



LIONGLOBAL
ADVISORS

CYPRUS ECONOMY & REAL ESTATES UPDATES

Q1 2020



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Welcome



Nicolas Gavriel
Director

The ninth edition of LGA Real Estate Market Report, aims to present a summary of the significant factors and major drivers of Cyprus' economy and Real Estate Market for the period January - March 2020.

At the end of 2019, various indicators suggested that the Cyprus economy was headed in the right direction, in a generally calmer economic context. However, the health crisis of COVID-19 and the implementation of containment since the 15th March have totally disrupted this dynamic. The scale of the shock is as unprecedented as it is uncertain, but indicators are already showing a deterioration in the business climate, an expected fall in annual GDP, a year of recession for the Cyprus economy and a sharp rise in public spending, due to massive government support for businesses and employment. More specifically, according to IMF, Cyprus economy is projected to contract by 6.5% in 2020 and to rebound by 5.6% in 2021 while unemployment is expected to increase to about 8.8% this year and to decrease in 2021 to 7.4%. Inflation, is expected to turn negative during the current year (-0.2%) driven by lower energy prices and non-energy industrial goods.

Tourism & Hospitality sector has experienced the most significant impact to date given increasing travel restrictions, major event cancellations and overall risk aversion to travel internationally and domestically. Tourists' arrivals for the period January - March 2020 totalled 246,556 compared to 357,475 in the equivalent period of 2019, demonstrating an annual decrease of 31%.

The rapid spread of the COVID-19 and the measures that followed has affected the Real Estate market as well with different Real Estate asset classes to be impacted by the virus to varying degrees. Real Estate sales transactions in the first quarter recorded a 16% drop compared to the previous year, a trend that began in the

first few months of the year, without benefiting from a generally decisive month of March. In particular, for the first quarter of the year, Real Estate sales transactions totalled 1,991 compared to 2,366 in the equivalent quarter of 2019, recording an annual decrease of 16%. Out of the 1991 contracts of sales the 44% (874) referred to foreign buyers and 56% (1,117) referred to locals.

Although the biggest decrease compared to the first quarter of 2019 has been recorded in Limassol, Limassol continues to be the district with the biggest market share (28%) followed by Nicosia (26%), Paphos (21%) and Larnaca (19%) while Famagusta is the district with the smallest market share (7%). Nicosia and Larnaca were the only districts where contracts of sales recorded an annual increase. More specifically, in Nicosia and Larnaca, sales transactions increased by 6% and 4% respectively compared to the period January - March 2019.

In Cyprus, where a high percentage of Real Estate transactions refer to overseas buyers and as travel and face to face meetings are restricted, an important impact of the virus on the Real Estate market has been observed. However, as COVID-19 is expected to affect differently each Real Estate asset, the impact of COVID-19 on the residential market is expected to be more limited than other assets. In any crisis the future is difficult to outline and predict; as this one is on a global scale and unprecedented in its nature, we make no claims in our ability to confidently forecast what will happen over the coming months. The coronavirus' ultimate impact on Real Estate markets will largely depend on the length of the outbreak and whether there is a quick recovery (with a return to overall social and economic stability) or a more extended one.

CYPRUS MARKET SNAPSHOT

Q1 2020

The Real Estate Market in the **Era of Uncertainty**

COVID-19 pandemic and the strict measures introduced to limit the spread of the virus, have led to sudden reductions in activity across many sectors. One of these sectors is Real Estate, as property transactions require a lot of in person interactions. In any case, history has proved that Real Estate performs relatively well after economic shocks, however the speed of the market recovery depends on the scale, the duration and the impact of this crisis on the macroeconomic fundamentals of each country.



Sales Transactions

- 16% decrease in sales transactions during the first quarter of 2020 (1,991) compared to the equivalent quarter of 2019 (2,366).
- In terms of month-on-month sales, the biggest decrease has been recorded in March (-33%) while in February and January there was an annual decrease of 11% and 3% respectively.
- Limassol continues to be the district with the biggest share of the market (28%) followed by Nicosia (26%).
- Compared to the first quarter of 2019, Nicosia and Larnaca are the only districts where a moderate increase has been observed (6% and 4% respectively).



Foreign Transactions Activity

- 874 properties were acquired by foreigners, representing a market share of 44%.
- 21% decrease in sales contracts filled by foreigners compared to the first quarter of 2019.
- 66% of properties acquired by overseas buyers refers to buyers outside the European Union.
- Paphos has the biggest market share for foreign buyers with 35% (310) followed by Limassol with 27% (238).



Domestic Sales

- 56% (1,117) of total sales transactions refers to domestic buyers.
- 11% decrease in sales contracts filled by national buyers compared to the first quarter of 2019.



Real Estate Prices

- 4.8% YoY decrease in housing prices (HPI Cystat, Q4 2019).

2020: A Year of Recession

The global health crisis of COVID-19 is having vital impact on the economic activity of the entire world and the global economy has moved to a severe recession. The COVID-19 outbreak and the measures imposed by the government, have pushed the country's economy into a recession in 2020. However, Cyprus' economy is projected to start a slow recovery towards the end of the second quarter.

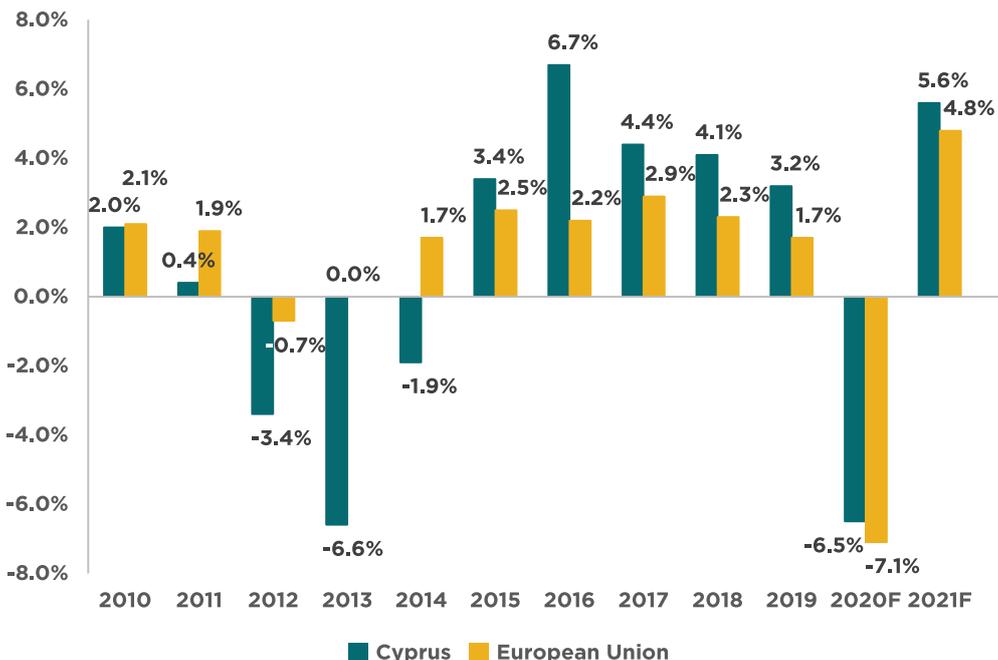
GDP Growth Rate

The economic crisis arising from the COVID-19 pandemic has shaken the global economy and tipped Cyprus into recession. The lockdown measures, that were implemented have caused brought entire sections of the economy to an abrupt halt resulting in major loss of business activity for the vast majority of companies.

In particular, according to IMF latest World Economic Outlook, Cyprus' economy is projected to contract by 6.5% in 2020 and recover in 2021, demonstrating a growth rate of 5.6%. The report also projects a sharp contraction for the EU economy to -7.1% in 2020 and partial rebound to 4.8% in 2021. (Graph 1)

(Source: CYSTAT, IMF)

Cyprus vs European Union Real GDP Growth Rate



Graph 1 | Source: IMF (World Economic Outlook), April 2020

Unemployment

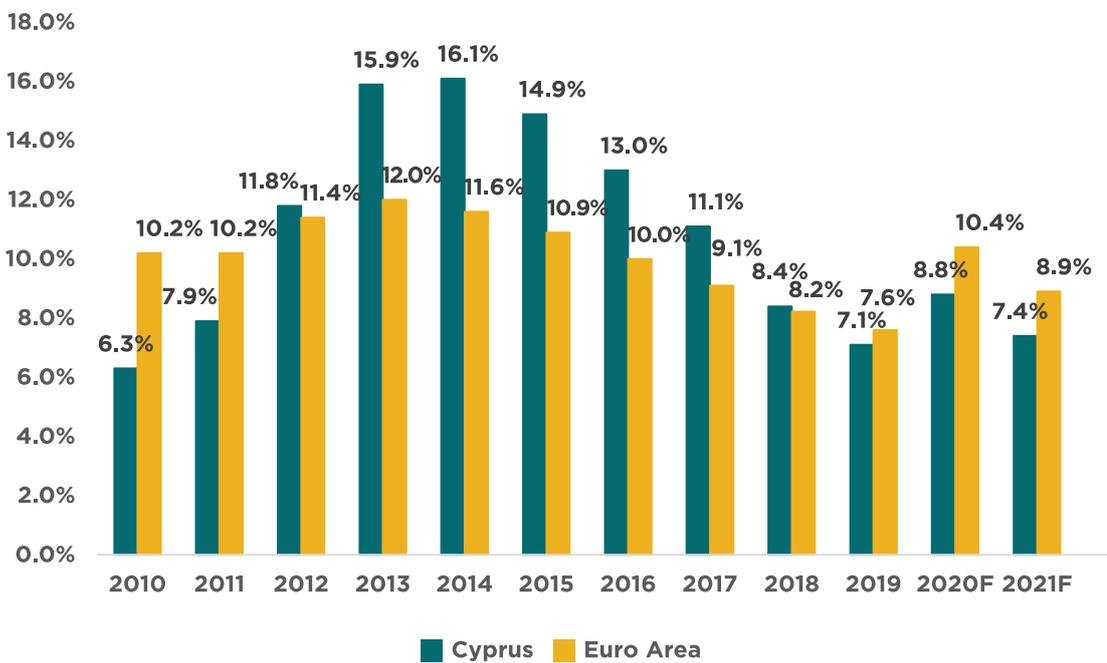
A package of measures such as wages subsidies and liquidity support measures has been taken by the government to limit employment losses during the outbreak period. Although these measures are projected to be effective, a small increase in unemployment rate is expected to be observed in 2020.

According to IMF, the unemployment rate in Cyprus is expected to increase from 7.1% in 2019 to about 8.8% this year and to decrease in 2021 to 7.4%. For the Euro area, the unemployment rate is expected to increase this year to 10.4% from 7.6% last year and to decrease in 2021 to 8.9% while remaining significantly above its pre-pandemic level.

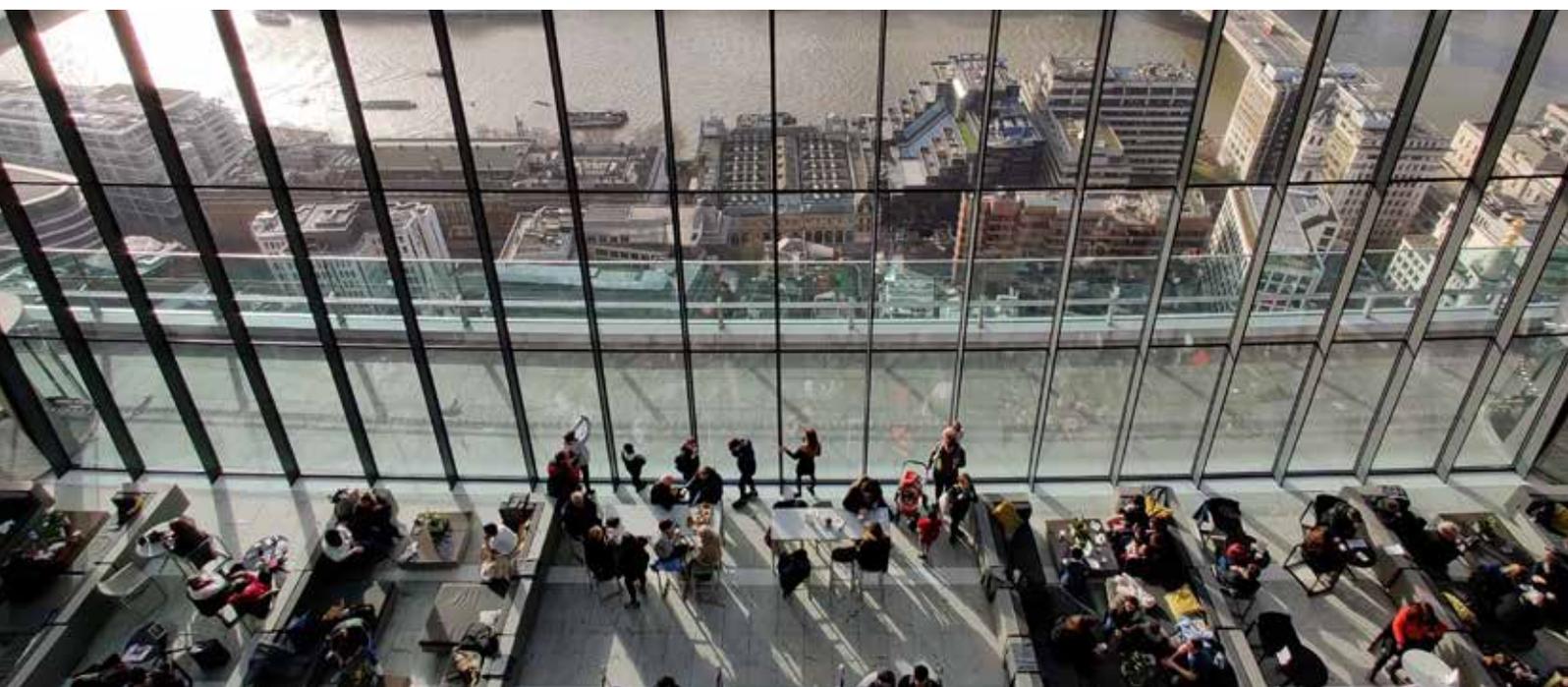
The unemployed persons, registered at the District Labour Offices on the last day of March, reached 26,353 persons. Based on the seasonally adjusted data that show the trend of unemployment, the number of registered unemployment for March 2020 increased to 21,668 persons. In comparison with March 2019, a decrease of 155 persons or 0.6% was recorded. (Graph 2)

(Source: CYSTAT, IMF)

Cyprus vs European Union Unemployment Rate



Graph 2 | Source: IMF (World Economic Outlook), April 2020



Cyprus Tourism has been Hit Hard by COVID-19 Outbreak

The tourism industry is considered as one of the hardest hits by the COVID-19 outbreak, due to travel restrictions as well as decrease in demand among travellers. As tourism is one of the most important sectors of Cyprus economy, with the sector to account for more than 20% of country's GDP, the impact of the industry's crisis on country's economy is expected to be significant.

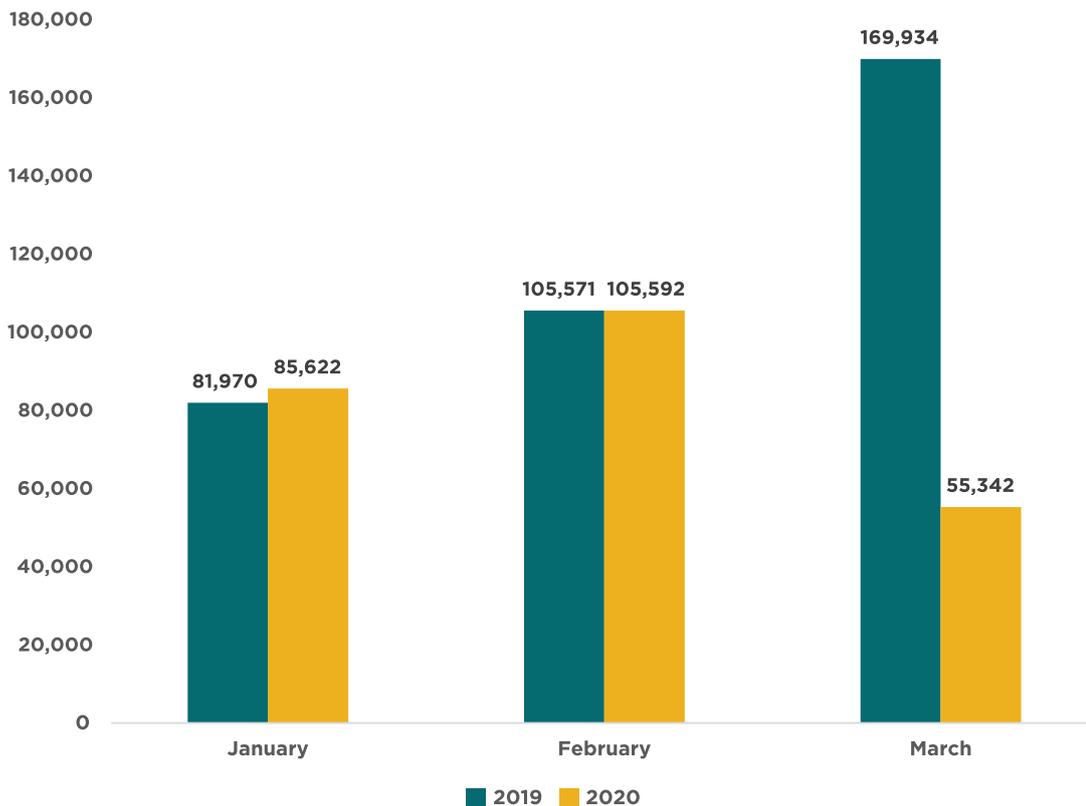
In an effort to limit the spread of the pandemic, Cyprus government imposed an entry ban as of 15/3/2020 on several categories of persons, including tourists. As a consequence of the entry ban, in March 2020 a dramatic drop of 67.4% in tourists' arrivals has been recorded compared to March 2019. More specifically, arrivals of tourists reached 55,342 in March 2020 while in March 2019 the number of tourists' arrivals totalled 169,934.

For the period of January - March 2020, tourists' arrivals totalled 246,556 compared to 357,475 in the corresponding period of 2019, recording a decrease of 31%. For the period January - March 2020 tourists' arrivals from the United Kingdom decreased by 39.4% compared to the corresponding period of the previous year while for the same period arrivals of tourists from Russia and Greece decreased by 39.9% and 35.7% respectively.

The United Kingdom constitutes the main source of tourism for Cyprus for the period January - March 2020, with a proportion of 30.4%, while arrivals from Israel comprise 10.5% of total arrivals, from Russia 10.3% and from Greece 9.7%. (Graph 3 and 4)

(Source: CYSTAT)

No. of Tourist Arrivals per Month



Graph 3 | Source: CYSTAT

2 REAL ESTATE MARKET REVIEW

COVID-19 has put Real Estate in a “Freeze Mode”

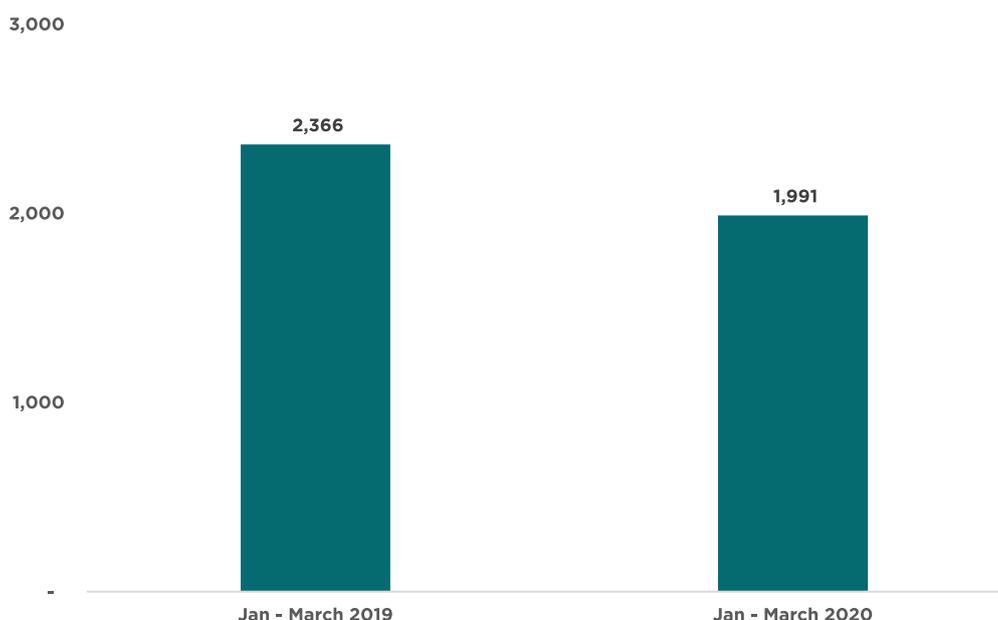
The coronavirus pandemic has certainly affected the number of property transactions as the COVID-19 outbreak has put the Real Estate market in a “freeze mode”.

The strict measures introduced by the government in an effort to control the spread of the virus has impacted the volume of sales transactions especially during the last month of the first quarter. The significant drop in number of sales during this period is a result of social distancing measures and the travel restrictions from the Cyprus Government, rather than lack of demand.

Property Transactions

Based on the latest available information from the Department of Land and Surveys, a significant decrease in Real Estate transaction activity has been observed for the first quarter of the year, mainly due to the global outbreak of COVID-19 and the measures that followed. Specifically, for the period January - March 2020 the number of property sales submitted in all districts of Cyprus amounted to 1,991 compared to 2,366 for the corresponding period of last year, demonstrating an annual decrease of 16%. (Graph 5)

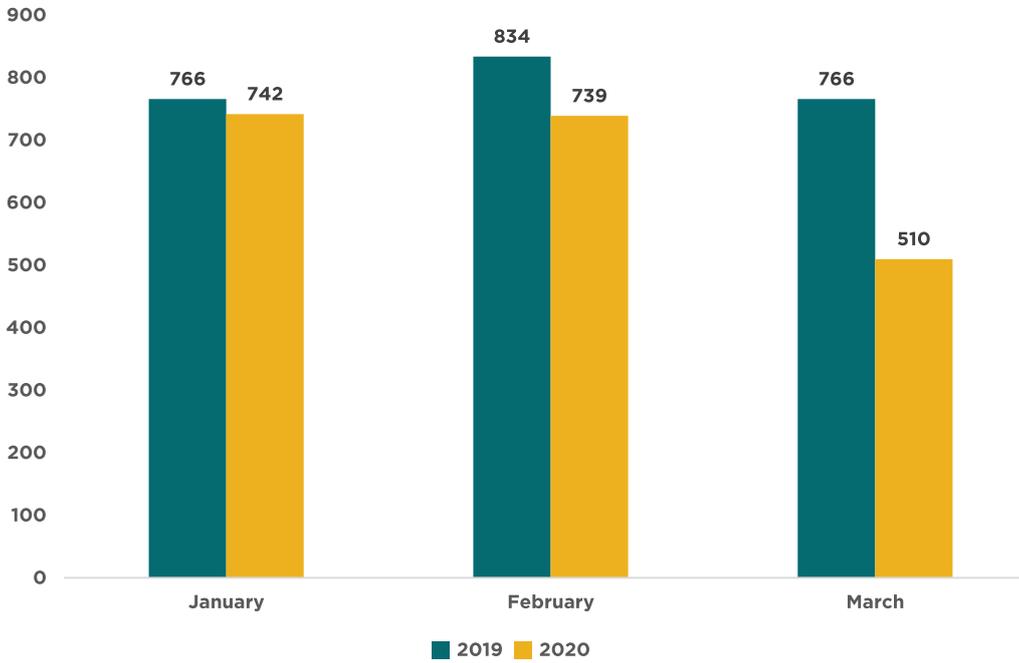
No. of Contracts of Sales (Q1 2019/2020)



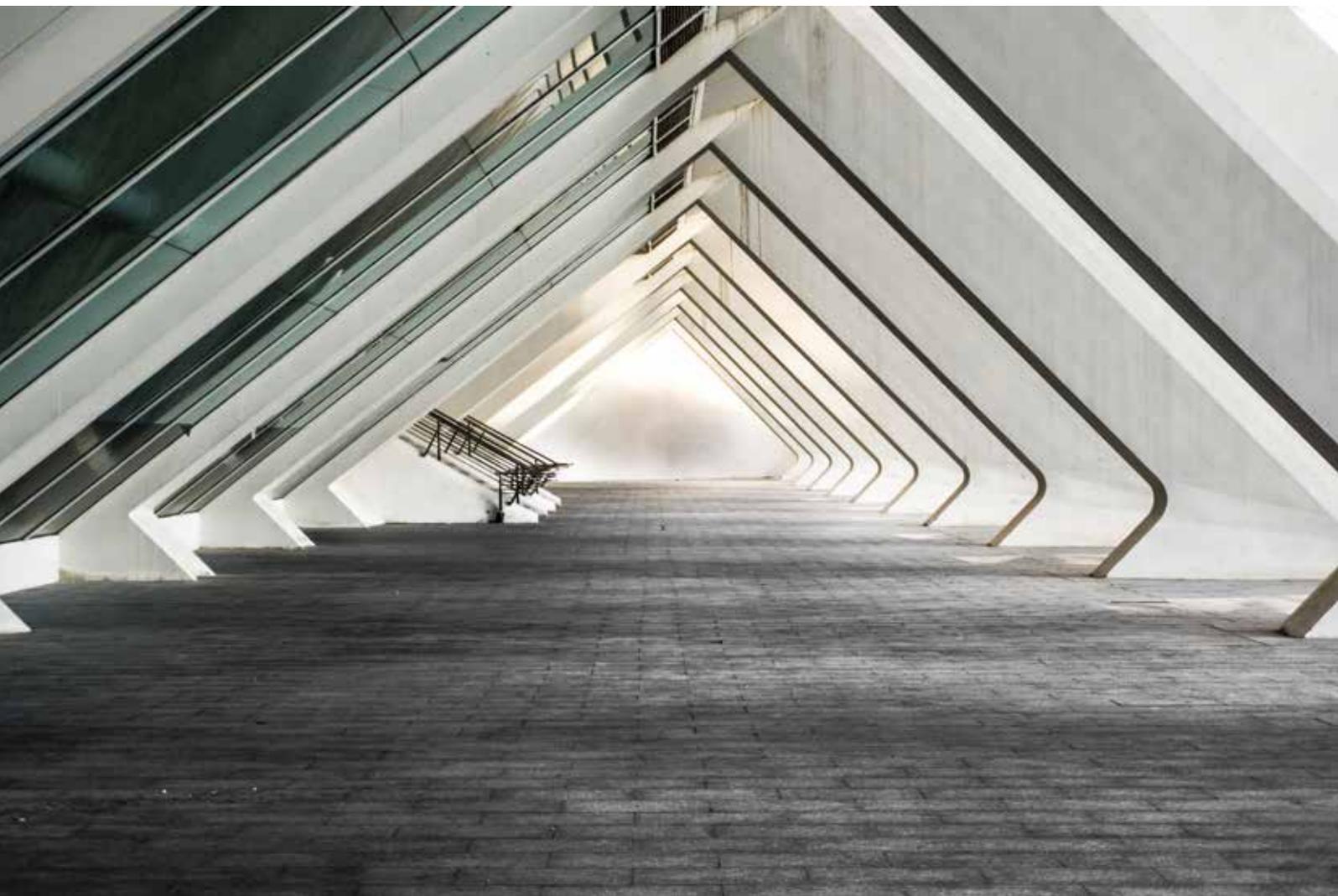
Graph 5 | Source: Department of Land and Surveys (DLS)

A clear slowdown in transaction activity has been observed during the first quarter of the year as sales transactions for all the three months stand below the corresponding months of 2019. The biggest decrease (33%) has been recorded in the last month of the quarter, while in February and January there was an annual decrease of 11% and 3% respectively. (Graph 6)

No. of Contracts of Sales per Month



Graph 6 | Source: Department of Land and Surveys (DLS)

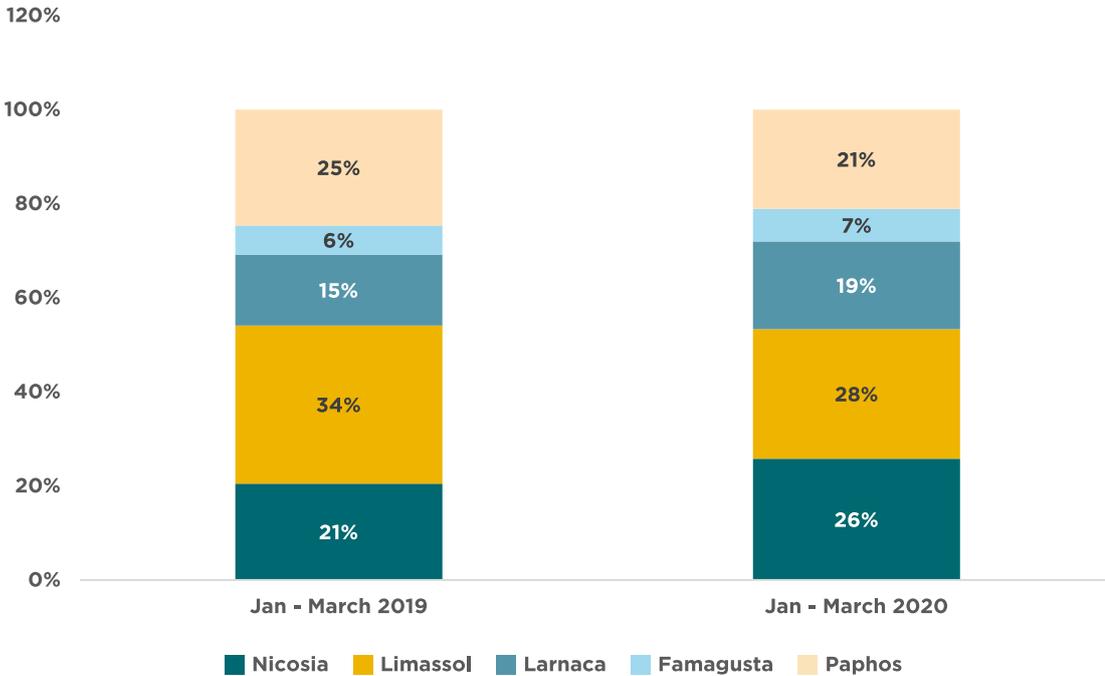


Geographical Distribution of Transactions

In terms of regional distribution of transactions that was listed during the first quarter of 2020, the majority of sales were recorded in Limassol (c.28%), followed by Nicosia (c.26%), Paphos (c.21%) and Larnaca (c.19%) while Famagusta had the smallest market share (c.7%).

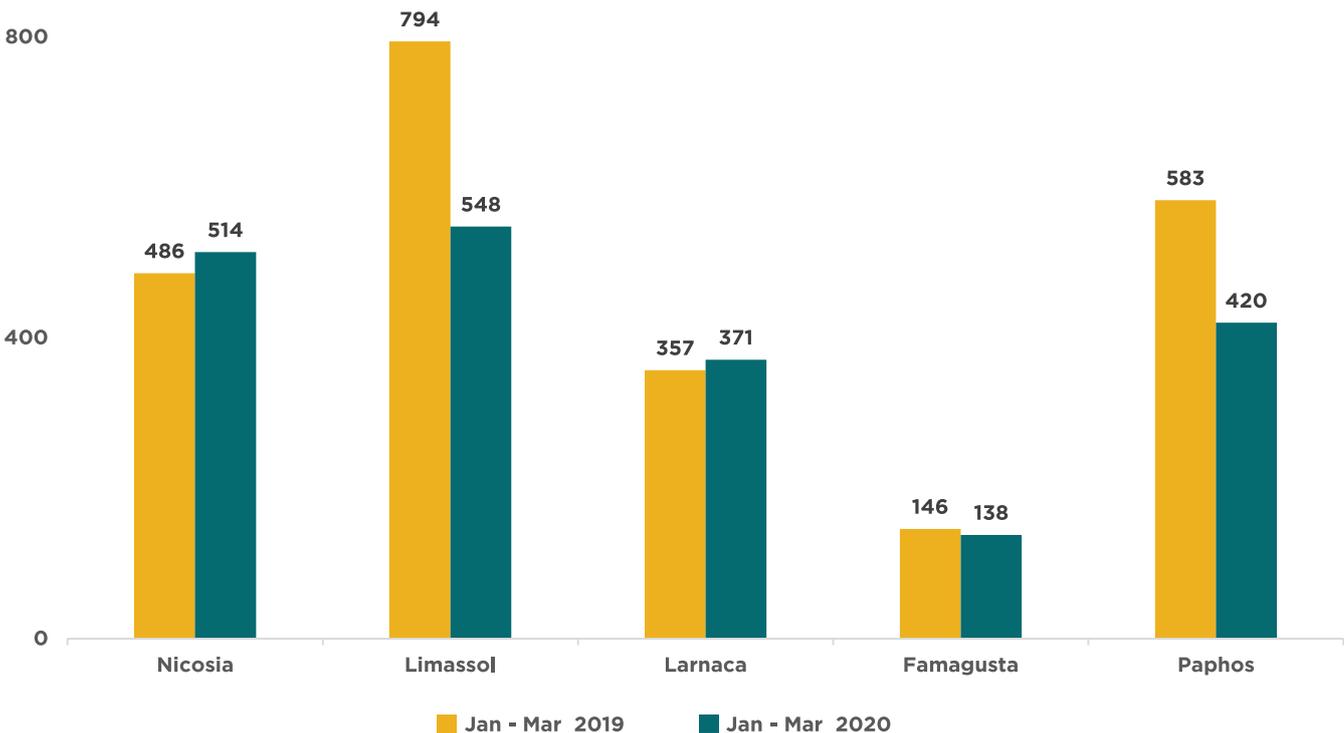
More specifically, in Limassol for the first three months of the year, 548 contracts of sales have been recorded, 514 in Nicosia, 420 in Paphos and 371 in Larnaca while in Famagusta only 138 sales contracts have been recorded. (Graph 7 and 8)

Contracts of Sales per Region



Graph 7 | Source: Department of Land and Surveys (DLS)

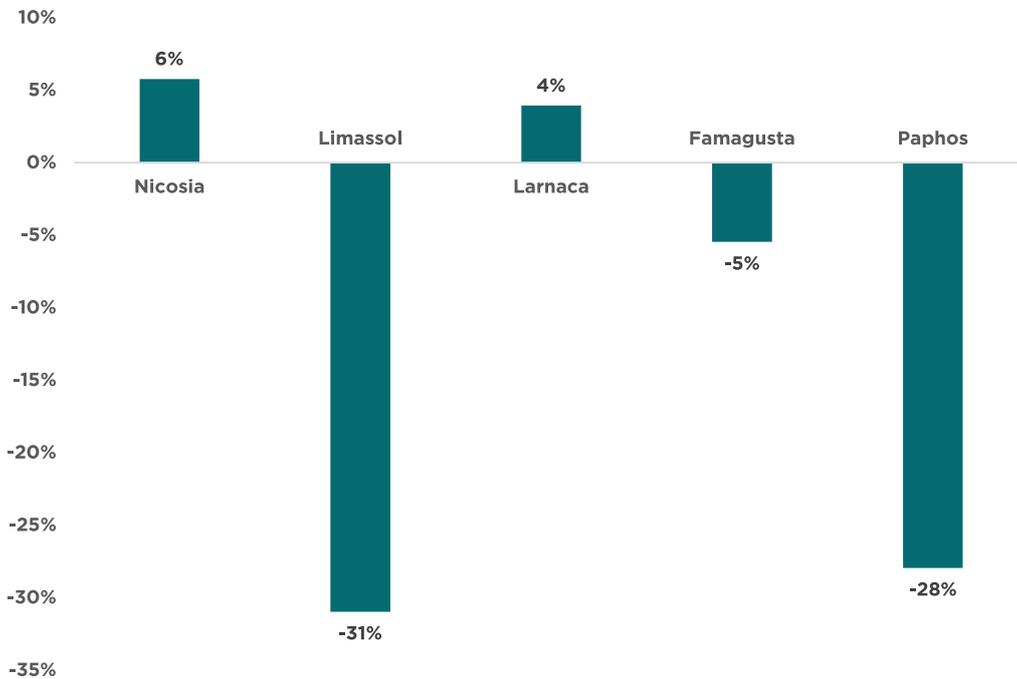
Contracts of Sales per Region (Q1 2019/2020)



Graph 8 | Source: Department of Land and Surveys (DLS)

In terms of annual change for the first quarter of 2020, a decrease has been observed in three out of the five regions of the country. The biggest decrease has been recorded in Limassol (c.31%) followed by Paphos (c.28%) and Famagusta (c.5%). On the other hand, In Nicosia and Larnaca contracts of sales recorded a moderate increase of c.6% and c.4% respectively. (Graph 9)

Annual Change (%) in the Contracts of Sales per Region (Q1 2019/2020)



Graph 9 | Source: Department of Land and Surveys (DLS)

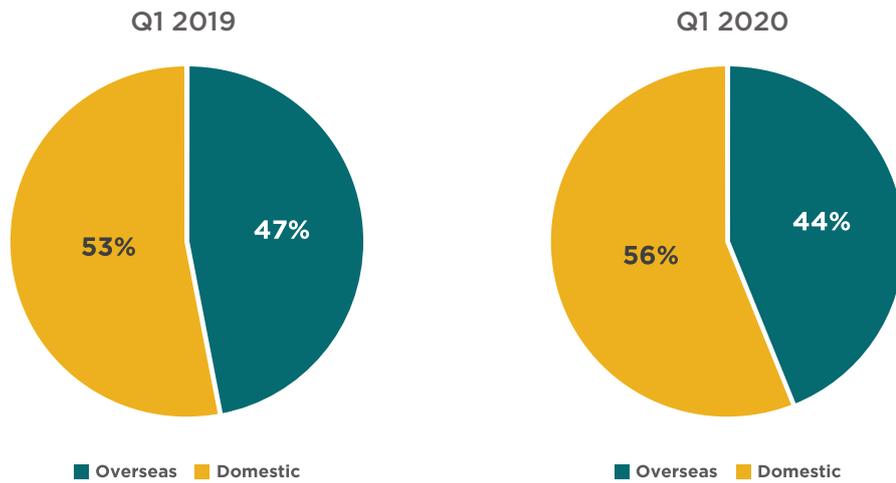


Foreign Transaction Activity

According to the DLS, 44% (874) of the total number of sales contracts (1,991) filled during the period January – March, refer to foreign buyers compared to 47% (1,111) in the same period of 2019. The number of sales contracts that were related to overseas buyers decreased by 21% compared to the corresponding period of the previous year.

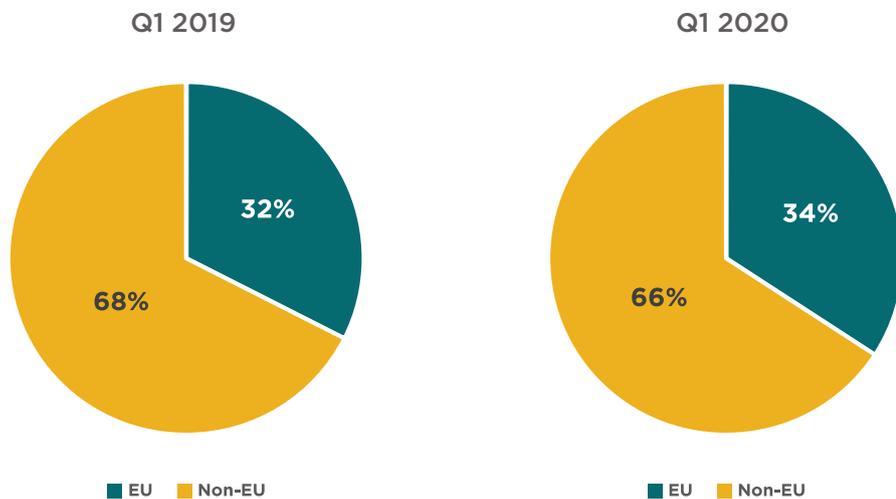
Out of the 874 sales from overseas buyers, 66% (575) were buyers outside the EU while 34% (299) were buyers within the EU. During January – March 2020, the highest market share for foreign buyers has been recorded in Paphos with 35% (310) followed by Limassol with 27% (238), Larnaca 20% (175), Famagusta 11% (94) and Nicosia 7% (57) respectively. (Graph 10, 11 and 12)

Overseas vs Domestic Transaction Activity



Graph 10 | Source: Department of Land and Surveys (DLS)

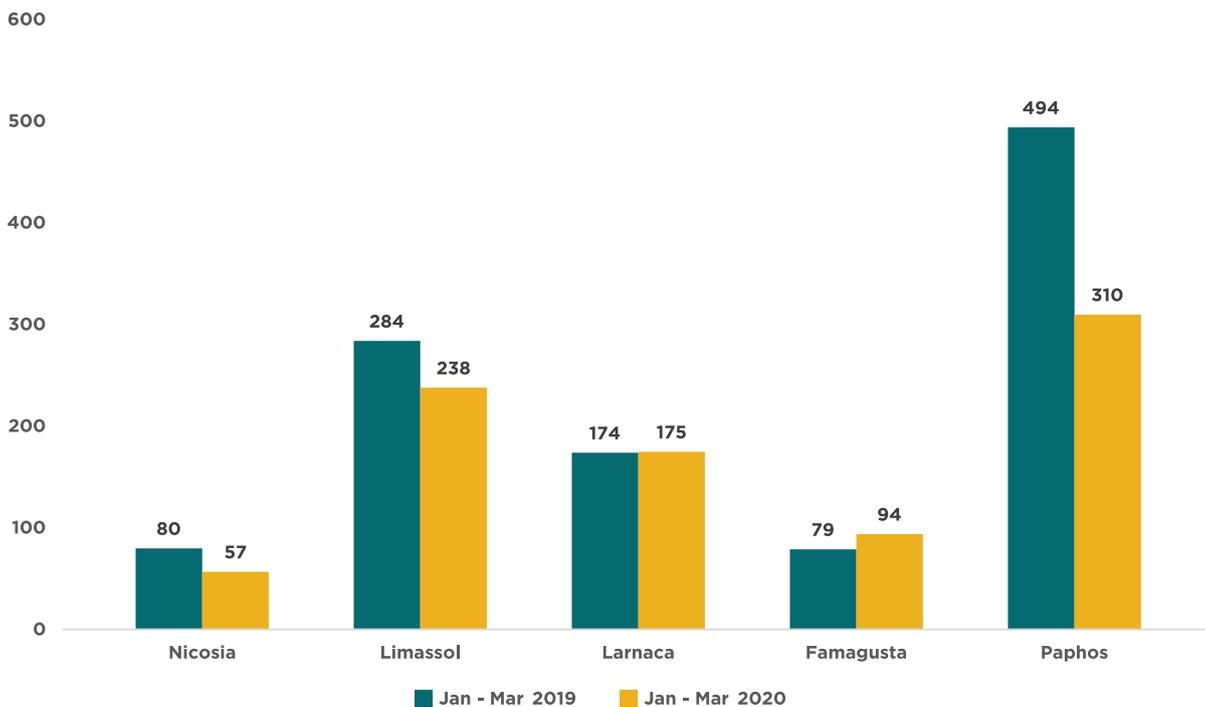
EU vs Non-EU Overseas Buyers



Graph 11 | Source: Department of Land and Surveys (DLS)



Foreign Transaction Activity per Region (Q1 2019/2020)



Graph 12 | Source: Department of Land and Surveys (DLS)



Construction Activity

Price Index of Construction Materials

The Price Index of Construction Materials for March 2020 reached 100.96 units (base year 2015=100.00), recording an increase of 0.03% compared to February 2020.

For the period January - March 2020, the index recorded a decrease of 0.50% compared to the same period of 2019.

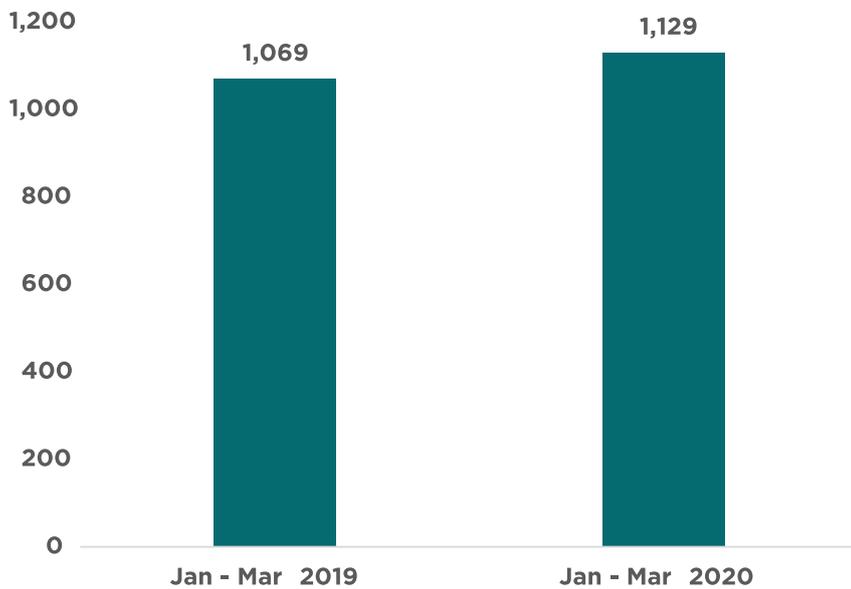
(Source: CYSTAT)

Building Permits

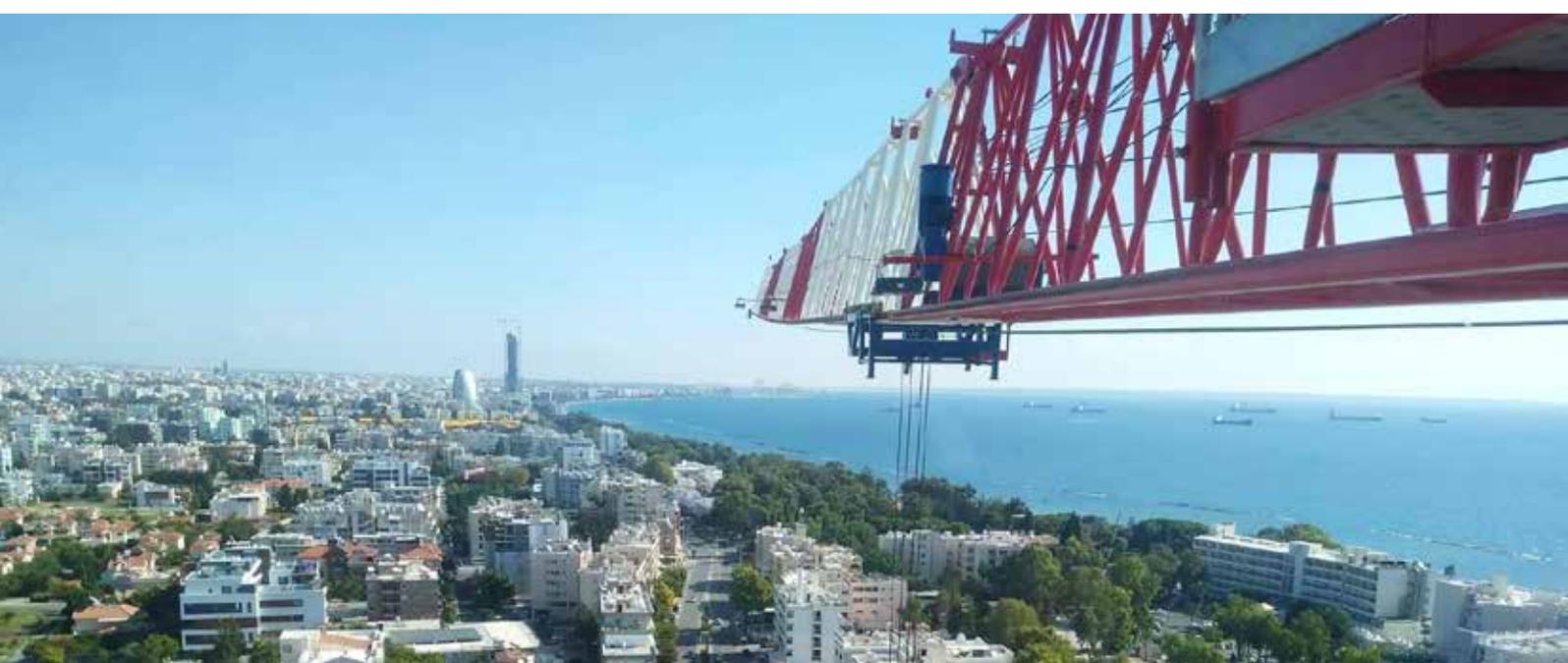
The latest available information for buildings permits refers to the period January - February 2020. According to the Statistical Service 1,129 building permits were issued during the period January - February 2020, demonstrating an increase of 5.6% compared to 1,069 in the equivalent period of 2019. The total value of these permits reached €346 million and the total area 315,6 thousand sqm, recording an increase of 20.9% and 10.7% respectively (Graph 13, 14 and 15).

(Source: CYSTAT)

No. of Building Permits

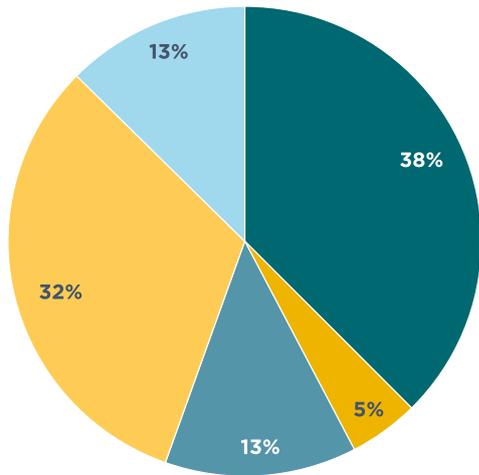


Graph 13 | Source: CYSTAT



The majority of building permits were issued in Nicosia and Limassol, representing c.38% and c.32% of the total number respectively while Paphos and Larnaca have a c.13% market share each and Famagusta has a market share of 5%.

Geographical Distribution of Building Permits



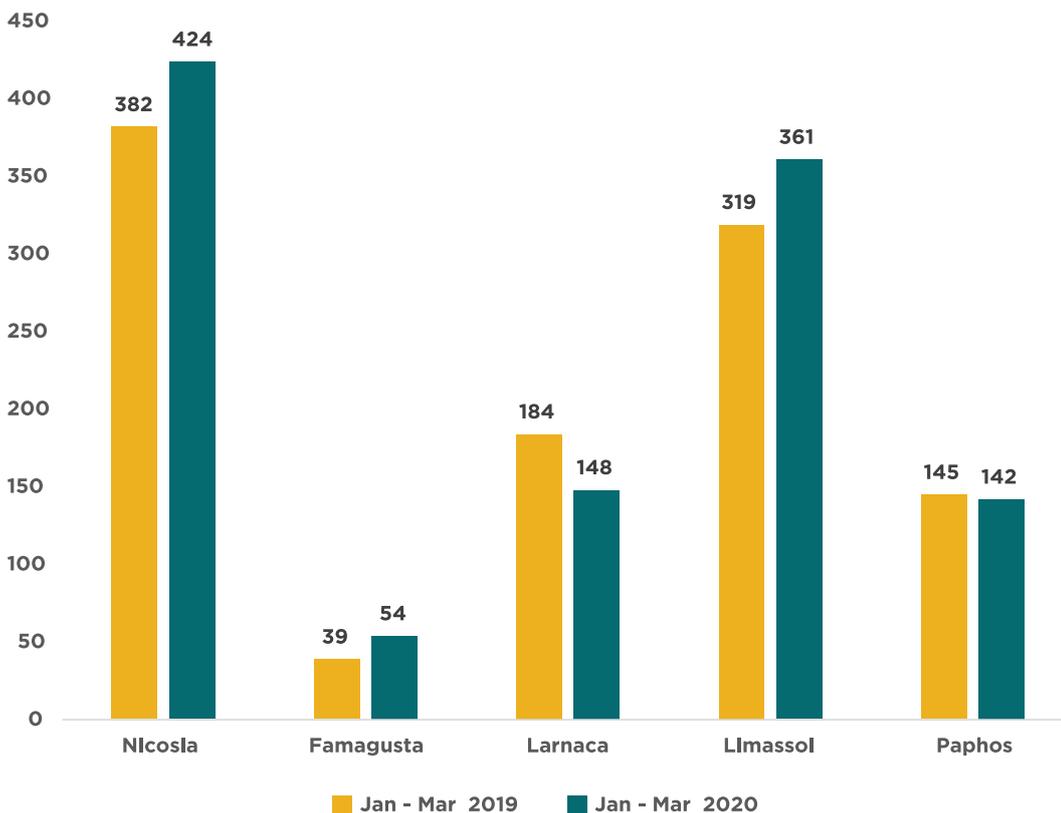
■ Nicosia ■ Famagusta ■ Larnaca ■ Limassol ■ Paphos

Graph 14 | Source: CYSTAT

During the period January - February 2020, annual growth rate for building permits was recorded in Famagusta, Limassol and Nicosia while a decrease has been observed in Paphos and Larnaca.

The biggest increase compared to the first two months of 2019 has been recorded in Famagusta (c.38%) followed by Limassol (c.13%) and Nicosia (c.11%) while in Larnaca and Paphos, building permits were decreased by c.20% and c.2% respectively.

Building Permits Per Region (Q1 2019/2020)



Graph 15 | Source: Department of Land and Surveys (DLS)



Residential Property Price Indices

House Price Index (HPI)

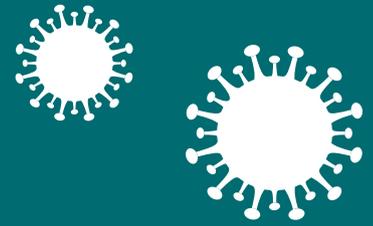
House Price Index (HPI) is a quarterly index which measures the change in the average prices of residential dwellings. It captures all types of residential properties, both new and existing. The land component of the residential property is included.

The latest available information released by the CYPSTAT refers to the 4th quarter of 2019. According to the preliminary estimate of the Statistical Service, the HPI for the 4th quarter of 2019 amounts to 101.81 units. Compared to the 3rd quarter of 2019, the HPI decreased by 3.7% while compared to the index of the corresponding quarter of 2018, the index decreased by 4.8%.

The following table presents the fluctuation of the index for the period between the 4th quarter of 2018 and the 4th quarter of 2019 as well as the quarterly and annual percentage changes.

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
HPI (2015=100)	106.95	107.78	112.27	105.69	101.81
Quarterly Change (%)	3.5	0.8	4.2	-5.9	-3.7
Annual Change* (%)	1.6	4.3	8.0	2.3	-4.8

(Source: CYPSTAT)



Local Sentiment Moderates the Decrease in Demand

- Domestic demand is expected to remain strong. With mortgage rates at record lows and support measures introduced by the government, we don't expect significant decrease in local demand.
- However, in the short term a slight decrease in foreign demand is projected to be observed as some buyers may decide to postpone their investment decisions until the situation improves.
- It is also possible for some buyers to reduce their budget for a property purchase as they would not want to lock-in a large amount of money in such uncertain times.
- In general, while a small decrease in demand might be recorded during the short-term, the market is expected to rebound during the next year.

Supply Increase Remains Limited due to Delays in Projects Completion

- Confirmed supply did not change significantly due to the pandemic as no project cancelation has been observed so far.
- However, the delivery of most projects will be delayed as the construction activity had totally stopped during the lockdown period.
- In addition, many companies decided to delay further the construction of their projects and postpone the pre-delivery sales period until the general economic conditions improve.

A Slight Decrease in Property Prices may be Observed

- COVID-19 outbreak has put the Real Estate market in Cyprus on pause as sales transactions have declined significantly. Nevertheless, we haven't yet seen prices substantially affected.
- The current conditions haven't led to a decrease in prices so far, nevertheless a slight decline in prices is expected to be reported mostly due to the decrease in foreign demand.
- As the supply increase will slow down, the impact of COVID-19 on rental prices is projected to be limited. However, in the short to medium-term we expect to see a small decrease.
- While it is still too early to predict how much property prices will fall, the government support measures that has been put in place will dramatically reduce the likelihood of significant price falls.

New Government Support Measures and Incentives

On May 27 Cyprus government announced a new package to support the country's economy.

This package includes among others:

- Subsidy of interest rate for new mortgages that were granted or will be granted from March 1 2020 until December 31 2020. The scheme covers loans with a value of up to € 300,000 with maximum interest rate of 2.3% and will cover up to 1.5% of the rate for a period of four years.
- Extension of deadlines for supporting documentation submission for the Housing Plan (ESTIA) and possibility of submitting a new application if required due to the lockdown movement restrictions.
- Finally, in order to strengthen the recovery, the Council of Ministers has decided to give instruction to all the competent authorities with a view to immediately call for tenders for all development projects which are mature.

Larnaca Port and Marina Redevelopment Project

In mid-February, Minister of Transport Communications & Works Yiannis Karousos announced that Cyprus has reached an agreement with Israeli investors for the long-awaited port and marina redevelopment project in Larnaca. A few days later, the tender-winning Cypriot-Israeli consortium Kition Ocean Holdings, presented their eco-viable plans to Larnaca municipality.

The project covers the restructuring of Larnaca marina for 650 berths, the port and surrounding land development over an area of 332,449 sqm which is expected to see the consortium invest more than €1 bln.

As part of the marina development, there will be a yacht club with a retail park, a passenger terminal at the port plus hotels, a private island and residential properties. The unprecedented scale of the project includes residential and commercial development with innovative architecture, streets, and parks.

(Source: Financial Mirror)

Environmental “Green Light” for Paralimni Marina

The Department of Environment gave the green light in early February to the construction and operation of the Paralimni Marina. Paralimni Marina will be the second of Famagusta district and the fifth of the Island after Limassol, Saint Raphael, Larnaca and the Ayia Napa Marina.

According to the Environmental Impact Assessment (EIA) study, submitted with the authorities, the project will include residential and commercial developments. The development plan includes 120 luxury apartments, small villas, as well as shops, restaurants and cafes.

The marina is to be built some 5 km northeast from the centre of Paralimni, and north of Cape Greco between the Sirena Bay and the Golden Coast Hotel, covering an area of 29,000 sqm and it will have 300 spots for docking vessels.

The multi-million Euro project will be financed by PMV Maritime Holding Ltd and building works are expected to last four years, while the construction of the marine elements of the project will last approximately 34 months.

(Source: In-Cyprus, Financial Mirror)



Cyprus Investment Programme - New Round of Criticism

Cyprus Investment programme has come in for a fresh round of criticism from the EU, but the government rebutted their demands. On April 1, European Commission sent to member states a request, calling for the phasing out of citizenship by investment programmes. However, Cyprus' Interior Minister Nicos Nouris stated that there is no intention of ending the programme.

“With the measures which have been taken after May 2019 we see no reason as to why it should be stopped but also the checks now go above and beyond,” he told daily Phileleftheros.

According to reports, the EU further called for a plan to be devised detailing the winding down of operations, with the eventual closure of the scheme altogether. It also reportedly asked for the plan to be made available for review.

The EU, insists that such programmes undermine the integrity of the bloc by granting access to individuals which it sees as questionable.

(Source: Cyprus Mail)



Economic Downturn in Cyprus is Lower than the Majority of EU Countries

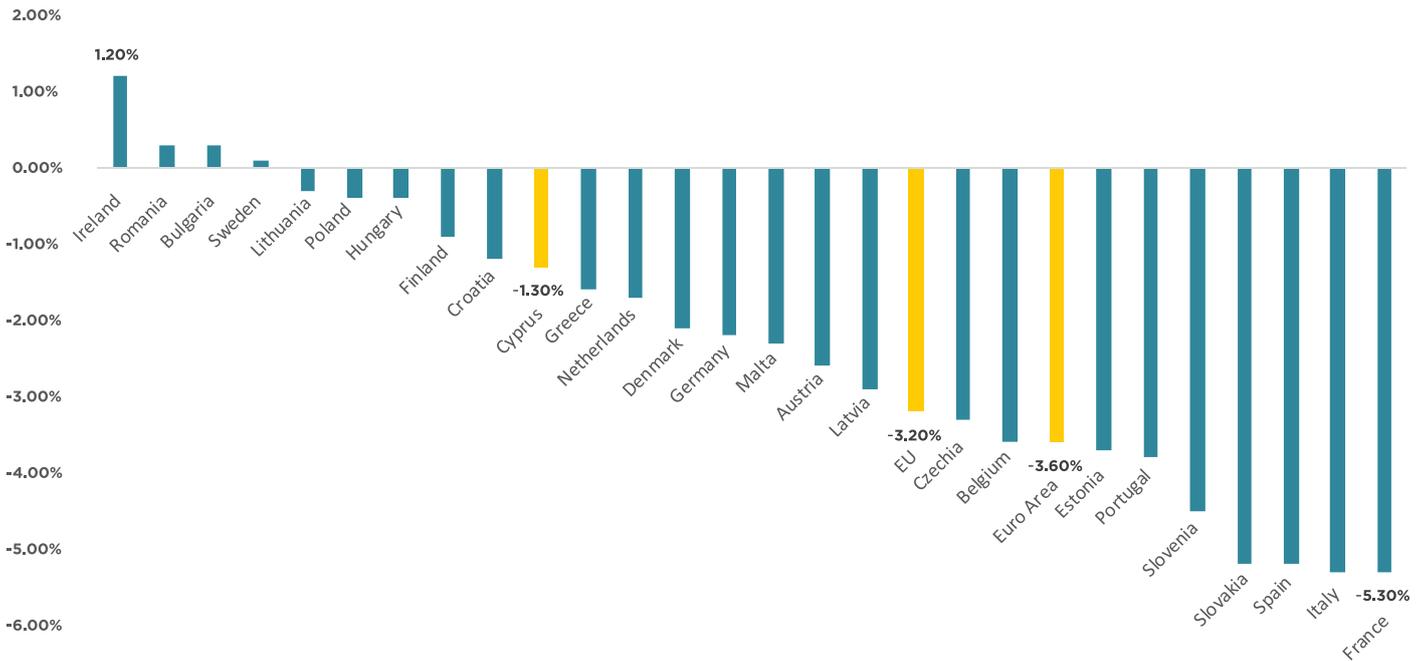
While European Union GDP dropped by 3.2% during the first quarter of the year, Cyprus economy contracted slightly, recording a decrease of 1.3%. Furthermore, the country recorded the 5th highest growth rate of employment in EU with a quarterly increase of 0.5%.

During the first quarter of 2020, seasonally adjusted GDP decreased by 1.3% in Cyprus, compared to the previous quarter, according to an estimate published by Eurostat, the statistical office of the European Union. For the same period, GDP quarterly change for the EU and Euro Area was -3.2% and -3.6% respectively. Cyprus economic contraction for the first three months of the year compared to the previous quarter stands below the majority of EU member states while compared to Eurozone countries for which data are available, Cyprus has the 4th best economic performance.

Across the European Union member states, Ireland (+1.2%), Bulgaria and Romania (both +0.3%) as well as Sweden (+0.1%) recorded positive GDP growth rate during the first quarter of 2020 compared to the previous quarter. On the other hand, the biggest decreases have been recorded in France and Italy (both -5.3%) as well as in Spain and Slovakia (both -5.2%). Compared to the equivalent quarter of the previous year, Cyprus GDP increased by 0.8% in the first quarter of 2020 while in the Euro area, GDP decreased by 3.1% and by 2.6% in the European Union.

According to CYPSTAT (Statistical Service), the deceleration in the Cyprus' GDP growth rate is mainly attributed to the sectors "Hotels and Restaurants", "Manufacturing", "Arts, Entertainment and Recreation", "Other Service Activities" and "Construction". (Graph 16)

GDP Growth Rates in the First Quarter of 2020 Compared to the Previous Quarter (Based on Seasonally Adjusted Data)



Graph 16 | Source: Eurostat



According to Eurostat, during the first quarter of 2020 the highest growth rate of employment in persons has been recorded in Lithuania (+1.6%), followed by Malta (+1.3%) and Croatia (+1.0%) while Cyprus recorded the 5th highest growth rate in the EU and the 3rd in Eurozone with a quarterly employment growth rate of 0.5%. On the other hand, the largest decreases were observed in Spain (-1.0%), Bulgaria (-0.9%), Portugal, Slovakia and Sweden (all -0.5%).

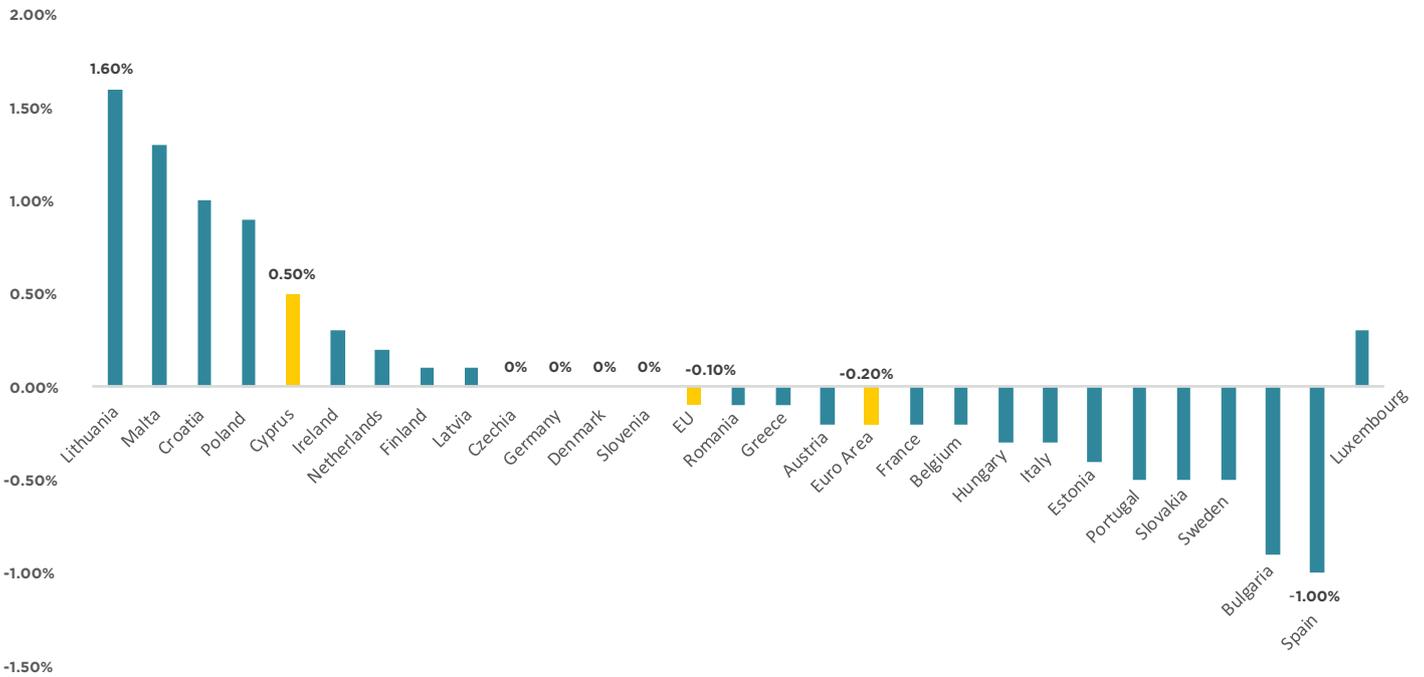
During the same period, employment growth rate in the EU was -0.10% compared to the previous quarter while in Euro Area, the quarterly change was -0.2%.

In terms of annual change, employment level in Cyprus in the first quarter of the year increased by 2.4% while in the European Union and the Euro Area the change compared to the same quarter of 2019 was for both 0.4%.

The combination of GDP and employment data allows an estimation of Labour productivity. The COVID-19 outbreak negatively affected labour productivity in EU and Eurozone during the first three months of the year as a sharp decline in GDP has been observed while the impact on employment rate is still limited. (Graph 17)

(Source: Eurostat, CYSTAT)

Employment Growth Rates in the First Quarter of 2020 Compared to the Previous Quarter (Based on Seasonally Adjusted Data)



Graph 17 | Source: Eurostat



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