

Cyprus' Real Estate Market Outlook and prospects

October 2022



Cyprus economy overview

In spite a series of local and international challenges the Cyprus Economy has been performing strongly in the last decade. The country's GDP, in constant terms, recorded a total increase of 22% (or a c. 2,0% average annual increase), that will reach an estimate of €22,9 bln by the end of 2022. In terms of future outlook, the International Monetary Fund (IMF) estimates that the country's GDP will reach €26,6bln by 2027.

The inflation rate in Cyprus indicated a big jump in the last months recording y-o-y increase of 5,20%. IMF, however, expects that this rate will normalise and stabilise to 1,90% by 2027 (measured as average consumer prices).

Cyprus real estate market overview

The real estate market in Cyprus has also been performing strongly in the best part of the last decade. Sale and Purchase Agreements (SPAs), mainly representing sales of newly built real estate units, recorded an average annual growth of 18,4% in the six year period of 2013 to 2019. In absolute numbers, 10.366 SPAs have been exchanged in 2019, the last complete year before the outbreak of COVID-19 pandemic. During 2020, and following the

pandemic's outbreak, submission of SPAs recorded a sharp decline; however, following the initial shock and various lock-downs, the market indicated strong resilience, with some locations and subsectors, even exceeding the pre-pandemic performance (e.g., second hand residential unit sales in Nicosia, Limassol and Larnaca).

Key drivers of the real estate market in Cyprus

The performance of the Cypriot real estate market during the last few years was affected by some key drivers, both positively and negatively.

On one hand, since 2013 the market, especially for high-end properties, has been driven to a large extent by the Cyprus Investment Scheme (CIP), which provided Cypriot Passports to foreign individuals and their families that invested €2,0 - €5,0 mln in the real estate market (depending on the scheme's revision applicable at the time - the program was terminated in November 2020). According to an independent study carried out, during the period of 2013 to 2018 the program contributed between €7,6 to €9,7bln to the country's GDP, while creating 10.000 jobs.

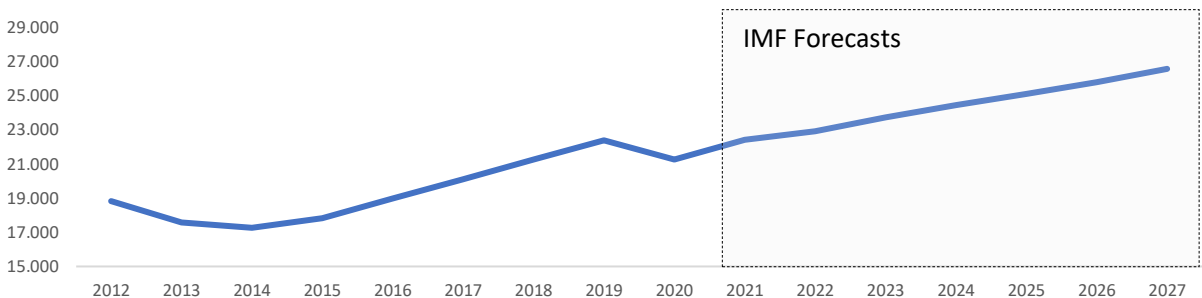
A second key driver of the real estate market in the last few years was the expansion of the Higher Education Sector, with additions of higher education establishments and expansion of existing to

accommodate a marked increase in the number of students, looking for housing. For the record, there are currently 10 universities in operation on the island, three public and seven private. At the moment, rental prices in the areas around the Universities have an upwards trajectory, since supply cannot meet demand yet.

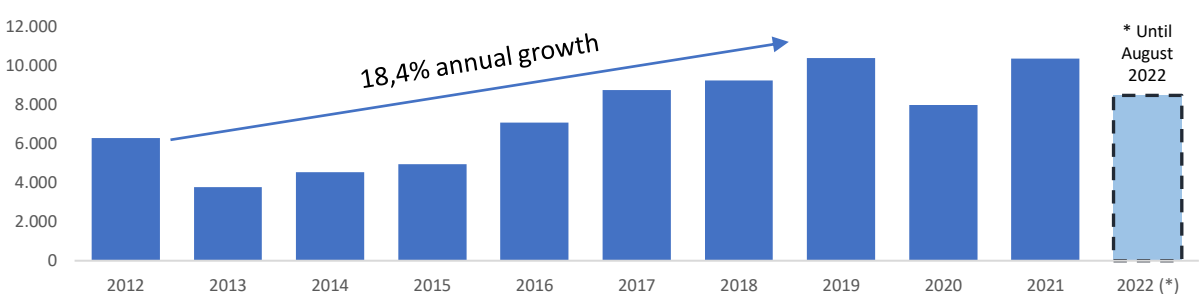
On the other hand, COVID-19 has inevitably affected the real estate market, retarding the momentum that had been developed in the period until the outbreak. As previously stated though, the market indicated solid resilience to this disruption and has been recovering quickly.

In addition to COVID-19, another negative driver is the major disruption in global supply chains and the consequent increase in construction costs, estimated by CyStat to have been 35%. Based on the latest data released by CyStat, in August 2022 a small decrease in the construction cost index was recorded, possibly indicating that the peak is already behind us and a correction period has already began that will put a halt on real estate price increases due to increased construction costs and possibly even see reduced prices.

Cyprus' GDP



Sale and Purchase Agreements submitted to the Land Registry



Key trends that will shape the future

Due to its small size, the real estate market in Cyprus is highly volatile and easily affected by external factors.

For the next few years, two such factors are expected to shape the market.

Firstly, the Government is creating a welcoming environment for foreign companies looking to relocate their offices to the island. Especially after the major escalation of the Russia – Ukraine conflict, leading to the invasion of Russia to Ukraine in February 2022, many affected companies already relocated in Cyprus. Most of these firms operate in the Technology sector, and it is estimated that more than 20.000 employees already relocated to Cyprus since the beginning of 2022.

The Government of Cyprus is providing various incentives (mainly tax related) to encourage even more foreign companies to relocate to Cyprus, something that seems to be yielding results.

This “Headquartering” effect, has

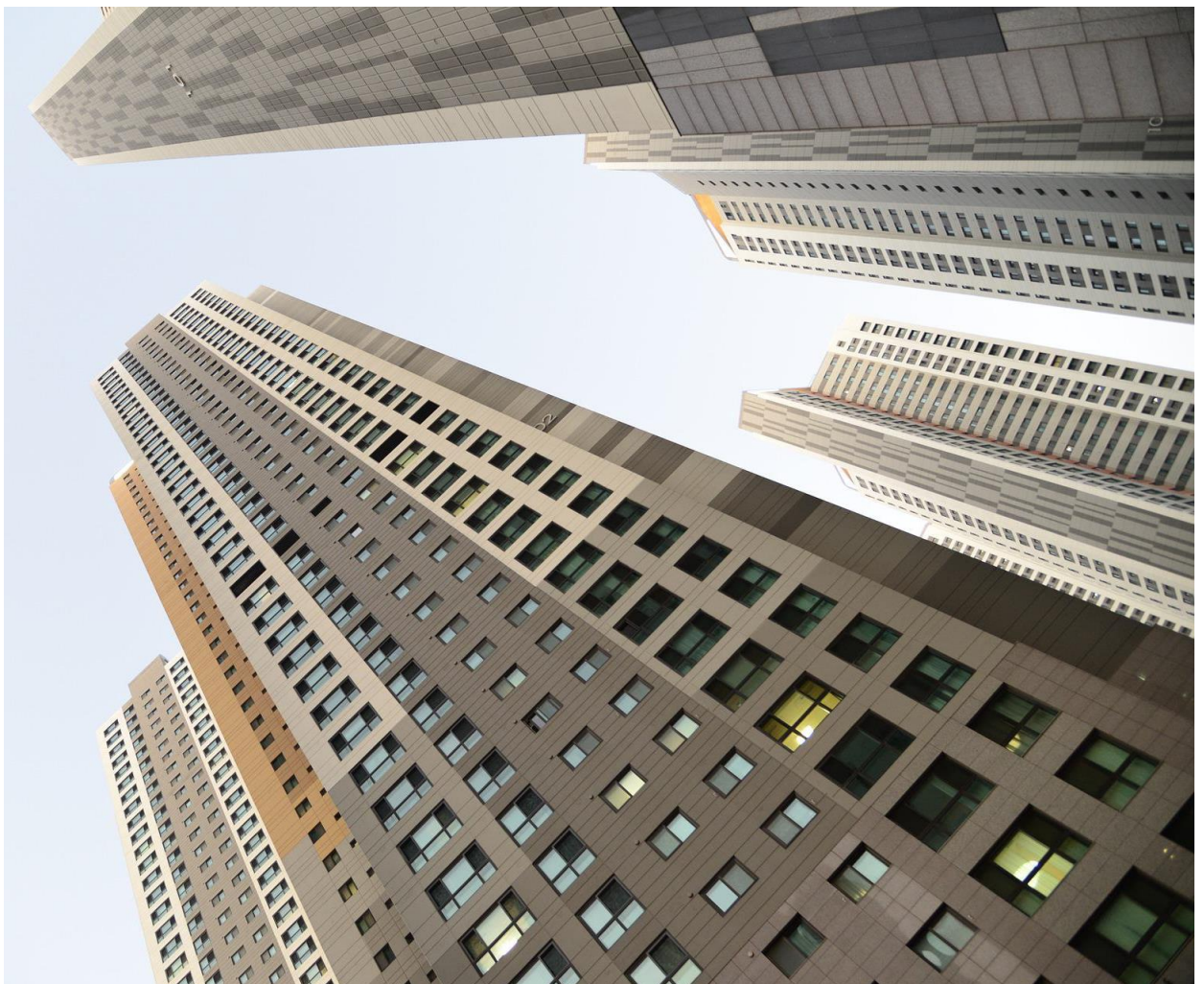
had inevitably major impact to the real estate market, spanning from housing needs of staff, to office space for companies, up to the indirect effect through the demand for various leisure related uses, such as restaurants. It is expected that the majority of these companies that have already relocated to Cyprus, or plan to relocate in the future, will chose to stay even once the Russian-Ukrainian conflict deescalates. Hence, the real estate demand in Cyprus has grown and will grow further inorganically, something that will, in the short to mid-term, create imbalance in the supply and demand dynamics.

The second factor that is expected to be observed in the following period in Cyprus, is increased activity in the Build-to-Rent (BTR) sector, for residential properties. This is a trend traditionally observed in the US, and lately in the rest of the world (mainly Europe and Asia). Given the rapid increase in housing demand in Cyprus, and the type of demand (i.e., foreign highly remunerated employees and university students), it is expected that developers and investors will start exploring this opportunity more

closely and eventually many will chose to invest in this asset class. This type of developments offer units that are only available for rent, and usually provide other facilities as well, such as swimming pools, gyms, barbecue areas, common sitting areas, landscaped outside areas etc.

BTR developments offer benefits to both the owner and the tenant. On the owners side, the key benefit is the ability to adjust rents yearly, and control and maximise income and occupancy in an effort to maximise returns. On the tenants side, they get the chance to live in a property offering numerous other facilities compared to a conventional type apartment.

Some developments and acquisitions have been already observed in the sector possibly indicating that this type of projects is already on developers and investors radar.



Expectations on future outlook

Considering the current economic climate both locally and globally and examples from more mature markets, a rough expectation of the future outlook in Cyprus can be shaped.

Firstly, real estate prices will continue to increase, at least for the short term. This is based on the imbalance of supply and demand currently evident, and the prolonged time that supply needs to catch up, given the nature of the industry (i.e., time needed to license and construct new projects). In addition, the market is experiencing high rental levels, something that is not expected to cool-off in the near future. This will eventually push market values higher as well.

Based on the strong rental market currently being cultivated, it is expected that developers will seek to ride this wave. Therefore,

development activity will continue strong, trying to satisfy the demand. Development activity is expected to be concentrated mainly in the city apartments sector and in the offices sector, along key commercial arteries of Nicosia, Limassol and Larnaca.

What can be done to boost the real estate market further?

In various instances in the past the Government has intervened to the markets through various incentives, either to help through difficult times or boost even further a performing economy / sector.

Likewise, the Government can step in the real estate market at this point as well, to help the momentum going.

Key actions should focus in strengthening the supply side of real estate units. To do so, the Government can provide incentives to encourage

developers and investors to examine more closely the build to rent segment of the market.

Three ways that this could be done are:

1. Allow lower VAT on construction cost when the project relates to a built-to-rent (BTR) scheme. This will significantly reduce the total cost of the developer and make such projects' returns more attractive.
2. Provide planning incentives for BTR schemes, allowing increased building coefficient in targeted areas, higher floors, and light commercial uses on the ground floors of residential land.
3. Introduce a revised procedure that will examine and approve planning and building permits for BTR schemes quicker.

Key takeaways:

- Asking rents for residential properties in selected areas, and offices along key arteries are experiencing a rapid increase.
- Market values are expected to follow the same route, at least for the short term.
- Build-to-rent is a key sector that is anticipated to get on developers and investors radar in the near future.
- Government can provide incentives to help the introduction of BTR schemes in the market.



Michalis Loizou
Partner
+357 99 334035
michalis.loizou@domus-property.com

George Kotsapas
Partner
+357 99 632818
george.kotsapas@domus-property.com



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