside the banking system
- The loans to deposits ratio has decreased significantly during the last 5 years, indicating the banking system's surplus liquidity

# Key pillars of the economy

## Cyprus Gross Value Added (GVA) by sector 2019



Source: CyStat, KPMG Analysis



### Tourism

- Tourism has been the traditional growth driver of Cyprus
- “Sun & sea” branding has been the traditional force of attracting tourists
- The Cyprus government is aiming to enrich this by promoting all year round tourism and upgrading Cyprus’ offering



### Real estate and Construction

- Real estate and Construction activities contributed 17% of the GVA 2019
- The sector has recovered strongly since 2013, mainly because of the “Citizenship Programme” and the external demand that followed



### Financial, Professional and Other Services

- The attractive tax system, the legal and regulatory framework and the educated workforce are the drivers of the “service economy” in Cyprus
- With a contribution of 8% for financial and insurance activities and 10% for professional scientific and technical activities, the services sector comprises one of the strongest pillars of the economy



# Tourism

## Arrivals and revenue

- Tourist arrivals have stabilised in 2019, after 4 years of continuous growth
- Revenues from tourism hit a double-digit y-o-y percentage increase in 2016 and 2017 (11,9% and 11,7%, respectively). The growth in revenue appears to have stabilised in 2018 at 2,7%, followed by a slight 1% decrease in 2019
- However, revenue per arrival exhibits a decreasing trend from €868,2 in 2013 to €674,7 in 2019 (22% cumulative decrease). This is a combined result of the decrease in the average length of stay and the average spend per day

## Tourist market sources

- UK is still the top market of origin (33%), with Russia in second place (20%)
- Israel recorded an impressive increase of 26% y-o-y
- Arrivals from Germany had a significant decrease of 20% y-o-y
- Greece (-8%) and Sweden (-6%) also exhibited y-o-y decreases


<b>Arrivals 2019</b> (thousand)	1.331	782	294	172	152	145	1.103	3.977
[y-o-y change]	[+0,2%]	[-0,2%]	[+26,3%]	[-8,0%]	[-19,9%]	[-6,0%]	[+3,5%]	[+1,0%]




<b>Spending per person (€) 2019</b>	726,7	656,0	473,6	336,2	824,8	598,7	[n/a]	674,7
[y-o-y change]	[-1,6%]	[-1,8%]	[-3,1%]	[-5,2%]	[+6,8%]	[-1,2%]		[-2,0%]

Source: CyStat, KPMG Analysis


**Spending of tourists**

 €75  
**Spending per person per day**  
 (-11% from 2013)

X

 9 days  
**Average stay**  
 (-12% from 2013)


=

 €675  
**Revenue per arrival**  
 (-22% from 2013)

Source: CyStat, KPMG Analysis

**COVID-19 EFFECT:**

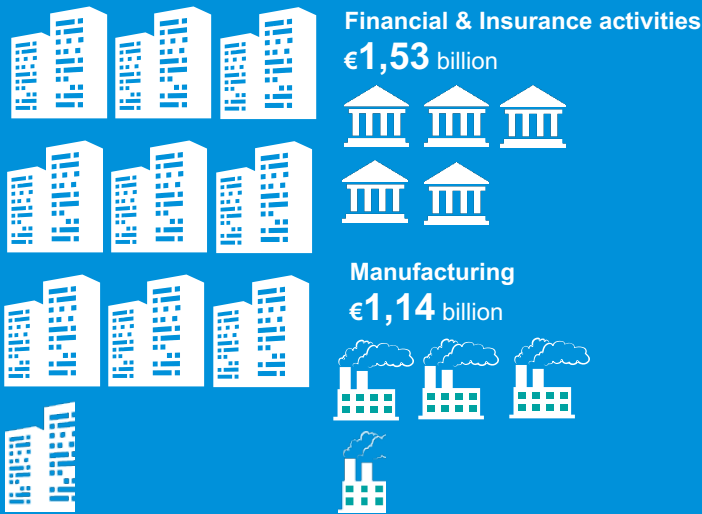
- The tourism industry will be severely affected by the pandemic
- Airports and tourist establishments are gradually reopening after the lockdown, but the after-effects will be prolonged
- The Deputy Minister of Tourism estimates that tourist arrivals in 2020 will not exceed 25% of the values recorded in 2019
- Furthermore, the future of the touristic industry is unsure, with expected restrictions on travelling, strict hygiene rules, less disposable income of travellers etc.



## Economic Contribution

### Real estate contributed

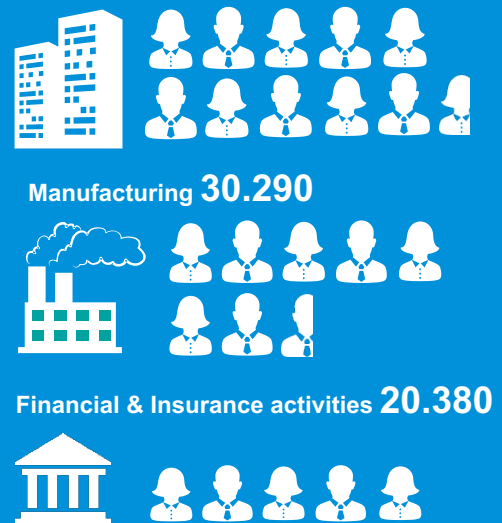
**€3,24** billion to the Cypriot Economy in 2019, which is higher than the combined contribution of the Financial and Insurance activities and the Manufacturing sectors



## Jobs

### The sector directly employs

**42.770** people  
more jobs compared to the Manufacturing sector and more jobs than in the Financial and Insurance Activities sector



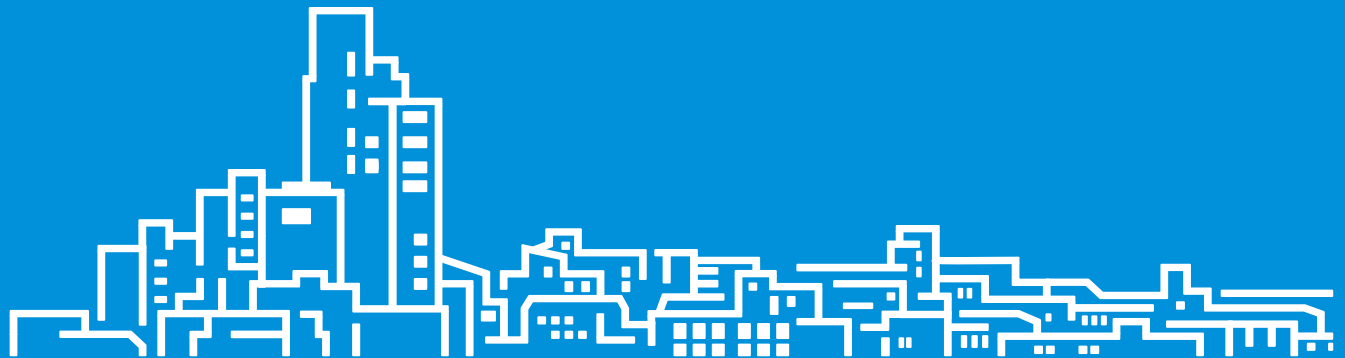
## 2019 vs 2018



growth in real estate and construction activities' contribution to the GVA



growth in workforce for real estate and construction activities

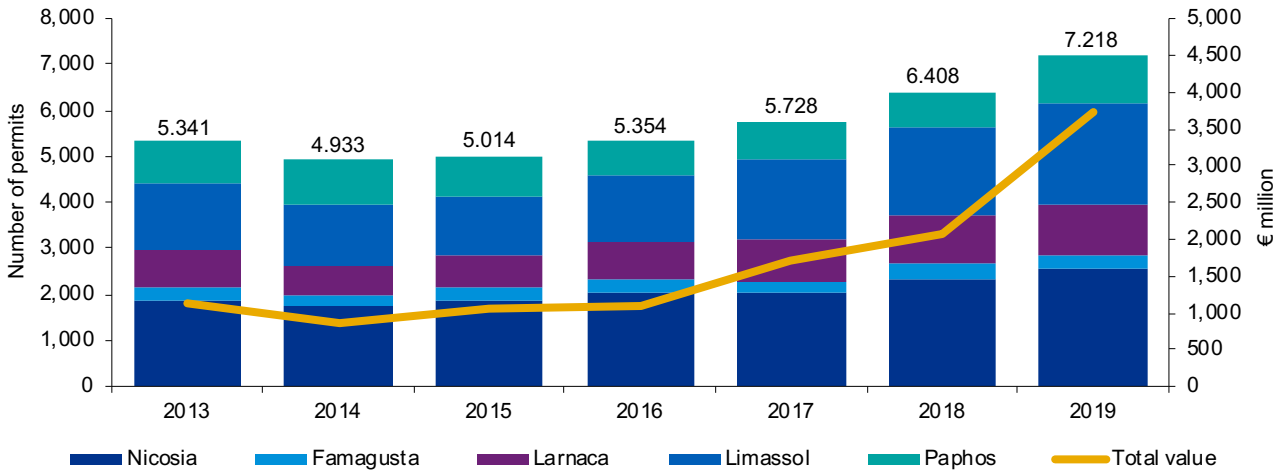




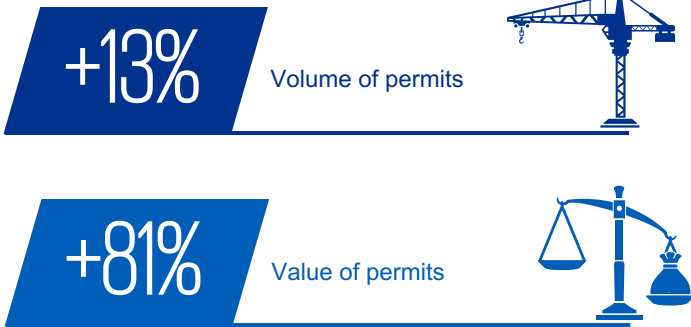
Real estate  
sector

# Building permits volume and value

## Volume of building permits vs Value



## 2019 y-o-y changes in building permits

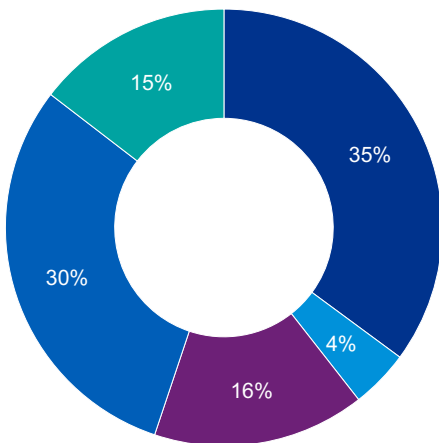


For 2019, a total of 7,218 permits were issued compared to 6,408 in 2018, recording a 13% increase.

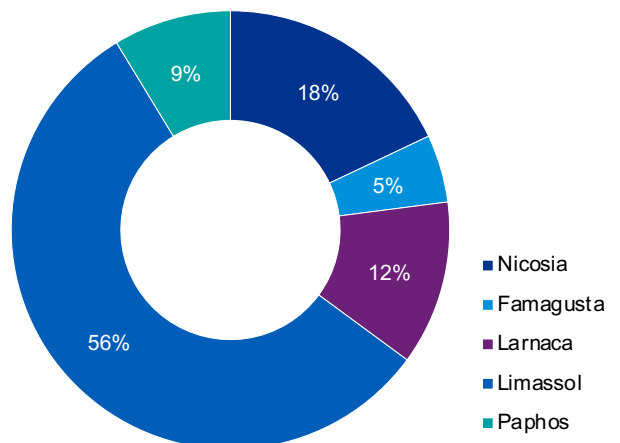
Nicosia is the district with the highest number of building permits (35% of total), but with only 18% in terms of value.

Although the number of building permits has increased by 13% in 2019 compared to 2018, their value has increased by 81%. Limassol accounts for 30% of the total number of permits and 56% of the total value of permits.

## Building permits issued by volume - 2019



## Building permits issued by value - 2019



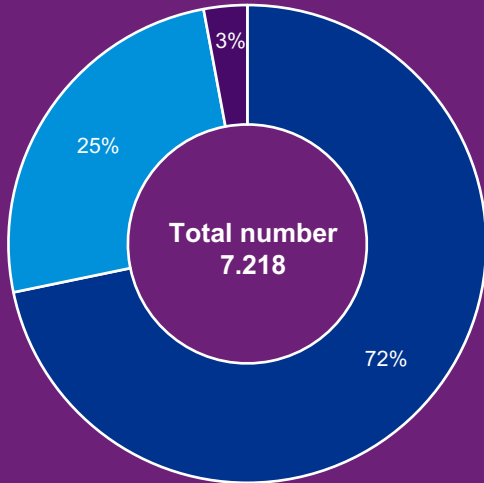
Source: CyStat, KPMG Analysis



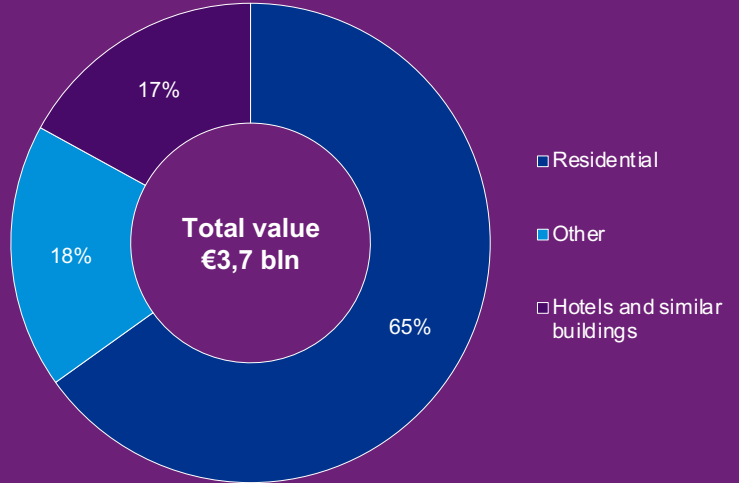
# Building permits issued by type of development

The majority of building permits issued in 2019 related to residential developments (72% of total volume). It is notable that hotel developments account for 3% of the total permits volume but 17% of the total permits value.

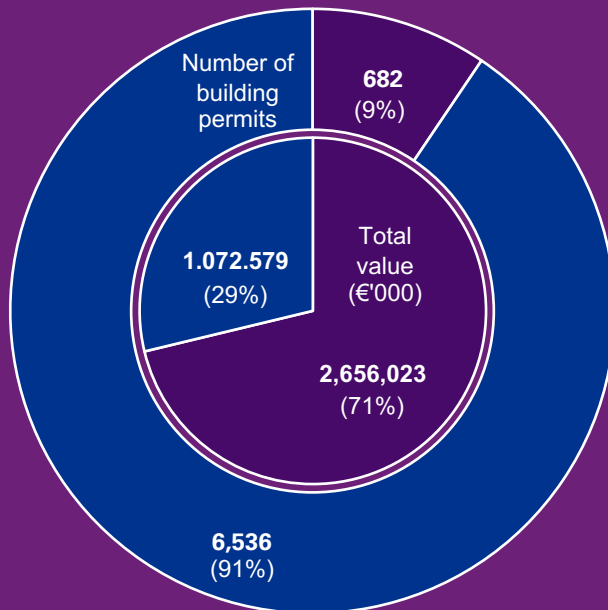
**Building Permits Volume by Type of Development - 2019**



**Building Permits Value by Type of Development - 2019**



**Proportion of building permits for small and big projects - 2019**



9% of the building permits issued were for projects bigger than 900 m<sup>2</sup> – with a combined value of €2,7, a 71% share of the total value of building permits.

It is notable that the value of big projects permits more than doubled from last year (€1,2 billion).

Projects over 900 m<sup>2</sup>
 Projects below 900 m<sup>2</sup>

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

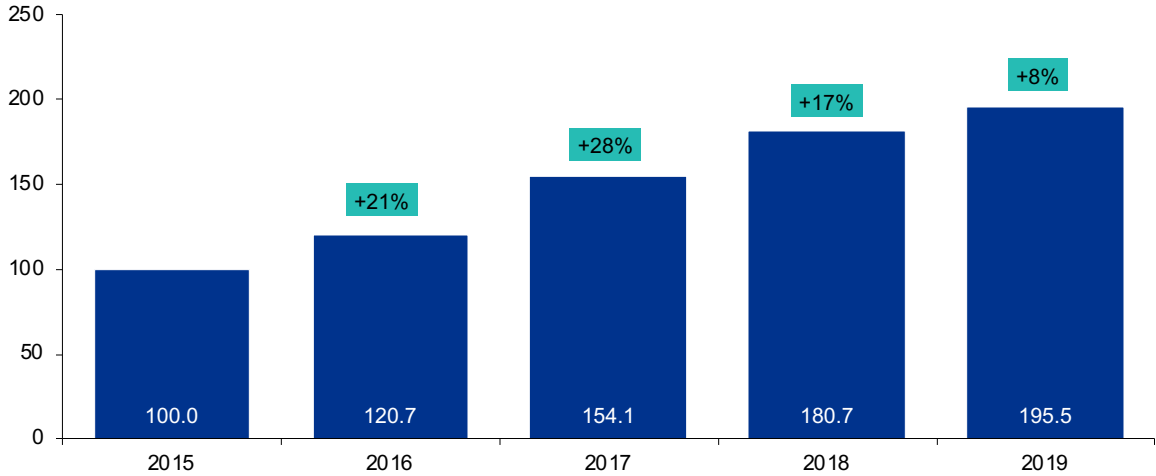
Source: CyStat, KPMG Analysis

# Construction price index and cost per building permit

## Construction output

Since 2015, the output of the construction sector has been recording high growth rates, having almost doubled in the last four years. In 2019 the construction output experienced an annual growth of 8%, which is notably lower than the historic annual growth rates recorded between 2016 and 2018.

### Construction output index (2015=100)

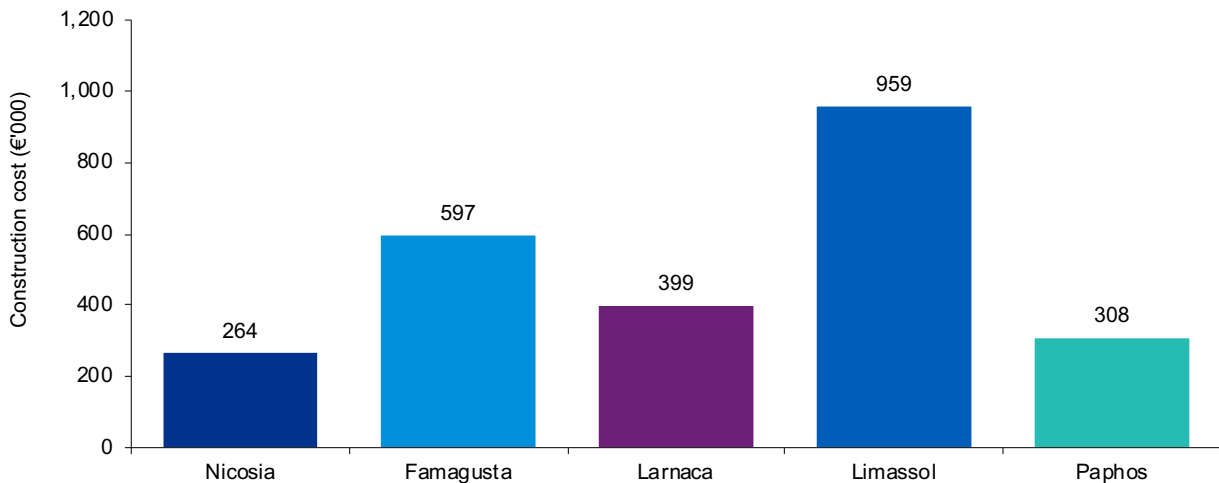


Source: CyStat

## Construction cost per building permit

The average construction cost per building permit issued varies between regions, implying larger scale developments in certain geographical areas. Limassol has by far the greatest average construction cost per building permit, with €959 thousand. Famagusta, where developments are mainly touristic (hotels), follows with €597 thousand.

### Average construction cost per building permit issued - 2019



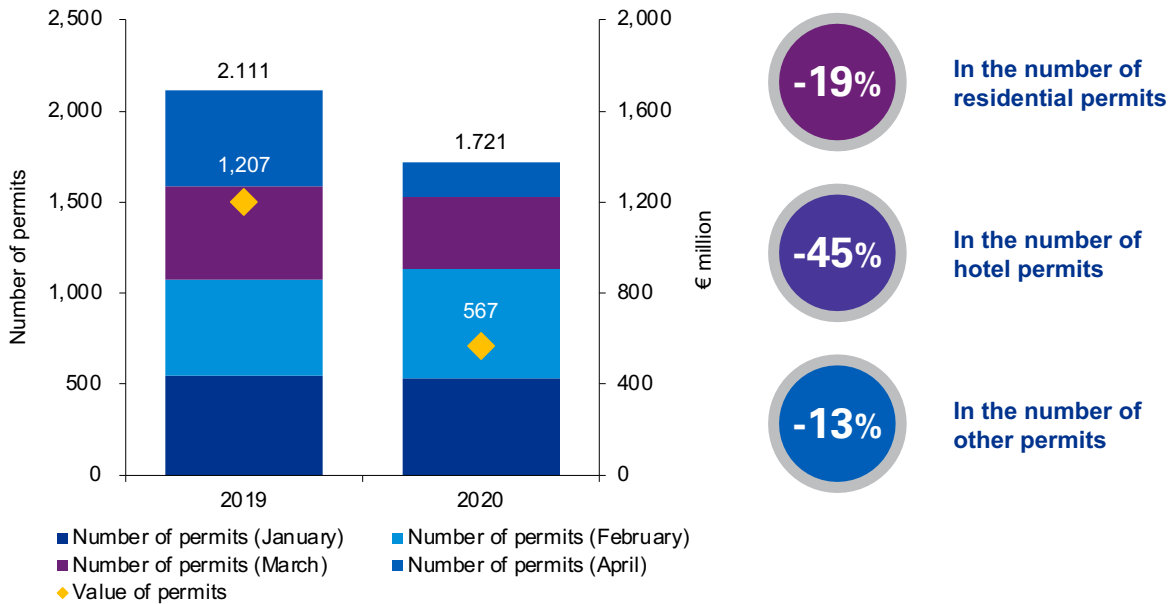
Source: CyStat

# Building permits in 2020

Although the number of building permits issued during the year's first three months remained relatively stable compared to the same period in 2020, the pandemic induced slowdown in April, resulted in an overall y-o-y decrease in both volume and value of permits over the four month period of 18% and 53%, respectively. Indicatively, residential buildings which accounted for 72% of building permits during the four month period, recorded a 19% decrease in their number while showing a 13% decrease in total value.

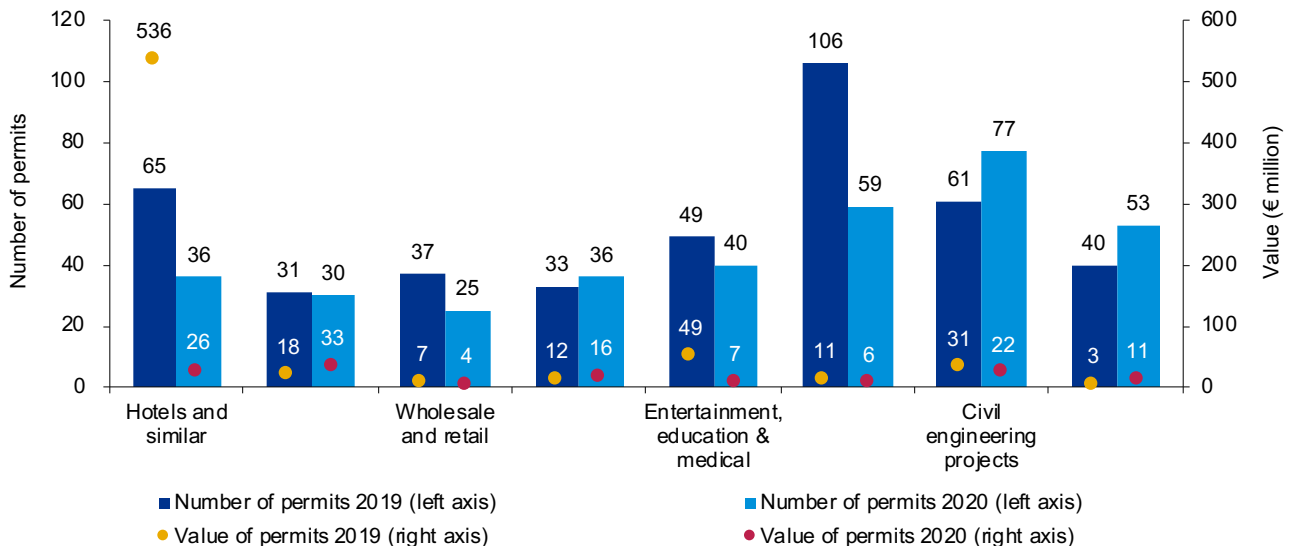
Non-residential developments showed an overall decrease both in number of permits and their value. The greatest y-o-y decrease in building permits volume over the period Jan-Apr 2020 can be observed in Hotels and similar developments, reaching 45%, while their value decreased by 95%.

## Total building permits (Jan-Apr 2020)



Source: CyStat, KPMG Analysis

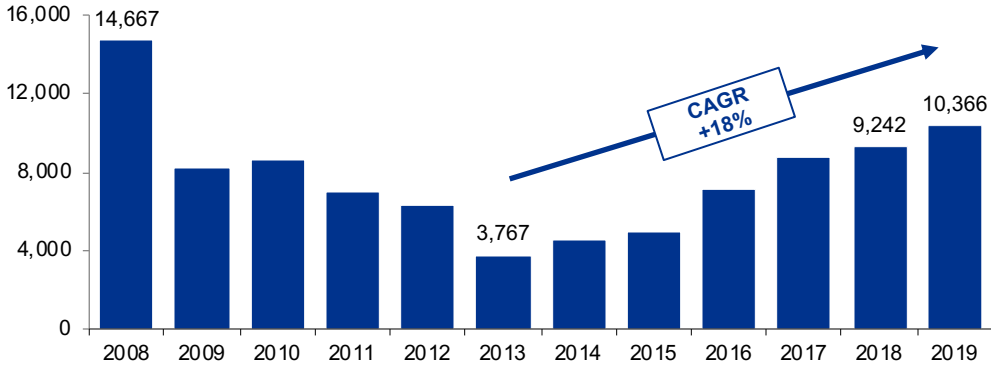
## Building permits by type for Jan-Apr 2020 (number and value)



Source: CyStat, KPMG Analysis

# Sales activity in 2019 and 2020 H1

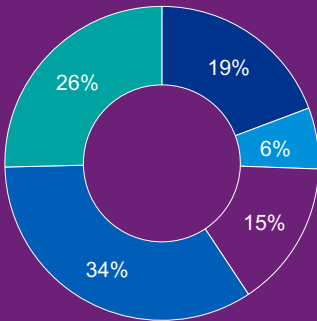
## Contracts of Sale (CoS) submitted to the Department of Lands and Surveys



**+12%**  
y-o-y growth in total sales in 2019

Source: Department of Lands and Surveys (DLS), KPMG Analysis

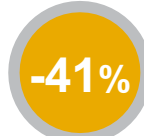
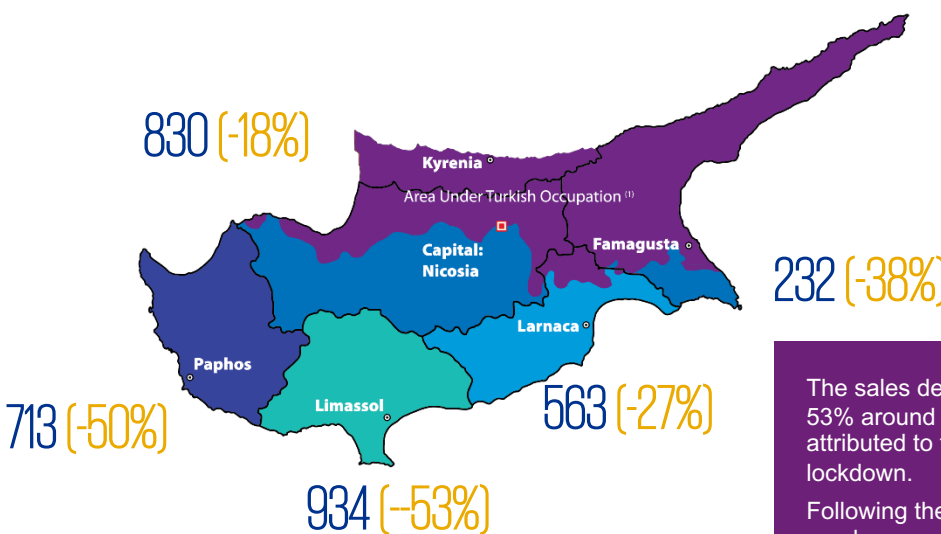
## CoS per district 2019



- Nicosia
- Famagusta
- Larnaca
- Limassol
- Paphos

- The majority of transactions in 2019 has been recorded in Limassol (34%), followed by Paphos (26%)
- The largest y-o-y growth in the number of transactions was recorded in Nicosia (+24%), followed by Larnaca and Paphos (+17%)
- Nicosia recorded the biggest annual increase for the second year in a row

## CoS in 2020 H1 and y-o-y change vs 2019 H1



y-o-y in the number of CoS between 2020 H1 vs. 2019 H1

but



y-o-y when comparing June 2020 vs June 2019

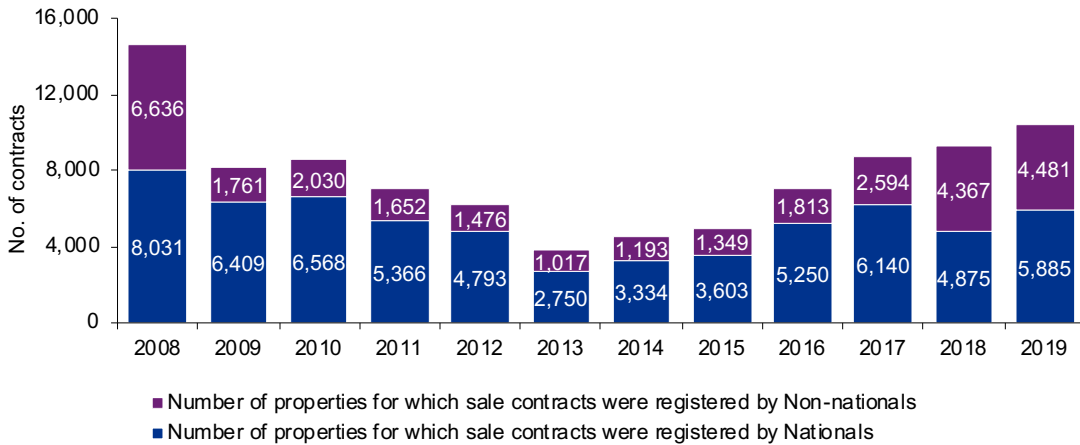
The sales declined between 18% and 53% around the districts, and this is attributed to the effects of the COVID-19 lockdown. Following the significantly lower CoS numbers recorded in April due to the lockdown imposed, the numbers show signs of recovery from June onwards.

Source: DLS, KPMG Analysis



# Sales to nationals and non-nationals

## Contracts of Sale submitted to the Department of Lands and Surveys

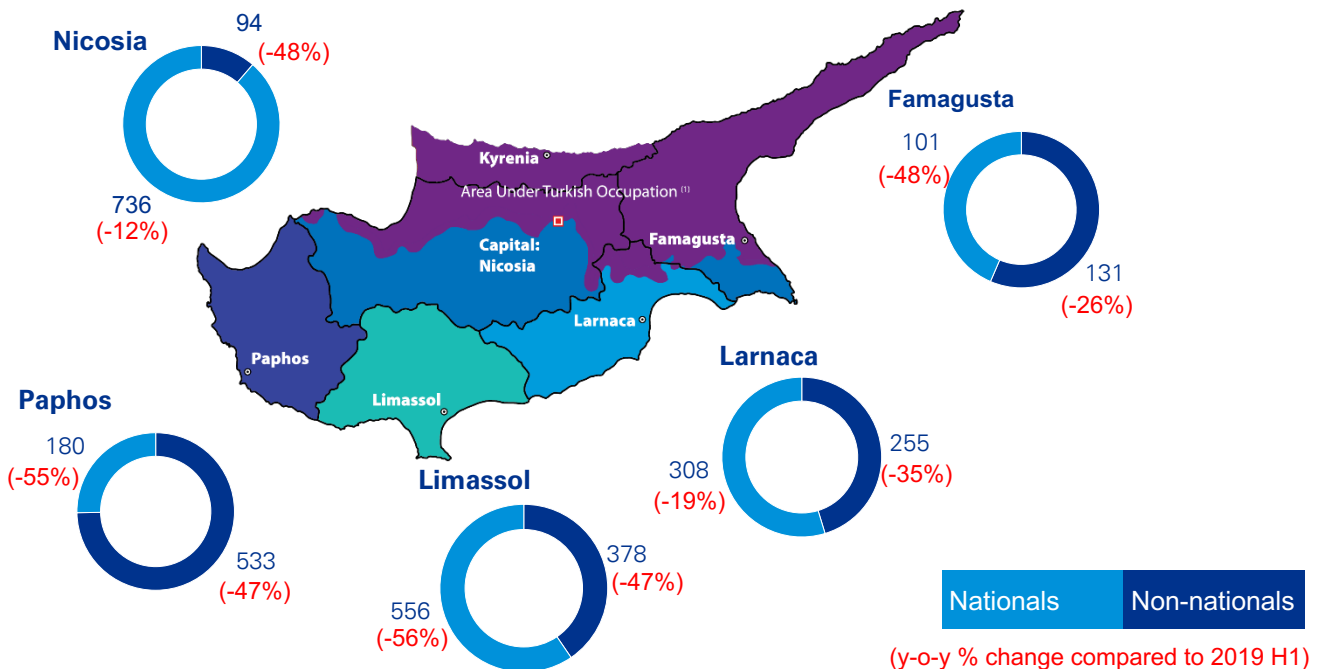


of total CoS submitted in 2019 were by Non-nationals

Source: DLS, KPMG Analysis  
Note: As per the DLS, the Non-nationals counting methodology changed from 2018 onwards

- In 2019 a total of 4,481 CoS were submitted to the DLS by Non-nationals, accounting for 43% of total sales contracts, exhibiting a 2,6% increase in 2019
- Domestic demand showed a strong growth in 2019, with the CoS submitted by Cypriots increasing by 21%
- The first half of 2020 saw a drop in the CoS from both Nationals (-39%) and Non-nationals (-44%)
- The greatest drop in CoS by Non-nationals was recorded in Nicosia (-48%), followed by Limassol (-47%) and Paphos (-47%).

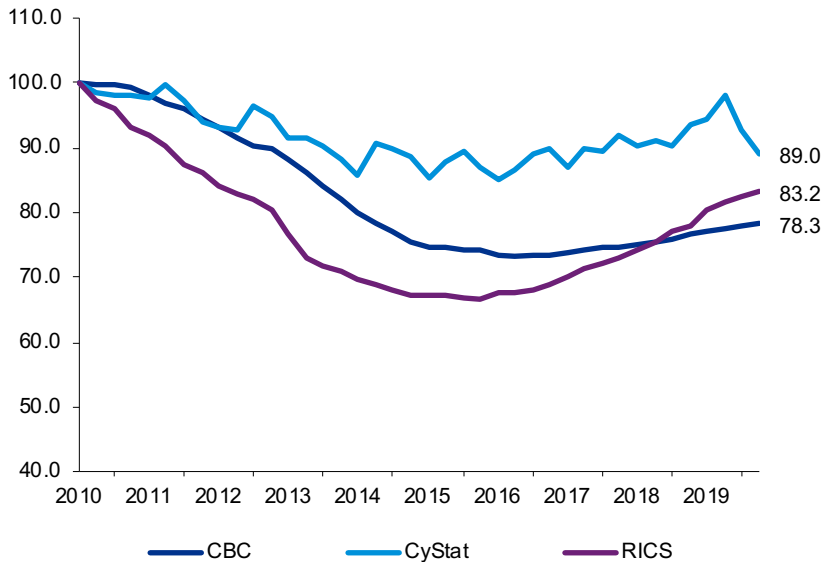
## Contracts of Sale by nationality per district in 2020 H1



Source: DLS, KPMG Analysis

# Price evolution

## Cyprus residential price indices



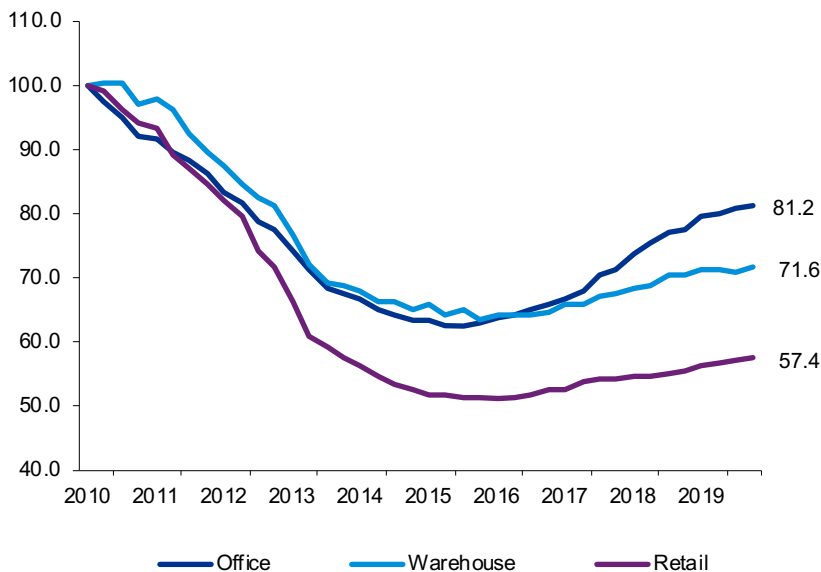
Source: RICS, CBC, CyStat, KPMG Analysis

The residential price evolution is monitored by both the Central Bank of Cyprus (CBC), CyStat and the Royal Institution of Chartered Surveyors (RICS).

These indices have different methodologies but all displayed similar negative trajectories between 2010 and 2016. The trend has however been reversed since early 2017.

CyStat's index displayed a decrease in prices in the last quarter of 2019, while the other two indices showed increases.

## Cyprus RICS Commercial Price Index



Source: RICS, KPMG Analysis

According to the RICS index, commercial properties followed a similar trend to the residential price indices, with a negative trajectory between 2010 and 2016, followed by a mild growth towards the end of 2016 - beginning of 2017 onwards. Office prices display a sharper increase.

2019 was another growth year, with offices maintaining a higher growth in prices than other commercial properties.

# Property yields

Despite the economic crisis of 2013, residential yields both for apartments and houses have been relatively stable, according to RICS. The latest available data (2019 Q4) indicates a yield of 2,6% for houses and 5,0% 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 (2019 Q4) suggesting yields in the region of 5,7%.

Retail properties have been consistently performing better than other non-residential properties. Although experiencing a drop in 2013, yields remained relatively stable, showing a slightly increasing trend from 2016 onwards.

Warehouse (industrial) properties have exhibited a constant decline, with yields recovering in 2019 and reaching 5,3% in Q4.

## Residential yields – 2019 Q4



Houses

2,6%



Apartments

5,0%

## Commercial yields – 2019 Q4



Offices

5,7%



Retail

5,7%



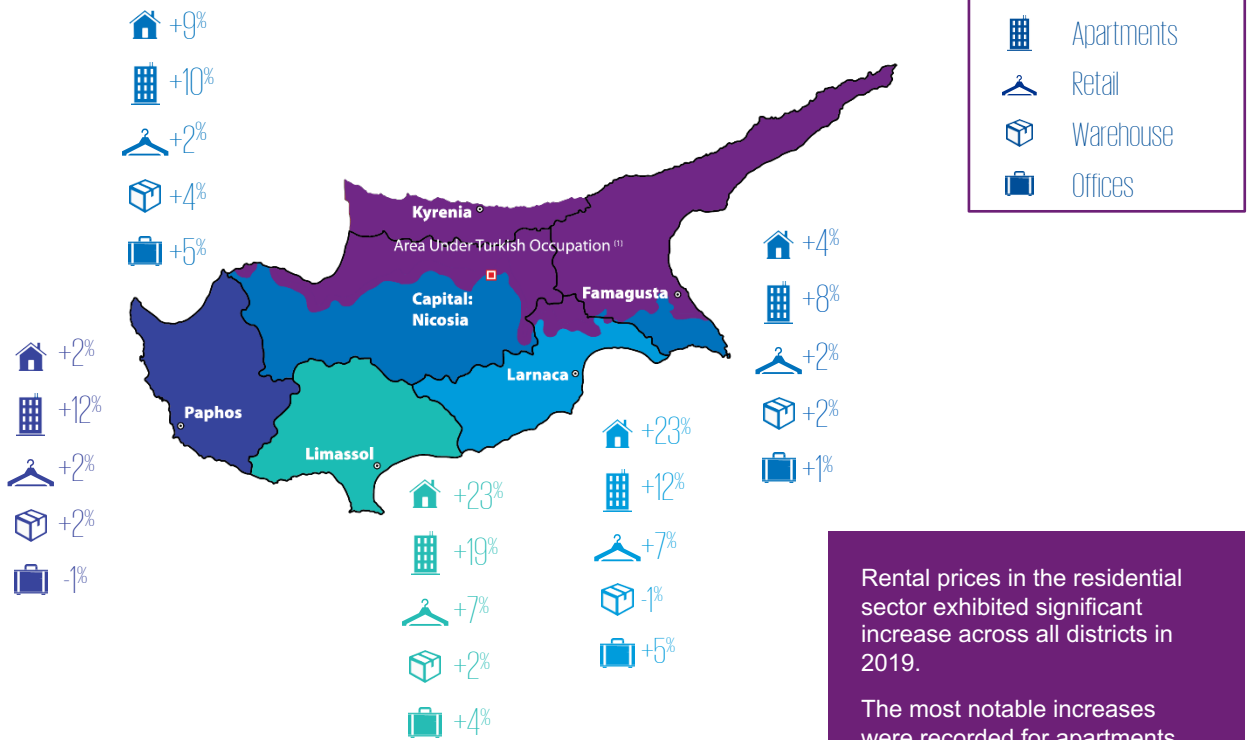
Warehouse

5,3%

## Industrial yields – 2019 Q4

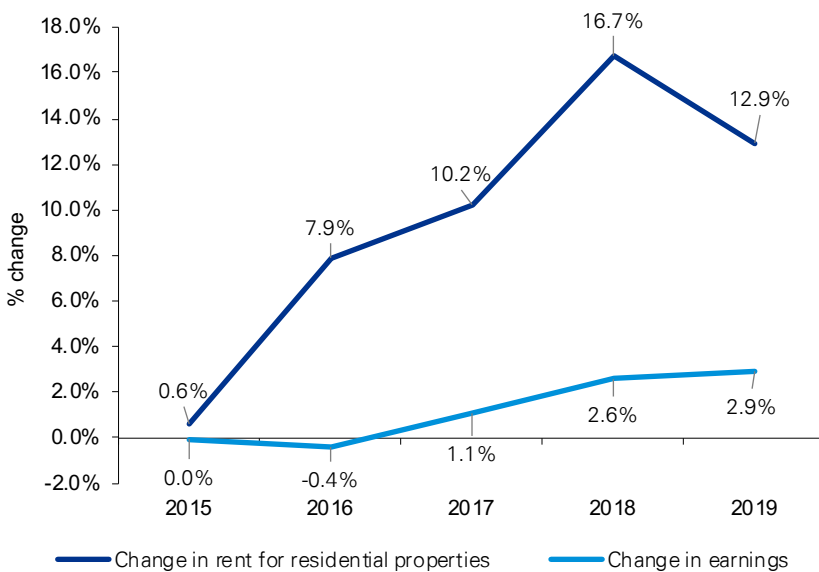
# Rental prices evolution

## Rental prices (y-o-y % change) 2019 Q4 vs 2018 Q4



Source: RICS, KPMG Analysis

## y-o-y % change in residential rental prices and earnings



Source: RICS, CyStat, KPMG analysis

Rental prices in the residential sector exhibited significant increase across all districts in 2019.

The most notable increases were recorded for apartments and houses in Limassol (+23% and +19% respectively) and houses in Larnaca (+23%).

Rents for commercial properties also exhibit an upward trend in 2019, most notably offices in Nicosia (+9%) and retail in Limassol (+8%).

Rental prices have been rising much faster, compared to employees' earnings over the last 4 years.

During the last three years, residential properties rentals have hit a double-digit growth:

2017: +10,2%;

2018: +16,7%;

2019: +12,9%;

while employees' earnings (average monthly earnings as per the Social Insurance Register) had a much lower increase over the same period (+1,1%, +2,6% and +2,9%)

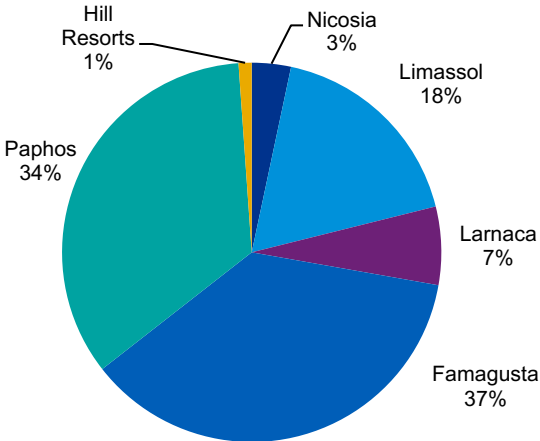


An aerial photograph of a city street at sunset. The sky is a mix of orange, yellow, and blue. Several skyscrapers are visible, with one prominently displaying the 'KPMG' logo. In the foreground, a building features a 'RYERSON UNIVERSITY' sign. The street below is filled with cars and pedestrians. A large blue rectangular overlay is positioned on the right side of the image, containing white text.

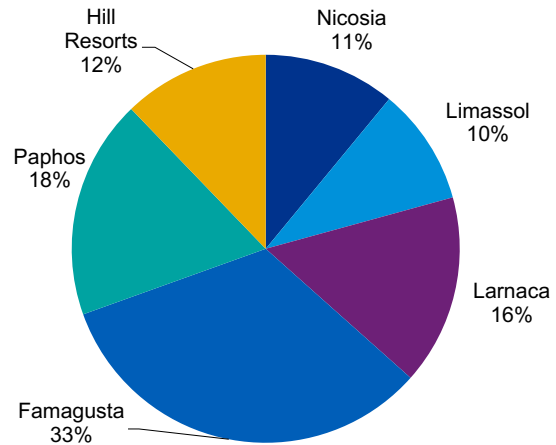
# Notable Real estate sector matters

# Hotels 2019: key facts

## 4-5\* hotels (90 units in total)



## 1-3\* hotels (164 units in total)

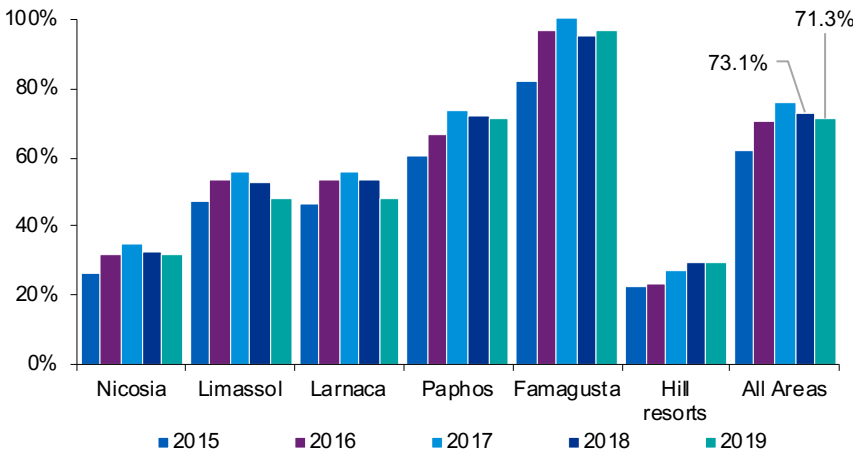


Source: Deputy Ministry of Tourism (DMT), KPMG Analysis  
Note: As at 31 Dec 2019

## Capacity

Famagusta and Paphos are dominating the hospitality industry, with the majority of both 4-5-star and 1-3-star hotels being located in the two districts.

## Net bed occupancy rates of licenced establishments for the last 5 years



Source: DMT, KPMG Analysis

\*Note: "Net bed occupancy" is the bed occupancy rate during the hotel's operational period

The historically increasing tourist arrivals have driven the strong growth in Cypriot hotel occupancy.

Cyprus aggregate Net bed occupancy rate of licenced establishments has increased from 62,0% in 2015 to 75,7% in 2017 and dropped to 73,1% in 2018 and 71,3% in 2019.

Famagusta area had the highest Net bed occupancy rate in 2019 (96,5%), followed by Paphos (71,0%).

## Building permits for new hotels

### Area

+12%

y-o-y increase in 2019 in building permits' **area** of new Hotels and similar buildings

### Value

+146%

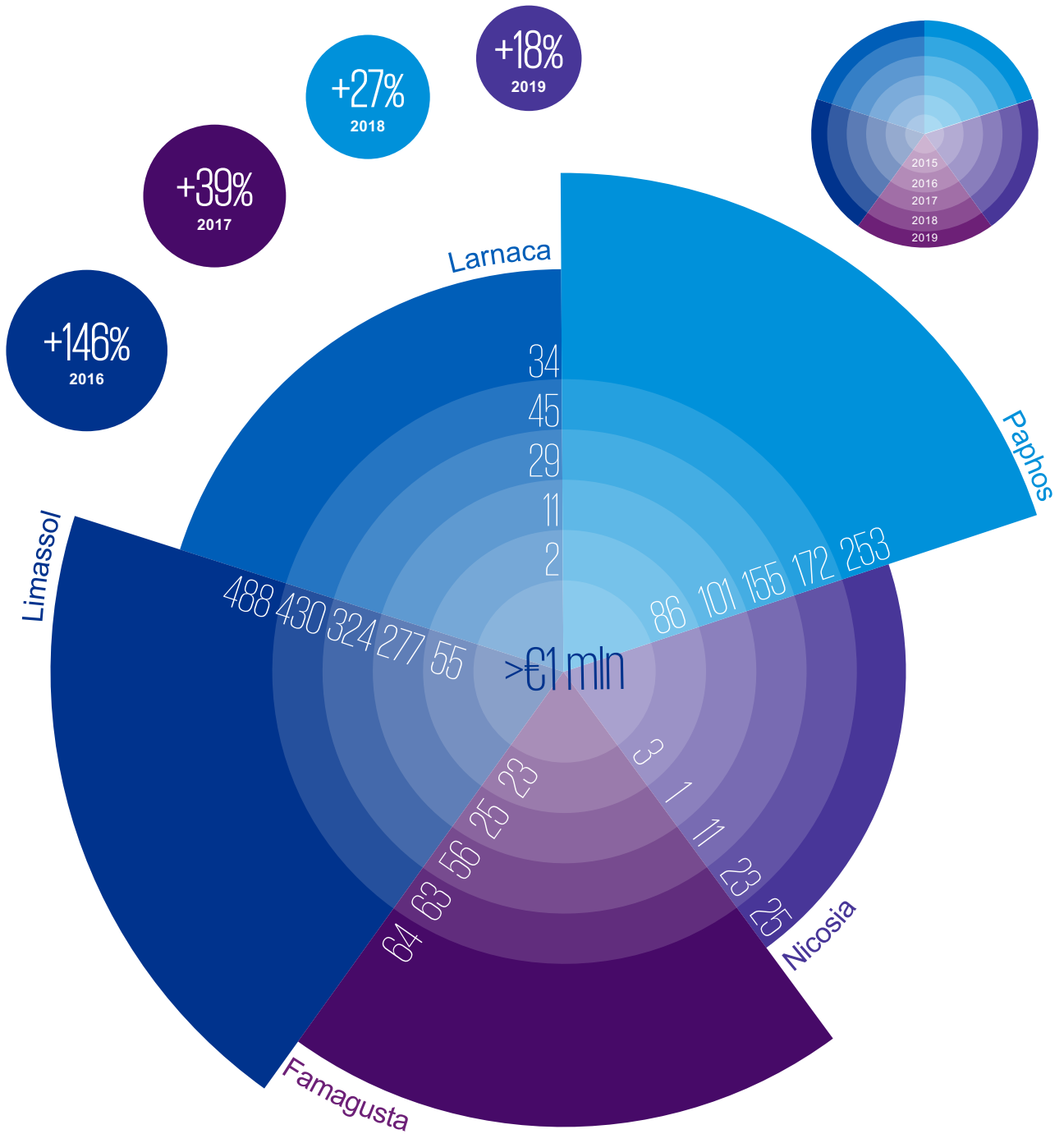
y-o-y increase in 2019 in building permits' **value** of new Hotels and similar buildings

The new hotel building permits, measured by area, have increased by 12%. In terms of value, the new building permits for hotels have more than doubled (+146%). This maybe a forward-looking indicator that the hotel industry is shifting towards a more high-end product.

Source: CyStat, KPMG Analysis



# High value residential property transactions > €1 mln



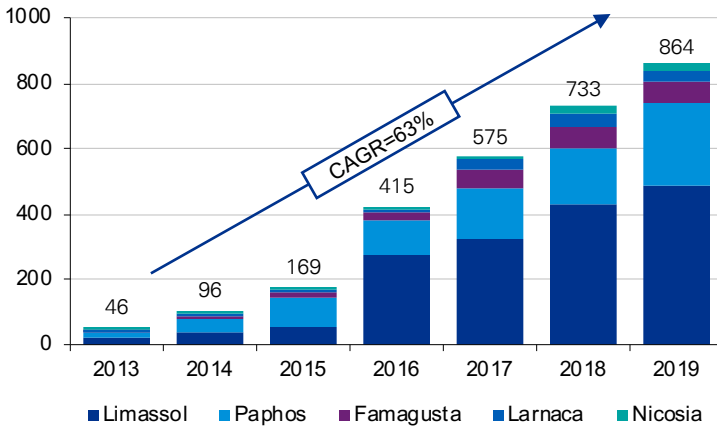
Source: DLS, KPMG Analysis

Note: The data refer to the Contract of Sales that represent the sale agreements only submitted to the Department of Lands and Surveys with an agreement date as of 31/03/2020, for the acquisition of property, as extracted from the DLS portal. The data were sorted, merged and processed in order to be presented. The reliability of information presented depends on the accuracy of the data as extracted from the DLS portal.



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

## High value residential transactions >€1 mln



High value residential properties transactions, > €1 million, have been exhibiting a remarkable increase in the past few years. Notably, the CAGR from 2013 to 2019 reached 63%.

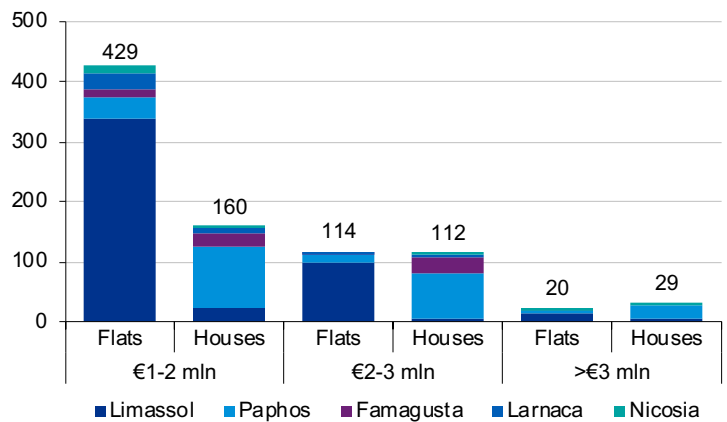
After a strong 146% y-o-y growth in 2016, the trend shows a decelerating growth, reaching 18% y-o-y growth in 2019.

Limassol captures the majority of high value residential transactions, exceeding 56% in 2019.

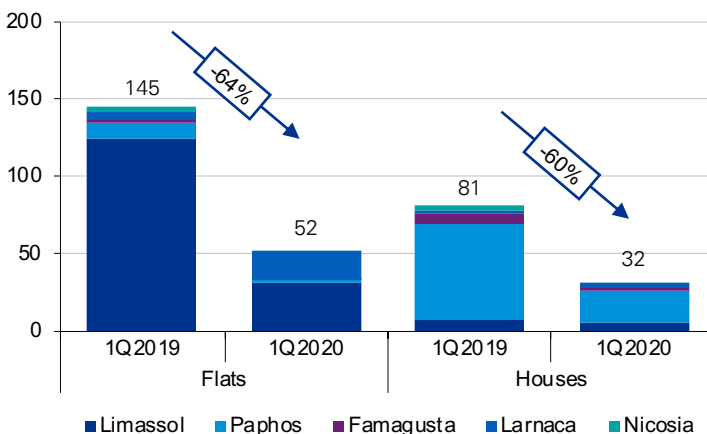
The majority of high value residential transactions (68%) concerns properties in the €1-2 mln price band, while the €2-3 mln and >€3 mln price bands account for 26% and 6% of the high value residential transactions respectively.

Flats in the range of €1-2 mln account for approximately half of the high value residential transactions and are mainly situated in Limassol.

## Number of high value residential transactions by price band and district



## High value residential transactions in the first quarter of 2019 and 2020



High value residential transactions recorded a significant decrease in the first quarter of 2020, compared to the same period in 2019.

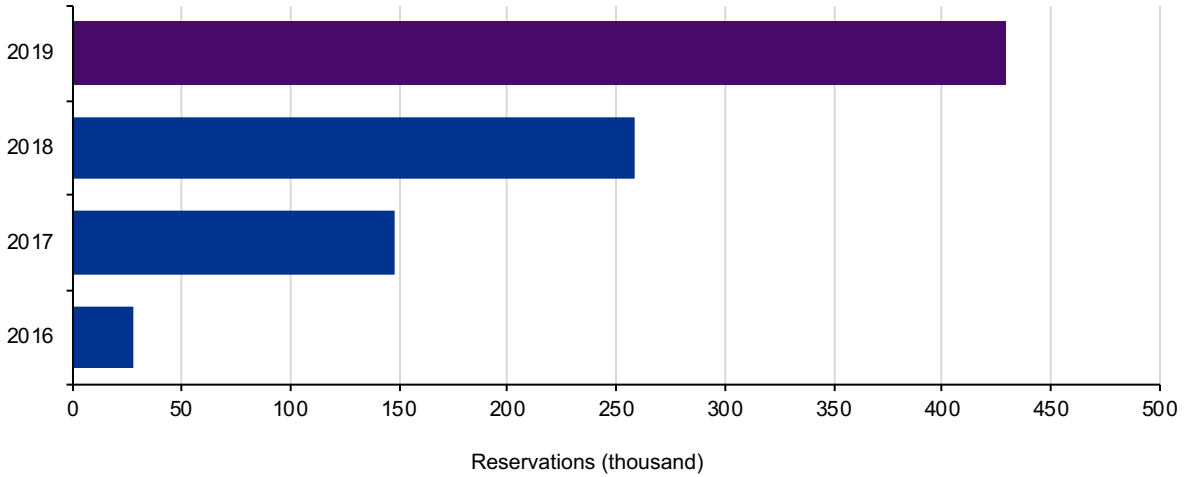
The decrease can be observed across all districts with the exception of Larnaca, which recorded an increase, from 7 transactions in the first quarter of 2019 to 22 transactions in the first quarter of 2020.

Source: DLS, KPMG Analysis

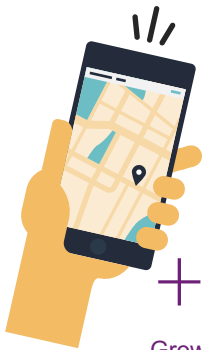
Note: The data refer to the Contract of Sales that represent the sale agreements only submitted to the Department of Lands and Surveys with an agreement date as of 31/03/2020, for the acquisition of property, as extracted from the DLS portal. The data were sorted, merged and processed in order to be presented. The reliability of information presented depends on the accuracy of the data as extracted from the DLS portal.

# Peer-to-peer accommodation

## Number of peer-to-peer accommodation reservations



## 2019 y-o-y trends



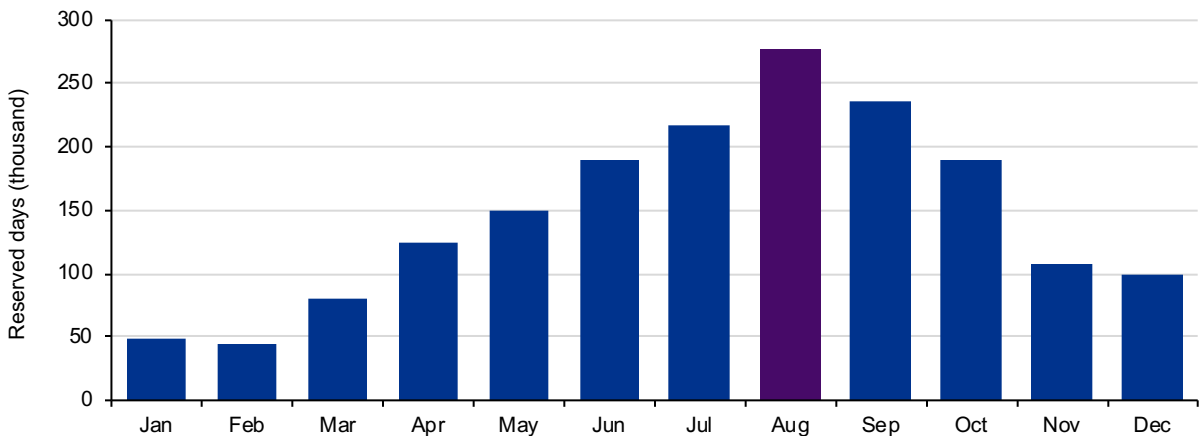
**+66%**  
Growth in reservations

**+29%**  
Growth in reserved days



**+25%**  
Growth in active properties

## Peer-to-peer accommodation seasonality by reserved days (2019)

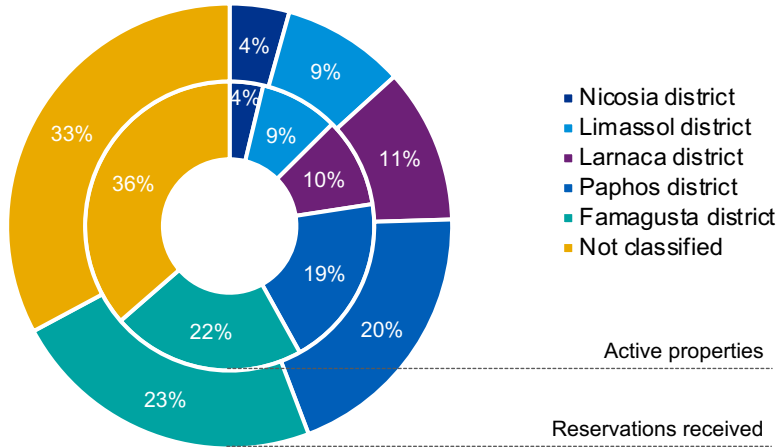


Source: AirDNA, KPMG analysis.

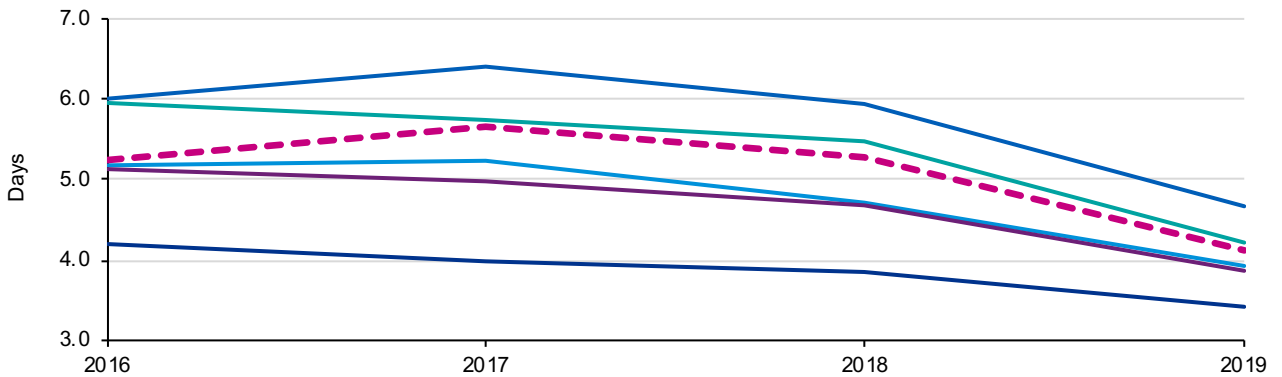
Note: The data analysed and presented, includes Airbnb and HomeAway platforms information. "Not classified" includes properties across the island. "Cyprus average" includes properties across the island, including "Not classified".

# Peer-to-peer accommodation

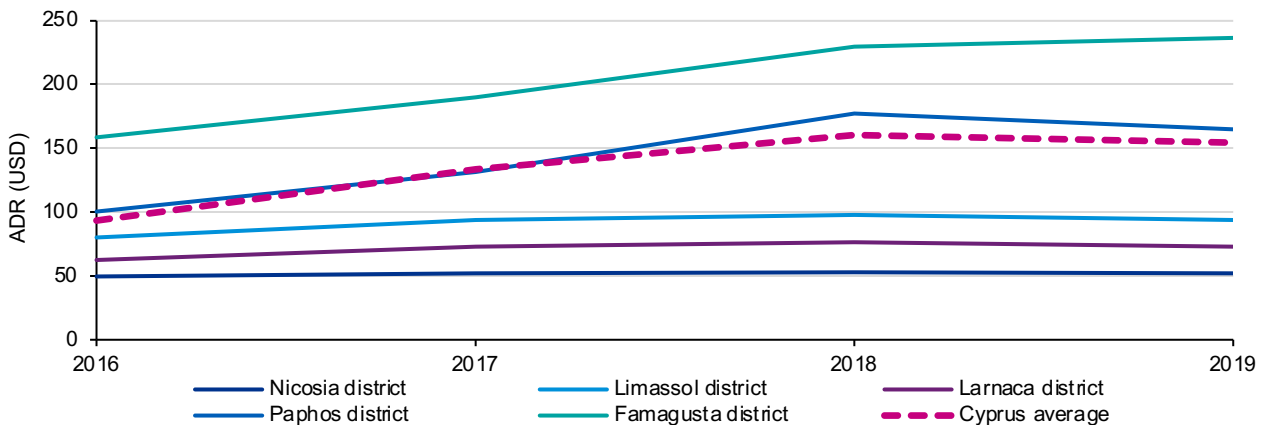
## Geographical distribution of peer-to-peer accommodation (2019)



## Average days per reservation



## Weighted ADR evolution



Source: AirDNA, KPMG analysis.

Note: The data analysed and presented, includes Airbnb and HomeAway platforms information. "Not classified" includes properties across the island. "Cyprus average" includes properties across the island, including "Not classified".

# Student accommodation

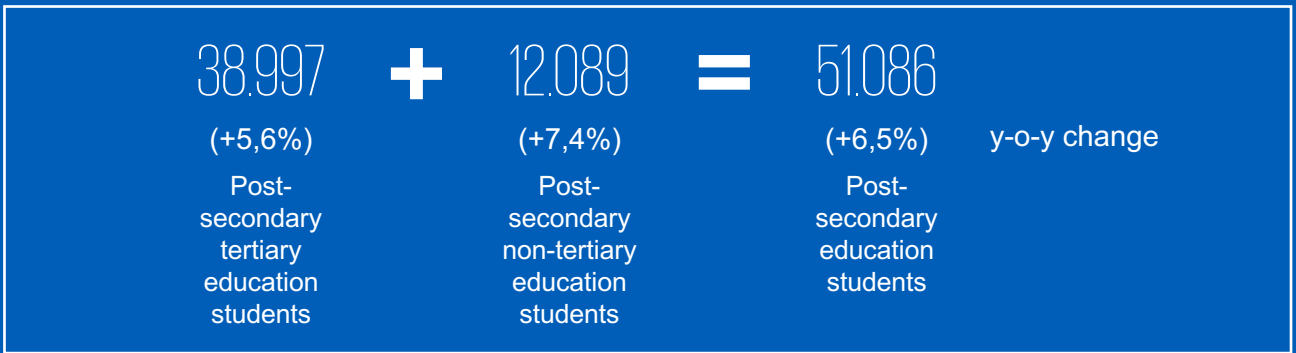
Student accommodation has continued to grow in 2019, with an estimated 7% increase in the number of available rooms from 2018 to 2019. The 2020 academic year is expected to add another 200 rooms in Limassol, with more projects currently under study.

The number of university and college students saw a growth of 6,5% in the academic year 2019.

The number of distance learning students is increasing rapidly, recording an 8,3% increase in 2019 and now account for 28,2% of all the students registered in Cypriot universities.

In the aftermath of the COVID-19 pandemic, more students may select distance learning instead of campus studies, which may affect the demand for student accommodation.

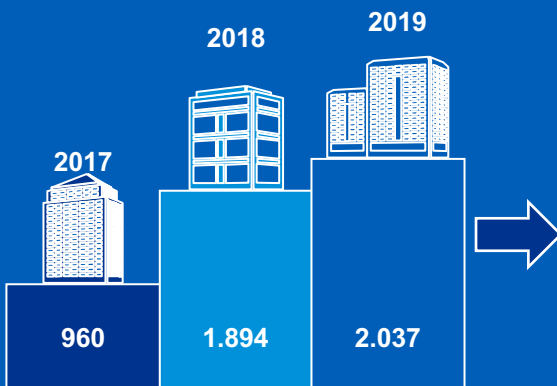
## Students in the 2018/19 academic year



Out of which distance learning students: 14.418 (+8,3% y-o-y)

Source: KPMG analysis, Ministry of Education

## Major student hall rooms



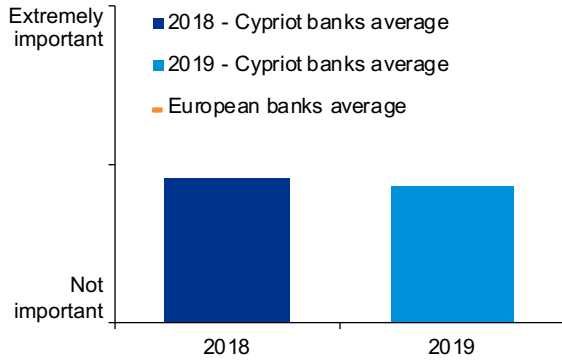
Source: KPMG analysis, Ministry of Education  
Note: The above information refers to publicly available information.

Upcoming student accommodation projects		
Project details	Number of rooms	Expected opening year
Halls to be built for Cyprus University of Technology (CUT) in cooperation with the Archdiocese of Cyprus, in Ekali, Limassol	200	2020
Halls to be built for CUT in the Verengaria area in Limassol	500	2024

# Real estate lending

The KPMG Property Lending Barometer is an annual survey conducted with bank representatives from European countries, that provides valuable insights into debt market conditions and assesses banks' appetite to lend to the sector going forward. Below you can find some interesting findings about the local real estate market.

## Importance of corporate real estate financing for Cypriot banks

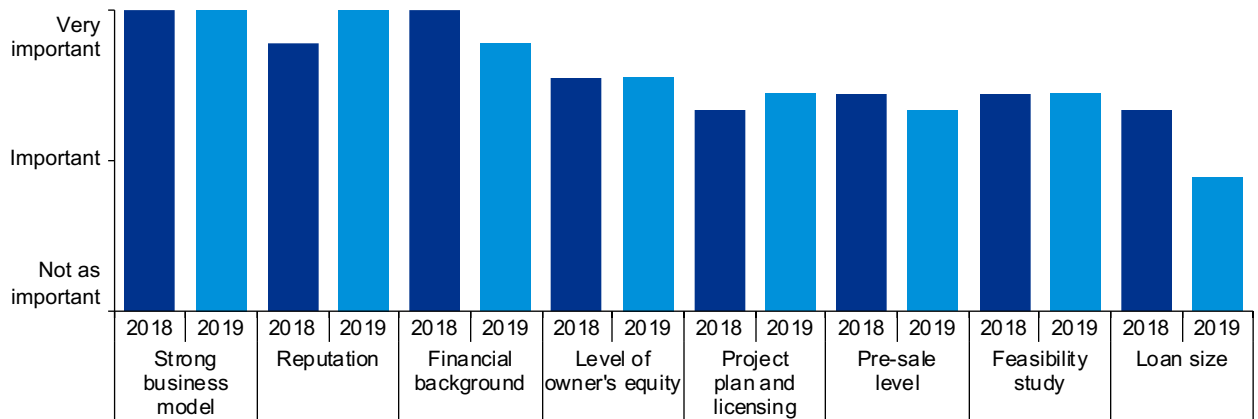


The importance of real estate financing for Cypriot banks shows a marginal decline compared to 2018.

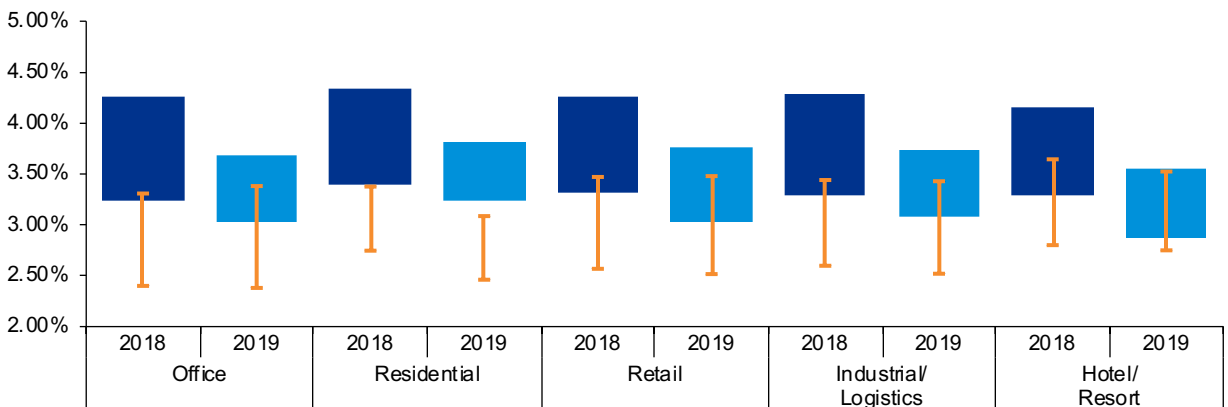
The most important criteria for banking institutions to finance new real estate projects in 2019 were having a strong business model and a reputable borrower, while the loan size was the least important.

Cypriot banks' loan interest premium showed a decrease compared to the previous year, although still remaining higher than other European countries.

## Key criteria when considering the financing of real estate projects



## Range of loan interest premium for financing prime real estate projects



Source: KPMG Property Lending Barometer 2018 & 2019

# 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 debtors' rights at the same time.

The new law came into effect in April 2015. The way distressed auctions will develop in the future, may have a significant bearing on the real estate market.

**26%**

**CAGR in number of assets, for which a notice of foreclosure has been given from 2016-19**

**-23%**

**decrease in number of assets, for which a notice for foreclosure has been given in 2019 vs 2018**

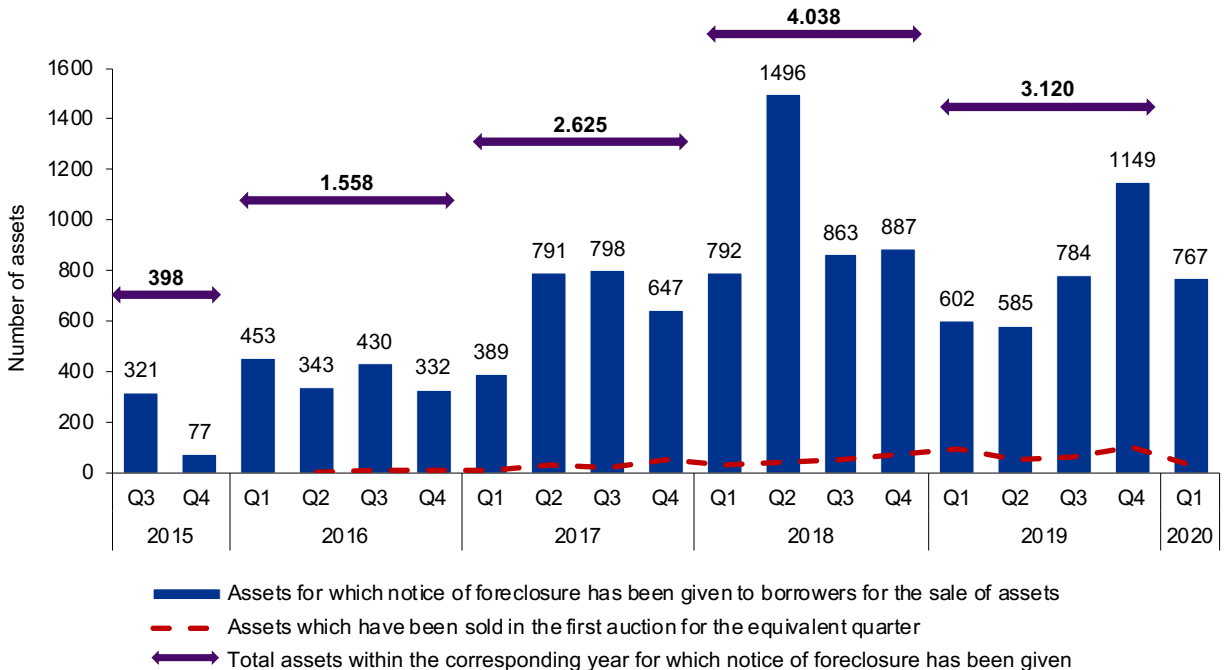
**683**

**assets in total have been sold in the first auction from foreclosures until Q1 2020, out of which 350 were sold in 2019 & 2020**

**1.267**

**have been onboarded by financial institutions after the first auction**

## Real estate foreclosures from Banking Institutions



Source: Stockwatch, KPMG Analysis



# KPMG Cyprus Real estate market sentiment survey



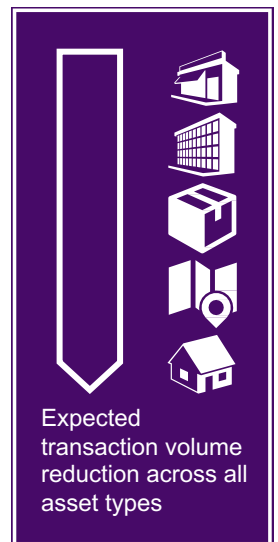
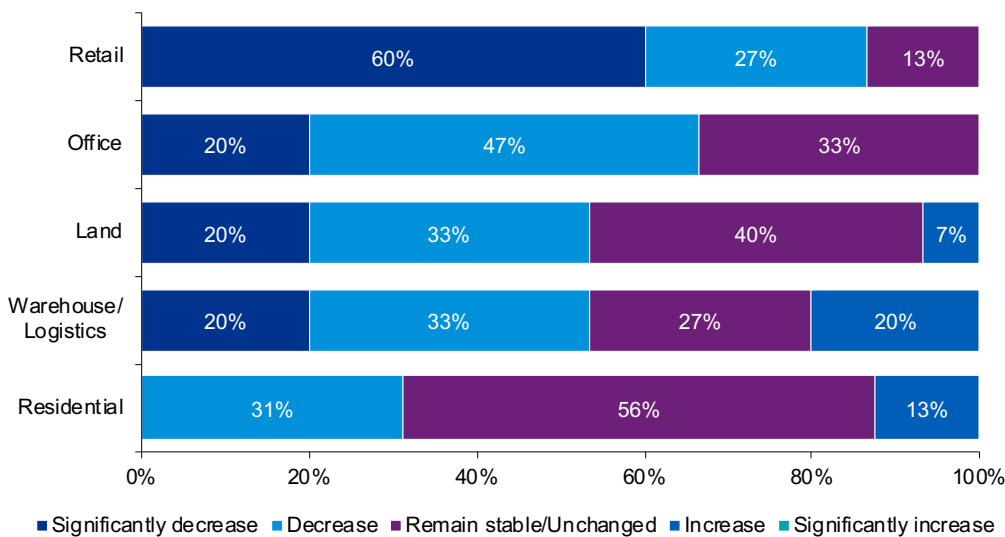


# Transaction volume and price evolution

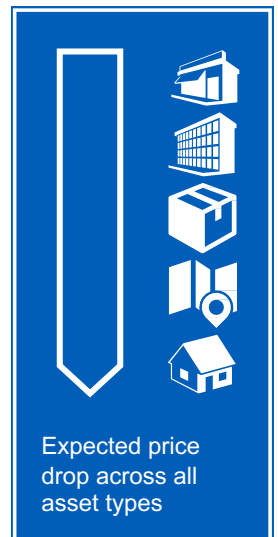
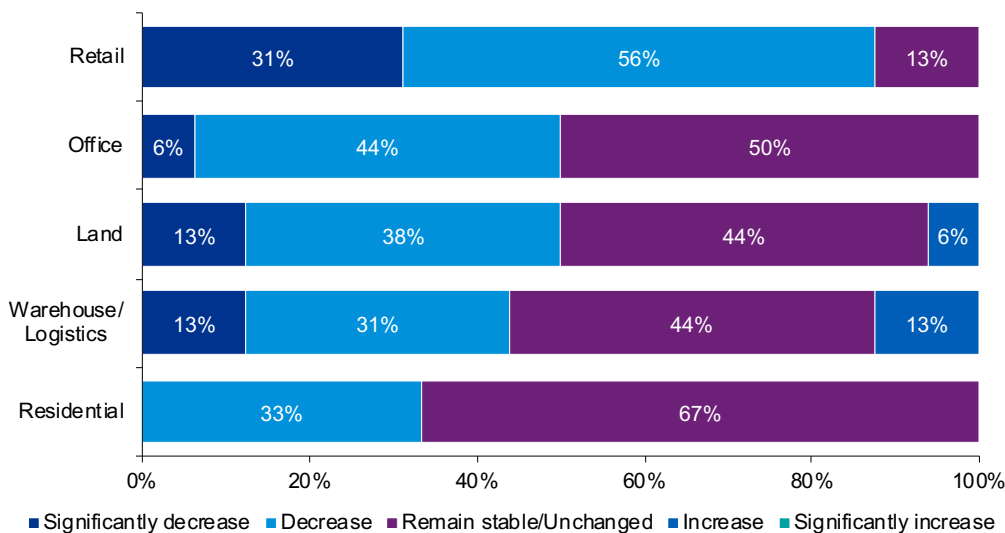
The KPMG Cyprus Real estate market sentiment survey is an effort to capture the industry feeling, by collecting views and expectations for the next 12 months of various professionals from the real estate industry. The survey was carried out in June 2020 with the involvement of a number of professionals including property developers, contractors, valuers and real estate agents.

The survey results indicate that the outbreak of the COVID-19 pandemic has clearly affected the market professionals' expectations.

## What are your expectations of the real estate asset transaction volume in the market over the next 12 months?

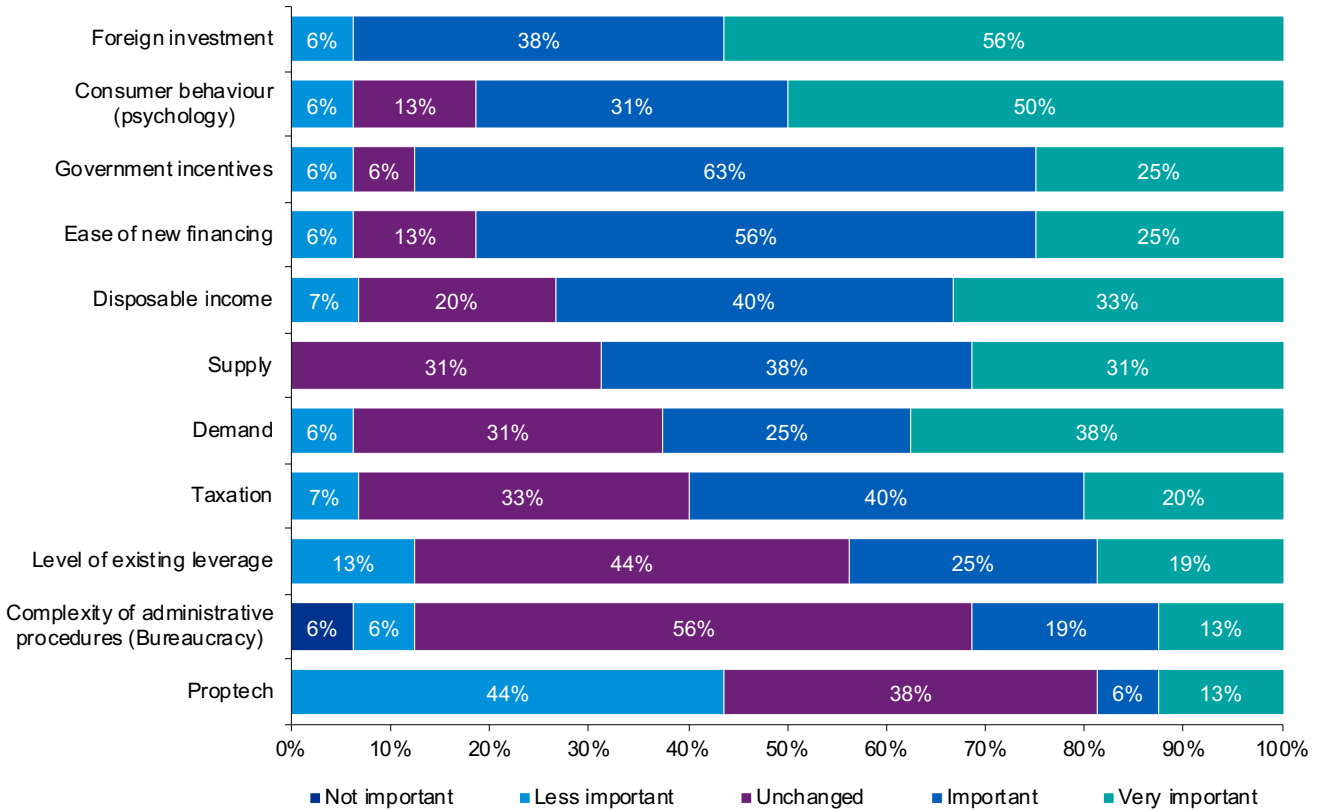


## What are your expectations for the price evolution of each segment of real estate assets over the next 12 months?



# Key variables affecting the real estate market

How do you rate the following variables affecting the real estate sector performance over the next 12 months?



Respondents believe that foreign investment is the most important variable

Respondents believe that proptech is the least important variable

More than half of respondents believe that consumer psychology is an important variable



## Key findings



Respondents expect the retail sector transaction volume to be the most adversely affected (87% response rate)



Residential sector transaction volume would be the least affected (31% of respondents expect a decline in volume while 56% expect similar volumes)



The retail sector is expected to have the biggest decrease in terms of price evolution in the next 12 months



Price evolution for the residential sector is expected to remain stable, according to 67% of respondents



The most important factor that will affect the real estate sector performance over the next 12 months is Foreign Investment and the least important is PropTech



Consumer behavior is the second most important factor expected to affect the real estate sector performance over the next 12 months, followed by Government incentives and the Ease of new financing

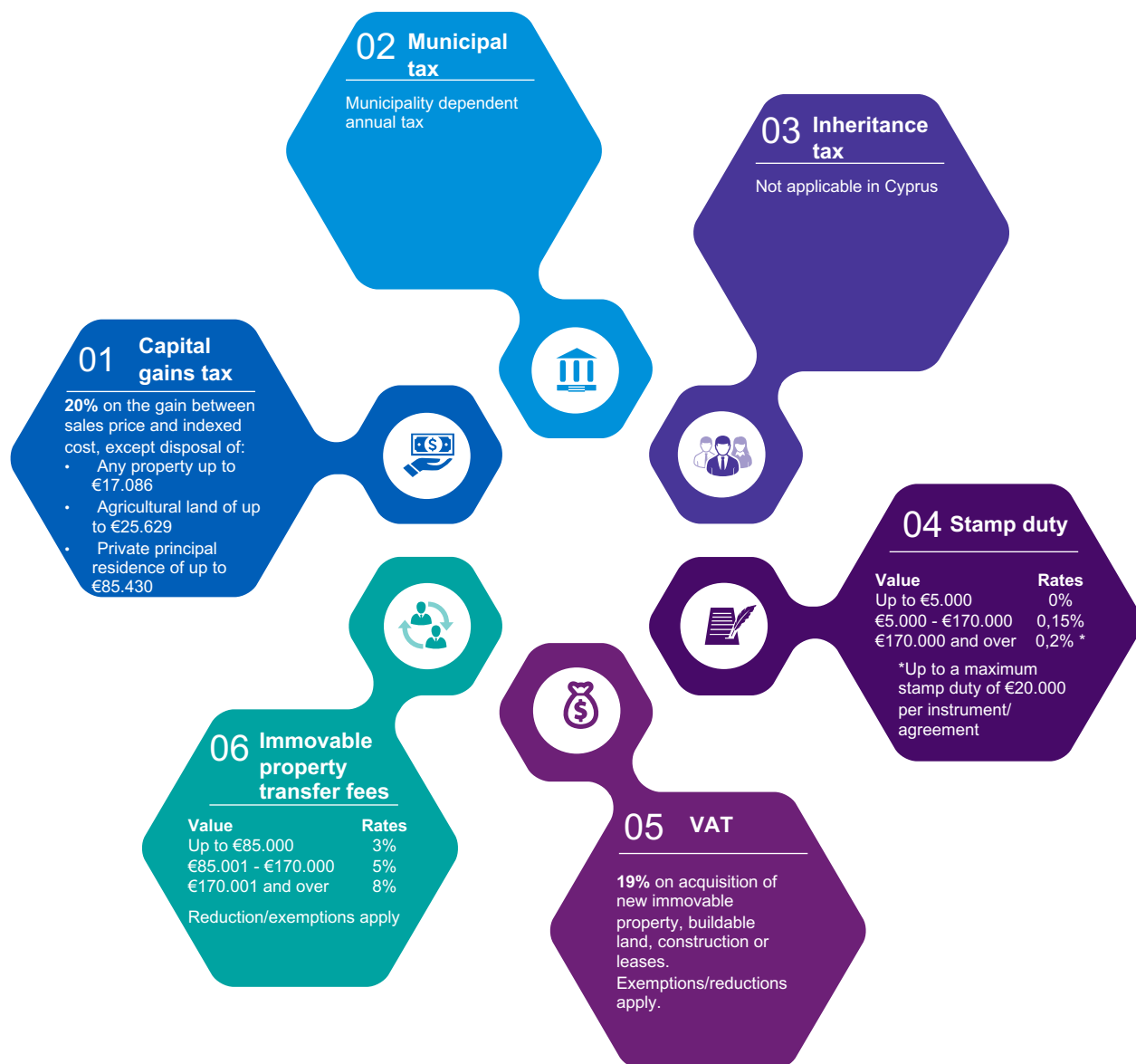




Topics of  
interest



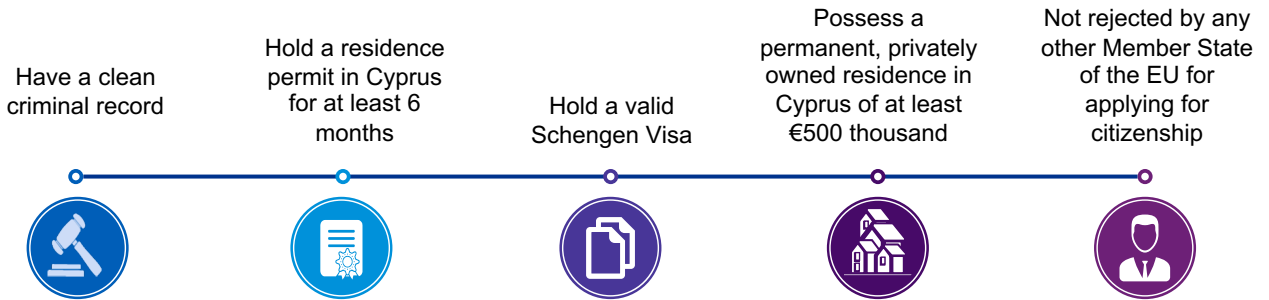
# Immovable property fees and taxes



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
- The applicant has not acquired any other residence in Cyprus with a reduced VAT rate
- The applicant must be an individual, over 18 years old, thus legal entities are excluded

# Cyprus investment programme



Following the decision taken by the Council of Ministers in February 2019, significant changes to the programme became effective as of 15 May 2019, amongst which was the decision that investors will be obliged to also meet criterion A.1, i.e. donating to the Research and Innovation Foundation and the Cyprus Land Development Corporation. In addition, the retention period of investments was extended from 3 to 5 years, from the date of naturalisation.

## Financial criteria

### ▪ Donations



**€75 thousand** donation to the Research and Innovation Foundation or a certified innovative enterprise or a certified social enterprise (obligation is lifted in case the applicant has made an investment in the purchase, establishment or participation in Cypriot Companies or Businesses, as per below investment criterion)

AND



**€75 thousand** donation to the Cyprus Land Development Corporation

### ▪ Investments



**€2 million** in the construction or purchase of residential or commercial developments, infrastructure projects or land under development, provided a development plan is included in the application. Any investment in land that is situated in a building zone of zero development is excluded.

OR



**€2 million** in the purchase, establishment or participation in Cypriot Companies or Businesses. The invested funds shall be used towards the financing of the Companies' investment objectives exclusively in Cyprus

OR



**€2 million** investment in Alternative Investment Funds, Registered Alternative Investment Funds or financial assets of Cypriot companies or Cypriot organisations, licensed by Cyprus Securities and Exchange Commission. Such funds are allowed to invest up to €200 thousand in secondary market stock of the Cyprus Stock Exchange

OR



Combination of the above investment options with a minimum total investment of **€2 million**

# Real estate related services



**Business Plan Preparation Assistance, Business Modelling**



**Transaction Services (Buy Side, Sell Side)**



**Corporate Finance, Feasibility Studies, Business and Assets Valuations**



**Borrower and Lender Assistance and Options Evaluation**



**Citizenship By Investment & Immigration Services**



**Debt for Asset Swap Strategy, Advice & Execution**



**Funds & Fund Management: One-stop Service Offering**



**Asset Management & Strategy**



**Audit & Tax Services**







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