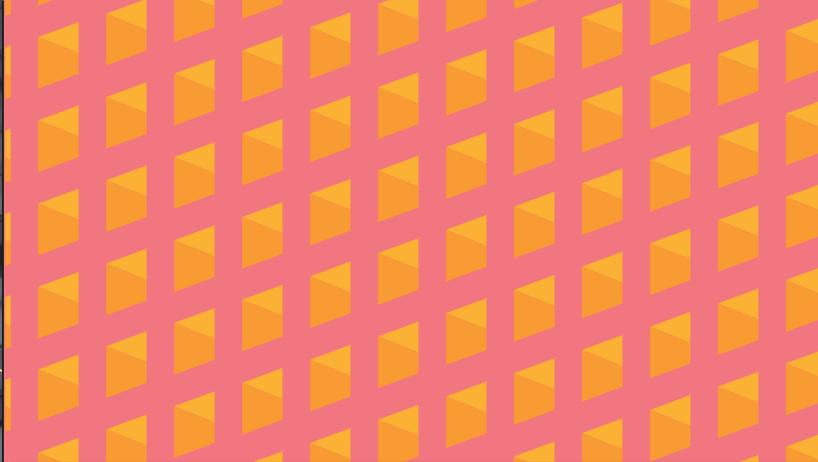


Cyprus Real Estate Market

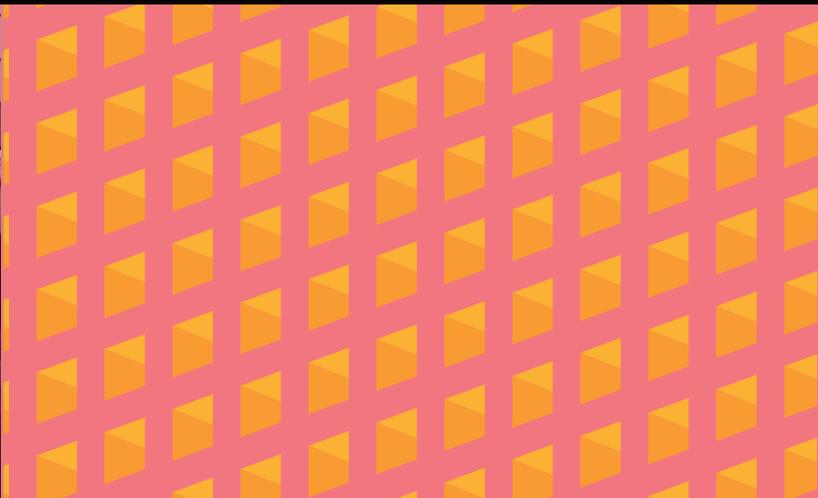
First Half in Review | H1 2018

November 2018





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Foreword



This is the 4th edition of the PwC Cyprus Real Estate Market publication. It provides information about the Cyprus economy in general and a snapshot of key real estate market developments, focusing on the performance of the sector during the 1st half of 2018 (H1 2018). Our analysis includes summary presentation of the transaction activity exhibited across the island, behaviour of prices, activity relating to the high-end residential sector and the levels of construction activity. The analysis presented in our publication is based on available market data up until June 2018 and using PwC's rich and in-depth market expertise.

At PwC, we have a diverse team of professionals with backgrounds ranging from engineers, management consultants, property valuers, finance experts and merger and acquisition specialists. We are as comfortable in talking business, finance and tax, as we are with town planning permits, Land Registry data and site plans, bringing a whole different approach to real estate.

Combined with our strong international network, we are able to offer turn-key and tailor-made solutions in support of our clients' needs. Whether a private land owner, a financial institution, a real estate developer, a corporate occupier or a real estate investment fund, we can help you turn real estate into real outcomes.

A handwritten signature in blue ink, appearing to read 'Evgenios'.

Evgenios C Evgeniou
CEO
PwC Cyprus

Overview and key market highlights of H1 2018



Overview

The economic growth and fiscal performance of Cyprus continued to surpass expectations during H1 2018, with GDP expected growth of 3,6% for 2018, positioning Cyprus amongst the high accelerating economies of Europe.

Employment is growing across most sectors of the economy leading to a sharp reduction of the overall Cyprus unemployment rate. According to Eurostat data, in August 2018, Cyprus recorded the largest annual unemployment drop in Europe, shrinking to 7,5% compared to 10,5% in August 2017 and 8,1% for the Euro Area average.

In early Autumn 2018, the key international credit rating agencies upgraded the sovereign's rating by one notch, while maintaining at the same time a positive outlook. Notably, in September 2018, Standard & Poor's (S&P) upgraded Cyprus' credit rating to investment grade, after maintaining a junk rating for almost seven years.

Increased activity levels both in terms of transactions and new permits for development, continued through to H1 2018, demonstrating the improved confidence in the property sector.

Interest from foreigners, and predominantly from non-EU buyers, continues to be the driving force for the market and is mainly fuelled by the continuation of the government schemes encouraging further investment in Cyprus.

In addition, increased levels of demand from domestic market and increased supply of new housing stock as a result of the reactivation of the private construction and property development sectors, contribute to the growth being observed.

Further growth in all property price indices was recorded during 2018, reflecting the increased demand and activity levels in the real estate sector.

1st Half 2018 - Highlights

Transaction Volume



- **24% increase** in sale contracts across Cyprus
- Majority of transactions were recorded in **Limassol (37% of total)**
- **Famagusta** recorded the highest annual growth in number of sale contracts during H1 2018 (**72%**), followed by **Nicosia (34%)**

Foreign Transaction Activity



- **Paphos** and **Limassol** appear to be the preferred districts for foreign buyers (together the two districts comprise 70% of foreign transactions)
- Approximately **70% of properties** acquired by foreigners relate to **non-EU buyers**

High-end Residential Property Segment (≥€1,5mIn)



- **8% increase** in sale contracts for high-end residential properties (131 high-end transactions for H1 2018)
- **Limassol** attracts **c.63%** of transactions in the high-end residential property segment

Real Estate Price Evolution



- During H1 2018, the CBC index demonstrated a **2% YoY** growth, whereas the RICS Residential Index up to Q1 2018 (latest available) demonstrated a **5% YoY** growth
- Commercial property prices as per the RICS index recorded a growth of **2%** for retail properties and **12%** for offices during the same period

Construction Activity



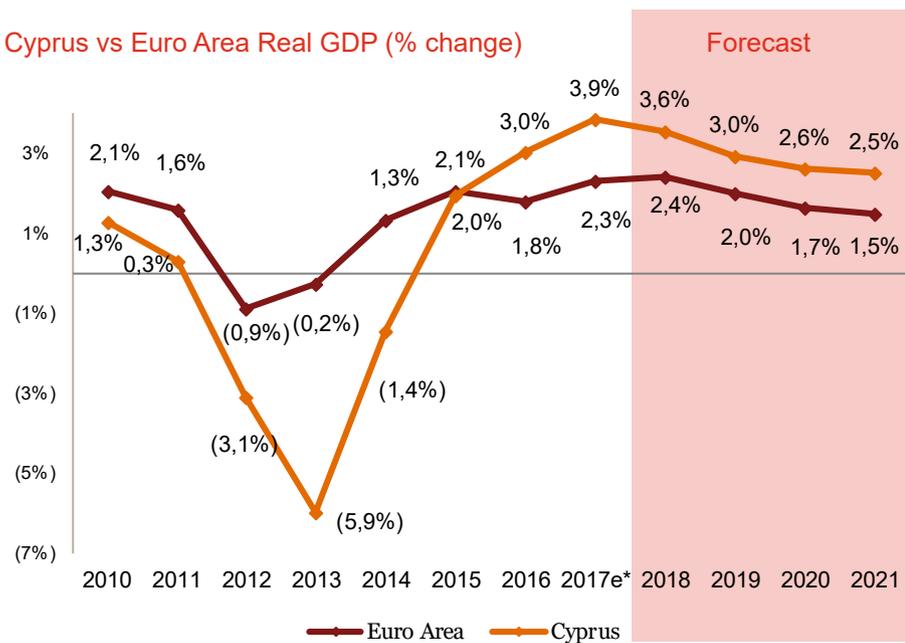
- The value of new building permits issued during H1 2018, **increased by 20%** compared to H1 2017
- **Nicosia** continues to be the district with the highest concentration of new development licensed area (**39%** of total), followed by Limassol (**29%**)

Overview of the Cyprus Economy

Continuous Positive Economic Growth and Outlook

The economic growth and fiscal performance of Cyprus continued to surpass expectations. Based on IMF forecasts, the Cyprus economy will sustain a positive outlook and GDP is expected to grow further in 2018, albeit easing relative to 2017 (Cyprus 2018 forecast: 3,6%).

Cyprus vs Euro Area Real GDP (% change)



*Note: The 2017 GDP % growth and 2018-2021 forecasts represent the latest available IMF staff estimates (latest available: October 2018).

Source: IMF (World Economic Outlook Database, October 2018)

2018 GDP% Forecast change (constant prices)

Malta	5,7
Ireland	4,5
Luxembourg	4,3
Slovenia	4,0
Slovak Republic	4,0
Latvia	4,0
Estonia	3,9
Cyprus	3,6
Netherlands	3,2
Lithuania	3,2
Spain	2,8
Austria	2,6
Finland	2,6
Germany	2,5
Portugal	2,4
Euro Area	2,4
France	2,1
Greece	2,0
Belgium	1,9
Italy	1,5

Source: IMF (World Economic Outlook Database, Estimates, October 2018)

The country's GDP per capita, when adjusted by Purchasing Power Parity (PPP), appears to have grown at a more accelerated pace compared to the EU average in recent years, increasing by 16% during the period 2015-2018 (EU average: 12%).

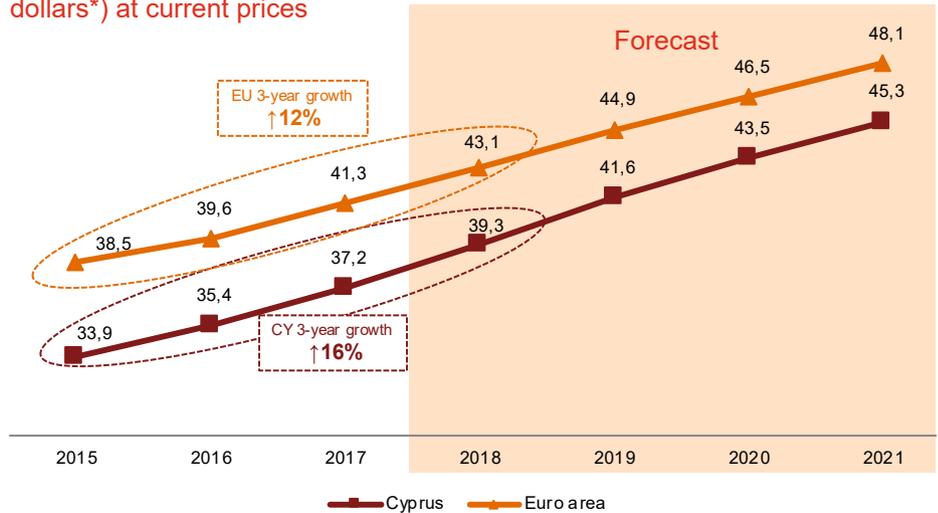
As of 2018, the Cyprus GDP per capita is equivalent to 91 percent of the EU average, shrinking the gap which stood at 88 percent in 2015.

Employment is growing across most sectors of the economy and more substantially in the construction sector, leading to a sharp reduction in the overall Cyprus unemployment rate.

According to Eurostat data, in August 2018, Cyprus recorded the largest annual unemployment drop in Europe, shrinking to 7,5% compared to 10,5% in August 2017 and 8,1% for the Euro Area average.

However, unemployment amongst young people is still relatively high, according to the European Commission. A further decrease is expected, driven by a general improvement in the labour market and activation measures.

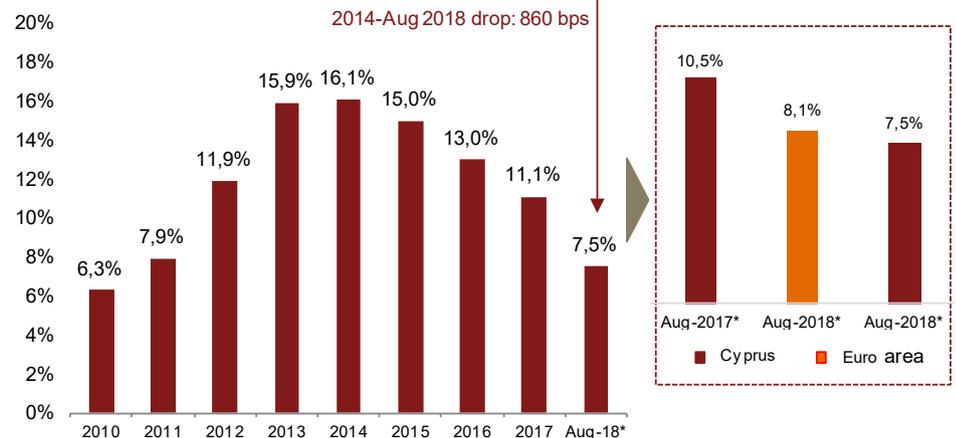
Cyprus Vs EU GDP per capita adjusted by PPP (000's International dollars*) at current prices



*Note: An international dollar is a hypothetical unit of currency that would buy in the cited country a comparable amount of goods and services, a U.S. dollar would had in the United States at a given point in time.

Source: IMF (World Economic Outlook Database, October 2018)

Unemployment rate in Cyprus (2010-2018)



Source: Actual 2010-Aug 2018: Eurostat

*Note: The August rate represents the seasonally adjusted rate, estimated by Eurostat

Cyprus' macroeconomic projections have constantly been revised favourably during the past few years. This led to a series of credit rating upgrades enabling the country to tap the international capital markets.

During the summer of 2018, the key international credit rating agencies upgraded the sovereign's rating by one notch, while maintaining at the same time a positive outlook.

Notably, in September 2018, Standard & Poor's (S&P) upgraded Cyprus' credit rating to investment grade, after maintaining a junk rating for almost seven years.

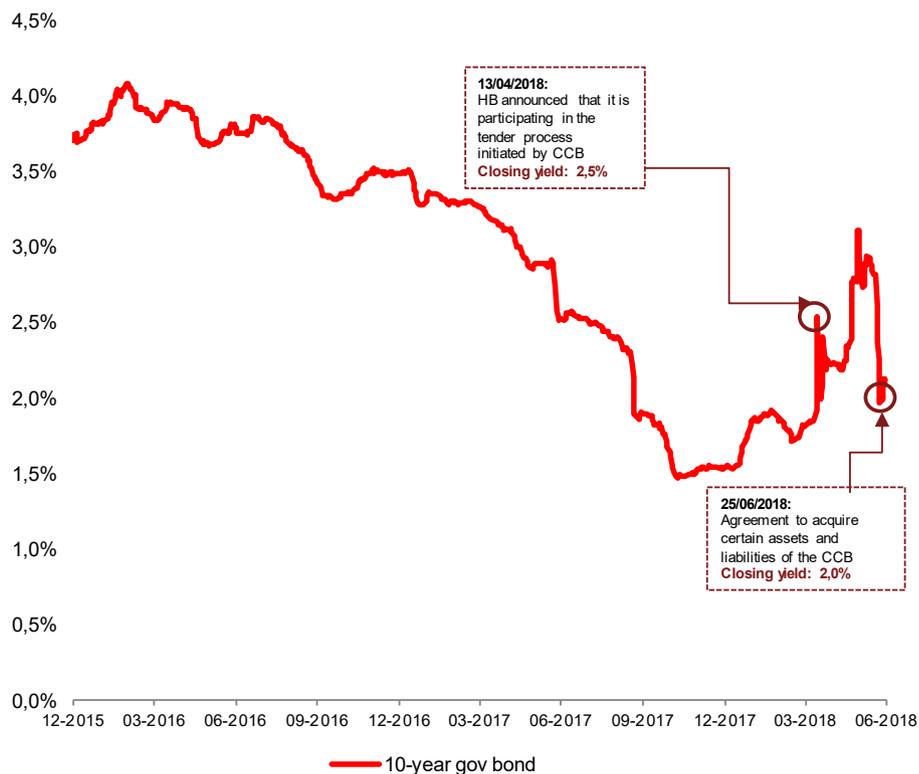
Yields on 10-year Government bonds, which were priced at c3,7% at issue date (December 2015) have fallen to 1,5% by the end of 2017, reflecting the strong fiscal performance of the country.

From that period to date, yields inflated amid uncertainties in the Cypriot banking sector, linked with the developments in relation to Cyprus Cooperative Bank Ltd (CCB). After an agreement was reached with Hellenic Bank Public Company Ltd (HB) to acquire certain assets and liabilities of CCB, yields appeared to have fairly recovered, dropping to 2% by the end of June 2018.

Credit Rating Agency	Previous Credit Rating (12/2017)	Date Changed	Current Credit Rating (09/2018)	Outlook
Moody's	Ba3	27/07/2018	Ba2	Positive
S&P	BB+	14/09/2018	BBB-	Positive
Fitch	BB	19/10/2018	BBB-	Positive

Source: Rating Agencies, PwC Research

Cyprus 10-year Government bond yields (%)



Source: Bloomberg

Note: The 10-Year Government Bond represents the bond issued in December 2015

Key Drivers of the housing market: Household disposable income, mortgage interest rates and access to financing

Rapidly expanding employment combined with a low inflation environment, led to the real disposable income of Cypriot households to increase in 2017, for the first time since 2012.

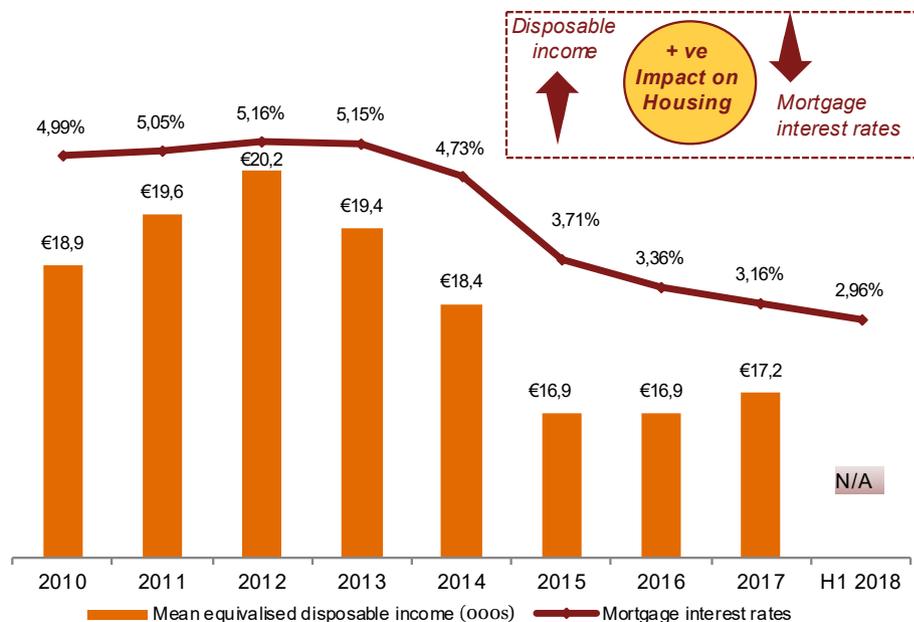
Macro-economic performance indicators and the surging employment market across all sectors are seen as signs for a further rise of household disposable income by the end of 2018.

At the same time, interest rates on housing loans have been declining continuously since 2012. By 30 June 2018, interest rates dropped to 2,96% (recording a 20 bps drop compared to 2017).

Banks still remain very cautious when it comes to granting new mortgage loans, given the sizeable proportion of NPLs (40% as at June 2018) and heavy indebtedness of the household credit sector.

Despite a continuous reduction in mortgage interest rates and a modest recovery in household disposable income, it seems that flows of additional credit for housing purchases remain low. This is evident by the overall stock of mortgage loan facilities across the Cyprus banking sector which continues to shrink, as access to credit still remains substantially tightened. Total mortgage facilities stood at €12bn in June 2018, compared to €12,4bn in 2017 (downsized by c3% during the period).

Household disposable income and mortgage interest rates

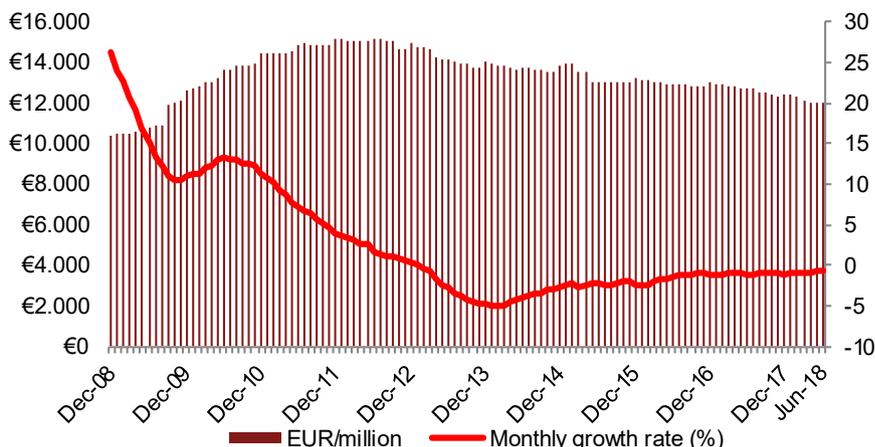


Source: Central Bank of Cyprus, Cystat

Note 1: The equivalised disposable income is the total disposable income of a household, divided by its respective equivalised size

Note 2: The mortgage interest rates correspond to the average rates of greater than 5 year terms of housing loans

Total Mortgage loan facilities (EUR/mIn, %YoY)



Source: Central Bank of Cyprus (CBC)

Transaction Volume: Sale Contracts

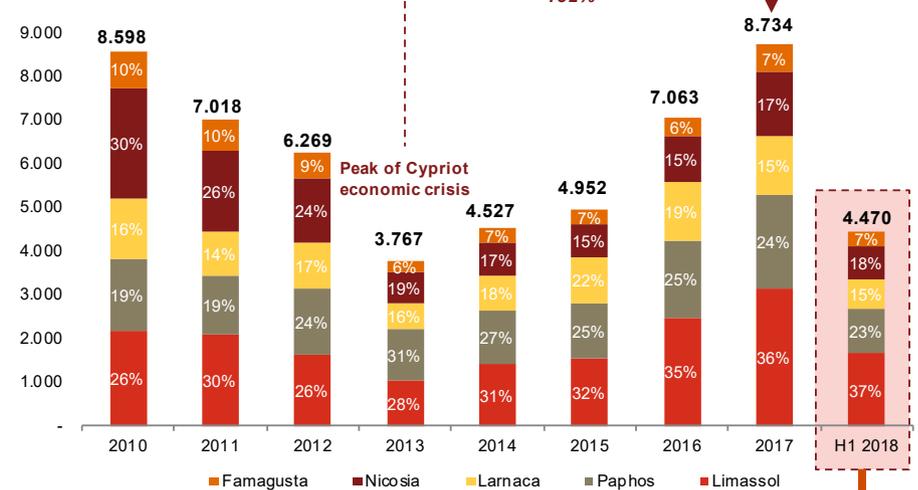
The growth in real estate transaction activity levels observed in 2017, continued with a similar pace during the first half of 2018.

The number of sale contracts filed at the DLS during H1 2018 reached 4.470 compared to 3.610 in H1 2017, representing an uplift of 24%.

In addition to the government's schemes encouraging direct investments in Cyprus, which have been attracting interest from non-EU buyers (Chinese, Russian, Indian and UAE), other factors which contribute to the growth include:

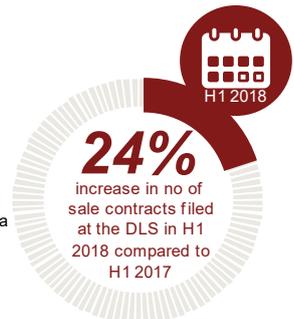
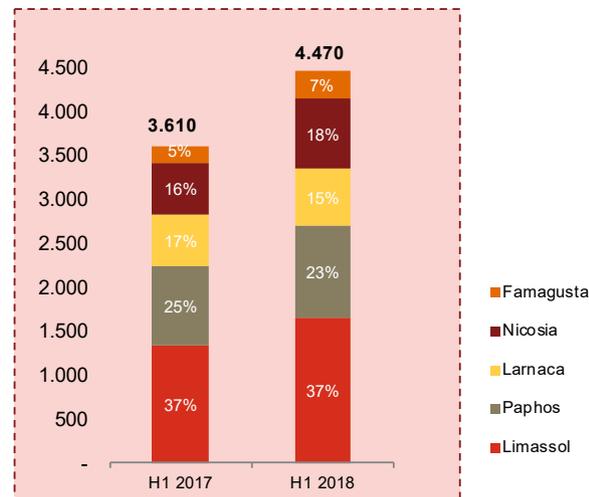
- Increased levels of demand from the domestic housing market driven by an improved consumer sentiment and employment
- Increased supply of new housing stock for both foreigners and locals

No. of real estate contracts of sale



Source: Department of Lands and Surveys (DLS)

No. of real estate contracts of sale (H1 2017 Vs H1 2018)



Source: Department of Lands and Surveys (DLS)

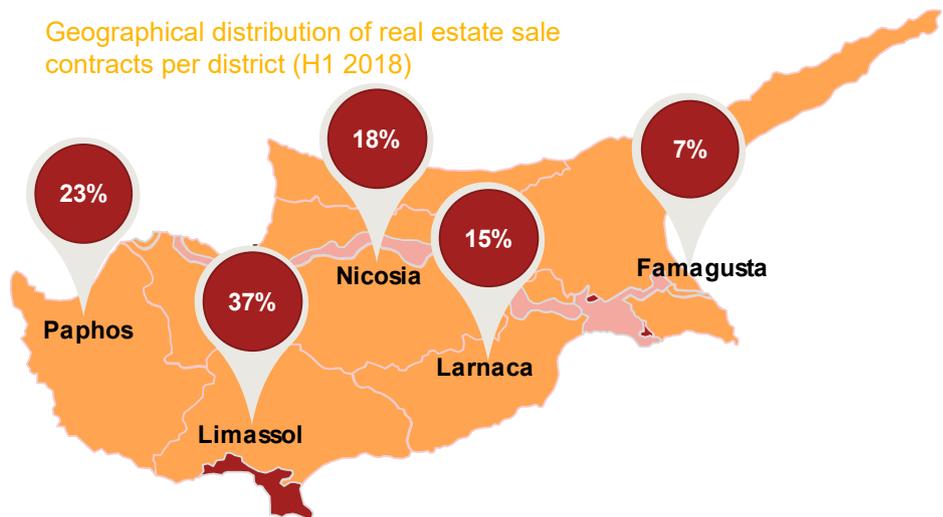
Geographical Distribution of Transactions

In terms of the number of sale contracts submitted to the DLS during H1 2018, the majority of transactions (37%) were in Limassol, followed by Paphos (23%). Nicosia district, which is a market predominantly appealing to the local segment, comprised 18% of total transactions. Larnaca and Famagusta districts had 15% and 7% of the market share respectively.

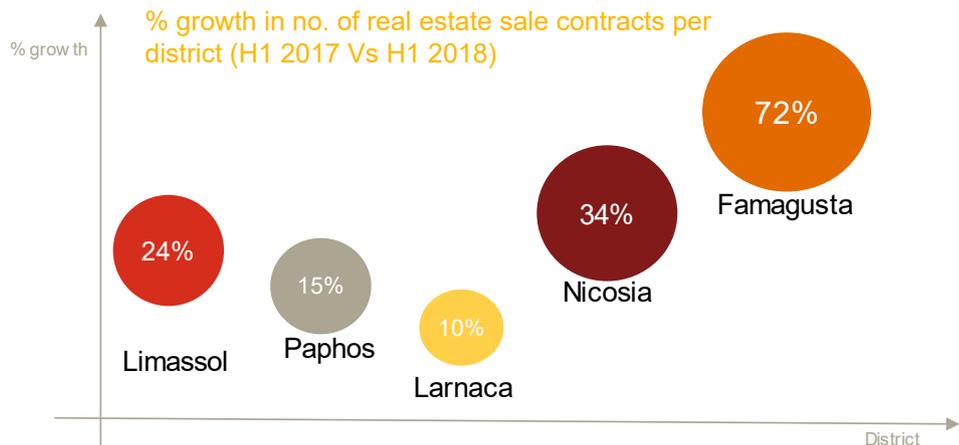
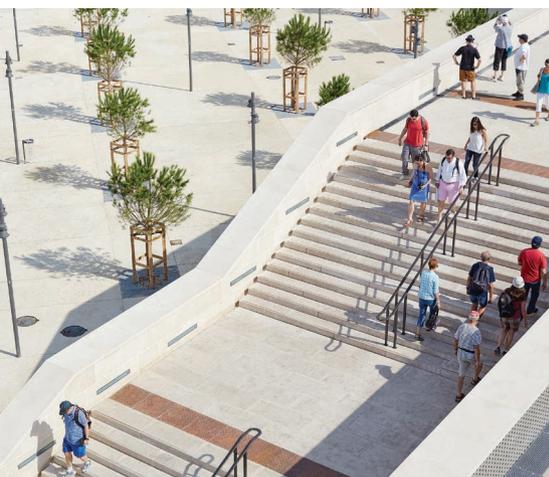
Similar to 2017, during the first half of the year, Famagusta demonstrated the highest growth in sale contracts filed at the DLS (72% yoy). Nicosia followed with an increase of 34% whereas Limassol recorded a growth of 24%.

Double-digit growth rates for sale contracts were recorded across all five districts of Cyprus.

Geographical distribution of real estate sale contracts per district (H1 2018)



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

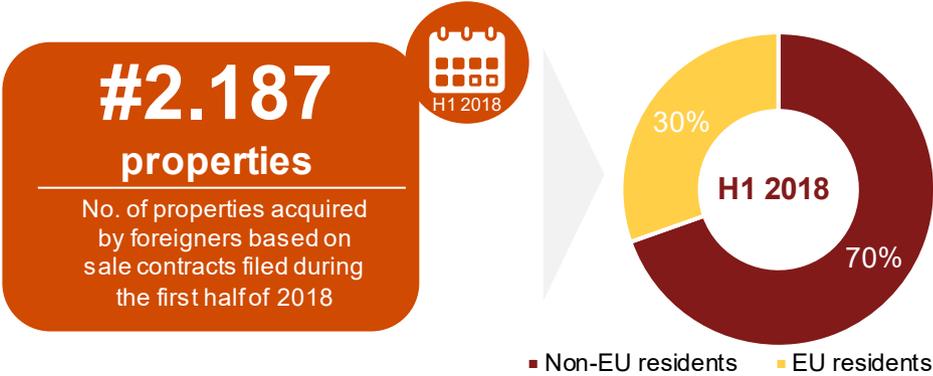


Source: Department of Lands and Surveys (DLS), PwC Analysis

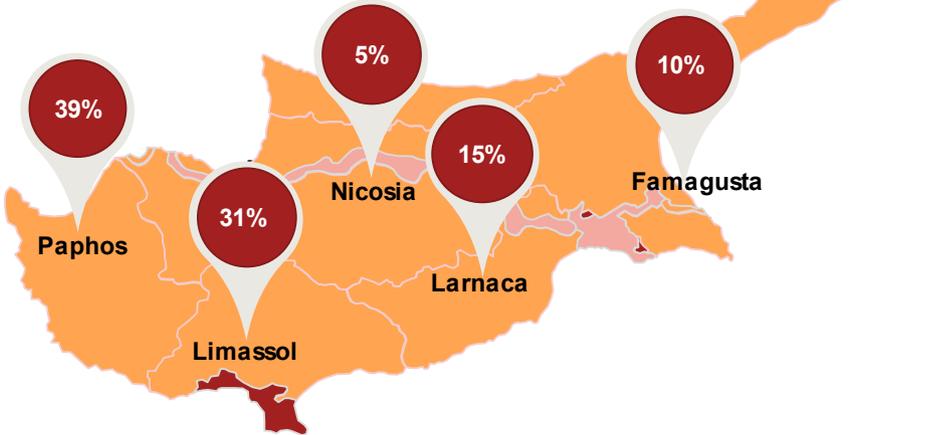
Foreign Transaction Activity

During the first half of 2018, a total of 2,187 properties in Cyprus were acquired by foreigners. The highest share as regards sale contracts filed by foreign buyers was in Paphos (39%), followed by Limassol (31%). The two districts together make up 70% of foreign transactions.

Approximately 70% of properties acquired by foreigners relate to non-EU buyers. In Limassol district, 82% of foreign transactions relate to non-EU buyers. The respective share of non-EU resident acquisitions in Paphos and Larnaca stood at 61% and 81% respectively.



Geographic distribution of properties acquired by foreigners based on sale contracts filed (H1 2018)



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



High-end residential property segment ($\geq \text{€}1,5 \text{ mln}$)

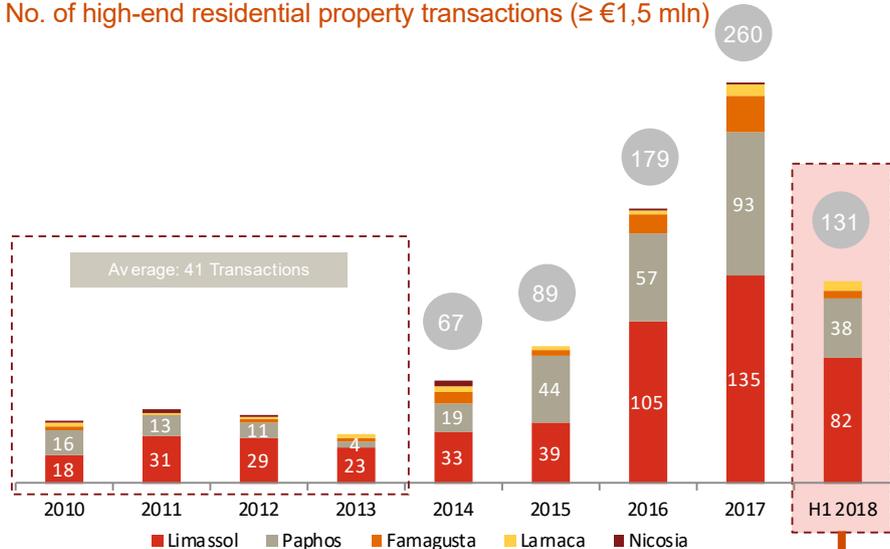
Demand for high-end residential properties ($\geq \text{€}1,5 \text{ mln}$)

Since 2014 following the revisions to the scheme for naturalisation of investors in Cyprus, demand for this type of properties has been increasing continuously.

During the first half of 2018, the total number of high-end residential transactions was estimated at 131, representing a 8% increase compared to the respective period of 2017.

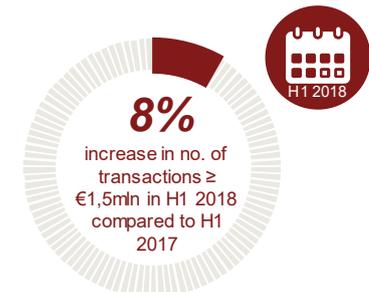
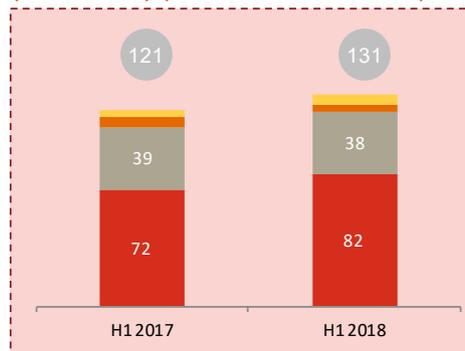


No. of high-end residential property transactions ($\geq \text{€}1,5 \text{ mln}$)



Source: Department of Lands and Surveys (DLS), PwC analysis *

No. of high-end residential property transactions ($\geq \text{€}1,5 \text{ mln}$) (H1 2017 Vs H1 2018)



Source: Department of Lands and Surveys (DLS), PwC analysis *

* The PwC analysis has been based on transaction data by the DLS in a digital format, extracted from the DLS Portal on 22/10/2018 and relate to transactions with an agreement date up to 30/06/2018.

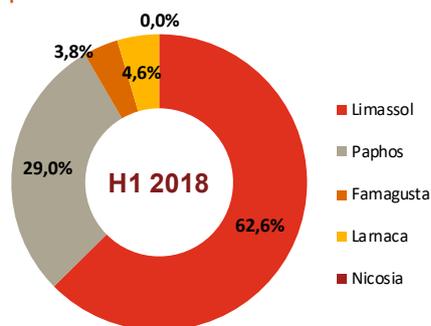
Distribution of high-end residential transactions per district

Limassol continues to be the district with the biggest share of high-end residential property transactions (63% of total transactions of H1 2018), followed by Paphos (29%). The two districts together make up 92% of this segment of the market.

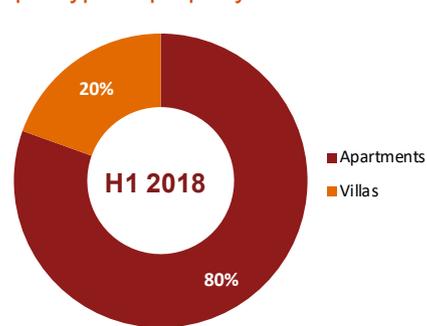
High-end residential transactions in Famagusta and Larnaca represented c.8% of total (11 transactions), whereas in Nicosia no single residential transaction exceeding €1,5mln was identified during the period.

As per Land Registry data, during H1 2018, 80% of high-end residential property transactions in Limassol related to apartments, with the remainder 20% relating to villas. As regards Paphos, almost entirely high-end residential transactions recorded in H1 2018 related to villas.

Distribution of high-end residential property transactions per district

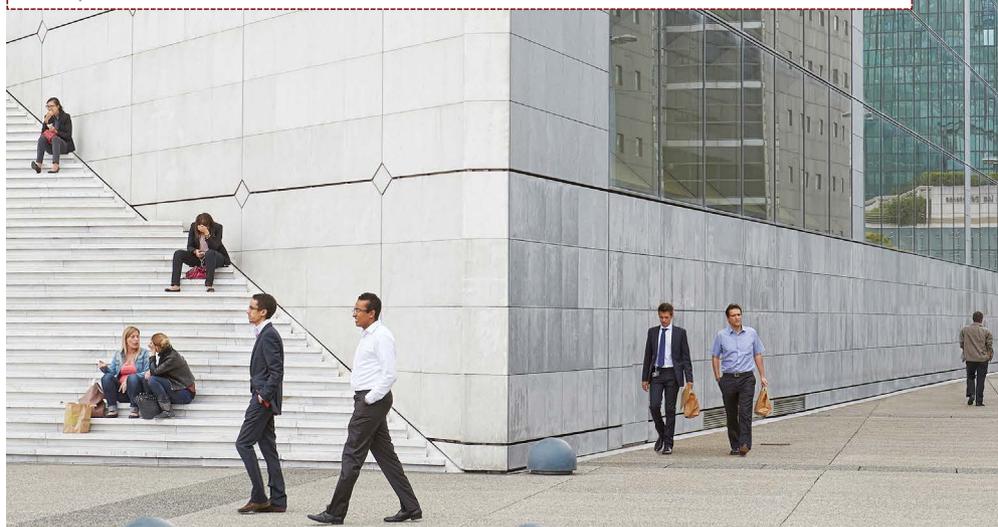


Distribution of Limassol high-end residential property transactions per type of property



Source: Department of Lands and Surveys (DLS), PwC analysis *

* The PwC analysis has been based on transaction data by the DLS in a digital format, extracted from the DLS Portal on 22/10/2018 and relate to transactions with an agreement date up to 30/06/2018.

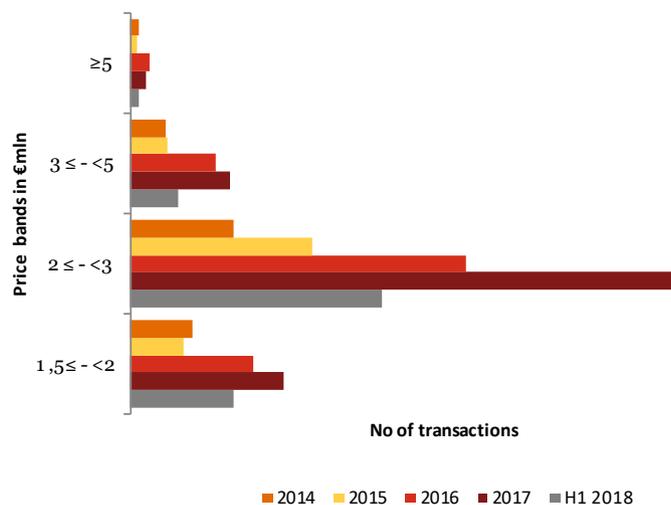


Transaction Volume by Price Band

Most of the transactions in the high-end residential segment across Cyprus during the first half of 2018 were in the €2mln - €3mln price band.

A small shift from the €2mln - €3mln price band to €1,5mln - €2mln price band was observed during the period.

Transaction Volume by Price Band



No. of Transactions

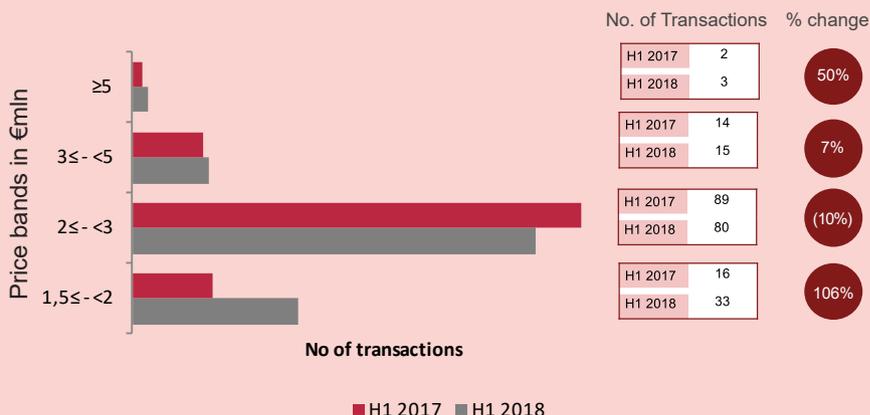
2014	3
2015	2
2016	6
2017	5
H1 2018	3

2014	11
2015	12
2016	27
2017	32
H1 2018	15

2014	33
2015	58
2016	107
2017	174
H1 2018	80

2014	20
2015	17
2016	39
2017	49
H1 2018	33

Transaction volume by Price Band (H1 2017 Vs H1 2018)





Real Estate Price Evolution

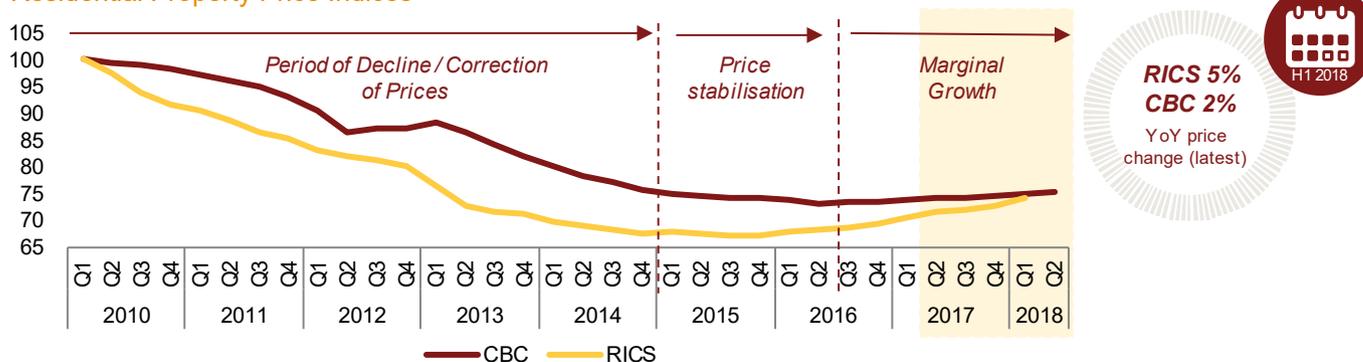
Residential Property Prices

The behaviour of residential property prices across Cyprus could be captured by two indices, namely Central Bank of Cyprus (CBC) index and the Royal Institution of Chartered Surveyors Cyprus (RICS) index.

Both indices have exhibited a negative trajectory since 2010, reflecting the declining trend in demand for residential property, including demand for holiday homes by foreign buyers. This negative trajectory continued until 2015, resulting in an overall drop in residential property prices for the period in the region of 26% to 33% compared to 2010 values.

In 2016, price index movements demonstrated signs of marginal improvement and stabilisation. In 2017, for the first time during the 8-year period 2010-2017, both price indices behaved positively. During H1 2018, the CBC index demonstrated a 2% growth compared to H1 2017, whereas the RICS Residential index up to Q1 2018 (latest available to date), demonstrated a 5% YoY growth.

Residential Property Price Indices



Annual price change	2011	2012	2013	2014	2015	2016	2017	Q1 2018 (QoQ%)	Q2 2018 (QoQ%)
RICS (Residential PPI)	(7%)	(6%)	(11%)	(5%)	(1%)	3%	5%	2%	N/A
CBC (RPPI)	(5%)	(6%)	(6%)	(8%)	(2%)	(1%)	1%	1%	0%

Source: RICS Cyprus Property Price Index and CBC RPPI

Note: RICS represents the weighted average of the houses and apartments indices

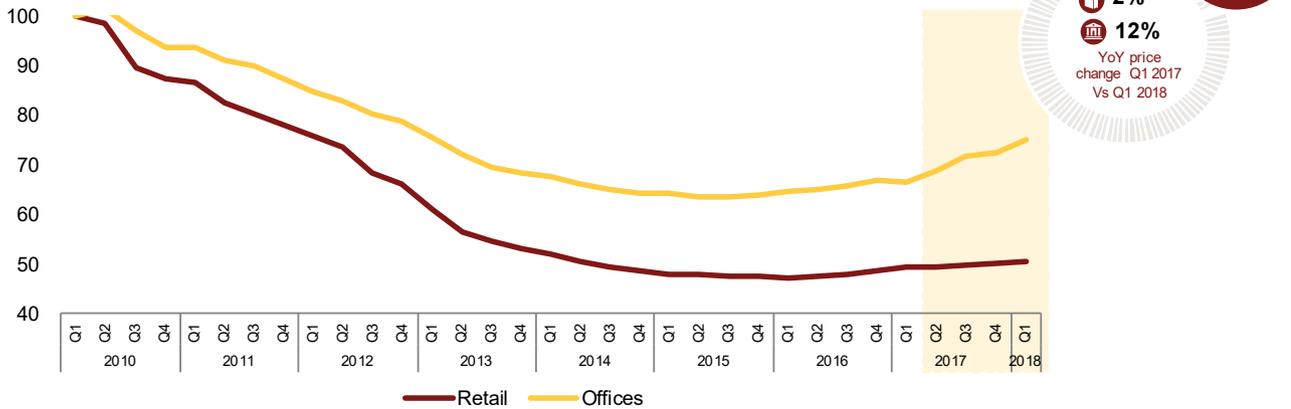
Property Prices of Offices and Retail

The behaviour of commercial property prices across Cyprus is captured by the RICS index. Commercial properties include retail properties and office space*.

Both commercial property price indices followed a steep declining trend during the period 2010 to mid-2016 with prices exhibiting an overall drop of 53% for retail properties and 37% for offices. In 2016, prices showed signs of stabilisation up until the first half of the year and marginal growth in the second half. During 2017, growth in retail and offices continued with indices reaching their highest point since 2013.

In Q1 2018, prices for offices demonstrated a YoY growth of 12%, primarily reflecting the increasing levels of demand for Grade A office space. On the other hand, retail properties recorded a modest YoY growth of 2%, indicating the challenges of the sector.

Retail and Office Property Price Indices (RICS)



Annual price change	2011	2012	2013	2014	2015	2016	2017	Q1 2018 (QoQ%)
Retail	(10%)	(16%)	(20%)	(8%)	(2%)	2%	3%	1%
Offices	(7%)	(10%)	(13%)	(6%)	(1%)	(1%)	8%	3%

Source: RICS Cyprus Property Price Index (Base Year- 2010)

*Indicative characteristics for the RICS index: Retail – high-street retail, 100m², ground floor area with 50m² mezzanine; office space – Grade A, city centre location, 200m².

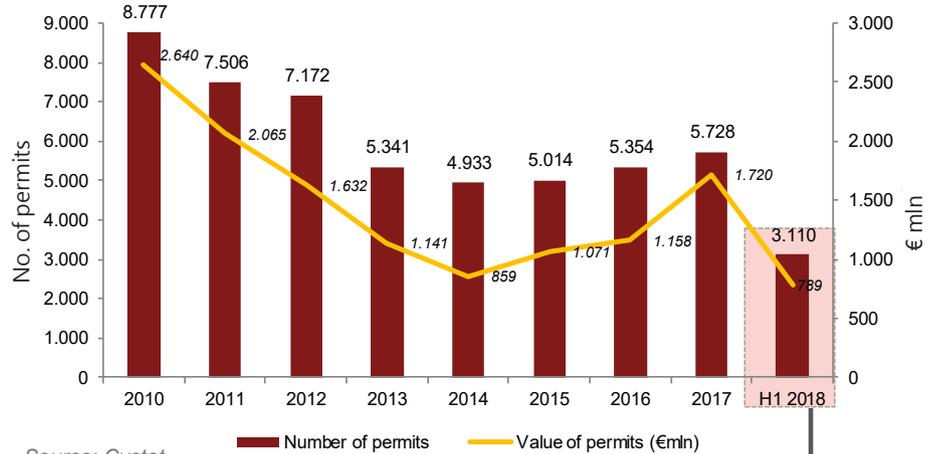
Construction Activity

In an environment of increasing demand for property acquisitions, the supply side appears to be in an accelerating mode, as evident by building permits which continue to grow both in volume but also in size.

During H1 2018, the number of building permits increased by 8% YoY, while the value of new building permits exhibited an annual growth of 20% compared to H1 2017.

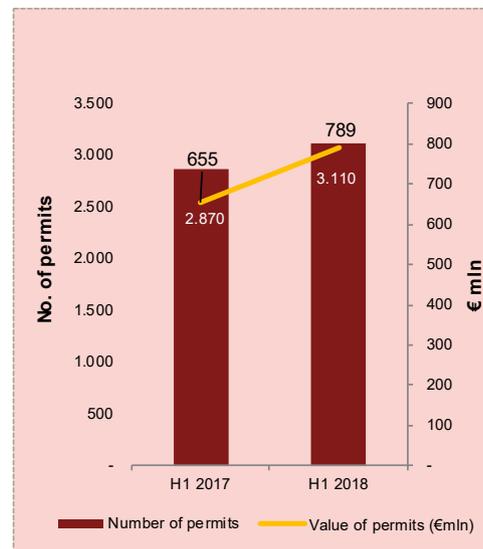
In line with the trends observed in prior years, new real estate developments being planned continue to be on average of higher value.

Building Permits Number vs. Value (m²/€mln)

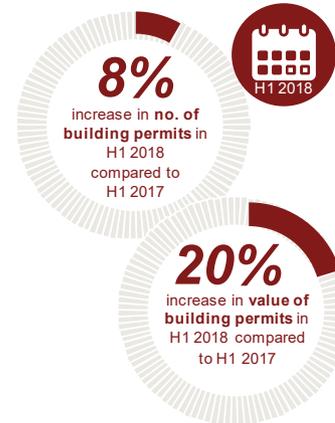


Source: Cystat

Building Permits Number vs. Value (H1 2017 Vs H1 2018)



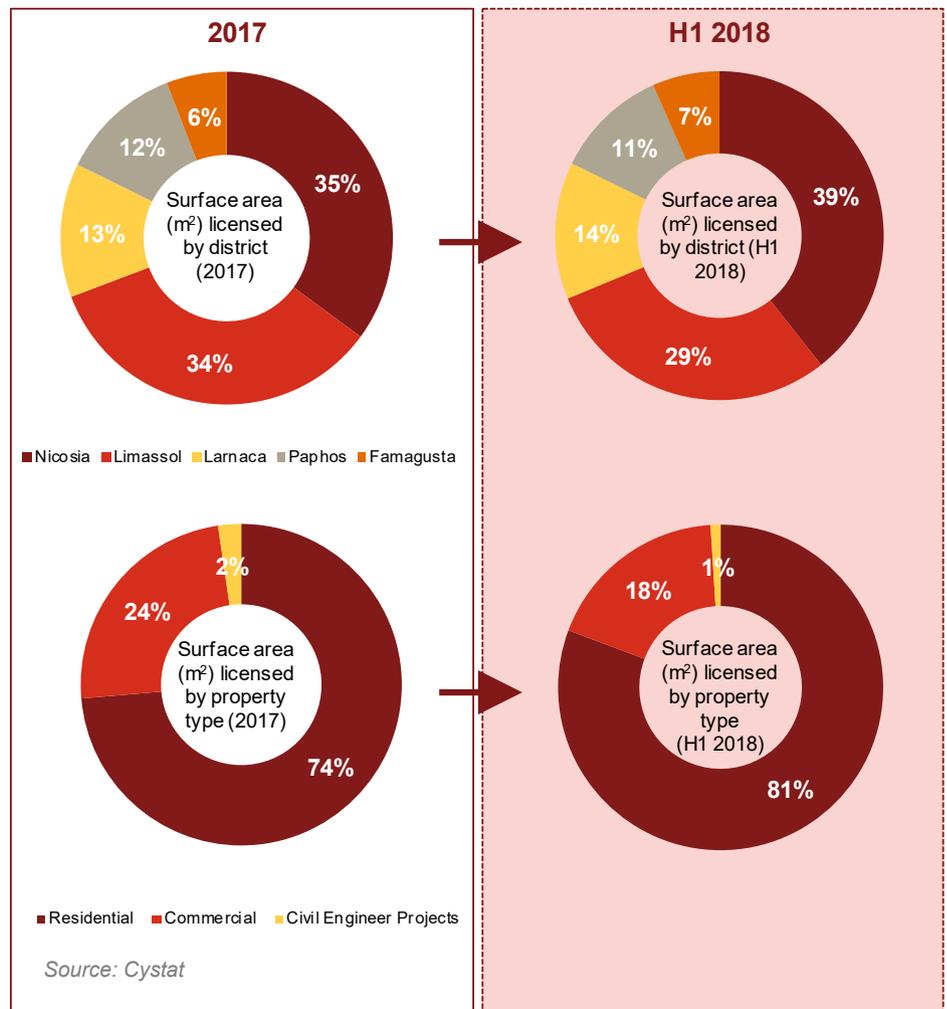
Source: Cystat



Distribution of building permits per district and surface area (m²) during H1 2018

During the first half of 2018, the district of Nicosia continues to hold the highest share of permits in the market (39%), followed by Limassol district (29%). The share of Nicosia seems to have increased further compared to 2017, which is partly driven by the increased activity in the student housing sector.

With respect to the types of properties licensed for development during H1 2018, residential properties comprise the majority of permits (81% of total licensed surface area). The share of permits relating to commercial properties seems to have declined from 2017 (H1 2018: 18% Vs 2017: 24%).



PwC Real Estate Advisory Services



How PwC can help

Our experts offer our clients innovative property solutions to turn real estate into real outcomes.

We take your whole business into account. We look at your needs and objectives. And through the knowledge drawn from our extensive international presence and on experience shaped from the local environment, we see opportunities and prospects.

We bring the best business advice with the best real estate advice, providing tailored-made solutions of high quality for specific needs to clients who develop, invest, own, lease, dispose or acquire all types of property.

- We have a diverse team of professionals with backgrounds ranging from engineers, management consultants, property valuers, finance experts and merger and acquisition specialists. We are as comfortable in talking business, finance and tax, as we are with town planning permits, Land Registry data and site plans, bringing a whole different approach to real estate.
- Our clients draw comfort from working with PwC, the leading organisation of its kind in the world, and from the integrity, reliability and security that it brings with it.
- Our strong international network combined with our local expertise, enable us to support our clients' needs in all their countries of operation.

What we bring to our clients



Diverse team of professionals with backgrounds ranging from engineers, management consultants, property valuers, finance experts and merger and acquisition specialists



Unparalleled track record in **property transaction advisory services**



Proven track record in **deal origination activities** in the real estate sector



In-depth **understanding of the changing market forces** that are affecting the local real estate industry



Ongoing monitoring of the behaviour of the market and its dynamics



Data analytics of transaction data



In-depth knowledge of Town Planning Regulations and Land Registry workings



Extensive experience of qualitative and quantitative **research techniques for real estate transaction activity**



Regularly updated own-database of property transactions



A strong **reputation for rigour, independence and impartiality**



Real Estate Life Cycle



Our services

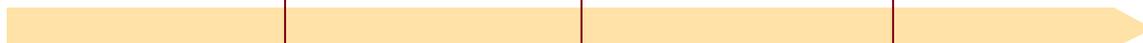
Investment Appraisals / Feasibility Studies



Highest & Best Use Analysis



Data Analytics, Market Research and benchmarking



Objective Assessment of Real Estate Business Plans



Independent Business Reviews (IBR)



Transaction advisory services / Due Diligence



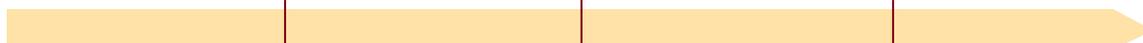
M&A advisory and assistance in raising finance



Distressed Assets / Business Recovery



Valuation advice



Reorganisation / Restructurings



VAT and Tax advisory



Legal services



PwC in Cyprus

We support you to create the value you are looking for by providing specialised solutions based on quality. Together we build relationships based on trust and we say things as they are, to assist you to deal with issues that tomorrow will prove important. We adapt the expertise of our almost 1000 professionals in Cyprus and the power of our global network of more than 250,000 experts in 158 countries to your specific needs, helping you make the difference.

In a demanding and challenging business environment, our diverse teams of experts are sharing deep knowledge and experience. We provide a broad range of services as listed below to meet your increasingly complex needs.



Assurance
Advisory

Tax Advisory
Indirect Tax Advisory
Legal Advisory
International Private Clients
Tax Reporting & Strategy

Visit www.pwc.com.cy to discover the benefits we can bring to you.

Our industry specialisation in the following sectors, gives you the benefit of our in-depth industry knowledge and experience.

Banking
Transportation & Logistics
Energy
Hospitality & Leisure
Retail, Consumer & Manufacturing

Funds
Real Estate & Construction
Investment Firms
Insurance
Telecommunications

PwC offices in Cyprus

Nicosia

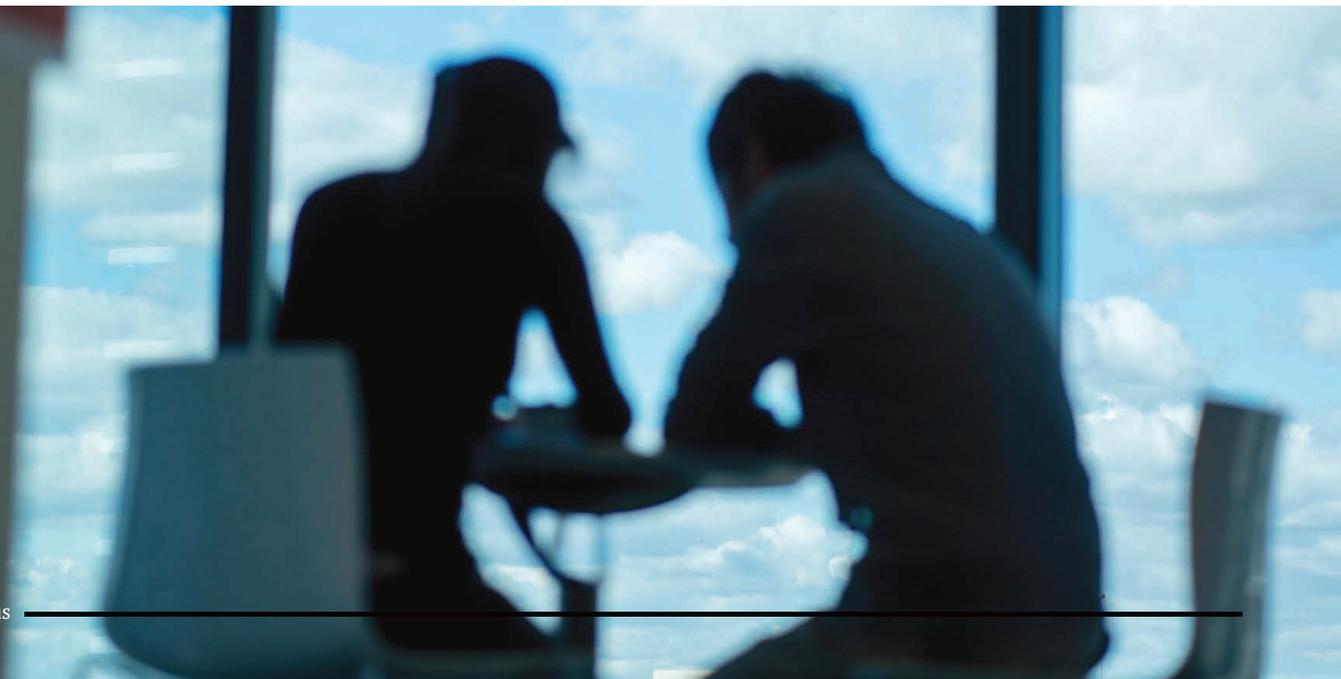
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