



# Cyprus Real Estate Market Report

A summary of the significant factors  
and major drivers of the real estate  
market in Cyprus.

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# Overview

The Cypriot economy has experienced positive growth rates in 2016 and the expectations are that this trend will continue in 2017. Fiscal indicators are improving, the yields of the Cyprus Bonds have dropped to historically low levels, while the interest for investments is rebounding.

Services including tourism, professional services, shipping and real estate are considered as the backbone of the Cypriot economy, contributing significantly to the country's GDP.

Despite the problems and challenges which still remain for the property sector, 2016 was a good year based on statistical information. In particular, one of the largest increases of the decade (43%) was noted in the total property sales contracts submitted at the Land Registry in 2016, with December 2016 exhibiting an increase of 121% compared to December 2015. This is an important indicator that confidence in the real estate market is improving.

It must be noted that some contracts of sale concern loan restructurings (exchange of debt with mortgaged immovable property) as well as company/corporate group restructurings. The interest of foreign investors in Cyprus' real estate market keeps growing, since over one quarter of the deeds of sale submitted in 2016 involve overseas buyers. This is primarily due to the Cypriot government's initiative regarding the Cypriot Citizenship Program, the permanent residency program as well as the various tax incentives offered.

All of the above are arguably related to the improvement of the economic environment and the performance of the Cypriot economy, as well as the incentives provided by the government. The three figure increase (121%) exhibited in December 2016, is owed to the fact that many buyers have accelerated their decisions in order to take advantage of the legislation of non-taxation of capital profits, which ended at the end of December 2016.

During the period January-November 2016, 4.900 building permits were issued compared to 4.581 in the corresponding period of 2015. The total value of these permits increased by 12,3% while the total area increased by 16,8%. The number of dwelling units recorded an increase of 10,5%. Building permits constitute a leading indicator of future activity in the construction sector.

In order to stimulate growth in the economy and, in particular, in the real estate sector, it is important to increase the financing from financial institutions and attract new investment that will finance new projects, as well as existing projects whose development has been postponed as a result of the recession.

The property market has been stimulated by various **incentives** offered to investors by the government: For example, in mid-2015, a law amendment was adopted according to which the profit made upon the sale in the future, of properties acquired by 31<sup>st</sup> December 2016, will not be subject to capital gains tax. Additionally, as far as transfer fees are concerned, it is pointed out that incentives provided have become permanent. This means that there will be no transfer fees for property purchases subject to VAT, while for other purchases, transfer fees will be reduced to 50%, as estimated based on the provisions of the current legislation. Moreover, the legislation that was adopted in the Autumn of 2015 dealing with the long-standing problem of the inability to issue title deeds in the name of purchasers who have paid the amount due in full to the land developer, has enhanced the credibility of the Cypriot real estate market.

Purchases of land, plots and second hand buildings are not subject to VAT. Immovable property bought as new is subject to 19% VAT, except for the case where it concerns a permanent residence, where the coefficient is reduced to 5%. Recently, the Parliament has adopted legislation under which the maximum size that a residence should have in order to fall within the reduced coefficient has been abolished. More specifically, the first 200 square meters for all permanent residences are subject to 5% VAT. As far as the immovable property tax is concerned, this has been abolished for 2017 onwards, while the municipality fees will continue to be computed based on the values of 1980.

Importantly, in 2017, **large-scale projects** for residential, commercial and hotel units as well as marinas have been planned to start. As a result of the incentives offered by the Cypriot government regarding urban planning permissions, there are currently 30 applications for hotel expansion or renovation before the Cyprus Tourism Organisation for review. At the same time there are 6 pending building permit applications for new hotels in Paphos, Limassol and Famagusta districts. It is estimated that over half a billion euro has been invested for the renovation or upgrading of hotels in Cyprus over the past few years.

In addition, the tender process for the luxurious integrated **casino resort** is at the final stage of being approved and the government is expected to officially grant the casino license to the multinational consortium consisting of the companies Melco-Hard Rock and Cyprus Phassouri (Zakaki) Limited. The relevant legislation adopted in July 2015, provides for the development of a resort of international standards; including a hotel or hotels exceeding the requirements for a five-star establishment with at least 500 luxury rooms, 100 gaming tables and 1.000 gaming machines. Moreover, the legal framework provides for the operation of four "satellite" units in other locations. The casino resort, whose construction is scheduled to begin soon, will certainly attract quality tourism and contribute to the tackling of the seasonality witnessed in the Cypriot tourism market.

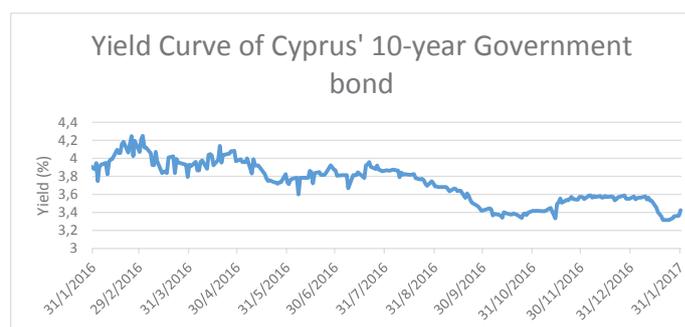
In the **energy sector**, energy giants Exxon Mobil and Qatar Petroleum as well as major European companies Eni and Total were selected by Cyprus` Government within the framework of the 3rd licensing round for offshore hydrocarbons exploration in Blocks 6,8, and 10 in the Exclusive Economic Zone (EEZ) of Cyprus.

Currently, dealing with **non-performing loans** is a top priority for credit institutions. Their efforts are further facilitated by the legislation regulating the sale of credit facilities, the initiation of the first foreclosure proceedings, as well as the introduction of incentives for acquisition of mortgages in the context of restructurings. Figures obtained from the Central Bank of Cyprus show a positive outlook for Non-Performing Loans (NPLs). Specifically, the total amount of non-performing loans held by all Cypriot banks decreased by €600m in the third quarter of 2016. In October, NPLs further decreased by €37,6 million to €24,08 billion, constituting 48,5% of total loans (€49,63 billion).

Cyprus` credit profile is further enhanced and the access of the country to the international markets has been restored. The seven-year 3,75% €1 billion bond was priced at the lowest coupon rate achieved by Cyprus for a euro benchmark bond and was realized without support from the European Central Bank`s bond-buying scheme. Bids for the Republic of Cyprus` 7-year bond under the EMNT programme reached €2.463 million, exceeding by two and a half times the original target of the Ministry of Finance, with an average yield of 3,33% during 2016.

It shall be noted that for 2016, the average yield of the 10-year government bond was 3,76%, while in January 2017 it has reached the lowest ever level with an average yield of 3,45%.

Graph 1



As previously mentioned, the development of the property sector in 2016 showed positive growth, but challenges still remain. Banking institutions, taking advantage of the tax exemptions, have recovered many properties against the loans that they should gradually sell, while interest for foreclosures remains low. Many companies in the property sector are highly leveraged, something which creates obstacles to the planning of new projects.

While the number of deeds of sale submitted at the Land Registry has increased, it is still significantly below the record number exhibited in 2007. An important statistic, which for the time being remains unknown, is the value of sales contracts. This is essential, since contracts connected to investors` naturalization programme are worth millions, something which was not the case in 2007 when contract values were lower.

It shall also be stressed out that permits for taller buildings have also increased, since developers are taking advantage of the extra building coefficient incentives provided by the Government.

2017 is expected to be another year presenting challenges for the economy as well as for the property sector and it will indicate whether the process of stabilization and gradual recovery will be reinforced or not. Nevertheless, the expected construction of new projects is expected to support the sector and the efforts for reduction of the unemployment rates.

# Cypriot economy

As of 31st of March 2016, Cyprus has successfully completed its Economic Adjustment Programme, three years after its commencement.

Cyprus benefited from the Economic Adjustment Programme, during which it emerged from recession, stabilised its financial sector, and consolidated its public finances. Cyprus' economy emerged from recession in 2015, with real GDP growth reaching 1,6%. In 2015, nominal spending by households stabilised but declining consumer prices allowed households to consume more in real terms, providing a significant boost to real GDP growth.

The Cypriot banking system in particular has undergone a deep transformation. The ground covered since March 2013 has been significant and the reform measures, which have been executed or are underway, are essential to restoring the Cypriot financial system to viability.

The Cypriot economy has been steadily recovering and economic activity in 2016 has been better than initially projected, whereas fiscal targets have been met with substantial margins. The economy of Cyprus expanded by 2,9% year-on-year in the third quarter of 2016, compared to 2,7% in the previous quarter.

The restoration of the banking system continues and debt restructuring is picking up. However, the percentage of non-performing facilities ("NPFs") remains high and the pace of lending is subdued, despite the fact that demand for loans is slowly increasing.

## Economic update

### Fiscal reforms

Following the progress made over the past year, the European Commission, in its Autumn Report, significantly revised its spring forecasts in relation to the economy of Cyprus as set out in Table 1 below.

Table 1

European Economic Forecast Autumn 2016				
	2015	2016	2017	2018
GDP growth (% yoy)	1,7	2,8	2,5	2,3
Inflation (% yoy)	-1,5	-1,1	0,7	1,3
Unemployment (%)	15,0	12,5	11,1	10,0
Public budget balance (% of GDP)	-1,1	-0,3	-0,4	0,0
Gross public debt (% of GDP)	107,5	107,1	103,7	100,6
Current account balance (% of GDP)	-3,0	-2,8	-3,3	-3,4

Source: European Commission (9 November 2016)

Real GDP growth is expected to reach 2.5% in 2017 and then moderate gradually to 2.3% by 2018. An important factor taken into account by the European Commission was the improved outlook for investment based on the stabilizing housing market in Cyprus. A second significant factor was the increase in private consumption. The European Commission noted the growth in the tourism sector and expects it to continue, albeit at a slower pace, contributing to job creation while exerting upward pressure on wages and unit labour costs.

HICP (Harmonised Index of Consumer Prices) inflation is expected to increase and return to positive territory in 2017, although it is expected to remain moderate as profit margins are forecast to narrow further, thus limiting the pass-through of higher unit labour costs to consumer prices. As a result, less

support for real GDP growth will be provided.

Meanwhile, the "more pronounced" domestic private demand growth is expected to slow down owing to the ongoing deleveraging and continued loan restructuring efforts by banks combined with weak lending activities. Consequently, investments will continue having to be financed mainly from retained profits and savings.

On the upside, the European Commission stated that consumption could be enhanced and FDI could perform better than anticipated as a result of the lagged effects from declining energy prices and stronger labour incomes. Moreover, the strong performance in the tourism sector could continue without losing its momentum.

On the other hand, the report raises the challenges and risks stemming from Brexit which can turn out to impact Cyprus' economic outlook. Nevertheless, as a member of the commonwealth, Cyprus maintains an advantage over other EU member states in repelling any negative effects from the referendum. Additionally, the slow reduction in non-performing loans could lead to a more prolonged period of tight credit conditions, which would dampen the recovery.

With regards to the primary balance of the general government, the European Commission expects it to improve further, reaching a surplus of 2,3% of GDP. However, there are also additional factors beyond the control of the government weighing on the revenue, notably new location rules regarding VAT on e-commerce services and a decrease in dividend

income from the Central Bank of Cyprus (CBC) due to a decrease in the emergency liquidity assistance. Furthermore, the government's primary balance will be negatively affected by the significant reduction in property tax and the partial switch to professional soldiers that took place in November 2016. In parallel with the primary balance, the headline balance also improved recording a deficit of 0,3% of GDP (from -1,1% of GDP in 2015).

In 2017, the general government primary surplus is forecast to decrease marginally to 2,0% of GDP. The Commission also noted the abolition without compensatory measures of the immovable property tax paid to the central government as of 1/1/2017. In addition, the European Commission pointed to the special payroll contribution levied in response to the crisis which expired at the end of 2016. In 2018, the small improvement in the general government primary surplus is largely based on the improving economic outlook. Despite the stable headline balance, the structural balance is expected to worsen over the forecast horizon.

Lastly, public debt is expected to decline to 100,6% of GDP in 2018. The debt path is slightly better than envisaged in the spring, mainly due to higher nominal GDP.

### **Credit ratings**

Ratings agency Standard & Poor's upgraded on the 16<sup>th</sup> of September its assessment of Cyprus to BB. The outlook is positive. S&P expects the Cypriot economy to expand by about 2.7% this year, surpassing their March 2016 forecast, with annual growth at about 2.5% in real terms in 2017-2019. S&P continued by stating that Cyprus' recovery is supported by resilient business services, tourism, gradually reviving private consumption and construction. The restructuring in the financial sector is making progress, but the Agency expects it will be a few years before the sector contributes to economic growth. S&P further expects the sovereign's budgetary position to continue improving over the next few years, standing at close to balance or in surplus, with gradually declining government debt. S&P finally added that the positive outlook supports its view that it could upgrade Cyprus within the next 12 months if its reduction of currently high levels of nonperforming loans accelerates, indicating a convergence of Cyprus' credit and monetary conditions (including the monetary transmission mechanism) with those of the Eurozone.





According to Moody's November 2016 issue, Cyprus' debt remains highly affordable, reflecting the very large share of official sector creditors in the total debt stock (63% as of the third quarter of 2016). The agency further suggests a prevailing low interest rate environment among other factors mitigate liquidity risks quite effectively. Moreover, it expects fiscal discipline to be sustained in spite of the ending of Cyprus' programme with the European Stability Mechanism (ESM) and the International Monetary Fund (IMF) in March 2016, which should support investor confidence.

The Fitch Ratings report released in October, highlights the fact that other developments which could lead to an upgrade of the sovereign rating include further stabilisation in the banking sector, a track record of economic recovery and a reduction in private sector indebtedness, narrowing the current account deficit and continuing fiscal adjustment. Finally, according to Fitch, Cyprus' great natural environment of beaches and mountains, its highly developed infrastructure, the growing tourism market, the low property tax and the climate, make Cyprus ideal for property investment. Added to this, is the benefit of obtaining the Cypriot citizenship as a result of such or similar investment.

### Non-performing loans

Significant progress has been made in the financial sector as a result of the recapitalisation and restructuring of credit institutions. However, the key challenge involves dealing with the high level of NPLs, in order to restore the country's creditworthiness, economic growth and the creation of new jobs.

According to the data published by the Central Bank of Cyprus, the total amount of non-performing loans held by all Cypriot banks decreased by €600m in the third quarter of 2016. In October, NPLs further decreased by €37,6 million to €24,08 billion, constituting 48,5% of the total loans (€49,63 billion). Banks are concentrating their efforts to speed up the restructuring of NPLs and according to CBC data, agreed restructurings have followed an upward trend. In order to further facilitate the reduction of NPLs and offer credit institutions the necessary tools in order to effectively address this challenge, the legislature has adopted in November 2015, a law regulating the sale of credit facilities. In particular, this legislation sets out the criteria of eligible purchasers of bank loans and regulates the activities of such purchasers. Further legislative reform aiming to facilitate loan restructurings dictates that assets acquired by a financial institution in the context of such restructuring will be considered tax neutral transactions and no fees will be attached. Moreover, the first foreclosures took place within the first half of 2016 which primarily focused on commercial buildings and land plots rather than primary residences.

### Loans and deposits

Cyprus' bank deposits decreased in December this year as shown by the data released by the country's Central Bank. Total deposits in December 2016 recorded a net decrease of €74,9 million, compared to a net increase of €358 million in November 2016.

The annual growth rate stood at 6,2% in December compared with 6,8% in November 2016. The outstanding amount of deposits reached €49,0 billion in December 2016.

Deposits increased by €5,27 billion from last March when they reached the lowest level of the past nine years. Last March, deposits fell to €45,73 billion, the lowest level since April 2007, when they amounted to €44,52 billion. Cyprus Central Bank's data show that Cyprus residents' deposits recorded a net increase in December 2016 by €168,2 million to €36,529 billion, whereas deposits of EU residents increased by €61,1 million to €3,259 billion. Deposits of Third Countries' residents decreased by €218,0 million to €9,221 billion in December 2016.

On the other hand total loans in December 2016 exhibited a net decrease of €98,0 million, compared with a net decrease of €29,1 million in November 2016. The annual change rate stood at -11,0%, compared with -10,4% in November 2016. The outstanding amount of loans reached €55,2 billion in December, while in November the outstanding amount of loans was €53,9 billion, the lowest level since October 2008, when they stood at € 53,92 billion.

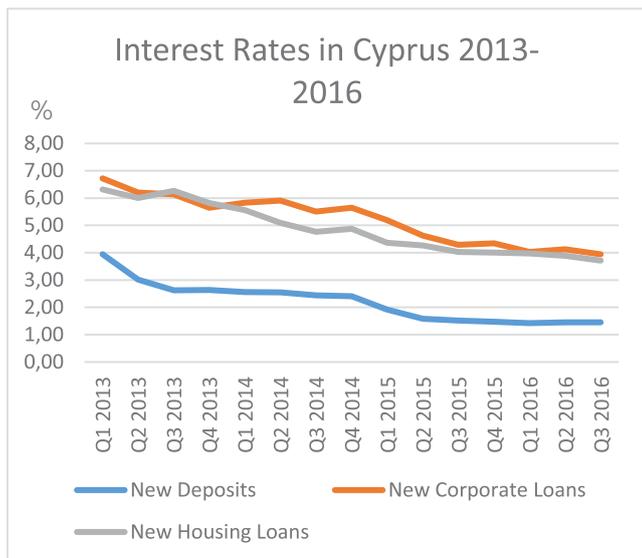
Cyprus residents' loans have decreased by approximately €9,09 billion to €45,2 billion, from their highest level of € 54,29 billion in March 2013. Domestic household loans fell to € 20,760 billion, a decrease of €3,09 billion, from their highest historical level of € 23,85 billion in December 2012.

## Economic indicators

### Interest rates

The effect of the decision of the Central Bank of Cyprus in February 2015 to differentiate the maximum deposit rate by 1% is reflected in the declining trend of interest rates in 2015, which continued in 2016, as displayed in Graph 2 below.

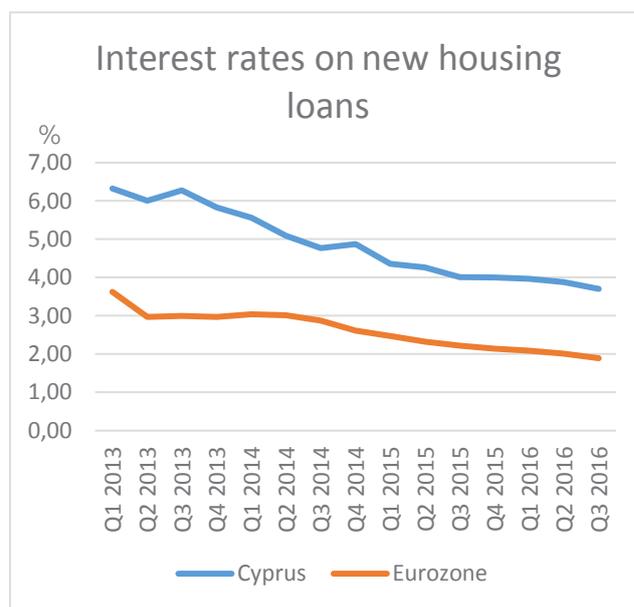
Graph 2



Source: CBC and ECB

The average interest rates for new housing loans (consumer credit, lending for house purchase and other household lending) have continued their downward trend, falling to 3,71% in the 3rd Quarter of 2016 compared to 4,02% in the 3rd Quarter of 2015. The average interest rates on new corporate loans (excluding bank overdrafts) have also decreased to 3,94% in the 3rd Quarter of 2016 compared to 4,29% in the same period of 2015. With regards to the average new depository interest rates (with agreed maturity up to 2 years or redeemable at notice), they have decreased to 1,45% in the 3rd Quarter of 2016 compared to 1,51% in the same period of 2015.

Graph 3

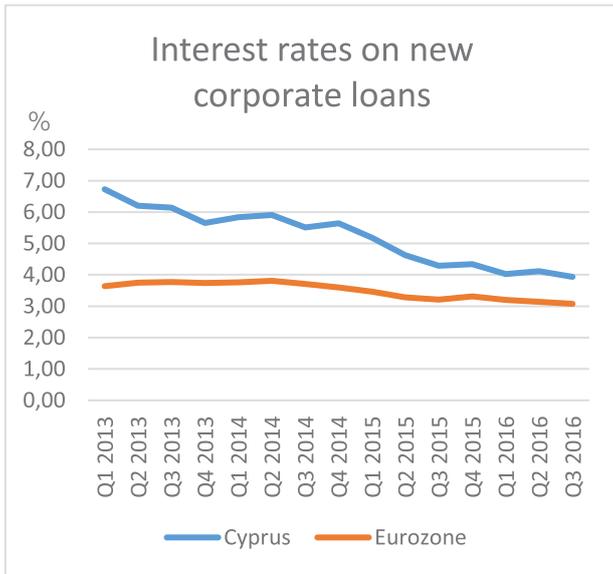


Source: CBC and ECB



Graph 3 highlights the divergence between interest rates for new housing loans in Cyprus and the respective interest rates in the Eurozone, with interest rates in Cyprus remaining higher in spite of recent declines. For instance during the 3rd Quarter of 2016, the average interest rate for new housing loans in Cyprus was 3,71% compared to 1,90% in the Eurozone.

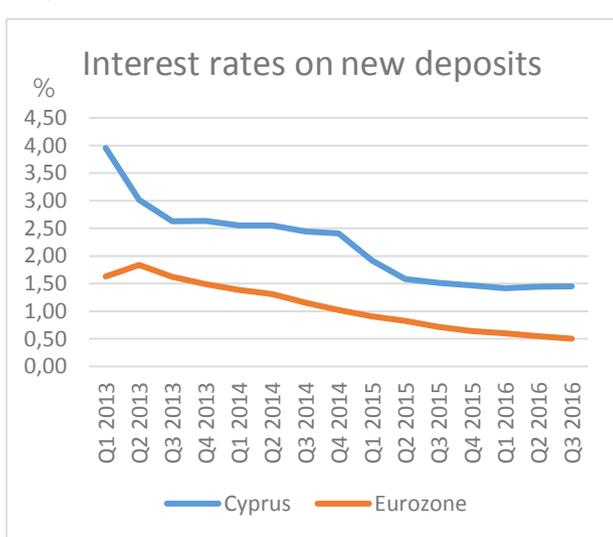
Graph 4



Source: CBC and ECB

The same also applies to new corporate loans interest rates (Graph 4) and new depository interest rates (Graph 5). In Cyprus, the average interest rate for new corporate loans in the 3rd Quarter of 2016 was 3,94% in contrast with 3,08% in the Eurozone.

Graph 5



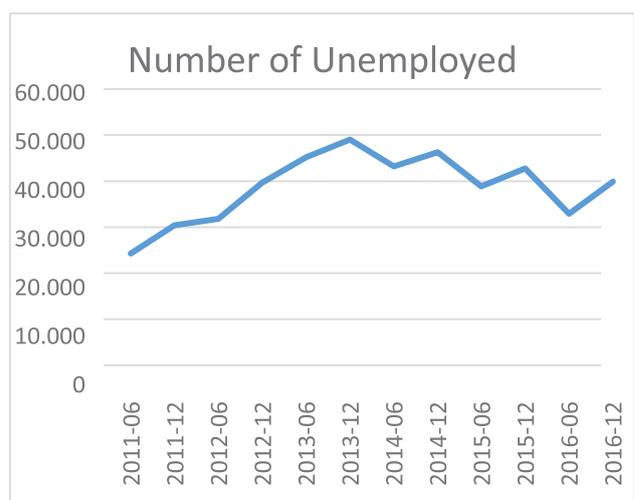
Source: CBC and ECB

The average depository interest rate in the 3rd Quarter of 2016 was 1,45% compared to 0,50% in the Eurozone.

### Unemployment

It appears that unemployment in Cyprus reached its peak in December 2013, with 50.467 registered unemployed. Although a declining trend has been recorded in the last three years, it must be noted that there is a long way to go before reaching the low levels of December 2009, when registered unemployed amounted to 21.530.

Graph 6



Source: CYSTAT

According to data from the Statistical Service of the Republic of Cyprus (CYSTAT), the number of registered unemployed in Cyprus increased to 41.852 persons in December compared to 40.646 in the previous month. In comparison to December 2015, a decrease of 2.698 persons or 6,1% was recorded in 2016 which was mainly observed in the sectors of construction, manufacturing, transportation, trade, public administration and to newcomers in the labor market.

## Tourism

The annual number of tourist arrivals has experienced substantial growth over the last three years, despite a minor decline in 2013. 2016 is considered as a record year, as it is the most successful year ever recorded. Arrivals in 2016 have increased by 19,8% compared to 2015, reaching 3.186.531 (2.659.405 in 2015). As seen from Table 2 below, the largest increase in the number of tourists that was recorded in 2016 relates to tourists from Israel (+50,9%) and Russia (+48,9%).

Table 2

Country	2016	2015	(% Change 2016/15)
<b>UK</b>	1.157.978	1.041.208	+11,2%
<b>Russia</b>	781.634	524.853	+48,9%
<b>Sweden</b>	115.019	108.605	+5,9%
<b>Greece</b>	160.254	139.539	+14,8%
<b>Germany</b>	124.030	112.219	+10,5%
<b>Israel</b>	148.739	98.597	+50,9%
<b>Total (All Countries)</b>	<b>3.186.531</b>	<b>2.659.405</b>	<b>+19,8%</b>

Source: CYSTAT

The strong growth may also be partially attributed to geopolitical tensions in neighbouring countries. Bookings from British tourists appear strong despite the depreciation of the pound. In 2017, growth should gain further strength.

Tourism revenue has increased steadily year-on-year from 2013. In 2015, revenue from tourism reached €2.112, 1 million, compared to €2.082, million in 2014, recording an increase of 1,43%. For the period January – November 2016, revenue from tourism is estimated at €2.312,5 million compared to €2.059,5 million in the corresponding months of 2015, representing an increase of 12,3% as exhibited in Graph 7.

Graph 7



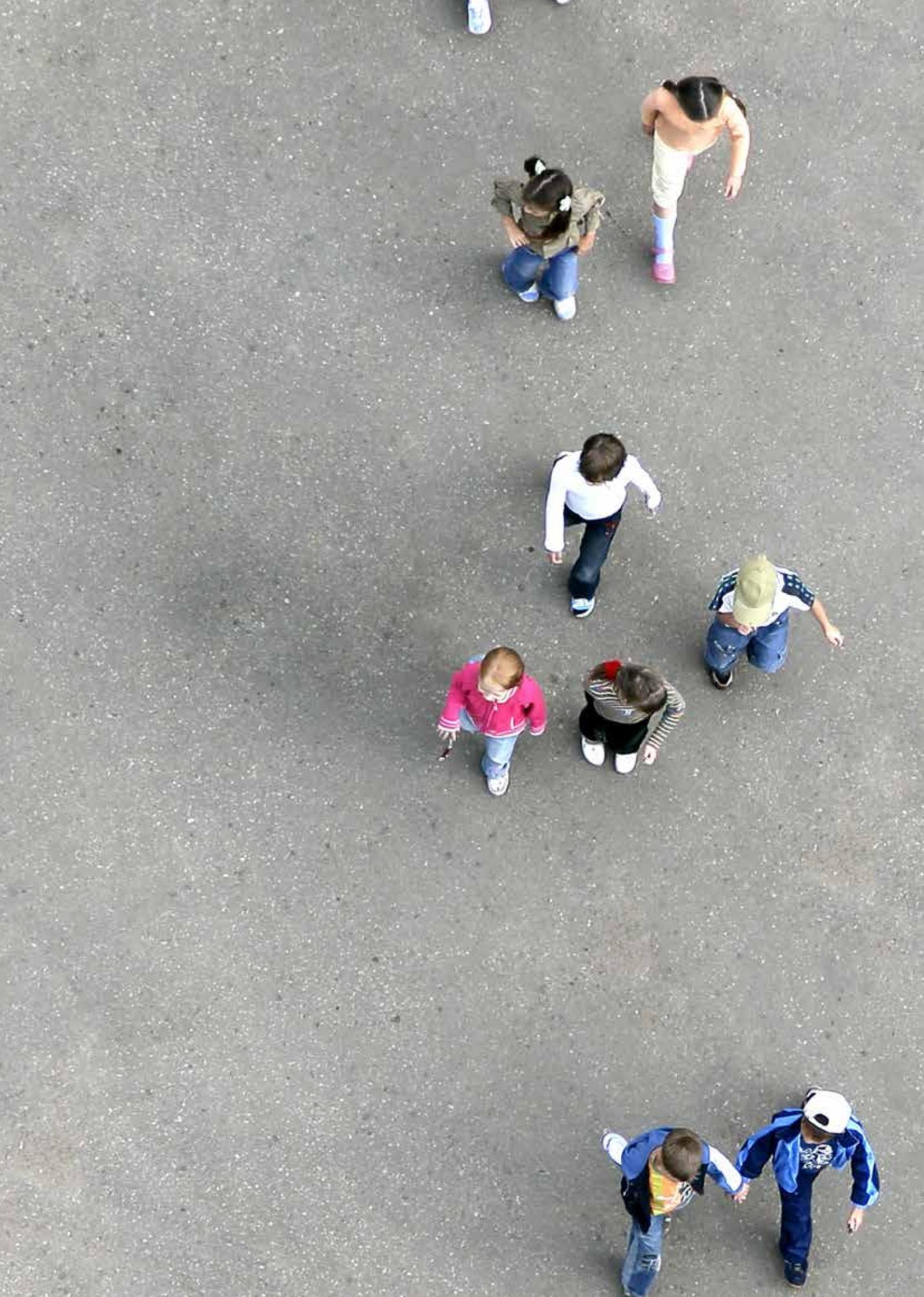
Source: CYSTAT

The increase in revenue in equivalent periods remain higher in 2016 compared to 2015, and this may be attributed to an increase in arrivals by 19,8% (for the period January-December 2016).

## Other developments

Applications for registration of new companies have increased by 20,4% in 2016 compared to 2015, reaching 13.616. There has been an increase for three consecutive years, however, the number of applications remains below the levels exhibited prior to the economic crisis. With regards to the registrations of saloon cars, they have increased by 30,3% reaching 27.956 in 2016.

Lastly, in 2016 an increase in consumption was recorded according to data published by JCC. Credit card use by Cypriot residents has increased by 4% reaching €2.409 million while credit cards use by Cypriot residents outside Cyprus increased by 18% reaching €1.427,8 million. Credit card use by non-Cypriot residents increased by 14% reaching €777,3 million.



# The Real Estate Sector

## Factors affecting the sector

### Construction

The latest data regarding the “Indicators of confidence and economic sentiment” published by the European Commission in December 2016 shows that the construction confidence indicator in Cyprus exhibited an improvement from -28,1 in January 2016 to -27,4 in December 2016.

The Cyprus real estate market can be divided into two groups of demand. The major urban centres of Nicosia, Limassol and Larnaca are mainly supported by local demand, while Paphos and Famagusta are mainly supported by foreign demand.

The market is further segmented in three main sectors, being the residential, retail and office sectors, with the primary emphasis being upon the residential sector as the island’s topography and geography appeal largely for residential utilization.

The construction production index witnessed a 0,3% increase in 2015 compared to 2014. For 2016, there has been an increase of 12,0% in Q3 compared to Q3 of 2015. The increase in the Construction Production Index has continued for the 6th consecutive quarter, reflecting the general improvement in the construction industry.

The cost of construction materials increased from 2007 onwards. This is depicted in the Construction Materials Price Index with an increase from 98,9 to 105,09 from 2007 to 2014, as shown in Graph 8. Since 2014 the price index has been decreasing, falling to 102,27 in 2015. The Index for 2016 shows a continuation of the declining trend reaching an average figure of 100,50.

Graph 8



Source: CYSTAT

During 2015 there was a slight decrease in average prices of all basic materials compared to 2014 and this trend has continued in 2016. For example, minerals and mineral products dropped by 2,11% and 2,14% respectively in 2016 compared to 2015. Average prices for 2016 show a further decrease in all materials (Table 3).

Table 3

Construction Materials Price Index (Basis 2010 = 100)				
Construction Materials	2013	2014	2015	2016
Minerals	105,49	109,89	106,81	104,56
Mineral products	108,10	112,19	108,67	106,34
Products (timber, insulating materials, chemicals and plastics)	98,78	100,27	98,74	98,52
Metal products	104,52	101,19	97,98	95,23
Electromechanical products	101,80	100,80	98,50	98,29

Source: CYSTAT

## Building permits

Total building permits from January-November of 2016 amounted to 4.900. This constitutes an increase of 7,0% from the equivalent period of 2015. Residential building permit numbers increased by 8,3% whereas nonresidential building permit numbers have remained unchanged from 2015. Furthermore, civil engineering project permits increased by 7,3%. The number of permits in plot division and road construction projects increased by 11,1% and 19,2% respectively.

As building permits exhibited a 7,0% increase in numbers, value and area (m<sup>2</sup>) were positively correlated, increasing 12,3% and 16,8% respectively. This can be attributed to residential building permits which increased 25,3% in value and 20,2% in area.

Table 4

Details of Building Permits in 2016 (January - November)			
Category	Number	Area (m <sup>2</sup> )	Value (€000)
<b>Residential Buildings</b>	3.350 (+8,3%)	742.154 (+20,2%)	760.395 (+25,3%)
<b>Non-Residential</b>	917 (0%)	185.557 (+7,4%)	210.928 (-3,7%)
<b>Civil Engineering - Projects</b>	177 (+7,3%)	6.060 (-34,3%)	18.576 (-67,9%)
<b>Division of Plots</b>	369 (+11,1%)		30.844 (+21,4%)
<b>Road Construction</b>	87 (+19,2%)		7.104 (+14,2%)
<b>Total</b>	4.900 (+7,0%)	933.771 (+16,8%)	1.027.847 (+12,3%)
<b>Large Projects</b>	204 (-3,6%)	415.214 (+20,7%)	459.308 (+7,1%)
<b>Small Projects</b>	4.696 (+7,1%)	518.557 (+13,8%)	568.539 (+16,8%)

Note: % in brackets is the annual change from 2015 to 2016

Source: CYPSTAT



For the period January-November 2016, Limassol experienced the biggest increase in value (44,2%) compared to the corresponding period of 2015. An increase in value was also exhibited in Nicosia (11,0%). On the other hand, Famagusta experienced the biggest reduction in value (-14,8%) between 2016 and 2015, while a fall in value was also observed in Larnaca and Paphos with a decrease of 7,6% and 3,7% respectively.

Considering the total areas (m2) for building permits, Limassol witnessed the biggest increase (45,3%) compared to the first 11 months of 2015. Area for building permits in Nicosia, Famagusta and Larnaca also increased by 9,0%, 3,5% and 20,0% respectively, whereas Paphos experienced a decrease of 9,2%.

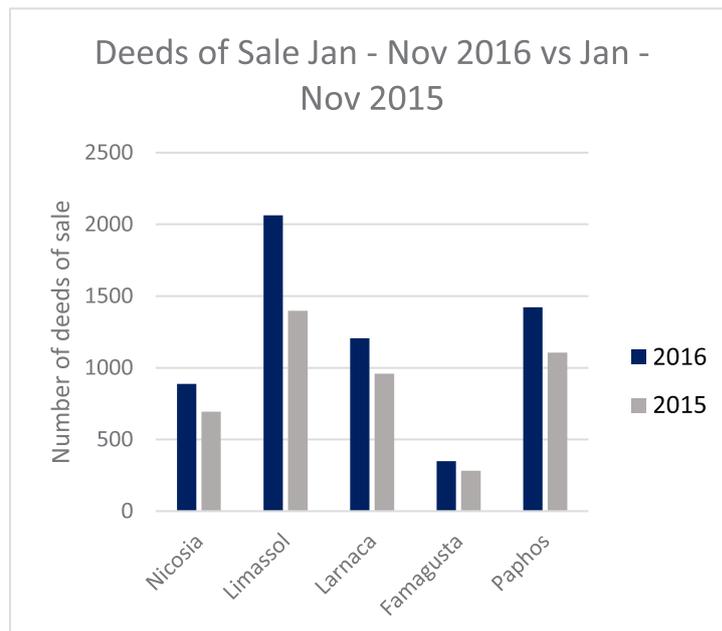
### Deeds of sale

In relation to deeds of sale, the 2015 volume of transactions accumulated to 4.952, a 77% decrease in comparison to 2007 when the economy and especially the real estate sector were thriving and transaction volumes reached a total of 21.245. In light of this, a clear recovery is taking place as extrapolated when comparing deeds of sale submitted to the Land Registry in 2016 and 2015. In 2016, deeds of sale transactions amounted to 7.063. This is a considerable increase in transactions (43%) compared to 2015.

According to data of the Department of Land and Surveys, Limassol has had the highest number of transactions in Cyprus in 2016 representing 35,3% (2.496 transactions) of the total transactions (Graph 9).

Paphos, Larnaca and Nicosia follow second, third and fourth with 24,6%, 19,3% and 14,6% of the total number of transactions in 2016 respectively. Famagusta experienced the lowest number of transactions at 6,2% (436 transactions) in 2016. This may be attributed to higher seasonal demand for the area, especially for holiday homes, which are still considered 'luxury' purchases after the bail-in period.

Graph 9



Source: Department of Land and Surveys

Of the total deeds of sale submitted to the land registry for 2016, it is noteworthy that 25,67% (1.813) relate to sales to foreign buyers. This is a 34,44% increase from last year's comparative figure and can be attributed to the fact that Cyprus has attracted foreign investors via the scheme for naturalization of investors by exception.

The largest proportion of foreign deeds of sale is exhibited in Paphos reaching 8,88% of the total deeds of sale submitted in 2016. Limassol follows with 8,65%, Larnaca 4,74%, Nicosia 1,85% and finally Famagusta with 1,54%. It must be noted that foreign interest is primarily focused on the residential sector in prime locations with close proximity to the beach.

## Property Price Indices

The Royal Institute of Chartered Surveyors ('RICS') Cyprus Property Price Index is published on a quarterly basis and focuses on both residential and non-residential property (including retail and offices) and also tracks trends on rental rates.

The information provided by RICS is based on the average price and rent of the sub-districts monitored per urban centre per sector.

While the yearly average comparison for 2015 and 2014 registered a drop in prices of all types of property in the industry, the first three quarters of 2016 exhibit a reverse trend as prices seem to be on the rise.

### A. Residential Property

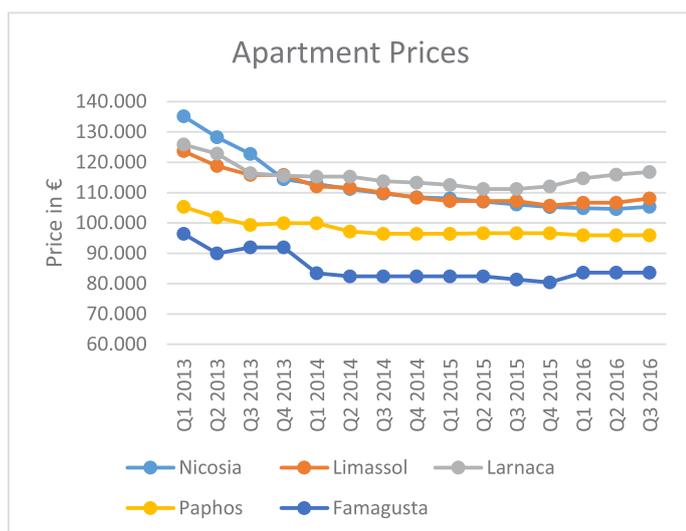
Apartment prices and rents according to RICS are based on 85 m<sup>2</sup>, two-bedroom apartments of medium quality.

#### i) Apartments

##### Sales Prices

The average price for an apartment in Cyprus in 2015 was €100.659, whilst in 2014 it was €103.104. The average of the first three quarters in 2016 (€101.461) exhibits an increase in prices of 0,80% from the 2015 yearly average (Graph 10). The highest apartment prices for Quarter 3 2016 are found in Larnaca (€116.741). Larnaca also exhibits the largest increase between Quarter 3 2015 and Quarter 3 2016 with 5,0%.

Graph 10



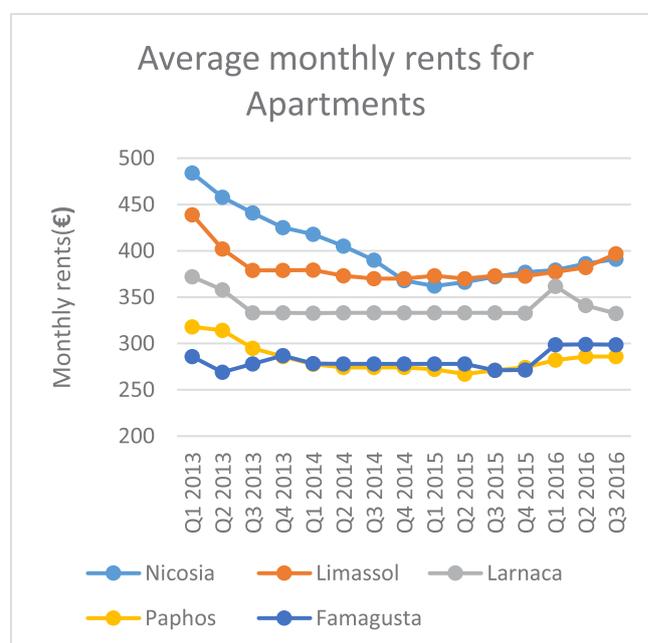
Source: Rics

## Rental Rates

Average monthly rates in 2015 for all apartments in Cyprus had dropped 2,07% from €331 in 2014 to €324.

However, when comparing the average of the first three quarters in 2016 with the 2015 yearly average, an increase of 4,94% in rates is evident (Graph 11). The highest rental rates for apartments across Cyprus in the most recent Quarter 3 2016 data are found in Limassol (€397) while the largest increase in apartment rents between Quarter 3 2015 and Quarter 3 2016 was exhibited in Famagusta (10,2%). The only city experiencing a small reduction in apartment rents between the relative periods was Larnaca with a decrease of 0,2%.

Graph 11



Source: Rics

#### ii) Houses

Housing prices according to RICS Index relate to semidetached, three-bedroom houses (250m<sup>2</sup>) of medium quality with garden.

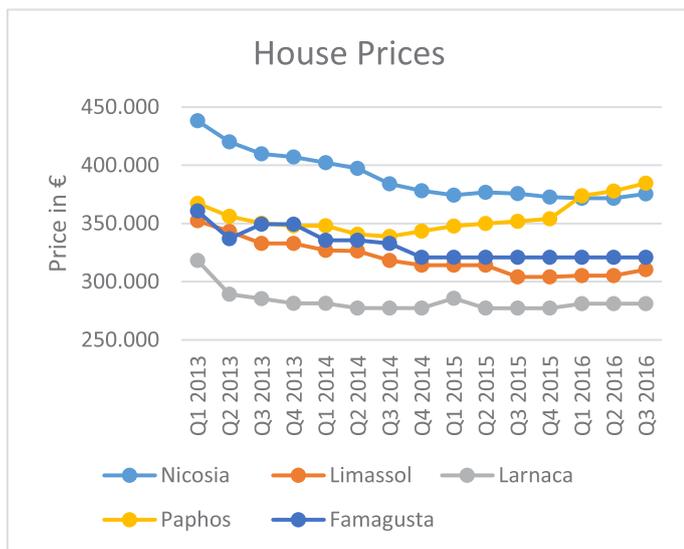
##### Sales prices

The average price for a house in Cyprus in 2015 was €327.027, whilst in 2014 it was €332.848. This corresponds to a 1,75% fall in prices (Graph 12).

The average house prices in Cyprus for the first three quarters in 2016 when compared with the 2015 yearly average, indicates a 2,0% increase, reaching a value of €332.155. The highest house prices for Quarter 3 2016 were found in Paphos (€384.644) which also exhibited the largest increase from Quarter 3 2015 with 9,29%.

The only city experiencing a decrease in house prices in Quarter 3 2016 compared to Quarter 3 2015 was Nicosia with 0,05%.

Graph 12

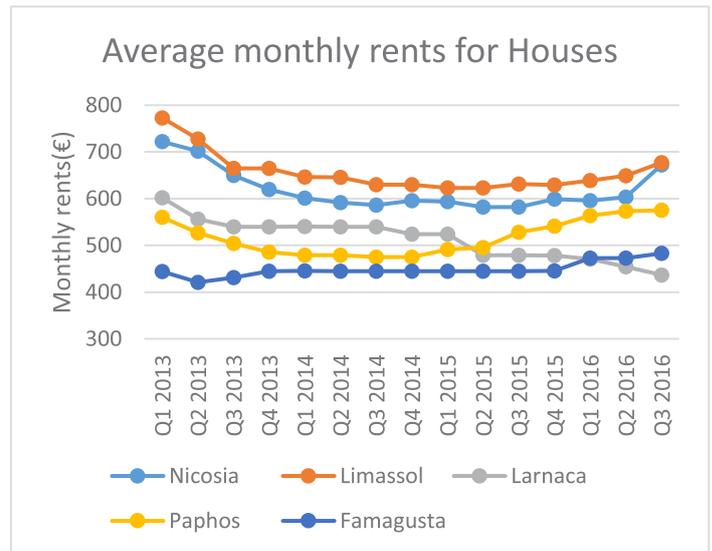


Source: Rics

**Rental rates**

Average monthly rates for 2015 for all houses in Cyprus have dropped from €538 in 2014 by 0,93% to €533. The average house rent in Cyprus for the first three quarters of 2016 was €556 compared to the yearly average of €533 for 2015 (4,3% increase). Limassol had the highest average house rents for Quarter 3 2016 (€677) while the largest increase from Quarter 3 2015 was found in Nicosia (15,5% increase). The only city experiencing a decrease in average house rents was Larnaca (8,8% decrease) (Graph 13).

Graph 13



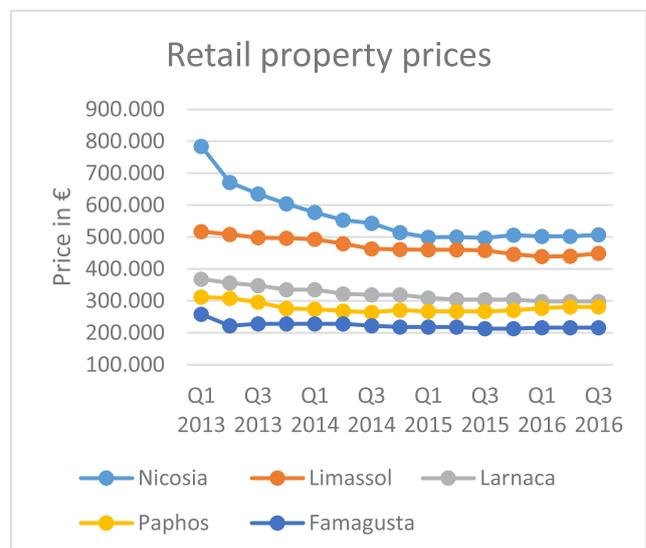
Source: Rics

**B. Retail Property**

Sales prices

The average price for retail properties in Cyprus in 2015 was €349.546, whilst in 2014 it was €367.939. This corresponds to a 5% drop. The average from the first three quarters of 2016 (€348.263) exhibits a drop of 0,40% in retail sale prices compared to the 2015 yearly average (€349.546). The highest retail prices for Quarter 3 2016 were found in Nicosia with €506.976 while the biggest increase from Quarter 3 2015 was found in Paphos with 5,0% (Graph 14). Meanwhile, Limassol and Larnaca experienced decreases in retail prices of 1,9% and 2,1% respectively.

Graph 14

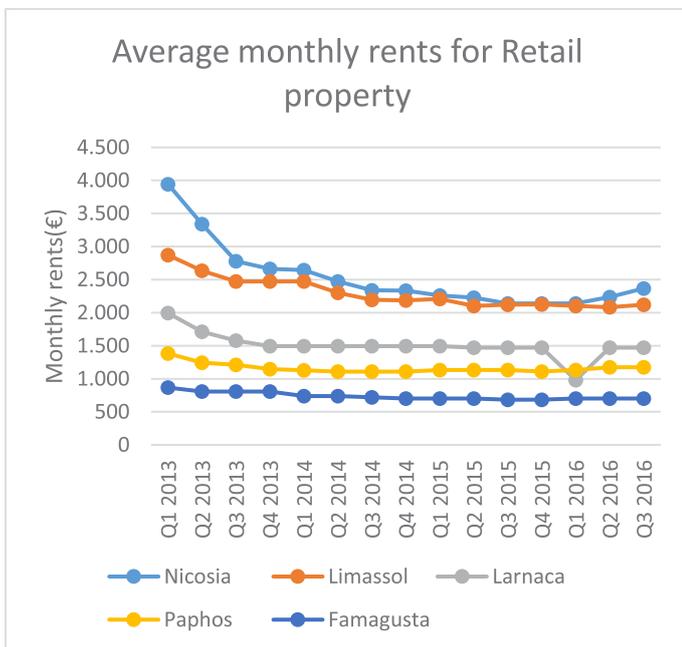


Source: Rics

### Rental rates

Average monthly rental rates in 2015 for retail properties in Cyprus have dropped by 5,55% from €1.614 in 2014 to €1.524. During the first three quarters of 2016, the average was €1.503, a decrease of 1,4% from the yearly average of 2015. The highest rental rates for retail property for Quarter 3 2016 were found in Nicosia with €2.365, also experiencing the largest increase from Quarter 3 2015 (10,6%). All other cities experienced an increase in retail property rental rates as well when comparing Quarter 3 2016 with the corresponding period of 2015, as shown by Graph 15.

Graph 15



Source: Rics



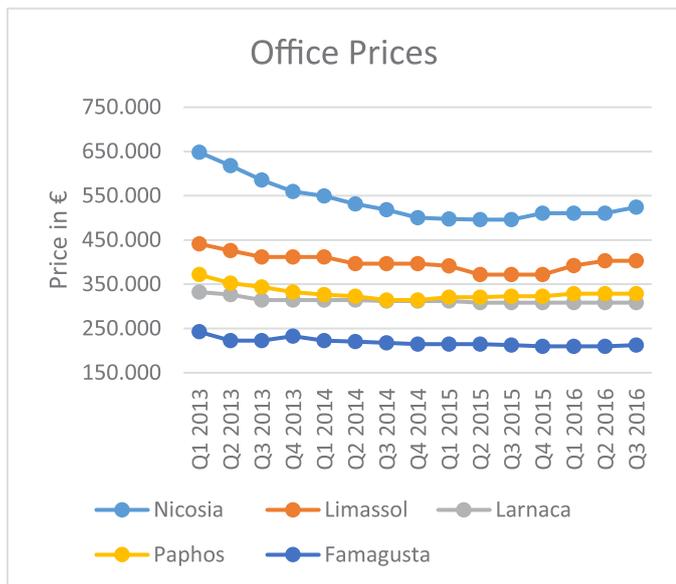
**C. Offices**

An average office used by RICS in the preparation of its Index is a Grade A one with city centre location comprising 200m<sup>2</sup>.

Sales prices

The average price for office properties in Cyprus in 2015 was €344.134, whilst in 2014 it was €355.211. This corresponds to a 3,12% drop. The first three quarters of 2016 average was €352.347 exhibiting an increase of 2,4% in office sale prices compared to the 2015 yearly average (€344.134). The highest office prices for Quarter 3 2016 were exhibited in Nicosia with €523.964 while Limassol experienced the largest increase from Quarter 3 2015 with 8,3%.

Graph 16

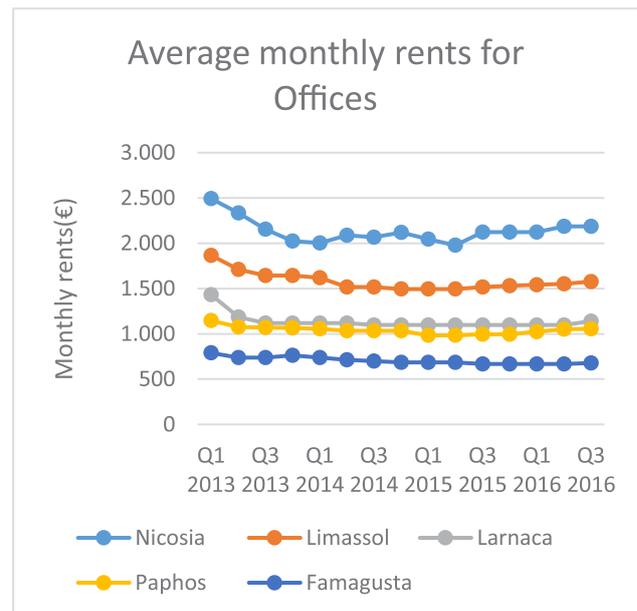


Source: Rics

Rental rates

Average monthly rental rates for 2015 for office properties in Cyprus dropped by 1,88% from €1.292 in 2014 to €1.268. For the first three quarters of 2016, the average rent for offices in Cyprus was €1.310, exhibiting a 3,3% increase from the 2015 yearly average. Increase in rates for Quarter 3 2016 compared to Quarter 3 2015 was witnessed in all areas, with the largest exhibited in Paphos (5,9%). Meanwhile the highest office rents for Quarter 3 2016 were found in Nicosia with €2.187.

Graph 17



Source: Rics



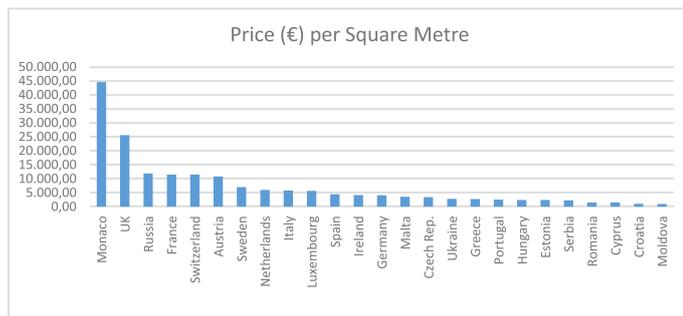
# Real Estate Market

## Overseas Comparisons

### Prices per Square Metre

The majority of European countries are below the €5.000 per square metre mark. Cyprus has an average price of €1.530 per square metre and currently ranks 33rd amongst the countries situated in the European continent. Not surprisingly Monaco ranks 1st with an average price of €44.522 per square meter, followed by the UK and Russia with €25.575 and €11.866 per square metre respectively (Graph 18).

Graph 18

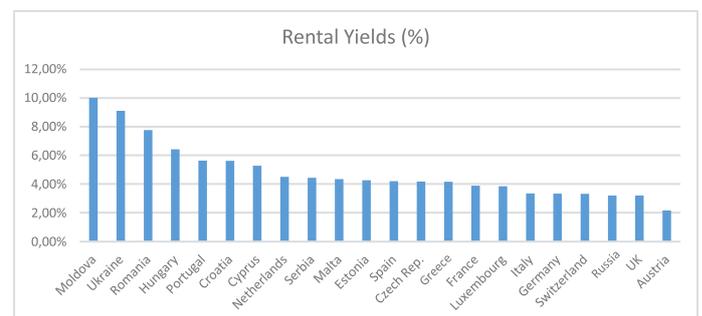


Source:www.globalpropertyguide.com

### Rental Yields

The “yield” of a property depicts the annual return of the property to the investor/owner. It is calculated by expressing a year’s rental income as a percentage of how much the property cost. European countries’ average rental yield is at 4,83%. Cyprus is above this average with a yield of 5,29%. Moldova ranks 1st with 10% followed by Ukraine and Romania with 9,09% and 7,76% respectively (Graph 20).

Graph 20

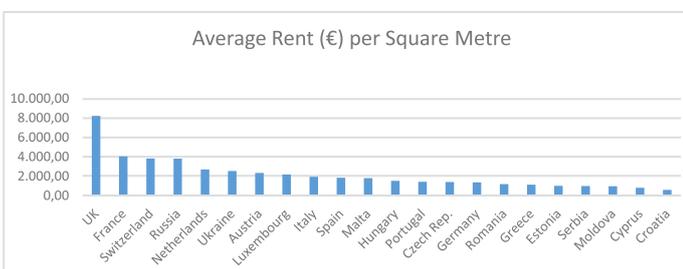


Source:www.globalpropertyguide.com

### Average Monthly Rental Rates

The basis for this comparison is a 120 m2 residential property. The majority of the European countries are below €2.000 per month. Cyprus ranks 32nd with an average monthly rental rate of €810 and is therefore considered as one of the cheapest countries in respect of rent across Europe. Expectedly UK ranks 1st with an average monthly rental rate of €8.213 followed by France and Switzerland with €4.057 and €3.827 respectively (Graph19).

Graph 19



Source:www.globalpropertyguide.com

# Other Matters

## Cyprus Citizenship

The Cypriot Government through the Ministry of Interior, has approved on the 13<sup>th</sup> of September 2016 the revised criteria for granting the Cypriot Citizenship by investment, in an effort to further promote foreign direct investments in Cyprus.

### Revised criteria include:

- The applicant must have made an investment of €2,0 million (excluding VAT) in any qualifying investment category or a combination as described below (previously it was €5,0 million if applied individually or €2,5 million if applied through a collective investment scheme).
- The investment in government bonds of the Republic of Cyprus is now restricted to €500.000.
- The applicant must be the holder of a Residency Permit in Cyprus to qualify for receiving the Cyprus Citizenship. For this purpose, an application for a residency permit should be submitted to the Authorities, simultaneously with the filing of the Citizenship application.
- The investor's parents are entitled to apply for Cyprus citizenship by exception, provided that they are owners of a permanent residence of at least €500.000 excluding VAT. For this purpose, the investor and his/her parents may acquire one residential property of a total value of at least €1,0 million, excluding VAT (€500.000 being allocated to the investor and the remaining €500.000 being allocated to the parents of the investor).

### Criteria for granting Cypriot Citizenship by exception

#### 1. Real estate and land developing

The applicant should have a direct investment in Cyprus of at least €2,0 million for the acquisition or development of real estate projects (residential, commercial, tourism or other infrastructure). It shall be noted that investment in land under development is included in this criterion, provided that an investment plan for the development of the purchased land will be included in the application.

#### 2. Purchase or creation or participation in Cypriot businesses or companies

The applicant must have made an investment of at least €2,0 million in the purchase, creation, or participation in businesses or companies, that are based and operating in Cyprus. These businesses or companies should evidently have a tangible presence and substantial activity in Cyprus and employ at least five (5) Cypriot or EU citizens who have been legally residing in Cyprus for a continuous period of at least 5 years.

#### 3. Investment in alternative investment funds (AIFs), financial assets of Cypriot businesses or organisations which are licensed by the Cyprus Stock Exchange Commission

The applicant must have purchased financial assets of at least €2,0 million (units in AIFs, bonds, debentures, other securities, etc.) registered and issued in the Republic of Cyprus, in companies or organisations with substantial economic activity in Cyprus which are regulated by the Cyprus Stock Exchange Commission.

#### 4. Combination of the aforementioned criteria

The applicant may choose to have a combination of any of the above criteria amounting to at least €2,0 million. In the context of this criterion (i.e. combination of investments), the applicant may also purchase governmental bonds of the Republic of Cyprus of a maximum amount of €500.000.

### Other Conditions

It is noted that in addition to satisfying any one of the above criteria, the applicant must:

- 1) Have a clean criminal record; and
- 2) Acquire a permanent residence in Cyprus valued at least €500.000 excluding VAT. (This condition does not apply if the investment under Criterion 1 is solely in residential property).

In a nutshell: Competitive advantages of the Cyprus Citizenship Program:

- Investments in a variety of sectors of the Cyprus economy;
- Combination of investments is available;
- No donation to the Cypriot Government is required;
- The investments may be realized after 3 years have elapsed;
- The amount of investment required is reasonable (as low as €2 million);
- Once citizenship is granted there is no requirement to reside in Cyprus.

## Immigration permits

The Ministry of the Interior released a revised “fast” track procedure for granting an immigration permit to third country nationals that intend to take up permanent residency in Cyprus, provided that they fulfil certain criteria.

The application form must be accompanied by a title deed or a contract of sale that has already been submitted to the Department of Land and Survey, for the acquisition of a house, apartment or any other building situated in Cyprus, of a minimum market value of €300.000 (plus VAT). Further, the applicant must submit proof of payment for at least €200.000 (plus VAT) in respect of the above mentioned property.

Immigration Permit can be granted to the applicant’s wife and children as long as the children are under the age of 18. Provided that the applicant’s unmarried children between the ages of 18 and 25 are students abroad with a remaining study period of at least 6 months from the application submission date and are financially dependent on the applicant, they are also eligible. Immigration Permit can also be granted to the applicant’s parents.

## Transfer of immovable property

Fees on transfer of immovable property are imposed by the Department of Land and Survey in order to transfer the ownership of the property to the purchaser. The fees are payable upon transfer of ownership. The purchaser is responsible for the payment of transfer fees, except if other arrangements are made between the purchaser and the vendor. The rates used for the calculation of fees on transfer of immovable property are shown in Table 5.

Table 5

Immovable Property Value	Rates on Transfer fees
Up to €85.000	3%
€85.001 - €170.000	5%
€170.001 and over	8%

As far as transfer fees are concerned, it is pointed out that incentives provided have become permanent. This means that there will be no transfer fees for immovable property purchases subject to VAT, while for other purchases transfer fees will be reduced to 50%, as estimated based on the provisions of the current legislation.

Following the tax reforms of 2015 and 2016 further reductions of transfer fees on real estate transactions were introduced. In particular:

- the transfer fees payable on immovable property from parent to child have been abolished;
- the fees payable in cases of exchange of immovable property of equal value is abolished;
- in cases of family companies, the refunding of fees on immovable property transfer after the period of five years will be abolished. As a result the right for reduced fees for the transfer of immovable property from a family company to a shareholder thereof is abolished.

## Property taxes

Property tax is imposed on all types of immovable property in Cyprus.

### Immovable property tax rates

According to a law proposal voted by the majority of the Cyprus Parliament, the immovable property tax for the remainder of 2016 was reduced to 25% of the total tax arising using the current rates, and it was fully abolished from January 2017.

### Municipal tax

Proprietors also incur municipal tax on immovable property (Town Rate). This is an annual tax which is levied as a result of property ownership within the limits / boundaries of each municipality, with certain exceptions included in the relevant legislation.

## Inheritance Tax

It must also be noted that there is no inheritance tax in Cyprus.

## Capital Gains Tax

Capital gains tax of 20% is charged on gains upon sale of immovable property located in Cyprus, which is incurred during the year in which the property is disposed of. Depending on the type of property being disposed, lifetime exemptions applicable to individuals for gains from the sale of immovable property are as follows:

- Disposal of property: up to €17.086;
- Disposal of agricultural land: up to €25.629;
- Disposal of permanent residence: up to €85.430.

A full exemption from capital gains tax was granted for the sale of immovable property consisting of land, or land with a building or buildings, was acquired from an independent party, at market value, from 16 July 2015 until 31 December 2016. That is, regardless of when the property will be sold, in essence it is sufficient that it has been bought up until 31 December 2016 and no capital gains tax will be payable. The exemption applies to immovable property that was acquired by purchase or by purchase agreement but not to immovable property that was acquired by a donation/gift or by way of an exchange.

## Stamp duty

Stamp duty is a tax which is charged on certain types of instruments/agreements which deal with Cyprus situated immovable property, irrespective of whether executed in Cyprus or outside Cyprus. As from 1st March 2013, the stamp duty levied is 0% for amounts up to €5.000, 0,15% for amounts between €5.000 and €170.000, and 0,2% for amounts over €170.000, up to a maximum stamp duty of €20.000 per instrument/agreement.

## VAT rates

In general, VAT is imposed on the supply of goods and services in Cyprus, as well as on the acquisition of goods and services from suppliers established outside Cyprus. The current standard VAT rate is 19%.

As per the Cyprus VAT Act, the acquisition of land plots is exempt from VAT. However, the acquisition of buildings and residential properties is subject to 19% VAT. Nonetheless, the VAT rate on the acquisition of residential properties can be reduced to 5% provided that the following conditions are collectively met:

### Condition regarding the use

The qualifying residential property is used or is intended to be used by the beneficiary as his/her main and permanent place of residence.

### Condition regarding the process

The beneficiary must submit a declaration to the Cyprus VAT authorities for certification.

### Conditions regarding the rightful person

For an applicant to be considered a beneficiary, the following requirements must be met:

- Be a physical person.
- At the time of submission of the declaration (on a form specially designed for this purpose), be 18 years of age or above.
- Be a citizen of the Republic of Cyprus or of any other Member State and be a permanent resident in the Republic of Cyprus.

## Extension of the reduced VAT rate to citizens from third countries

With effect from 8th June 2012, the reduced VAT rate of 5% may also be applied on the supply or construction of residential properties to citizens of third countries (e.g. Russian Federation, USA, China, etc.) if the said residences will be used by the applicant as his/her principal and permanent place of residence whilst in the Republic.

### Conditions regarding the property

- The application for the planning permission or building permit must have been submitted after the 1<sup>st</sup> May 2004.
- It must be intended for the property to be used after its purchase or construction as the permanent and main place of residence.
- The 5% reduced VAT is applied only on the first 200m<sup>2</sup> regardless of the total size of the residence.

### Basic requirements for the application of 5% VAT to non-EU citizens

- The property must be used as the main and permanent place of residence in the Republic.
- There is no time limit for non-European citizens to stay in the Republic. Thus, the reduced VAT rate of 5% may be applied even if the non-European buyer has not completed 183 days of residency in the Republic, so as to be considered tax resident in the Republic.
- The reduced rate of 5% cannot be applied if the property is used for investment or leasing purposes or to exercise any other economic activity.

Moreover, as of December 4<sup>th</sup> 2015 the reduced rate of 5% applies for renovations and repairs of all private dwellings, for which at least three years have passed from the first use, including those that are not used as a principal and permanent place of residence.

Note that until 3rd December 2015 the reduced rate covered only houses that were used as "the principal and permanent place of residence."

By deleting from the definition of residence, in paragraph 11, the phrase "principal and permanent"; the reduced rate of 5% now covers holiday houses as well.

The reduced VAT rate of 5% is relevant to work performed by plumbers, electricians, carpenters, house painters and construction workers, provided that the value of the materials does not exceed fifty percent (50%) of the total value of the renovations or repairs. It is clarified that the definition of residence covers multiple property buildings (apartment buildings). It is noted that in order for the above work to fall within the reduced rate, they should be carried out within the scope of renovation or repair of private residence.

## Amendment of tax legislation relating to debt restructurings

According to these amendments any benefit, surplus or profit which may arise under a restructuring is exempt from income and corporation tax (i.e. in case where the borrower's main activities are construction or land development). On subsequent disposal of an asset which was acquired in the context of restructuring, the base cost is deemed to be the restructuring price, reduced by any amount refunded to the borrower.

A similar amendment has been made in the Capital Gains Tax legislation so that any restructurings with borrowers, whose activity does not include property trading, is also tax neutral.

Additionally, any Special Contribution for Defence for deemed dividend distribution on accounting profit which arises under a restructuring is not payable. This is, in case where the restructuring price is higher than the original cost, any deemed profit is not subject to deemed dividend distribution. It is reminded that the Special Contribution for Defence Law only applies to Cyprus tax residents.

Finally, any immovable property repossessed by the financial institutions during a loan restructuring is neither subject to transfer fees nor stamp duty.

Abolition of fees and stamp duty in certain cases for loan transfer.

The law of the Department of Land and Surveys (Fees and Charges) has been amended in order to provide that no fee shall be imposed on the amount of the initial loan facility contract in certain instances when a mortgage is cancelled and a new mortgage is created, namely:

- Where a mortgage on an immovable property is cancelled and on the same day a new mortgage is created on the same property for the same purpose, regardless of whether it is in favour of the same or any other mortgagee.
- Where a mortgage on an immovable property is cancelled and on the same day a new mortgage is created on the same property for the same purpose in favour of the same mortgagee and the amount of the new mortgage, excluding any interest, is less or equal to the amount of the mortgage that has been cancelled.
- In the case of transfer of a mortgage (including transfer from parent to child) for any amount that remains unpaid on the date of the transfer.

Moreover, the Stamp Duty Law has been amended so that no stamp duty is payable in cases where the mortgage on an immovable property is cancelled and a new mortgage is created on the same property for the same purpose on the same day, regardless of whether it is in favour of the same or any other mortgage.

## Introducing the Non-Domicile Principle

The current Special Contribution for Defence (SCD) provisions will exclude dividends, interest and rents (as well as from deemed dividend distribution provisions), earned by individuals who are Cyprus tax residents but are not domiciled in Cyprus (as defined in the SCD Law) irrespective of the origin of the relevant income (i.e. from sources within Cyprus or abroad).

The new provisions define domicile in accordance with the rules of the Wills and Succession Law under which two main kinds of domicile are identified:

- A domicile of origin (i.e. the domicile received by a person at birth); and,
- A domicile of choice (i.e. the domicile acquired by a person by establishing a home with the intention of a permanent or indefinite residence).

A person who has his domicile of origin in Cyprus will be treated as "domiciled in Cyprus" for SCD purposes with the exception of:

- An individual who has obtained and maintained a domicile of choice outside Cyprus under the provisions of the Wills and Succession Law, provided that this individual was not a Cyprus tax resident for a period of at least 20 consecutive years prior to the tax year in question; or
- An individual who was not a Cyprus tax resident for a period of at least 20 consecutive years immediately prior to the entry into force of the introduced provisions (i.e. prior to 16 July 2015).

An individual who is tax resident in Cyprus for a period of at least 17 years out of the last 20 years prior to the tax year in question shall be deemed as domiciled in Cyprus for SCD purposes regardless of whether or not he/she has a domicile of origin in Cyprus.

The above provisions will result to the complete exemption from SCD of a Cyprus tax resident individual, who, in adopting the rules above is not a domicile of Cyprus for SCD purposes.

However, the exemption from SCD will not apply in the event of any assets that may give rise to SCD have been transferred from an individual domiciled in Cyprus to an individual not domiciled in Cyprus where one of the main reasons for the transfer was to benefit from the exemption. In such a case, SCD will be imposed on the income derived from such assets and may be collected either from the transferor or the transferee accordingly.

## Notional Interest Deduction

In an attempt to reduce excessive debt financing and encourage the investing of equity in corporate structures (hence reducing the overall debt exposure and deleveraging the economy), the new amendments provide for a deduction on new equity by way of a Notional Interest Deduction (NID) as of 1st January 2015. The NID will be calculated on the basis of a reference interest rate on new equity held by the company and used in the business.

## Property foreclosure legislation

A new procedure has been introduced to enable the enforcement of mortgages as security rights against debtors through foreclosure. The purpose of the amendment was to minimize the involvement of the Lands Office in such a manner that the 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 realization, thus increasing the credibility of Cyprus in an area which cause considerable concern in the past.

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 at the same time jeopardizing the debtor's rights to be heard. In particular, the secured creditor may initiate foreclosure proceedings once the loan is terminated and the repayments/ instalments are overdue for a period exceeding 120 days. After the relevant notices have been served and relevant publications are made in the official government newspaper and daily press, within the timeframes provided for in the law, the secured creditor can initiate the proceedings.

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 borrower shall appoint a valuer each in order to establish the market value of the asset in question. The borrower has the right, instead of appointing a valuer, to opt that the market value of the asset will be considered to be the value according to the latest general valuation (currently made on 1 January 2013). 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 has come into effect in April 2015. The first auctions took place within 2016 and related to commercial buildings and land plots.

## Insolvency framework

The adoption of the insolvency framework has modernised the insolvency legal regime of Cyprus, through the introduction of five pieces of legislation, including two new and three amending laws. In particular:

### 1. Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Order) Law of 2015

This Law provides for the establishment and operation of two new mechanisms in relation to natural persons. The first mechanism provides for the promotion and agreement of PIA with the assistance and coordination of an insolvency practitioner appointed for this purpose of Personal Insolvency Arrangement, in order to facilitate the restructuring of debt of natural persons, so as to ensure the repayment of creditors and, where possible, protect the primary residence. Under strict eligibility criteria and if the Repayment Scheme is not accepted by creditors, then the law allows for its enforcement on the creditors by the court in order to safeguard the primary residence. For the purpose of negotiating the terms to a PIA the law allows for a moratorium period i.e. a period of protection over which the debtor is considered to be under the protection of the court and no legal proceedings may commence or continue against the debtor including any proceedings which may be relevant to an enforcement of a court order against the debtors'.

### 2. The Bankruptcy (Amending) Law of 2015

The main amendment introduced by the Bankruptcy (Amending) law, is the introduction of a mechanism whereby the bankrupt is discharged from certain debts 3 years after the declaration of bankruptcy and provided that he has acted in good faith and cooperated with the Official Receiver or the Bankruptcy Administrator for the collection and realisation of the bankruptcy estate. Moreover, the bankruptcy procedure is now simpler, as the old two-stage procedure here by the Official receiver becomes the legal owner of all assets, without further court involvement.

### 3. Companies (Amending) Law of 2015, regarding winding up

The aim of this law is the modernisation of the winding up legislation. One of the main amendments relates to the decision-making during creditors' meetings. The law introduced decision-making by a majority of value, whereas under the old system a majority in number and in value was necessary, which often resulted to delays.

Moreover, liquidators will now be Insolvency Practitioners, licensed under the new law and also their powers are enhanced, for instance to include the power to sell charged assets.

#### **4. Companies (Amending) Law (No. 2) of 2015, regarding a appointment of an examiner**

This amendment introduces a restructuring procedure for viable companies which have run into financial difficulties. In particular, the law provides for the appointment of an examiner to a company by the court, when the company has a reasonable prospect of survival as a going concern. In essence, it provides an opportunity for companies that are insolvent to explore all options available to them without the threat of any legal proceedings to be initiated against the company, including the appointment of a receiver or the filing for a winding-up order for the period which the company is placed under the protection of the court pending the preparation of the Examiners' proposals for a scheme of arrangement and its approval by a class of creditors.

#### **5. Insolvency Practitioners Law and Insolvency Practitioners Regulations of 2015**

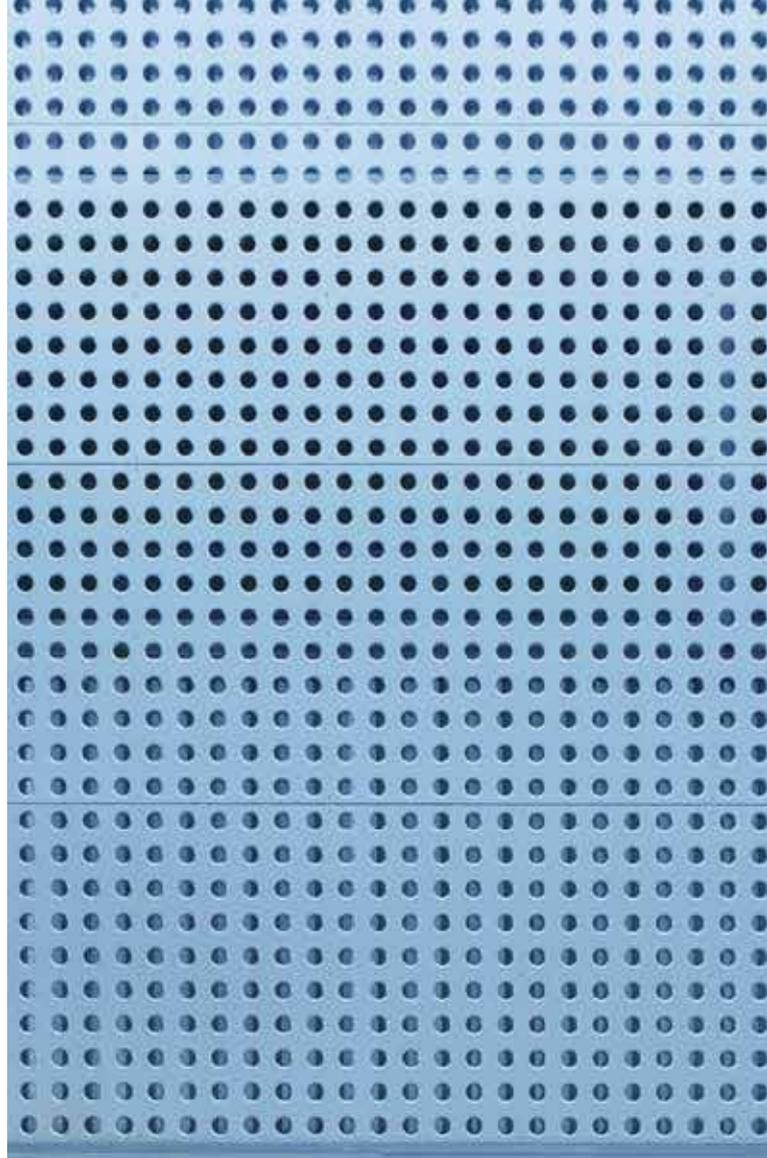
This law and regulations provide for the authorisation, licensing and regulation of the profession of Insolvency Practitioners. These set out the minimum qualification criteria, as well as the duties of Insolvency Practitioners.

### **The Sale of Credit Facilities and related matters Law**

In November 2015, the House of Representatives adopted legislation on the sale of credit. Under the law, any person with the intention to establish a credit acquiring company must obtain the prior approval of the CBC. It is also noted that for all sales of loans irrespective of the outstanding loan amount, in the case of a loan sale borrowers maintain all rights provided by existing legislation and CBC's directives, including the code of conduct for arrears management and insolvency framework.

The scope of the law covers credit facilities granted to:

- i. Natural persons who received loans from licensed credit institutions with a total loan balance at the time of acquisition of the loan not exceeding €1.000.000;
- ii. Very small and small businesses that received loans from the licensed credit institutions with a total loan balance (including the loans granted to the connected persons, "Group of Companies") of up to €1.000.000.
- iii. There are exempted credit facilities from the scope of the law and these include those that are granted by licensed credit institutions, including their branches, to a natural person who is not a Cypriot





resident or to a legal person which is not registered in the Republic of Cyprus; or relate with operations and/or investments outside the Republic of Cyprus; or have included as primary security, mortgage and/or charge on immovable property which is located outside the Republic of Cyprus; or are governed by the Law of another country.

According to the law, the legal entities that are allowed to acquire credit facilities are:

- i. A credit acquiring company including an asset management company, either with private or public funds, in accordance with the European law on state aid and taking into account the sustainability of the public debt, which is incorporated in Cyprus and is granted prior authorization by the CBC pursuant to the provisions of the law.
- ii. An authorized credit institution in Cyprus.
- iii. A credit institution authorized and supervised by the competent authority in another EU member state that has the right to provide services or to establish branches in the Republic of Cyprus;
- iv. A financial institution that is a subsidiary of a credit institution registered in an EU member state and which has the right to provide services or establish a branch in the Republic of Cyprus.

Authorisation for the operation of a credit acquiring company will only be granted to legal persons that have been incorporated in the Republic of Cyprus, provided that the CBC is satisfied, inter-alia, that: these legal persons are in a position to fully comply with the provisions of the Law; they are able to maintain at all times a minimum paid up share capital of at least one hundred thousand euros (€100.000); their shareholders and directors meet the criteria of fitness and probity; they have an organisational structure that enables them to provide services in accordance with the provisions of the Law; and their planned operations do not raise concerns regarding financial stability in the Republic of Cyprus.

In order to establish a credit acquiring company in Cyprus, a legal person may submit to the CBC an application with the accompanying documents specified in the Law and in the relevant Directive on the Authorisations of Credit Acquiring Companies Directive of 2016 (the "Directive"). The Directive regulates, inter alia, the procedures for granting an authorisation by virtue of the provisions of the Law, the criteria for the fitness and probity of shareholders, directors and key function holders, the internal organisation and governance of the CAC and the outsourcing of operational functions to third parties.

On grounds of national interest the CBC may (i) deny legal persons the granting of the authorization regarding the acquisition of credit facilities in the Republic, or (ii) not permit the acquirement or increase of a special interest in a credit acquiring-company, and (iii) not permit the appointment of a director at a governing body of a credit acquiring-company.

Before the total or partial sale of the credit facilities, the credit or financial institution must notify its intention to sell or dispose of all or part of its portfolio, giving the right to the borrowers and to their guarantors, if they wish so, within a time period of forty five (45) days, to submit a proposal for the acquisition of the credit facility which is under sale. Alternatively, the credit or financial institutions may invite the borrower involved and its guarantors, within a period of forty-five (45) days, to submit a proposal for the acquisition of the credit facility which is under sale with a letter to the borrower and its guarantors. The borrower is not required to submit a proposal for the acquisition of the credit facility which is under sale; if within the period of forty five (45) days the proposal is not submitted, then it shall be presumed that the borrower does not wish to submit a proposal.

Any credit facility transferred by a credit institution, financial institution or a credit acquiring-company (hereinafter referred to as "the transferor") to any acquirers, is considered to be transferred to the acquirer at the time of transfer, and all rights and obligations arising from the credit facility contract of the account which is in this way transferred, are transferred automatically and bind the acquirer and the borrower. The acquirer of credit facilities substitutes the transferor in respect of all the rights relating to the collateral which are attached to the credit facility agreement and which are held for securing repayment of the credit facility and for the same purpose, the collateral is transferred to the acquirer. The acquirer of credit facilities has the same rights, the same priority rankings and is subject to the same obligations relating to the collateral held for securing repayment attached to the credit facility agreements that the transferor had.

Finally, each credit institution, financial institution or credit acquiring-company has an obligation to inform the borrower within a maximum of five working days from the date of the acquisition, that the credit facility agreement and the related collaterals have been transferred to another person. Every credit acquiring-company provides to the borrower all relevant information-contact details of the persons responsible for handling credit facilities that have been transferred as well as the new.

## Investment Funds

Cyprus passed in July 2014 the Law on Alternative Investment Funds (AIFs). This enactment came as a swift response to the regulatory developments on an EU level in the funds and asset management industry, and achieved the strengthening of the funds regime in the country. The main changes introduced are in line with the latest EU Directives which give emphasis on investor protection and transparency rules, while the new framework modernized and expanded the legal and regulatory product toolbox available to asset managers and promoters of AIFs.

On the other hand, Undertakings for Collective Investment in Transferable Securities ("UCITS") are collective investment schemes, principally designed for retail investors, established and authorised under the harmonised European Union ("EU") framework. UCITS funds in Cyprus are governed by Law No. 78(I)/2012 (the "UCI Law"), transposing the UCITS IV Directive into national law, and are regulated by the Cyprus Securities and Exchange Commission ("CySEC").

## Cyprus International Trusts

A trust may be used to hold, protect and manage assets including succession planning. A trust is a settlement created by the person who owns the assets, known as the settlor, who vests legal title to the trust property in the trustee who holds and manages the property under the trust deed for the benefit of another person or persons including the settlor, known as the beneficiaries, who enjoy income or capital interest of the trust property or any other rights according to the trust deed. It is a private arrangement governed by the applicable legislation and the trust deed.

To qualify as a Cyprus International Trust, the settlor and the beneficiaries must not be tax residents of Cyprus in the year preceding the year of the creation of the trust and at least one of the trustees must at all times be a permanent resident of Cyprus.

The importance of Cyprus International Trusts to the real estate market, is that the Trustee of a Cyprus International Trust may hold, retain or invest in immovable property in any jurisdiction, both in Cyprus and overseas. If such immovable property is located in Cyprus the Trustee may be registered as the owner in the Cyprus district land registry office where the property is located. The Trustee, subject to the trust deed holds and manages the property for the benefit of the beneficiaries of the trust.

# Who we are

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have more than 189.000 professionals worldwide working together to deliver value in 152 countries.

KPMG's dedicated practice in Cyprus was set up more than a decade ago with the aim to advise clients on a diversity of issues relating to the real estate, hospitality, leisure and tourism industries. Our global coverage, the network and international experience of our team, combined with the ability to draw upon local know-how within the KPMG international network, give us unparalleled credibility in advising in the real estate, leisure and tourism fields. KPMG clients range from international hotel chains to independent hoteliers; from individual hotel investors to international private equity houses investing in hotels and resorts; from financial institutions to real estate developers.



# How can KPMG help?

KPMG operates through fully integrated teams that include professionals across our Audit, Tax and Advisory practices who combine a wide range of skills and experience tailored to meet the individual needs of our clients. We believe in bringing our clients to the centre of our activity and positioning ourselves at the heart of their business. This enables us to fulfil our role of providing advice based on a thorough understanding of their objectives.

Particularly KPMG can assist you through a number of projects, including the following:

- Market and financial feasibility studies – strategic market assessment and comprehensive financial analysis to assess potential investment returns for different projects in different target markets;
- Project conceptualization and investment planning – development of realistic and implementable concepts with short, medium and long term investment planning;
- Project Management and Business plans – strategic direction for the realization and delivery of project concepts, from financing to staffing and marketing and sales;
- Business performance improvement – assessing existing facilities and providing approaches for cost savings whilst simultaneously enhancing market opportunities;
- Valuation services – preparation of asset and business valuations for acquisitions, financing assessment etc;
- Deal structuring – advice as to the efficient legal and tax structuring of a transaction;
- Investor search – preparation of the information memorandum for the investment opportunity, as well as approach and selection of interested investors and assistance in the transactions process.
- Immigration services – for both EU and third country nationals, including applications for immigration permits relating to EU nationals registration certificate and residence card, as well as third country nationals immigration/residence permit, family reunification and Cyprus citizenship.
- Tax services – advice, including in relation to transfer of immovable property and property taxes.
- Corporate recoveries:
  - (a) Solvency assessments and Independent business reviews;
  - (b) Lender and borrower assistance to corporate entities both at an early stage as well as at a crisis stage and acting as facilitators in negotiations;
  - (c) Restructuring of assets, loans or operations, identifying and addressing of critical issues and seizing opportunities presented by current economic conditions;
  - (d) Acting as facilitators and assisting with the implementation of solvent reconstructions and schemes of arrangements;
  - (e) Undertaking formal appointments to carry out compulsory and voluntary liquidations, examinerships, receiverships both in insolvency and in group reduction or restructuring scenarios.
- Examinerships - provide assistance to companies by restructuring their loans and liabilities based on a feasible restructuring plan to be approved by the creditors and provide protection to the company on possible liquidation.
- Restructuring - assist companies to restructure rapidly asset, loans or operations and get their business back on track, identifying and addressing critical issues and seizing opportunities presented by current economic conditions.
- Corporate services- Real Estate transactions need to be carefully structured, planned and managed with the benefit of in-depth market knowledge. Our clients can take advantage of our highly rated expertise within KPMG's Corporate Practice in structuring Real Estate projects including property acquisitions, title investigations, finance and security, escrow arrangements and permits for acquisition of property by foreign investors.



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