

# Navigating Cyprus Real Estate: 2023 Insights

November 2023



**Sale agreements submitted in 2022 vs 2023**

The number of sale agreements submitted to the Land Registry during the first 10 months of 2023 exceeded the same period of 2022 by more than 2.000 sales or 19%, despite the steep increase in cost of debt during the same period.

Around 1 out of 3 sale agreements relate to units located in Limassol, with Paphos following at 22,4%. Larnaca seems to be gaining ground recording a higher number of sales than Nicosia, at 20,4% and 19,1% respectively of the total sales recorded in the period.

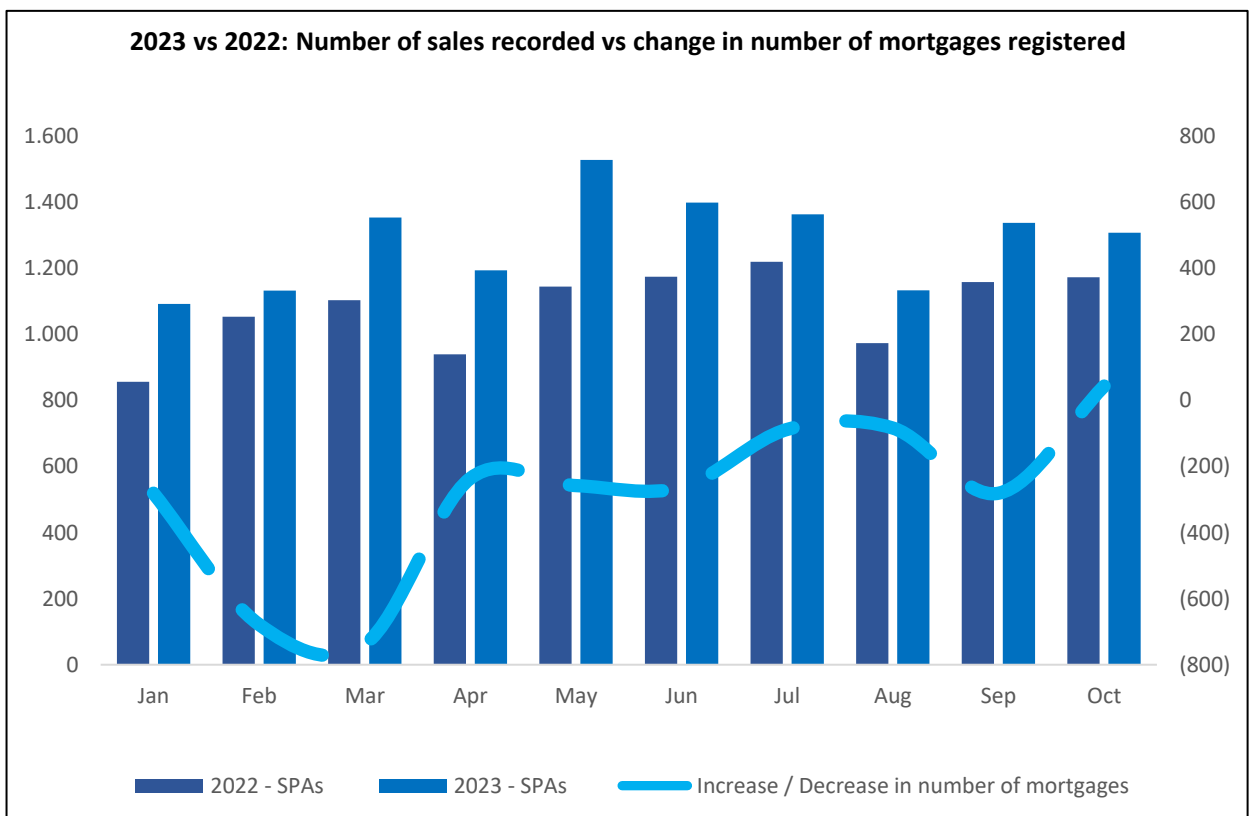
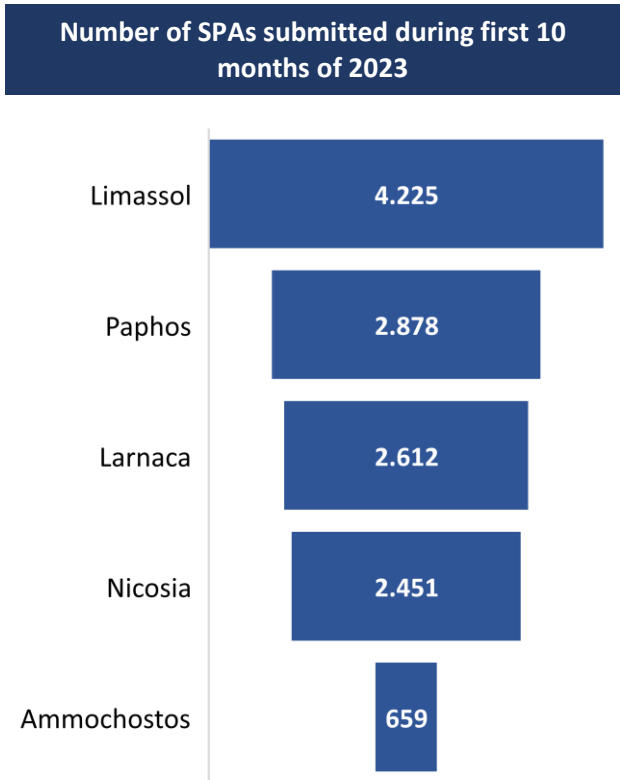
**Mortgages registered in 2022 vs 2023**

During 2023, the cost of financing through local banks increased significantly, since many residential property financing products are linked to EURIBOR, which recorded its highest level of the last decade, in an effort of the European Central Bank to tackle the record-high inflation.

Affected by this increase in financing cost, and according to the latest data from the Land Registry Office, 2.874 fewer mortgages were registered in the first 10 months of 2023, compared to the same period of 2022. Interestingly, based on the number of sales recorded, this does not appear to have affected the real estate market. This projects confidence to the real estate market by buyers and investors, indicating strong outlook for the future as well.

In addition, this also indicates that real estate investments is considered to be a hedge against the very high inflation rates recorded.

Saying the above, it is not expected that this is a trend that can be sustained over the long term, as debt financing is traditionally the main mean of acquiring real estate assets, and therefore is of outmost importance for the market for interest rates to return to lower levels.



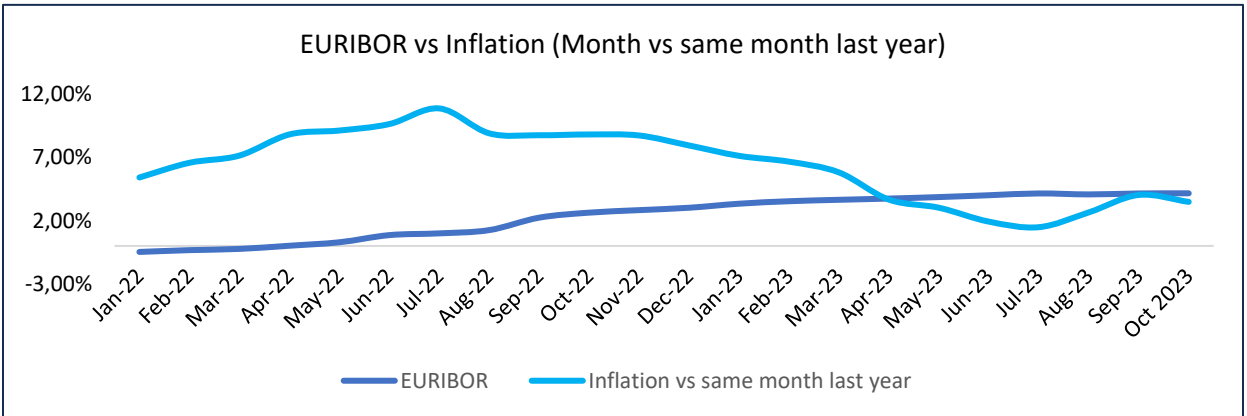
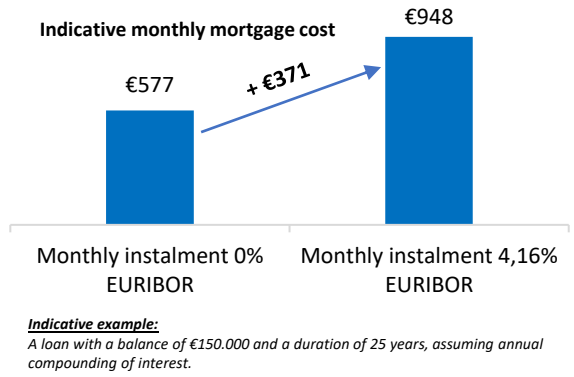
**EURIBOR, inflation and effect on real estate**

Many residential loans in Cyprus bear a floating rate based on the *Euro Interbank Offered Rate* (EURIBOR), an interbank rate that reflects where markets think ECB rates are heading, plus a margin set by the local bank. EURIBOR is also a tool used by ECB to fight surging inflation across eurozone. Considering the record-high inflation recorded during and following the pandemic, decade-record EURIBOR was also recorded.

More specifically, in January 2022 6-month EURIBOR rate was at -0,48% (therefore banks use “0%”), and by October 2023 reached a decade-high of 4,16%. This had a massive hit on EURIBOR-linked mortgage owners, as this increase translates to a direct increase in their monthly costs.

On the other hand, the outbreak of COVID-19 pandemic, coupled with global geopolitical instability in the last 3 years has caused record-high inflation. The EU’s response to this as a countermeasure is increasing the debt financing cost to fight inflation and reducing the amount of money circulated in the economy.

As depicted on the graph below it seems that this measure is yielding results, with these two factors appearing to have an inverted relationship. Once inflation reaches the required levels, the cost of debt financing will also return to normality. It is expected by various experts that this will take another 12-24 months. Indicatively, the International Monetary Fund, based on forecasts issued in October 2023, expects that the inflation rate in Cyprus will reach 3,50% during 2023 and 2,40% during 2024. It will then stabilize at a rate of c.2,00% in the years until 2028.



Domus' expectations for the next 12 to 36 months

↑ Increase → Same ↓ Decrease	Flats			Houses		
	Supply	Demand	Prices	Supply	Demand	Prices
Nicosia	→	→	→	→	→	→
Limassol	→	↑	↑	→	→	→
Larnaca	→	↑	↑	→	↑	↑

Our expectations

In general, the residential real estate market in Cyprus, particularly in the three districts where our company is most active, appears to be resilient to external factors and is performing well. We expect this positive trend to continue in the foreseeable future, specifically over the next 12 to 36 months.

Despite challenges like the Russia-Ukraine conflict and Israel's conflict with Palestine, and considering Cyprus's reliance on Russian and Israeli investors, we believe that the fundamental strengths of the residential market will enable it to maintain strong performance. This applies to both pre-owned units and, to a lesser extent, newly developed properties, which face additional costs due to VAT.

View on locations

In the realm of residential property, Larnaca is anticipated to exhibit considerable strength, particularly in both flats and houses, as demand outpaces the available supply. This disbalance is foreseen to exert upward pressure on prices within the coming three years.

Limassol is expected to demonstrate resilience, especially in the flat market, albeit with a relatively more modest performance in in terms of houses.

Regarding Nicosia, our assessment suggests a stable landscape concerning both supply and demand dynamics, subsequently reflecting on price stability. It's essential to note that this evaluation does not account for a handful of distinctive, high-end projects currently in progress.



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