



## CYPRUS PROPERTY MARKET

1st SEMESTER 2013



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## 1. Cyprus in General

Cyprus is situated in the north-eastern corner of the Mediterranean basin, close to the busy trade routes linking Western Europe with the Arab World and the Far East. It covers an area of about 9,251-sq. km. (3,570 sq. miles), making it the third largest island in the Mediterranean after Sicily and Sardinia.

The capital of the island, Nicosia, with a population of 275,000 approximately, is the main administrative and business centre and is situated to the east of the geographical centre of the island. Limassol, the second largest city with a population of 200,000 people, is situated on the southwest part and is an important seaport, industrial and tourist centre. Larnaca, with a population of 125,000 people, is situated in the south part and is the location of the main international airport with rapidly expanding tourist industry as well as the International Free Trade Zone area. Paphos, with a population of 100,000 people, is on the West Coast with a strong tourist industry, and the location of the second airport in Cyprus.

The Republic of Cyprus has a presidential system of government. The president is elected for five years directly by the people in a secret ballot with universal suffrage. The House of Representatives is the islands legislative body and it consists of 56 elected members who serve a five year term. The legal system is based in English law. Cyprus is a member of the European Union, the United Nations, the Commonwealth and the Council of Europe.

38% of Cyprus's territory is under Turkish military occupation since 1974.



Figure 1: Cyprus in the map



Figure 2: Nissi Beach in Ayia Napa



Figure 3: Leptos Paphos Gardens

## 2. Economic Overview

The basic economic indicators of the economy for the 1<sup>st</sup> semester of 2013:

INDICATOR	VALUE	PERIOD
Population (in the Government controlled area )	1,138,th	End of 2012
Consumer Price Index	119.69	April 2013
Inflation	-0.3%	April 13/12
HICP	120.18	April 2013
	1.4%	November 12/11
Employment Rate 20 - 64 years old (Labour Force Survey)	69.8%	Oct-Dec 12
Unemployment (Labour Force Survey)	12.7%	Oct-Dec 12
Registered Unemployed	45.201	April 2013
GDP at current prices	€17.776 mn	April 2013
GDP growth rate at constant prices	-4.3%	Jan-Mar 13/12

The Greek debt crisis, which resulted in the Greek government being unable to pay back the investors, including Cypriot banks which have invested in the Greek government bonds, was seen as the trigger of the current economic recession in Cyprus.

To help kick start the economy, Cyprus has asked for financial support from the EU and the IMF (International Monetary Fund). Cyprus agreed on March 25 to a 10 billion-euro (\$12.8 billion) loan from the euro area and the IMF in return for measures including a levy on bank deposits of more than 100,000 euros. Cyprus received the first instalment of its agreed €10bln loan package, a €3bln tranche.

Recently, one of the largest deposits of natural gas in the world was discovered off the south coast of Cyprus, in the area called Block 12. There are many prospects that this discovery will alter the state of the economy of Cyprus, from the current recession to a recovery and in the future to a boom. It is expected that Cyprus will become a key energy provider in the area, by exporting natural gas to the surrounding countries. This will promote economic growth, which in turn increase the GDP, decrease the budget deficit and thus attract more foreign direct investment. Noble will begin drilling in 2013 and further exploration is due to start in 2014 by global oil and gas giants Total, Eni - Kogas, which won licences for five other blocks in early 2013.



### 3. Cyprus Property Market in General

During the 1st quarter of 2013 Cyprus' economy bore the consequences of the slowdown in the economy (year-on-year GDP contraction of -4.3%), the increase in unemployment (year-end at 14.7%), the on-going turbulence in the banking and financial sector, and the political uncertainty caused by the lack of a Memorandum to bailout the country. The worsening state of Cyprus' economy and the growing political and economic uncertainty, led to a pronounced slowdown in mortgage and corporate lending and a further rise in the rate of unemployment.

The number of building permits issued in January 2013 stood at 486 compared with the 555 issued in January 2012; a fall of 16.9%, according to the latest figures released by the Cyprus Statistical Service. Compared with January 2012, the total area of these permits fell to 109,957 square metres from 127,078 square metres (-13.5%), while their value fell to €108.6 million from €125.4 million (-13.4%). During January, building permits were issued for:

Residential buildings – 337 permits  
Non-residential buildings – 72 permits  
Civil engineering projects – 29 permits  
Division of plots of land – 47 permits  
Road construction – 1 permits

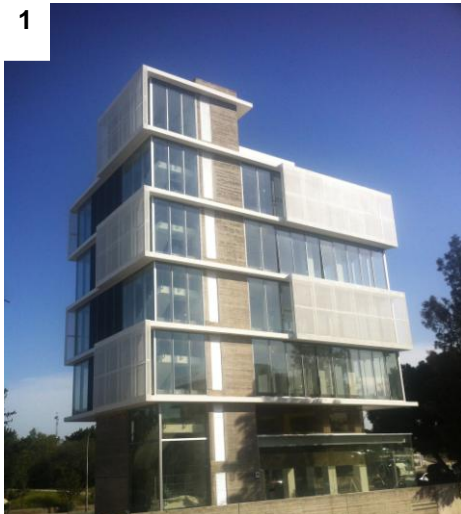
The 337 residential building permits approved in January 2013 provided for the construction of 432 new homes comprising 238 single houses and 194 multiple housing units (such as apartments and other residential complexes). This is a fall of 7.7% compared with January 2012 when building permits were issued for the construction of 468 new homes.

Domestic sales in March 2013 declined by 51%, falling to 214 from the 434 sold in the same month last year. Apart from Paphos, where the number of sales increased by 16% (up from 28 in 2012 to 44 in 2013), sales in all the other areas fell. Sales in Famagusta fell by 79% and sales in Limassol were down 74%. Sales in Nicosia declined 48%, while sales in Larnaca dropped by 31%. During the first quarter of the year domestic sales have fallen 49% compared with the same period last year.

Overseas sales despite the anticipated demand from Chinese investors, overall sales to the overseas market declined 44%, falling to a mere 72 compared with the 129 sold in March last year. Apart from Famagusta, where the number of properties sold increased by 2 (+40%), sales were down in all the other areas. Nicosia was hardest hit with 22 fewer properties being sold (-84%). Sales in Larnaca fell by 15 (-68%), while in Limassol 10 fewer properties were sold (-42%) and sales in Paphos fell by 12 (-23%).

During the first quarter of the 2013 overseas sales have fallen 45% compared with the same period last year.

Across Cyprus, during the 1st quarter of 2013 residential prices for both houses and flats fell by 1.1% and 3.1% respectively, with the biggest drop being in Famagusta (7.0% for apartments) and Limassol (2.5% for houses). Values of retail properties fell by an average of 3.8%, whilst those of offices and warehouses fell by 1.8% and 1.6% respectively.



#### **MARGARITA DANOU ARCHITECT:**

- 1) OFFICE BUILDING COMPLETED MARCH 2013**
- 2) PEDESTRIAN BRIDGE OVER COASTAL ROAD IN LIMASSOL – UNDER CONSTRUCTION**



## **4. Commercial Market**

Within the commercial property market of Nicosia the supply of available commercial property has surpassed the current demand. Values of commercial properties fell across all cities during the first quarter of 2013. We need to note the significant development of new sub markets, such as Strovolou, in Nicosia. Supply is expected to be steady throughout 2013. Investment yields are in the range of 4% - 8% (Gross) and current rental levels have seen a downfall. The evolution of the prices of the commercial market, for the 1st semester of 2013, is presented in the following tables.

### **4.1.1 Office Market**

Traditionally office space in Cyprus was found in common type multi storey buildings. In recent times it appears that there is a demand in Grade A offices with all the modern requirements and specifications. This kind of office space sets the bar a bit higher both for capital values and for rents. The office market is performing relatively well since companies such as Total, AC Nielsen, Eni etc, plus foreign governments such as Kuwait, Libya, Qatar, Israel etc want to grow their presence in Cyprus.

**OFFICE CAPITAL VALUES**

Location	2013 Capital Values per m2 (€)
Nicosia	2,500 - 3,500
Limassol	2,500 - 3,500
Paphos	1,700 - 2,000
Larnaca	1,800 - 2,000

**OFFICE RENTAL VALUES**

Location	2013 Rental Values per m2 per Month (€)
Nicosia	8-16
Limassol	8-35
Paphos	6-10
Larnaca	6-10

Source: Danos, in alliance with BNP Paribas Real Estate

**NEW EURO BANK BRANCH IN  
MAKARIOU, NICOSIA**

**COMMERCIAL TOWER, NICOSIA**


### 4.1.2 Retail Market

In the broader area of Nicosia, investment returns for shops and offices fluctuate between 5.5% and 8%. Market values for shops that are located outside Nicosia centre appear to be lower. Retail development is concentrated in the 4 main cities (Nicosia, Limassol, Larnaca, Paphos).

Ledras and Onasagorou are located within the Venetian walls in the old town of Nicosia. In the last year a number of new stores, restaurants and bars have opened on the two streets, thus bringing in new life in a once declining area.

Makariou Ave. which is the high street of Nicosia has seen a major decline in consumption. The decrease in customers and the high rents have caused shop owners to close down and move out. The retail market is suffering due to saturation and low consumption.

Companies such as H & M are looking to expand to Cyprus, while Eurobank has let a new shop on Makariou Ave., Nicosia.

The following tables present a general view of the Nicosia retail property market:

**Shops-Market Values**

Street	Market Value per m <sup>2</sup> (€)
Arch. Makarios III (2 <sup>nd</sup> part)	4.500 - 5.000
Stasikratous	3.500 - 4.000
Athalassas	2.500 - 3.000
Kennedy	2.000 - 3.000

**Shops-Rental Values**

Street	Rental Value per m <sup>2</sup> per month (€)
Arch. Makarios III (2 <sup>nd</sup> part)	20 - 30
Stasikratous	25 - 35
Kennedy	10 - 12
Athalassas	10 - 12

Source: Danos, in alliance with BNP Paribas Real Estate



**PREMISES LET TO NOBLE ENERGY IN  
NICOSIA, BY DANOS**



**PREMISES LET TO TOTAL IN  
NICOSIA, BY DANOS**

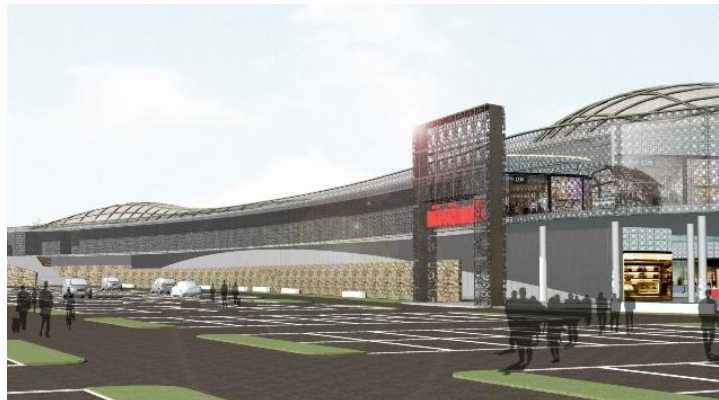


### 4.1.3 Shopping Centres

During the last 5 years, there has been a significant development of shopping centres in Cyprus, the first being the Mall of Cyprus that opened as part of the Shacolas Emporium Park on the 27th of September 2007. After this development, further developments have emerged, including the My Mall in Limassol and the Mall of Engomi in Nicosia.

The firm K. Athienitis Contractors Developers Public Ltd is in the process of erecting an Organized Compound Trade Centre having its own internal road network on a plot with a surface area of 61.261sq.m. The mall is being developed on the western outskirts of Nicosia, in the parish of Archangelos/ Anthoupoli. It will consist of approximately 20.000sq.m of internal leasable area. In addition, the same firm is developing a shopping center in Paphos, with a surface area of 46.181 sq. m., which is located in a touristic location, in junction with the Tomb of Kings and Apostolou Pavlou Ave.

**ATHIENTIS MALL NICOSIA**



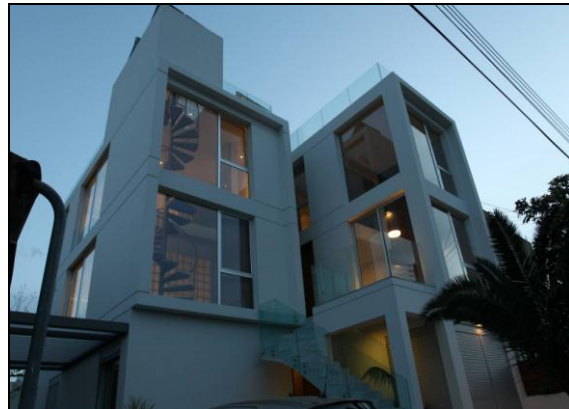
## 5. Residential Market

Residential prices for both houses and flats fell in the 1<sup>st</sup> semester of 2013 by 1.1% and 3.1% respectively, with the biggest drop for houses occurred in Limassol at 2.5% and for apartments taking place in Famagousta at 7.0%. In addition, current occupiers of flats are renegotiating the rent payable or even looking for properties with cheaper rents. Prices seem to seek for stabilization in the near future, in Nicosia, following a trend of rapid increases and then a reduction.

**HOUSE FOR SALE IN LIMASSOL**



**APARTMENT FOR SALE IN AGLANJIA NICOSIA**



**HOUSE FOR SALE IN PERA CHORIO NICOSIA**



**HOUSE FOR SALE IN STROVOLOS NICOSIA**



The price range of the residential market, from 2012 until the 1st semester of 2013, is presented in the following tables:

(Source: Danos, in alliance with BNP Paribas Real Estate)

#### DETACHED HOUSES

Location	2012-2013 Capital Values per m2 € *
Nicosia	1,200 - 3,200
Limassol	1,200 - 5,000
Paphos	900 - 2,500
Larnaca	1,000 – 2,200

#### FLATS

Location	2012-2013 Capital Values per m2 € *
Nicosia	900 - 2,500
Limassol	900 - 4,500
Paphos	700 - 2,000
Larnaca	800 – 3,000

#### RESIDENTIAL MARKET – BUILDING PLOTS

\*min-max

Location	2012-2013 Capital Values per m2 € *
Nicosia	300 - 1,200
Limassol	300 - 1,300
Paphos	250 - 900
Larnaca	250 – 1,000

## 5.1 The Second Home Market

The real estate market in Cyprus in general, as per the land registry sales numbers reported, is experiencing particularly tough times. However, participants in the second/retirement home segment of the industry are increasingly more confident about the present and immediate future due to the significant buying interest exhibited recently by new markets, particularly China, Northern Africa and the Middle East. Indeed, sales from new markets have exceeded 650 units over the past few months. A prime example of this trend is the Paphos market, where the majority of sales from these new markets have been happening. These sales are also mostly in cash, thereby requiring no bank financing for development or for mortgages and providing new cash in the economy. This may set the beginning of a new cycle of higher real estate sales volumes and consequentially, prices.

Cypriot real estate developers have taken aggressive measures to adjust to the impact of the financial crisis since 2008, with relatively few new developments and aggressive marketing efforts in existing new markets. Furthermore, they reduced their development profit margins with reductions in prices so as to reduce their inventory fast. Indeed, real estate prices in coastal areas have already declined by 15%-35% since their peak in Q3 2008.

### **Adjustment of the Paphos second&retirement home market to the financial crisis**

The market has historically relied on foreign buyers. Since 2002, foreigners accounted for more than 50% of sales in number of units, exceeding 80% in the boom years in 2006&2007 based on land registry records. The vast majority of those sales were to UK residents that sought to retire or invest in Paphos. There are an estimated 15,000+ UK retirees in the Paphos district out of a total non-Cypriot permanent population of 30,000 (35% of the Paphos population) according to the 2011 Census. The attractiveness of Paphos to the UK market is also exhibited by the fact that tourists from the UK have traditionally accounted for more than 60% of the 800,000+ tourists visiting the district. Following the financial crisis and the retracement of the UK and European buyers from the Market, real estate sales to foreigners started to decline dramatically in 2008. According to land registry records, sales to foreigners in 2011 were less than 10% of the volume in 2007 and at 50% of the units per year, with year to date record sales up until October being flat to modestly lower vs 2011.

Real estate prices started to decline in 2009. According to the Central Bank of Cyprus Residential Property Price Index, prices in Paphos reached an all-time peak at 104.1 in the 2<sup>nd</sup> Q of 2009 before starting their decline to 84.7 in the 1<sup>st</sup> Q of 2012 and stabilizing at 85.7 in the 2<sup>nd</sup> Q of 2012 – an overall decline of 18%. The decline is more pronounced in the apartment category that caters mostly to foreign buyers.

It should be noted, that , the number of new building permits has dropped significantly, back to 2002 levels, the sales volume is increasing and the unsold inventory is estimated to be only around 1,000 units.

AIM-listed Dolphin Capital and Paphos-based Aristo Developers announced the sale for 290mln euros of all their joint interest in the Venus Rock Golf Resort project to China Glory National Investment a Hong Kong-based real estate investment group. Venus Rock is one of the largest beach front developments in Europe situated on 2,375 acres (961 hectares) of land with 850 metres of beach front. Subject to planning permission, it will include the five star Nikki Beach Hotel and Beach Club, two 18 hole golf courses designed by Tony Jacklin, two community sports centres, up to 3,000 luxury private homes, commercial and leisure facilities convenience stores, shops, coffee shops, restaurants and cinemas. The Chinese investors stated that they have confidence in Cyprus and want to invest in other projects as well. The whole investment will reach about one-and-a-half billion euros (€1.5 billion).

Leptos Estates is implementing the "Neapolis Smart Eco City" Project. A major mega project in Paphos that includes: University, Hospital, Cultural and Entertainment facilities, residential properties, retail and business services.

## 6. Logistics & Industrial Market

The logistics market yields are considered very favourable and demand is relatively strong near major arteries, such as the National Highway, Tseri and Dhali areas. The industrial and logistics market is under investigation from companies associated with energy, such as Halliburton and Petrolina.

Rental values range from 3 to 9 €/sq m/month for new warehouse space, whereas the asking values of land intended for industrial use are around 120 – 200 €/sq m.





## 7. Property Market News

- The construction of Cyprus new marina at Limassol is progressing well and is expected to be fully operational by the summer of 2013. The first properties delivered are the Nereids Residences in January of 2013. With Limassol Marina, Cyprus is destined to become the most exclusive waterfront development in the Mediterranean and one of the finest in the world as it is the only new development in the Mediterranean offering private berths attached to residential properties, and the only marine that will be able to accommodate super-yachts on the island. With an estimated cost of €456 million, other plans for the marina complex include boutiques, restaurants, cafes, shops and conference space, all with the aim of attracting more high-end tourists to the island and a bigger share of the Mediterranean yachting market. The marina expected to be ready by the summer of 2013 and will be able to accommodate around 650 craft of various sizes. The overall project is expected to be completed by the end of 2014.
- THE COUNCIL of Ministers approved changes to a bill imposing a tax on immovable property as part of the bailout agreement with Cyprus' international lenders.

ASSESSED 1980 PROPERTY VALUE)	ANNUAL PROPERTY TAX	ACCUMULATED TAX (MAX)	NUMBER OF OWNERS
UP TO €12,500	0.60% (€75 MIN)	€100	155,822
€12,400 TO €40,000	0.60%	€240	115,215
€40,000 TO €120,000	0.80%	€880	65,611
€120,000 TO €170,000	0.90%	€1,330	6,619
€170,000 TO €300,000	1.10%	€2,760	5,211
€300,000 TO €500,000	1.30%	€5,360	1,982
€500,000 TO €800,000	1.50%	€9,860	848
€800,000 TO €3,000,000	1.70%	€47,260	910
MORE THAN €3,000,000	1.90%		218

- The Church of Cyprus has begun the process of implementing large-scale projects aimed at bringing investors and thousands of jobs to the island. A preliminary agreement had been reached with Russian investors to build a major hotel at a Paphos coastal area expected to cost €70 million. The Church will provide the land for the hotel and receive a rent of €1.5 million a year. The Church of Cyprus is also interested to participate in the energy market.

- The Cyprus Government has recently announced that non-EU citizens making a minimum investment of 300,000 Euros in property on the island, subject to certain requirements, will be granted permanent residency through a special immigration visa.
- Investors from Lebanon, Israel, China, Russia, Greece, Argentina and Egypt are looking for investment opportunities in Cyprus.
- The Cyprus President Nikos Anastasiades, stated that a number of casinos will be opening in the coming year, so as to boost the economy and the tourism sector.

**LIMASSOL MARINA****HOUSE FOR SALE IN GERI NICOSIA****LUXURY APARTMENT FOR RENT IN  
ENGOMI NICOSIA****LUXURY HOUSE FOR RENT IN ZYGI  
LARNACA**

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