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ADVISORS

# CYPRUS ECONOMY & REAL ESTATES UPDATES

Q2 2020



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# Welcome



**Nicolas Gavriel**  
Director

The 10<sup>th</sup> 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 first half of 2020 (H1 2020).

The COVID-19 pandemic is far more than a health crisis and has caused an unprecedented global shock with significant social and economic consequences. According to IMF report released in April, Cyprus economy is expected to shrink by 6.5% in 2020 and to partially recover in 2021 by 5.6%. The report also projects the unemployment rate to increase to 8.8% in 2020 from 7.1% last year while in 2021 is expected to decrease to 7.4%. However, data released since then suggest even deeper downturns than previously projected.

The health crisis' severe impact on tourism has posed significant risks to the country's economy while an increase in the number of claims for unemployment benefits has already been observed. During the first 6 months of the year, an annual decrease of 84.3% in Tourist arrivals has been recorded while revenue from Tourism for the same period decreased by 87.8% compared to the corresponding period of the previous year.

The COVID-19 health crisis and the confinement measures that followed have also caused a material impact on Cyprus Real Estate Market through multiple channels while the areas that are more reliant on foreign capital have experienced the biggest decline in sales activity so far. It is expected that retail and luxury housing will be affected more than the other asset classes while office market may be impacted

during the following period due to the greater emphasis on remote working. In the first half of 2020, 3,272 sales transactions were recorded, demonstrating an annual decrease of 41% compared to the corresponding period of 2019 (5,560).

Despite the sharp decrease in sales during the outbreak period, residential Real Estate transactions have started to recover slowly, with a significant increase in contracts of sales in June while domestic demand for residential properties continues to be strong. In addition, record low mortgage rates and subsidy for interest rates of new mortgages are expected to accelerate the market recovery as they provide opportunities for buyers to lock-in low mortgage payments for the coming years.

However, as the market is highly dependent on foreign demand, as long as large parts of the world are under lockdown measures and international travel restrictions are in place, Cyprus Real Estate Market will continue to lose significant amount of revenue.

In any case, the ultimate impact of COVID-19 on Cyprus economy and Real Estate sector as well as the market recovery will largely depend on the duration of the pandemic, the development of a vaccine and the impact of the crisis on the economic fundamentals of the country. At present, however, it appears that the property market will remain stable in terms of prices despite the crisis, particularly in the major cities such as Nicosia and Limassol. Especially in these times of uncertainty, Real Estate is once again proving to be a safe investment.

# CYPRUS MARKET SNAPSHOT

## JAN - JUNE 2020

### The Current Impact of COVID-19 on Cyprus Real Estate

*As the effects of COVID-19 are felt around the world, Real Estate sector is being impacted in many different ways, depending on the region and asset class. The Pandemic has caused a sharp decrease in Real Estate transactions across the country, with hotel and retail sectors currently most affected. However, in view of the continuing low interest rate phase, the relative market attractiveness of Real Estate continues.*



#### Sales Transactions

- 41% decrease in sales transactions during H1 2020 (3,272) compared to the equivalent period of last year (5,560).
- In terms of month-on-month sales, the biggest decrease was recorded in April (80%) while January was the month during which the smallest decrease was recorded (3%).
- As per the regional distribution of transactions, the district with the biggest market share of sales was Limassol (c.29%), followed by Nicosia (c.25%) and Paphos (c.22%).
- Annual decrease has been observed in all districts of the country whilst the biggest decrease was recorded in Limassol (c.53%) followed by Paphos and Famagusta with c.50% and c.38% respectively.



#### Foreign Transactions Activity

- Out of the 3,272 contracts of sales filled during the first half of the year, 1,391 referred to foreigners (c.43%).
- 44% decrease in sales transactions that referred to foreigners compared to the first half of the previous year.
- Out of the 1,391 contracts of sales from overseas buyers, the 68% referred to buyers outside the European Union.
- The highest number of sales to overseas buyers was recorded in Paphos (533), representing a market share of 38%.



#### Domestic Sales

- 1,881 sales transactions were related to domestic buyers during the first half of the year (c.57%).
- 39% decrease in domestic sales compared to the corresponding period of 2019 (3,078).



#### Real Estate Prices

- 1,1% YoY increase in housing prices. (HPI Cystat, Q1 2020).

## A Challenging Year for Cyprus Economy

After the global outbreak of COVID-19, Cyprus' economy faces significant downside risks, especially due to the high dependency of the country's economy on tourism and foreign investments. However, the supporting measures introduced by the government are expected to support employment and household incomes and to mitigate the impact of the global crisis on domestic demand. In any case, there is no doubt that 2020 is a challenging year for Cyprus' economy.

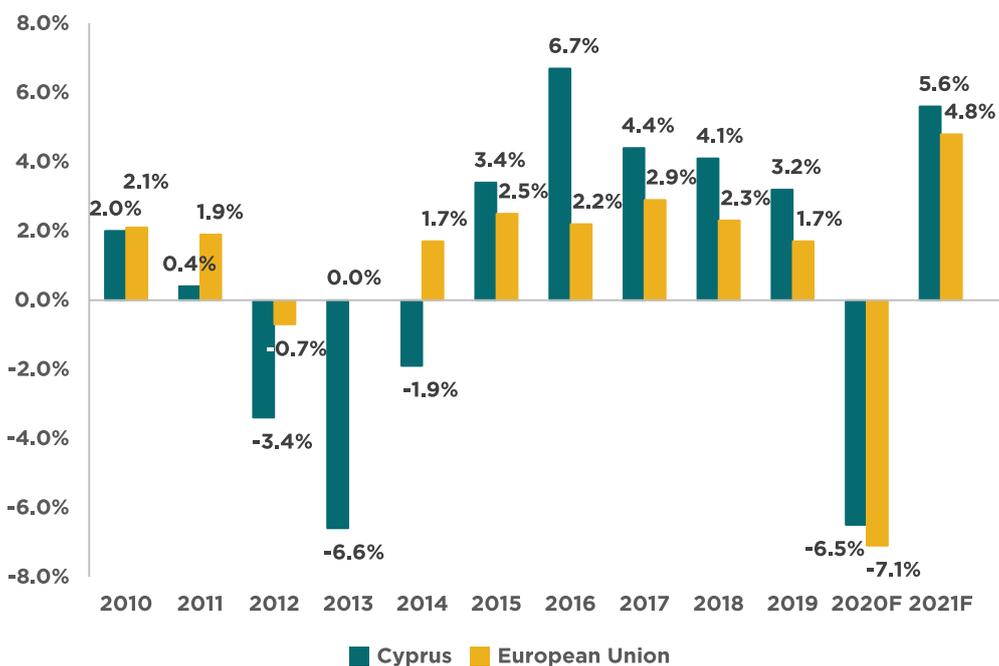
### GDP Growth Rate

According to the World Economic Outlook Report, released by IMF in April, Cyprus economy is projected to contract by 6.5% in 2020 and to partially recover in 2021, recording a GDP growth rate of 5.6% while for the EU economy, the report projects a sharp contraction to -7.1% in 2020 and a partial rebound to 4.8% in 2021. Nevertheless, many reports that followed project a deeper recession for 2020 than initially anticipated.

In particular, according to the European Economic Forecast released by the European Commission in July 2020, Cyprus' real GDP is projected to shrink by 7.75% this year and to partially recover in 2021 by 5.25% while the EU economy is forecast to contract by 8.3% in 2020 before recovering in 2021 at an annual growth rate of 5.8%. (Graph 1)

(Source: IMF, European Commission)

### Cyprus vs European Union Real GDP Growth Rate



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

## Unemployment

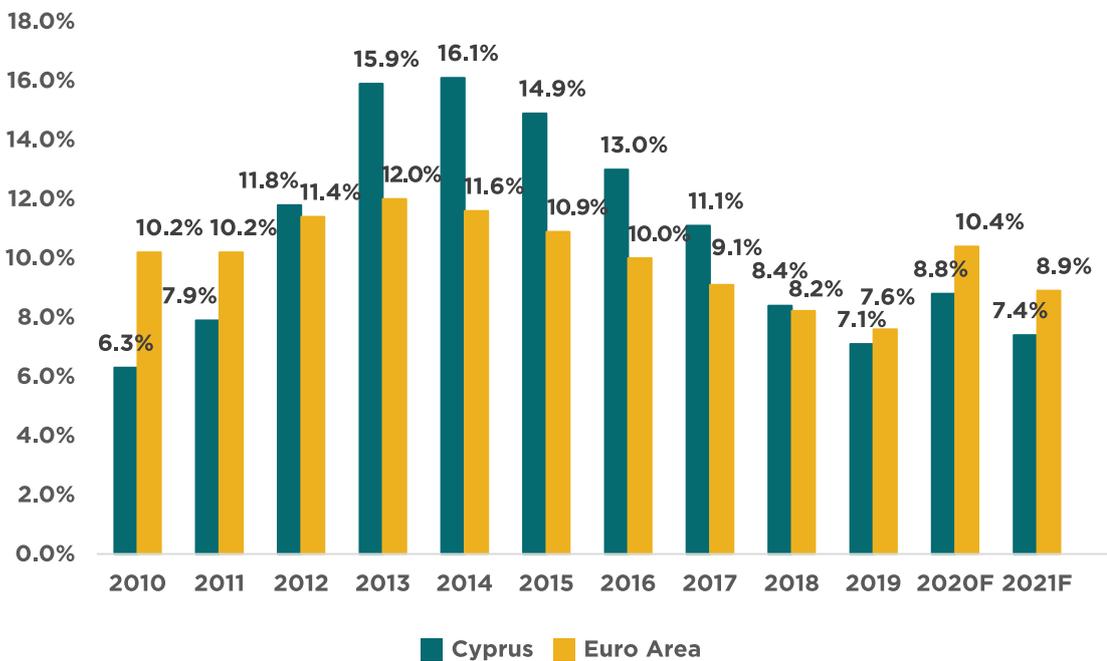
Although, the wages subsidies and liquidity support measures for businesses have limited the impact of the virus on the labour market, COVID-19 and the confinement measures have led to an increase in unemployment rate while a further increase is expected to be observed during the following months.

According to the International Monetary Fund, the unemployment rate in Cyprus is expected to increase from 7.1% in 2019 to 8.8% this year while in 2021 is expected to decrease to 7.4%. For the Euro Area, the unemployment rate is forecast to increase to 10.4% in 2020 from 7.6% last year and to decline to 8.9% in 2021

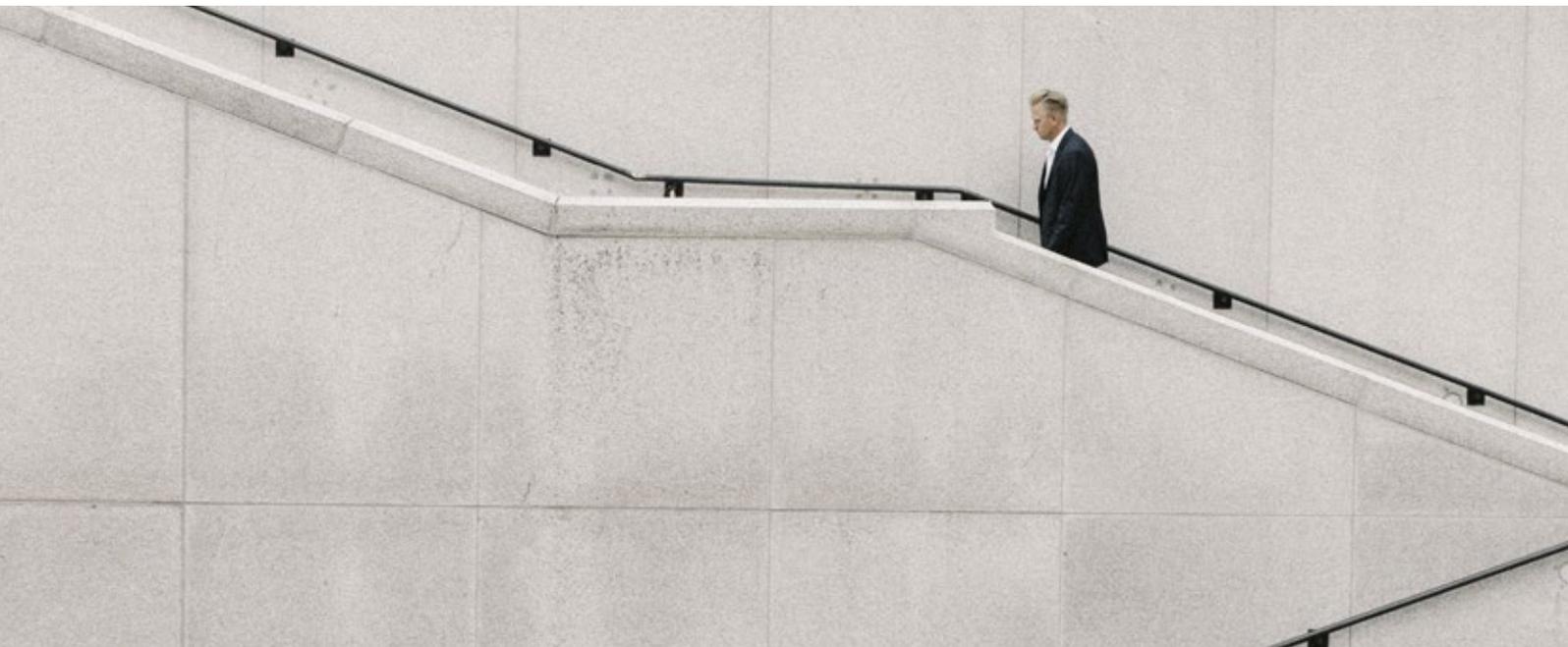
The unemployed persons, registered at District Labour Offices on the last day of June 2020, totalled 31,158 persons. Compared to June 2019, an increase of 12,198 persons or 64.3% was recorded, attributed mainly to the sectors of accommodation and food service activities (increase of 6,880), trade (increase of 1,757), transportation and storage (increase of 820), administrative and support service activities (an increase of 635), professional, scientific and technical activities (increase of 456) and arts, entertainment and recreation (increase of 355). (Graph 2)

(Source: CYSTAT, IMF)

### Cyprus vs European Union Unemployment Rate



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



## Cyprus Tourism Sector's Sentiments Hit Lowest Levels

Tourism industry has been one of the most important pillars of Cyprus Economy for decades with a contribution of more than 20% on the country's GDP. However due to the global outbreak of COVID-19 and the travel restrictions, Cyprus has experienced a severe decline in tourist arrivals as well as in revenue from tourism.

Although the travel restrictions have been lifted for many countries, travellers from markets such as Russia, Israel and Ukraine, which constituted almost the 30% of total tourist arrivals in 2019, are not currently allowed to travel to Cyprus. The travel restrictions as well as the uncertainty have led to a significant decrease in tourist arrivals in the country.

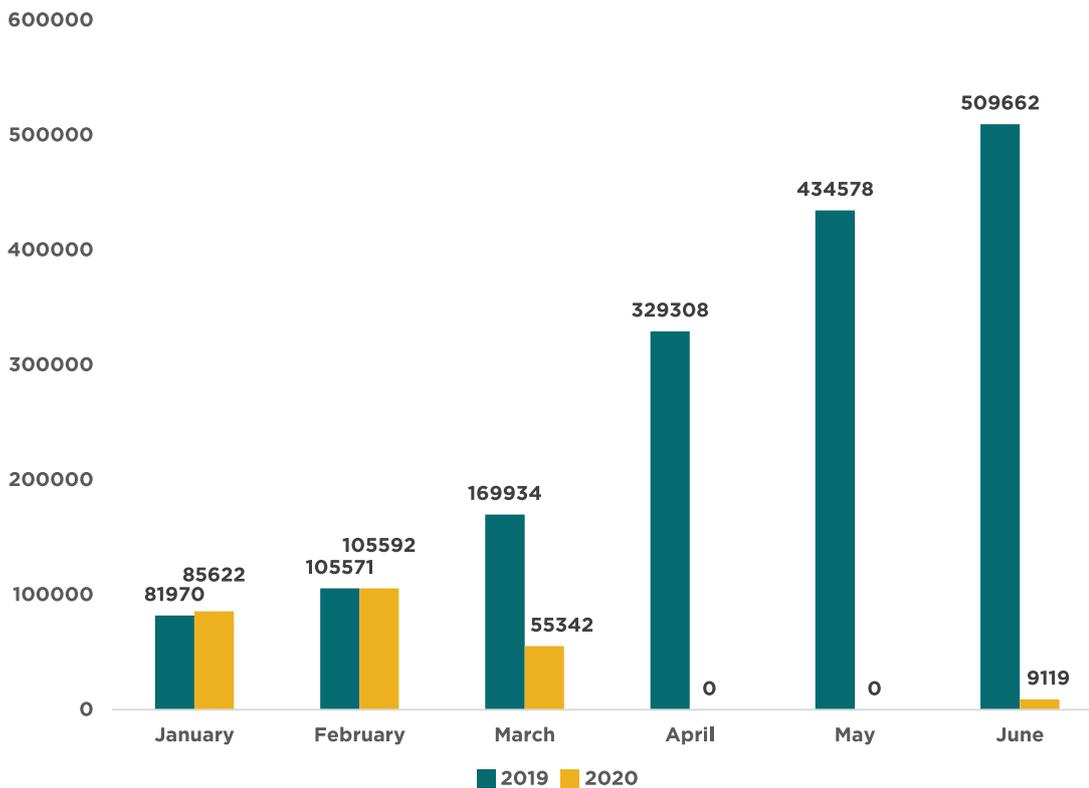
The arrivals of tourists in June, reached 9,119 compared to 509,662 in June 2019, recording a decrease of 98.2%. For the period of January - June 2020, tourist arrivals totalled 255,675 compared to 1,631,023 during the corresponding period of the previous year, demonstrating an annual decrease of 84.3%.

Tourist arrivals from Greece decreased by 75.8% in June 2020 compared to June 2019, while a decrease of 93.1% was also recorded for tourists from Germany, 93% decrease from Switzerland and 91.1% from Austria.

According to the results of the Passenger Survey carried out by the Statistical Service, revenue from tourism for the period January - June 2020 is estimated at €122 mn compared to €1,003.2 mn during the corresponding period of the previous year, demonstrating a decrease of 87.8%. (Graph 3)

(Source: CYSTAT)

### No. of Tourist Arrivals per Month



Graph 3 | Source: CYSTAT

# 2 REAL ESTATE MARKET REVIEW

## June 2020: A Return to Almost Normal Conditions

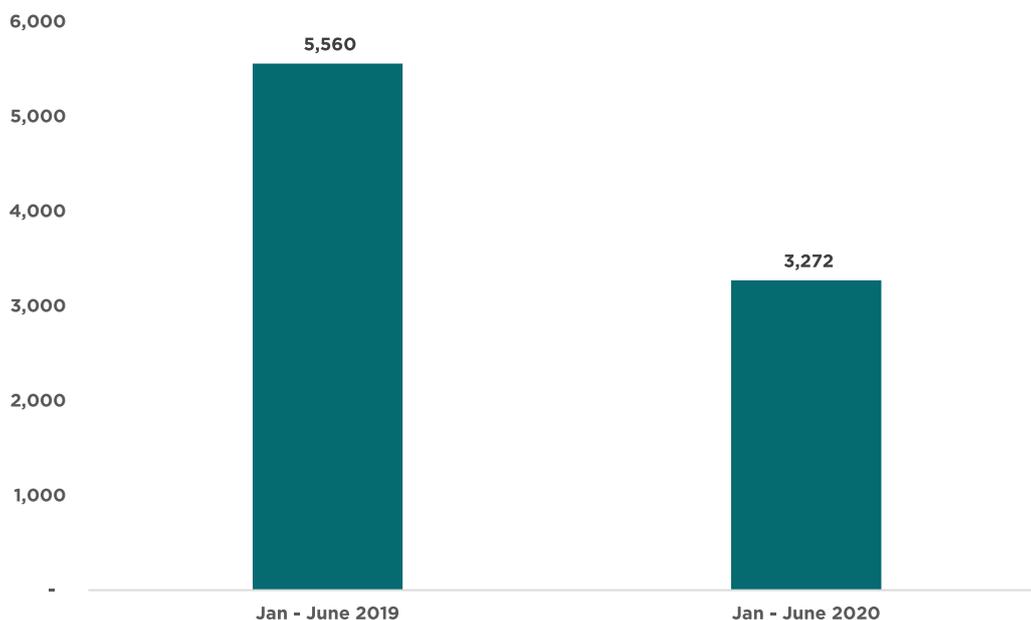
*The COVID-19 pandemic has caused a significant decline in Real Estate transaction activity in the first half of 2020 and the negative impact of the health crisis was felt across all districts in Cyprus. Nevertheless, the market is expected to partially recover during the second half of the year, mainly due to the increased domestic demand.*

*Overall, transactions activity dropped dramatically after the implementation of strict measures by the Government to prevent further spreading of the pandemic. In June, after the gradual loosening of the restrictions, sales transactions activity partially recovered, recording an increase of 54% compared to the previous month. However, sales transactions during this month remained 10% below the number of sales of June 2019 since travel restrictions were still in place for some of the most important markets for Cyprus Real Estate such as Russia and Israel.*

### Property Transactions

According to the Department of Land and Surveys, during H1 2020, 3,272 sales transactions were recorded, demonstrating an annual decrease of 41% compared to the first half of 2019 (5,560). In terms of quarterly change, sales transactions recorded a decrease of 36% in the period April - June 2020 (1,281) compared to the first quarter of the year (1,991). (Graph 4)

#### No. of Contracts of Sales (Jan - June 2019/2020)

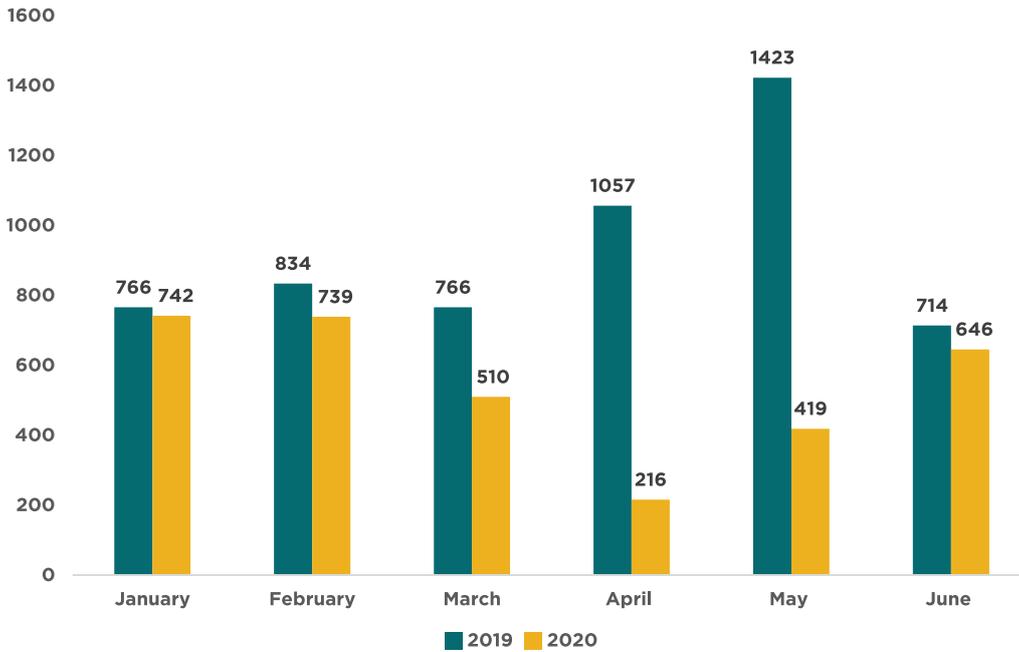


Graph 4 | Source: Department of Land and Surveys (DLS)

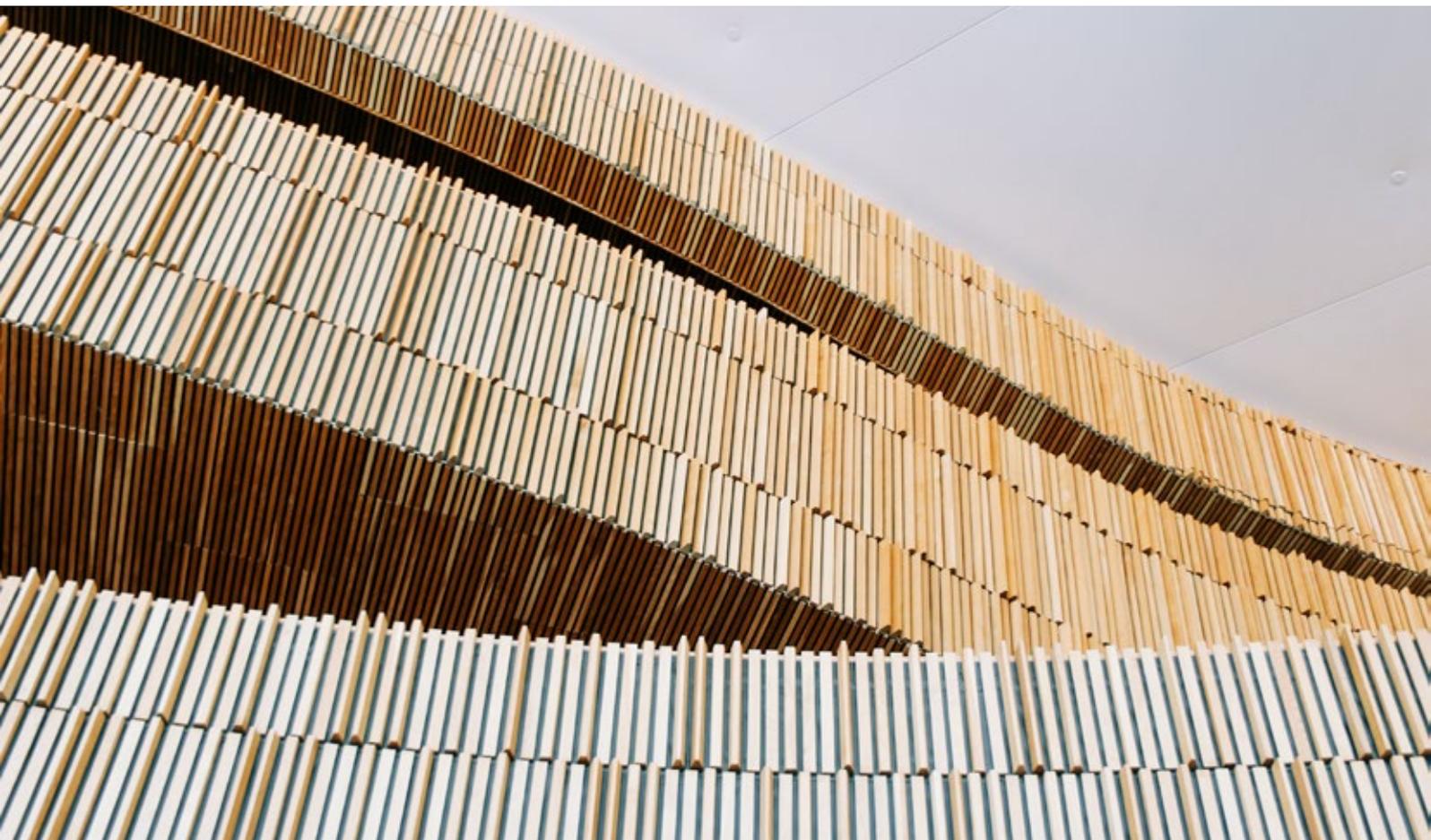
During the first half of the year, decrease has been recorded in all months compared to the equivalent months of the previous year. The biggest decrease was recorded in April as the sales transactions decreased by 80% in comparison to April 2019. The month with the smallest decrease was January in which a decline of only 3% was recorded compared to the corresponding month of the previous year.

During the same period, January was the month with the highest level of sales transactions (742), followed by February (739) and June (646), while the month in which the smallest number of sales contracts recorded was April (216). (Graph 5)

### No. of Contracts of Sales per Month



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

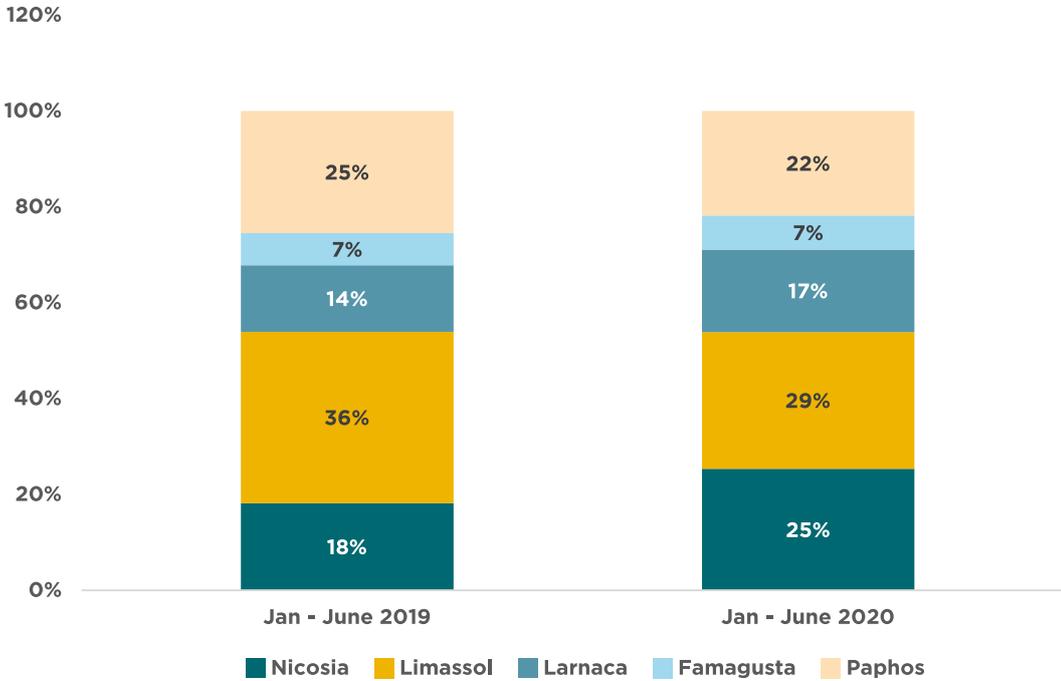


## Geographical Distribution of Transactions

As per the regional distribution of transactions that were listed during H1 2020, the highest number of sales were recorded in Limassol (c.29%), followed by Nicosia (c.25%), Paphos (c.22%) and Larnaca (c.17%). Famagusta was the district with the smallest number of sales transactions, representing a market share of only c.7%.

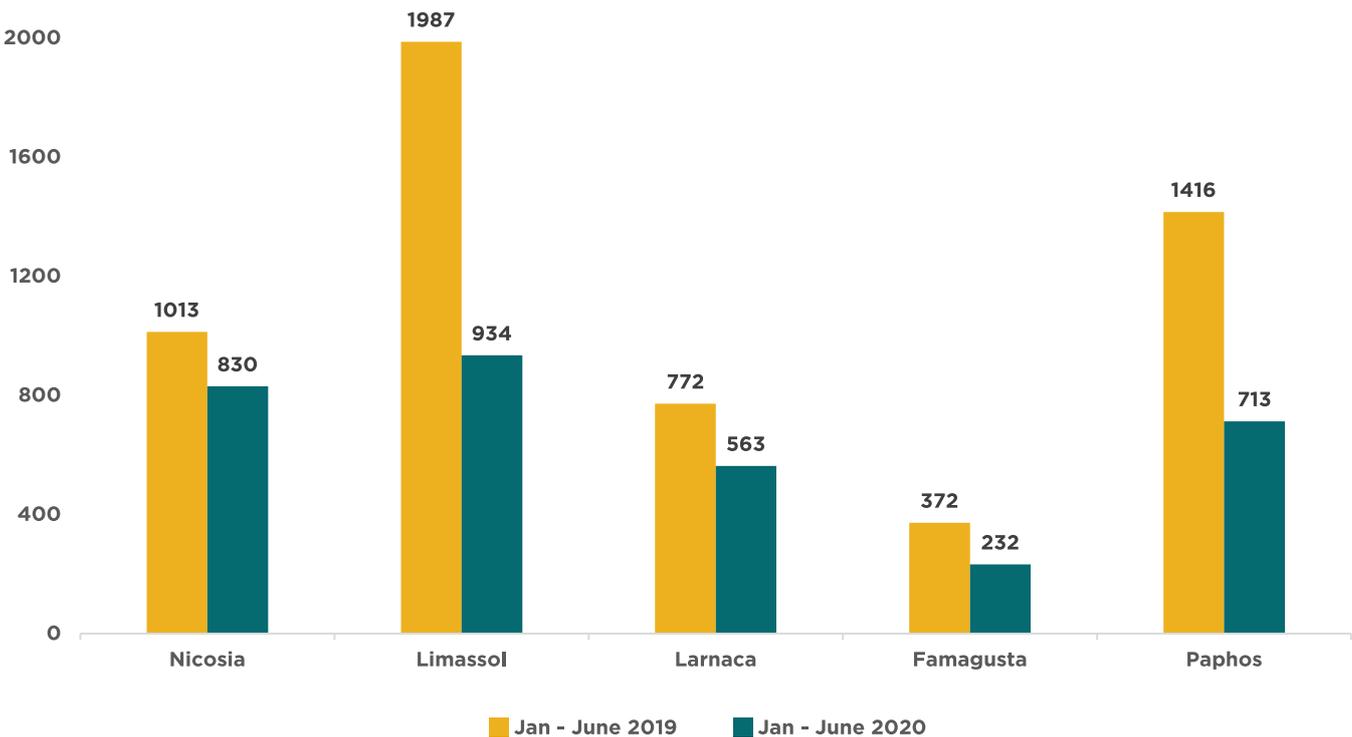
More specifically, during the first half of the year, 934 sales contracts were recorded in Limassol, 830 in Nicosia, 713 in Paphos and 563 in Larnaca, while in Famagusta the total number of sales transactions was 232. (Graph 6 and 7)

### Contracts of Sales per Region



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

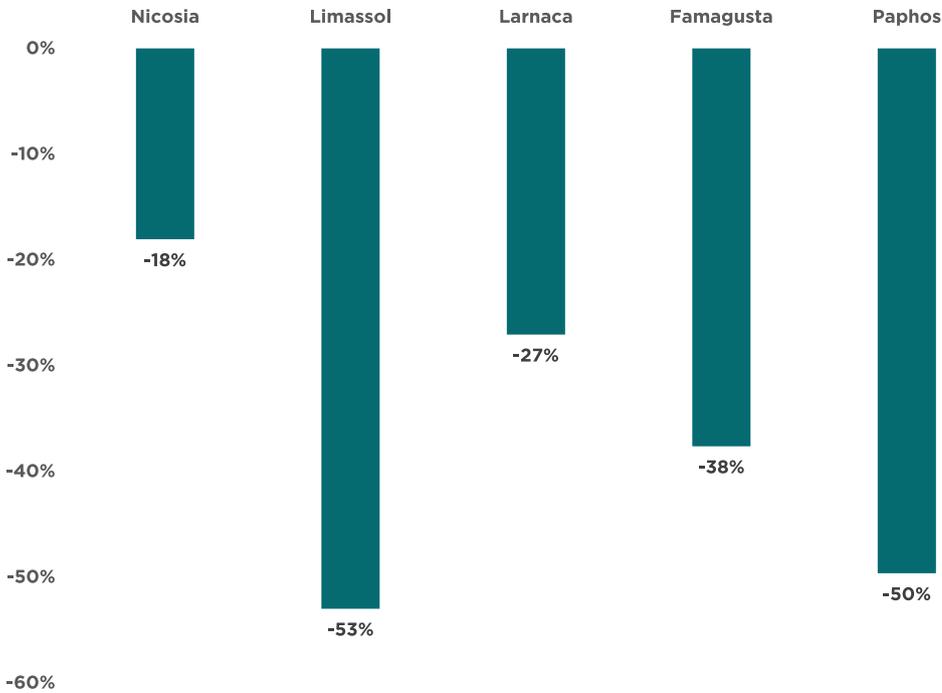
### Contracts of Sales per Region (Jan - June 2019/2020)



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

In all districts of the country, for the first half of 2020, the number of sales transactions recorded an annual decrease while the biggest decrease has been observed in Limassol (c.53%) followed by Paphos (c.50%), Famagusta (c.38%) and Larnaca (c.27%). The smallest decrease has been observed in Nicosia (c.18%) as the district's Real Estate market is mostly driven by the local sentiment compared to the other regions of the Island where a significant proportion of sales transactions traditionally refer to foreigners. (Graph 8)

### Annual Change (%) in the Contracts of Sales per Region (Jan - June 2019/2020)



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



## Foreign Transaction Activity

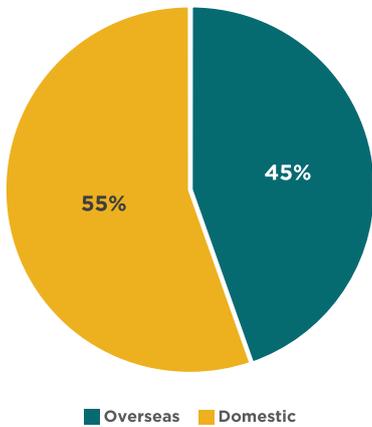
During the first 6 months of the year, 1,391 sales contracts referred to overseas buyers, representing the 43% of the total number of sales (3,272) while for the same period, a total decrease of 44% has been recorded in comparison to the corresponding period of 2019 (2,482).

Out of the 1,391 contracts of sales from overseas buyers, 32% (448) were buyers within the European Union while the 68% (943) were from non-EU countries. For the same period of 2019, the number of sales to buyers from EU was 751 and from outside the EU was 1,731, representing a market share of 30% and 70% respectively.

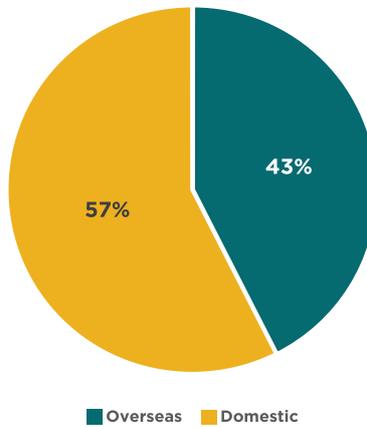
Regarding the sales transactions to foreigners per district, for the period January - June 2020, the highest number was recorded in Paphos (533), representing the 38% of the total number of sales transactions to overseas buyers, followed by Limassol with 378 (27%) and Larnaca with 255 (18%). Nicosia was the district in where the lowest number of sales transactions to foreigners were recorded (94) followed by Famagusta (131), representing a market share of 7% and 9% respectively. (Graph 9, 10 and 11)

## Overseas vs Domestic Transaction Activity

Jan - June 2019



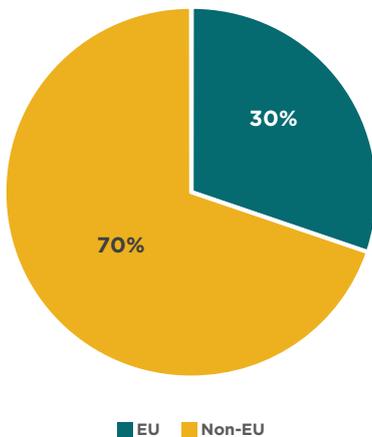
Jan - June 2020



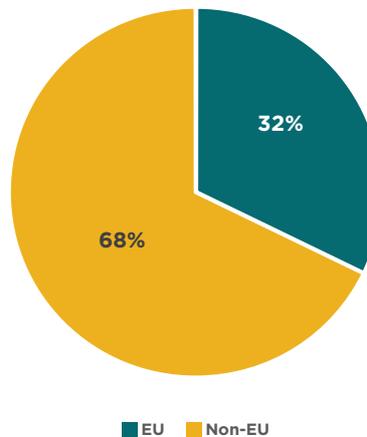
Graph 9 | Source: Department of Land and Surveys (DLS)

## EU vs Non-EU Overseas Buyers

Jan - June 2019

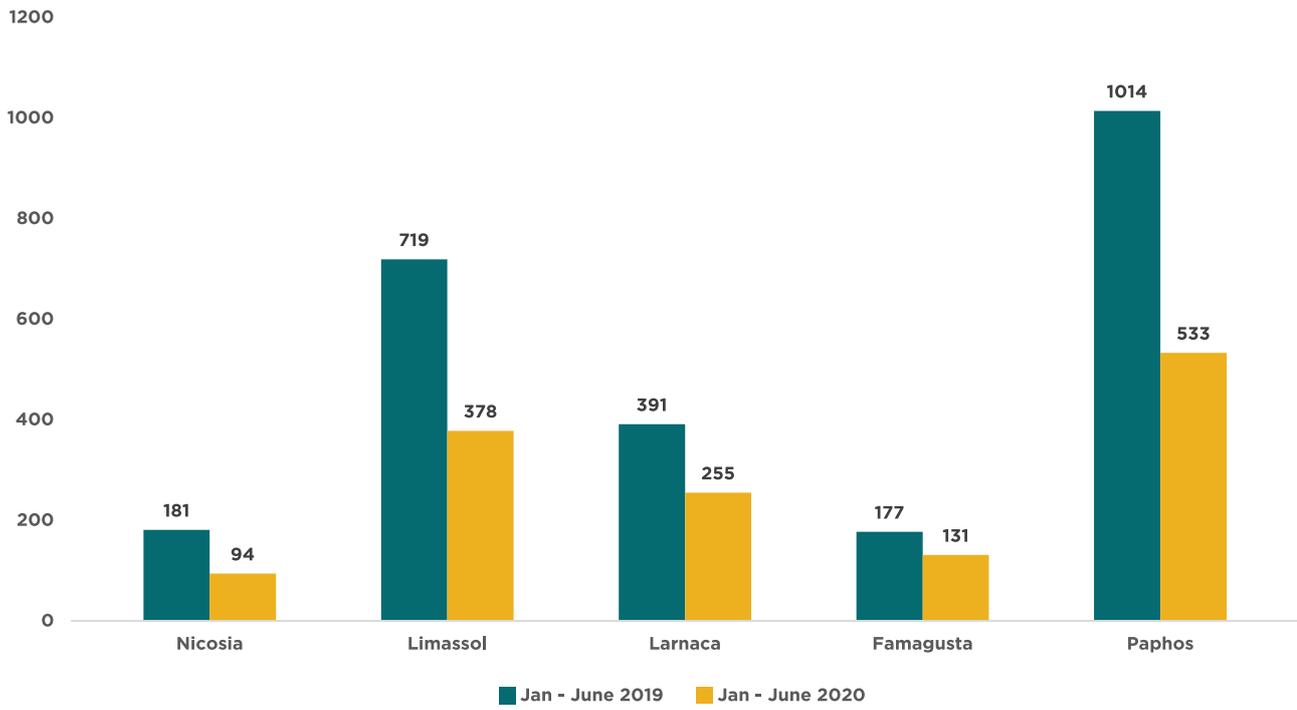


Jan - June 2020



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

### Foreign Transaction Activity per Region (Jan - June 2019/2020)



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



# Construction Activity

## Price Index of Construction Materials

The Price Index of Construction Materials for June 2020 reached 100,85 units (base year 2015=100.00), remaining stable compared to May 2020.

For the period January - June 2020, the index recorded a decrease of 0.56% compared to the same period of 2019.

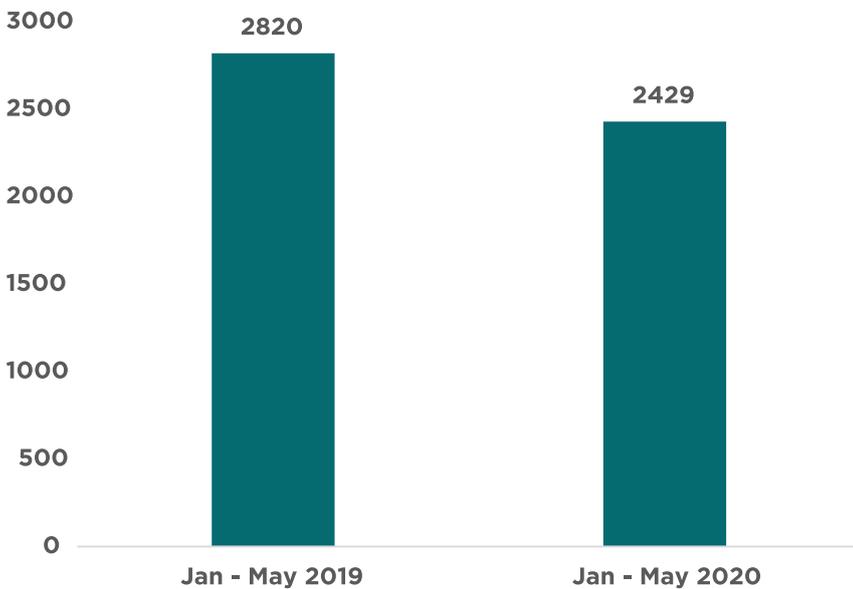
(Source: CYSTAT)

## Building Permits

The latest available information for building permits refers to the period January - May 2020. According to the Statistical Service, for the period January - May 2020, 2,429 building permits were issued, recording an annual decrease of 13.9% compared to 2,820 in the corresponding period of the previous year. The total value of building permits reached €841.3 million and the total area 714.5 thousand sqm, recording a decrease of 43.7% and 25.4% respectively. The number of dwelling units recorded a decrease of 5.7%. (Graph 12, 13 and 14)

(Source: CYSTAT)

## No. of Building Permits (Jan - May 2019/2020)

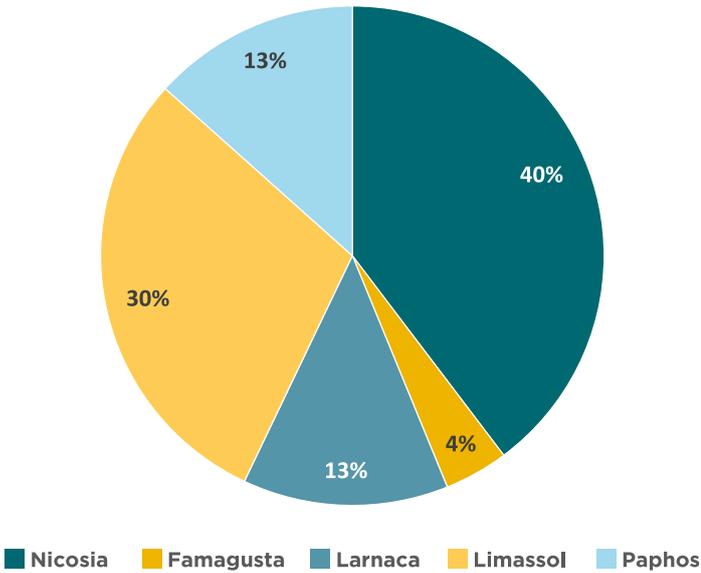


Graph 12 | Source: CYSTAT



During the period January - May 2020, the majority of building permits were issued in Nicosia and Limassol, representing c.40% (965) and c.30% (719) of the total number re-spectively, followed by Larnaca and Paphos with both c.13% (321 and 324). The smallest number of building permits were issued in Famagusta, with a market share of 4% (100).

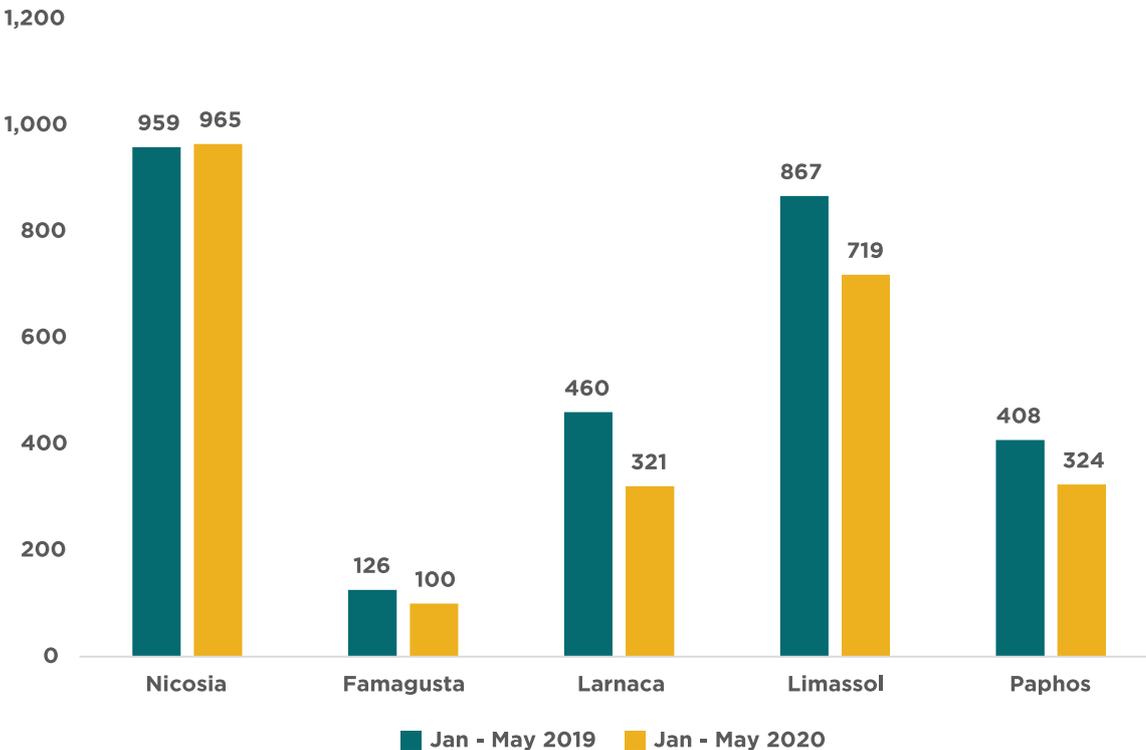
### Geographical Distribution of Building Permits



Graph 13 | Source: CYSTAT

Compared to the corresponding period of the previous year, an annual decrease has been recorded across all districts except of Nicosia, where a small increase has been observed. The biggest decrease was recorded in Larnaca (c.30%), followed by Famagusta and Paphos (both c. 20.6%) as well as Limassol (c.17%) while in Nicosia a small increase of 0.63% has been recorded.

### Building Permits Per Region (Jan - May 2019/2020)



Graph 14 | 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 CyStat, refers to the 1st quarter of 2020. According to the preliminary estimate of the Statistical Service, the HPI for the first quarter of the year, amounts to 109.13 units. Compared to the previous quarter, the HPI increased by 2.5% while compared to the corresponding quarter of 2019 the Index recorded an increase of 1.1%.

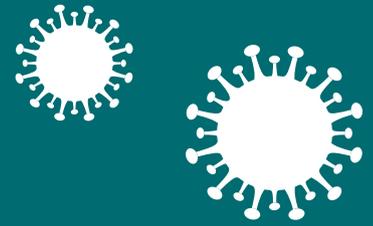
The following table presents the fluctuation of the Index for the period between the first quarter of 2019 and the first quarter of 2020. In addition, the table presents the quarterly and annual percentage changes of the Index.

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
HPI (2015=100)	107.93*	112.73*	105.64*	106.51*	109.13
Quarterly Change (%)	0.8	4.5	-6.3	0.8	2.5
Annual Change* (%)	4.7	8.4	2.4	-0.5	1.1

\* The Index has been revised.

\*\* Compared to the corresponding month of the previous year.

(Source: CYSTAT)



## **Domestic Demand Remains Strong**

- The coronavirus pandemic has certainly affected the number of property transactions as the COVID-19 outbreak has put Real Estate market in a “freeze mode”
- However, we expect deal volumes to gradually pick up during the second half of 2020, mainly driven by the robust domestic demand which remains strong due to the government support measures and the record low interest rates.
- Nevertheless, social distancing and international travel restrictions keep foreign demand quite below the normal levels.
- Despite the decrease in transactions activity during the outbreak period, Real Estate market is projected to rebound during the next year, while GDP growth in 2021 is expected to boost the market recovery.
- In addition, the health crisis has made buyers to realise the value of home ownership, and this is expected to accelerate the recovery of the residential Real Estate market.

## **Lockdown Reduced the Increase in Supply**

- The construction activity had totally stopped during the months April and May and therefore, projects’ delivery deadlines have been extended for most projects.
- These delays in projects’ deliveries decelerate the increase in supply while announcements of new Real Estate projects remain limited.
- Despite the delays in projects delivery dates, no cancelation has been observed so far as for the most projects the financing is secured through pre-delivery sales.

## **Real Estate Prices Upward Trend Slows Down**

- No decrease in Real Estate price levels has been observed so far while we do not expect to see any significant decrease during the following period.
- Nevertheless, the global health crisis is expected to affect the upward trend of property prices.
- The impact of Covid-19 on rental prices is projected to be limited due to the slowdown on the increase of Supply while we haven’t observed any decrease in rental prices so far.
- However, the pandemic has forced the biggest ever experiment in remote working and in the near future some companies may decide to reduce their office space, thus decreasing the occupancy rates in the office market.

The Real Estate market in Cyprus look set to endure a sharp but hopefully short-lived shock as a result of the Covid-19 outbreak. As activity levels return, investments in buy to let assets, student accommodation, Grade A offices and smart warehousing will present exciting opportunities for investors, who will continue to seek to diversify their Real Estate exposures.

## **Minister of Interior Announces Fast-Track Building Permits**

A planning or building permit will be readily available between 10-20 days as part of a new move to cut bureaucracy, Interior Minister Nicos Nouris said on July 29.

In a press conference, Nouris said the fast-track would begin as of October 1. Those who submit the application in writing will have the permit ready in 20 days while those who apply online can have the permit in up to 10 days.

The current procedure granting planning or building permits is exceedingly difficult and time consuming Nouris said, whether it concerns a multi-million project or a simple residence.

Priority for the government is the average citizen where it appears 62 per cent of planning permit applications concern the construction of a duplex which on average takes around 18 months to process.

As of October 1, applicants can submit their applications to all district offices of the planning department as well as the four main municipalities – those of Nicosia, Limassol, Larnaca and Limassol.

The new efforts will be under constant vigilance from the technical services and the district planning departments, Nouris said.

More importantly, a programme is being prepared that will publish data on how long it takes for permits to be issued from various authorities so everyone can be reviewed.

(Source: Cyprus Mail)

## **Amendment of the Agreement for the Avoidance of Double Taxation Between Cyprus and Russia**

On August 10, Cyprus and Russia agreed on an amendment of the agreement for the avoidance of Double Taxation.

According to Minister's of Finance press release, the Russian side has requested the amendment in two key elements of the agreement, namely the increase of the withholding tax on income from dividends and interest to 15% respectively.

The Cyprus side secured, among others, the reduction of the said withholding tax (to nil or 5% as appropriate) of regulated entities, such as pension funds and insurance undertakings as well as listed entities with specific characteristics. Additionally, exemption from the said withholding tax applies on interest payments from corporate bonds, government bonds and Eurobonds. The Cypriot side has also secured the maintaining of zero withholding tax on royalty payments.

The aim of both sides is for the agreement to be signed in Autumn 2020 so as to apply as from January 1, 2021. In Addition, the Russian side has confirmed the termination of the process to denounce the agreement. At the same time, it confirmed that the same provisions will also apply to agreements that Russia has concluded with other treaty partners and with effective date also being January 1, 2021, as this reflects Russia's fiscal and tax policy to raise Government revenues.

(Source: Ministry of Finance)



## New Regulations to the Cyprus Investment Programme

House of Parliament on Friday, July 31, voted into law bills and approved regulations aimed to tightening Cyprus Investment Programme.

One of the laws was passed unanimously, while the other was passed with an over-whelming majority, 51 votes in favour and three who abstained. The regulations were approved with 29 votes in favour, 19 against and four abstentions.

According to the new regulations passed from the Parliament, the financial criteria of the programme have remained the same (the investor shall make an investment of at least €2 million, plus acquisition of a residency of at least € 500,000 + VAT while in the case

that the investment is in residential property, then there is no requirement for acquisition of additional residency). However, the investor is prohibited from setting up a land de-developing company as per of his investment plan. Furthermore, the donation amount has increased to a total of €200,000 while one of the amendments came from the Green Party specifies that one of the conditions in the scheme which sees the exchange of an investment of a passport would be at least €100,000 going towards the national solidarity fund for depositors who lost funds during the 2013 haircut, as well as bondholders.

(Source: Cyprus Mail, Government Gazette)



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