

# CYPRUS ECONOMY & REAL ESTATE UPDATES

Q3 2020



## Contents

- 3** Overview
- 4** Cyprus Market Snapshot
- 5** Economy Update
- 8** Real Estate Market Review
- 17** COVID-19 Update
- 18** Industry News

# Welcome



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The 11<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 period January – September 2020.

Cyprus economy declined significantly during the first 9 months of the year mainly due to the impact of the health crisis on general economic sentiment, the international travel restrictions and the measures imposed by the government in order to control the spread of the pandemic. According to the World Economic Outlook Report released by IMF, Cyprus economy is projected to contract by 6.4% in 2020 and recover in 2021 by 4.7%.

Tourism is the main pillar of Cyprus economy and the pandemic has had a devastating impact on the sector. Tourist arrivals during the period January – September 2020 recorded a decrease of 84.3% compared to the corresponding period of the previous year.

Cyprus Real Estate has been negatively affected by the pandemic through multiple channels while a sharp decrease in sales transactions was recorded after the first cases of COVID-19 in March 2020 and the introduction of strict measures by the country's government. During the period January - September 2020, an annual decrease of 30% in the number of sales transactions was recorded compared to the corresponding period of 2019.

Following the relaxation of measures during the period June – September 2020, the number of Real Estate transactions partially recovered. The partial recovery of the sector was mainly supported by the local buyers, as consumer's confidence increased substantially and government introduced an interest rate subsidy scheme for new mortgages. On the other hand, foreign demand remained low due to the impact of COVID-19 on international

travel, on investment climate as well as the stricter criteria in Cyprus Investment Program (CIP). Despite the good epidemiological situation over the summer, the number of new COVID-19 cases was on an increasing trend since the beginning of October and Cyprus government introduced new measures in order to protect public health. The new measures are expected to decelerate Real Estate market and economic recovery while an increase in fiscal deficit and public debt can be observed.

High-end residential segment has been affected more than the other asset classes so far while further impact is expected to be observed due to the abolition of the Cyprus Investment Program. COVID-19 impact on Retail Real Estate is limited due to the economic response of the government which has helped businesses to continue their operation. "Working from home" may decrease the demand for Office space in the future, however, demand for Grade A offices remains strong as companies need flexible and technologically advanced office spaces to support remote working. On the other hand, Residential Real Estate is expected to continue its slow recovery as the domestic demand remains strong.

Cyprus economy and Real Estate market have certainly been affected by the global outbreak of COVID-19 and several downside risks remain for the country and the sector. Nevertheless, government introduced effective economic and employment support measures relatively quickly while country remains in a good financial position. In addition, domestic demand is strong and Cyprus continues to be an attractive destination for foreign investments. Given the above and taking into account that the race to develop COVID-19 vaccines is moving swiftly, we believe that there are many reasons to be cautiously optimistic.

# CYPRUS MARKET SNAPSHOT

## JAN - SEP 2020

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

*The COVID-19 pandemic has dramatically affected the Cyprus Real Estate market while the biggest decrease in transactions activity was recorded during the months April and May 2020. Even though Cyprus Real Estate market experienced a market recovery over the summer, the new measures introduced by the government since October and the abolition of the Cyprus Investment Program are expected to decelerate the market recovery.*



#### Sales Transactions

- 30% decrease in sales transactions during the period January – September 2020 (5,444) compared to the corresponding period of the previous year (7,736).
- In terms of month-on-month sales, the biggest decline was recorded in April (-c.80%) while September was the only month during which an annual increase was recorded (c.14%).
- As per the regional distribution of transactions, Limassol was the district with the biggest market share (c.30%) followed by Nicosia (c.26%) and Paphos (c.20%).
- An annual decrease in the number of sales transactions was recorded in all districts except of Nicosia where the number of transactions remained at the same level as per the equivalent period of 2019. The biggest decrease was recorded in Paphos (c.45%) followed by Limassol (c.40%).



#### Foreign Transactions Activity

- During the period January – September 2020, 2,119 sales contracts referred to foreigners, representing the c.39% of the total number of sales.
- 38% decrease in sales transactions that referred to foreigners compared to the equivalent period of 2019.
- Out of the 2,119 contracts of sales that referred to overseas buyers, the c.63% were buyers outside the European Union.
- Paphos was the district where the highest number of sales transactions to foreigners was recorded (776), representing a market share of c.37%.



#### Domestic Sales

- 3,325 sales transactions were related to domestic buyers during the period January – September 2020 (c.61%).
- C. 23% decrease in Domestic sales compared to the corresponding period of 2019 (4,306).



#### Real Estate Prices

- 2.9% YoY decrease in housing prices. (HPI Cystat, Q2 2020).

## A Deep Downturn for Cyprus Economy

The COVID-19 pandemic as well as the strict measures imposed by the government have caused a deep downturn for Cyprus economy. During the first half of 2020, country's economy contracted size-ably due to the decreased business activity and the decline in exports of goods and services.

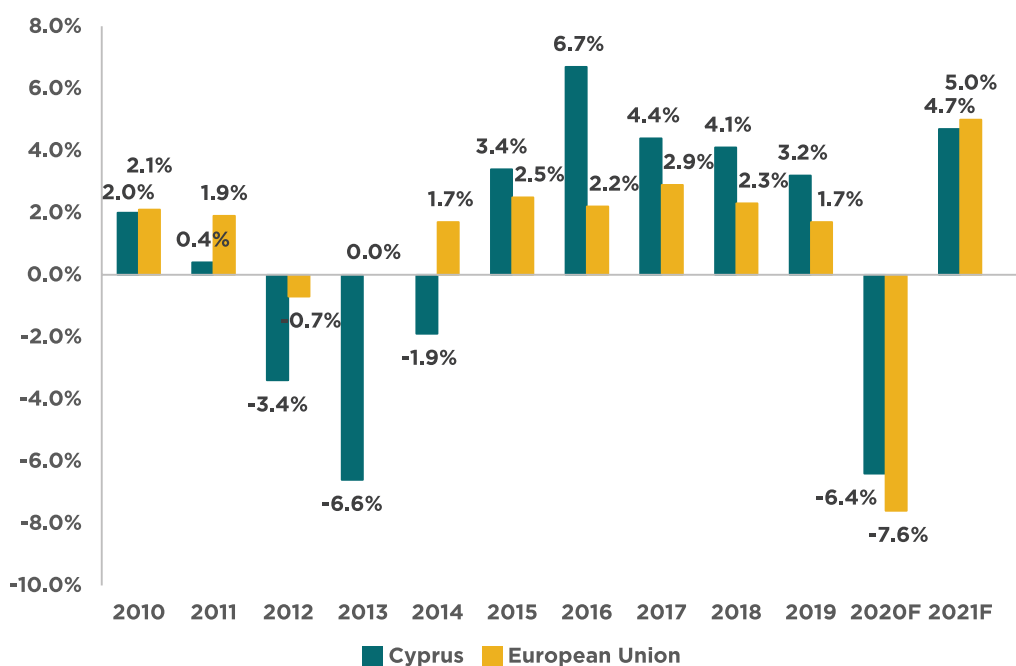
### GDP Growth Rate

Although country's economy was recovering over the summer after the gradual relaxation of the lockdown measures as of May, that recovery slowed down coming into the Autumn as the epidemiological situation in Cyprus started to get worse.

The World Economic Outlook Report, released by IMF in October, projects that by the end of the year Cyprus GDP may be 6.4% lower compared to 2019 while country's economy will expand by 4.7% in 2021. According to the same report, EU economy is expected to contract by 7.6% in 2020 and to record a growth rate of 5.0% during the next year. (Graph 1)

(Source: IMF, European Commission)

### Cyprus vs European Union Real GDP Growth Rate



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



## Unemployment

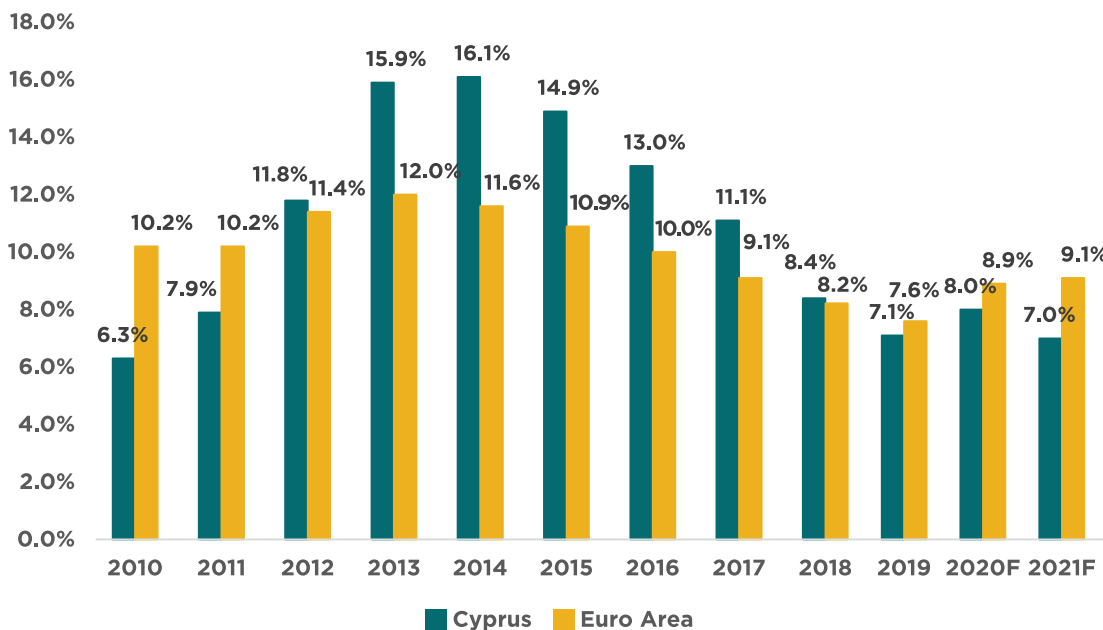
In an effort to maintain the country's economy at a viable pace, Cyprus government introduced a series of measures including among others wages subsidies and liquidity support schemes. Although these measures have protected as many jobs as possible, an increase in unemployment rate has already been observed while an annual increase of 0.9% is expected to be recorded by the end of the year.

According to the International Monetary Fund the unemployment rate in Cyprus is projected to be 8% by the end of 2020 compared to 7.1% in 2019 while in 2021 the unemployment rate is expected to decrease to 7%. For the Euro Area, the unemployment rate is forecast to increase to 8.9% this year from 7.6% in 2019 and to increase to 9.1% in 2021. The unemployed persons, registered at the District Labour Offices on the last day of September 2020, reached 30,718 persons. Based on the seasonally adjusted data, the number of registered unemployed for September 2020 increased to 36,452 persons compared to 35,502 during the previous month. Compared to September 2019, a total increase of 13,750 persons was recorded, attributed mainly to the sectors of accommodation and food service activities (increase of 5,498), trade (increase of 2,192), transportation and storage (increase of 826), administrative and support service activities (increase of 682), professional, scientific and technical activities (increase of 644) and education (increase of 561).

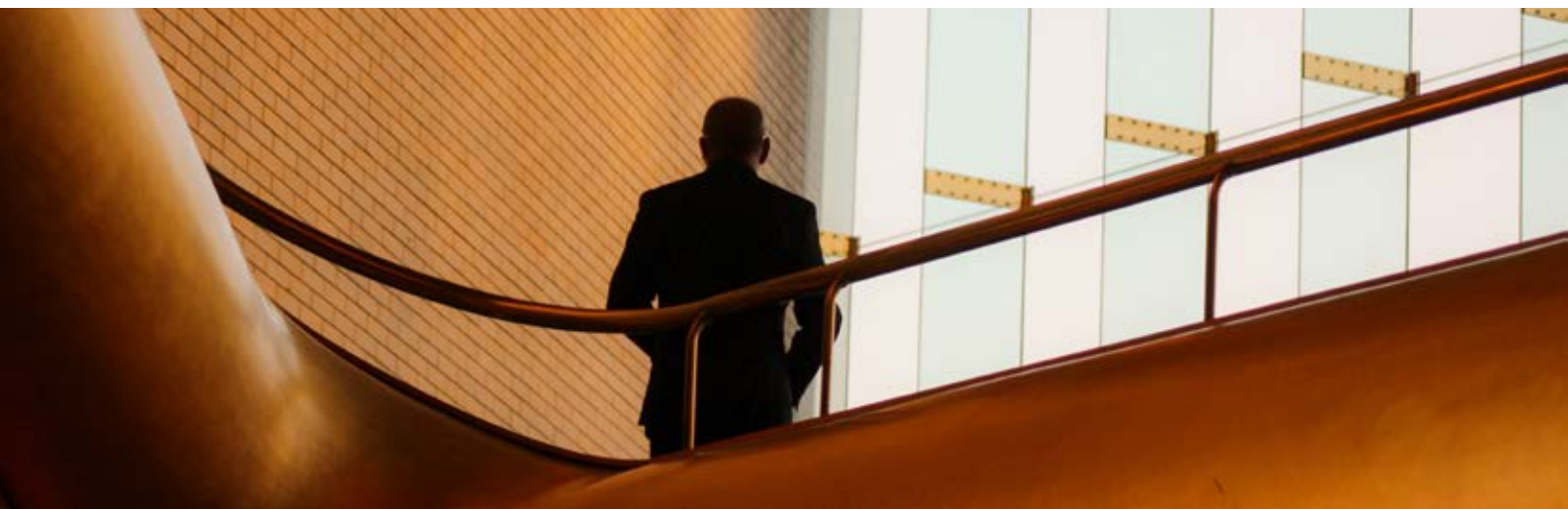
According to the Department of Labour, the comparison of the data since March 2020 and onwards, with the data of the previous months is not considered safe. This is due to the automatic renewals of registered unemployed and new registrations of unemployed people without their physical presence in order to avoid the spread of the virus. (Graph 2)

(Source: CYSTAT, IMF)

### Cyprus vs European Union Unemployment Rate



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



## A Massive Hit for Cyprus Tourism Sector

The COVID-19 pandemic has several consequences on almost every aspect of human life and economic activity. However, tourism is the sector that experienced the biggest impact from COVID-19 so far due to the travel restrictions and the sharp decrease in demand among travellers.

The Tourism industry which was one of the main growth drivers of Cyprus economy during the last years, has been massively affected by the pandemic as an entry ban was imposed in the country from 15/3/2020 up to 8/6/2020 while travellers from many countries are still not allowed to travel to Cyprus.

The arrivals of tourists in September 2020 totalled 87,334 compared to 524,707 in September 2019, recording an annual decrease of 83.4%.

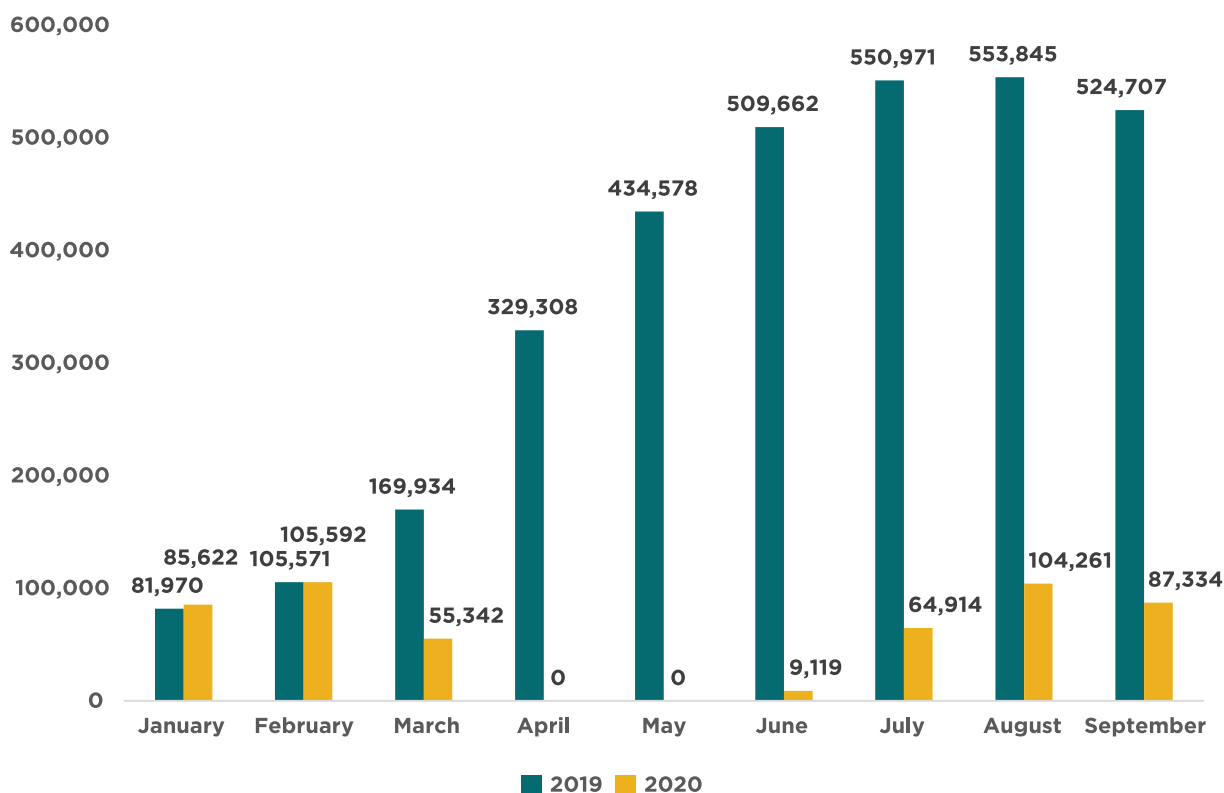
For the period of January – September 2020, tourist arrivals reached 512,184 compared to 3,260,546 in the corresponding period of 2019, recording a decrease of 84.3%.

Tourist arrivals from the United Kingdom decreased by 71% in September 2020 compared to September 2019, while a decrease of 35.3% was also recorded in tourist arrivals from Germany and 63.2% decrease from Greece. For the period January – September 2020, tourist arrivals from the United Kingdom decreased by 84.9% compared to the corresponding period of 2019 while tourist arrivals from Germany and Greece recorded a decrease of 63.3% and 59.9% respectively.

As per the revenue from Tourists, the latest available information referred to the period January – August 2020. On the basis of the results of the Passenger Survey carried out by the Statistical Service, revenue from tourism for the period January – August 2020 is estimated at €235.6 mln compared to €1,856.8 mln in the corresponding period of 2019, recording a decrease of 87.3%. (Graph 3)

(Source: CYSTAT)

### No. of Tourist Arrivals per Month



Graph 3 | Source: CYSTAT

# 2 REAL ESTATE MARKET REVIEW

## Market Recovery Temporarily Slows Down

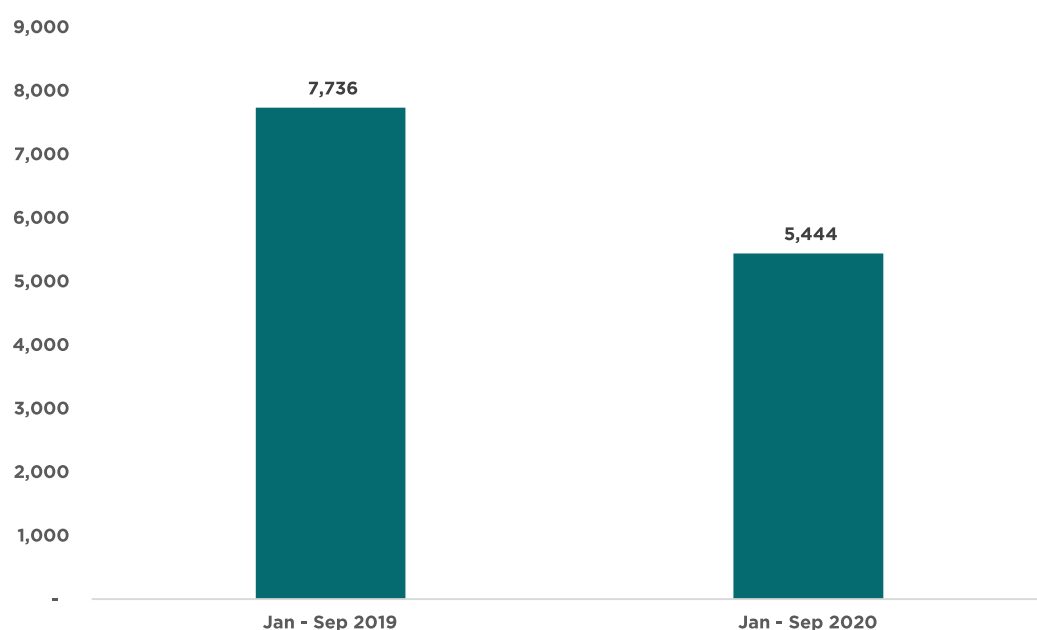
*During the period June – September 2020, Cyprus Real Estate Market was in a recovery mode while an annual increase of 14% in sales transactions was recorded in September. However, the new measures introduced by the government to control the second wave of the pandemic in the country have temporarily slowed down the market recovery.*

### Property Transactions

The restrictions on international travel, the general economic uncertainty as well as the strict measures introduced by the government have caused a significant decline in Real Estate transactions activity during the first half of the year. The slowdown in sales activity was best reflected during the months April and May as the entire country was under lockdown measures. However, the easing of the Cyprus lockdown over the summer have led to a gradual recovery of the number of transactions while in September an annual increase of almost 14% has been recorded compared to the corresponding month of the previous year.

According to the Department of Land and Surveys, during the period January – September 2020, 5,444 sales transactions were recorded, demonstrating an annual decrease of 30% in comparison with the equivalent period of the last year. (Graph 4)

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



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

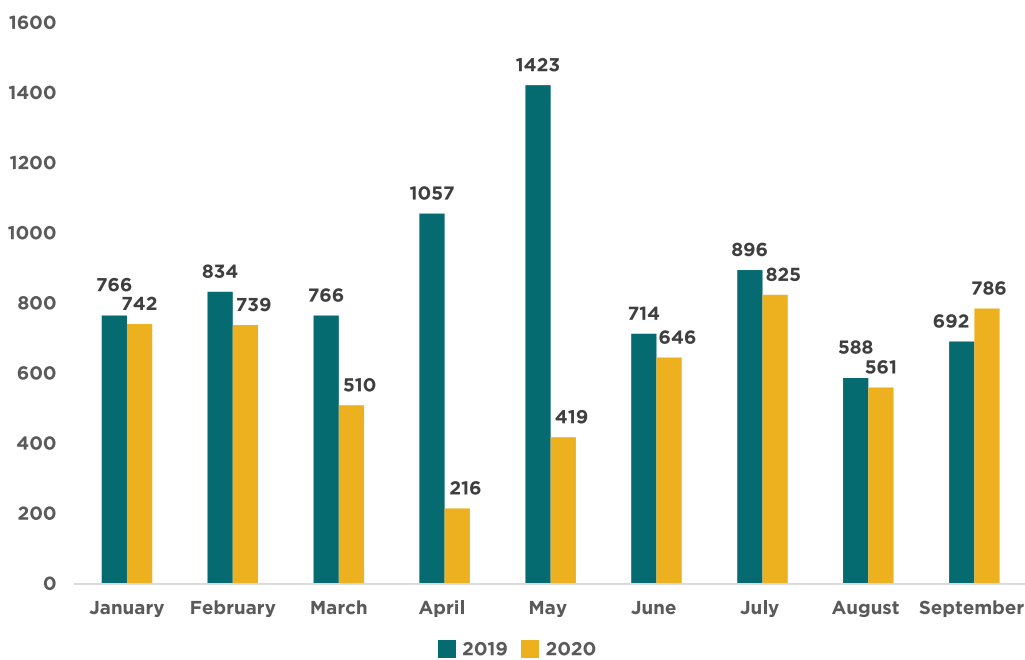


During the period January – September 2020, a decrease in transaction activity has been recorded in all months except of September. The biggest decline was recorded in April as the number of sales transactions was decreased by 80% compared to the corresponding month of 2019 followed by May with a decrease of approximately 71% compared to May 2019.

During the same period, the highest number of sales transactions was recorded in July (825) followed by September (786) and January (742) while the smallest number of sales was recorded in March and April with 216 and 419 contracts of sales respectively.

Overall, the Real Estate market was mainly affected by the pandemic during the period March – May as the entire country was under lockdown measures while during the remaining period the number of sales transactions was almost at the same levels as the previous year. (Graph 5)

### No. of Contracts of Sales per Month



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

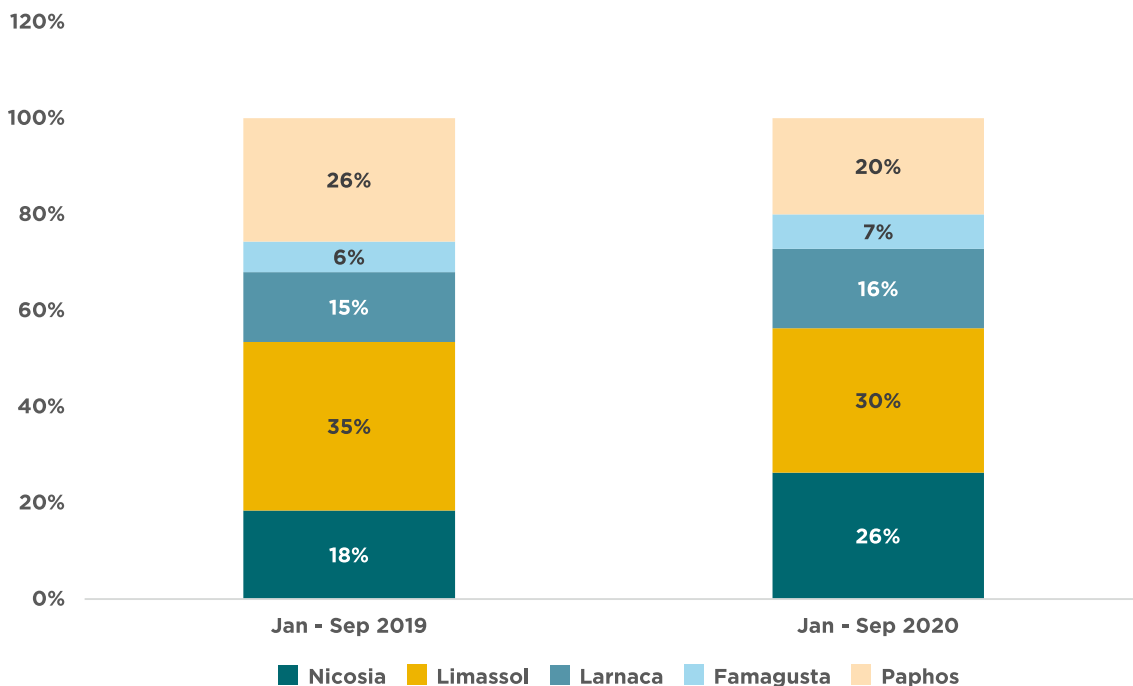


## Geographical Distribution of Transactions

In terms of regional distribution of transactions recorded during the period January - September 2020, Limassol continues to be the district with the biggest market share (c.30%), followed by Nicosia (c.26%), Paphos (c.20%) and Larnaca (c.16%) while Famagusta was the district with the smallest number of sales transactions, representing a market share of c.7%.

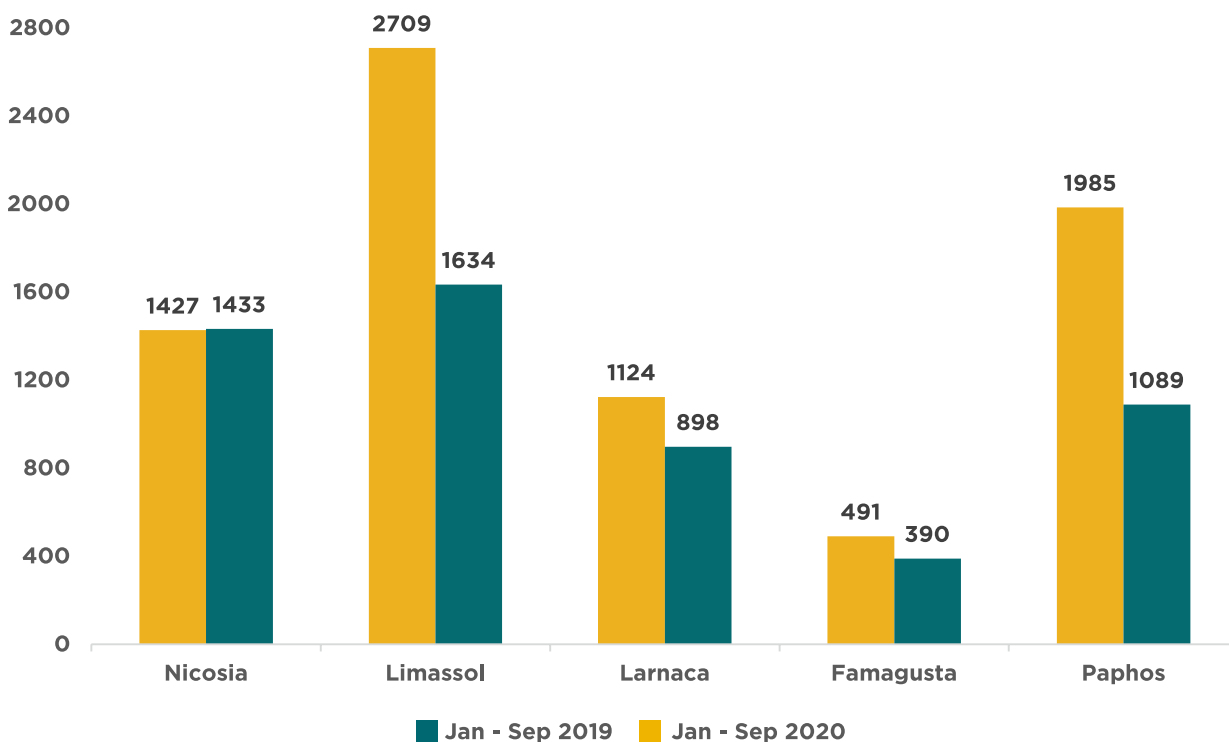
More specifically, during the period January - September 2020, 1,634 contracts of sales were filed in Limassol, 1,433 in Nicosia, 1,089 in Paphos and 898 in Larnaca while in Famagusta only 390 sales transactions were recorded. (Graph 6 and 7)

### Contracts of Sales per Region



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

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

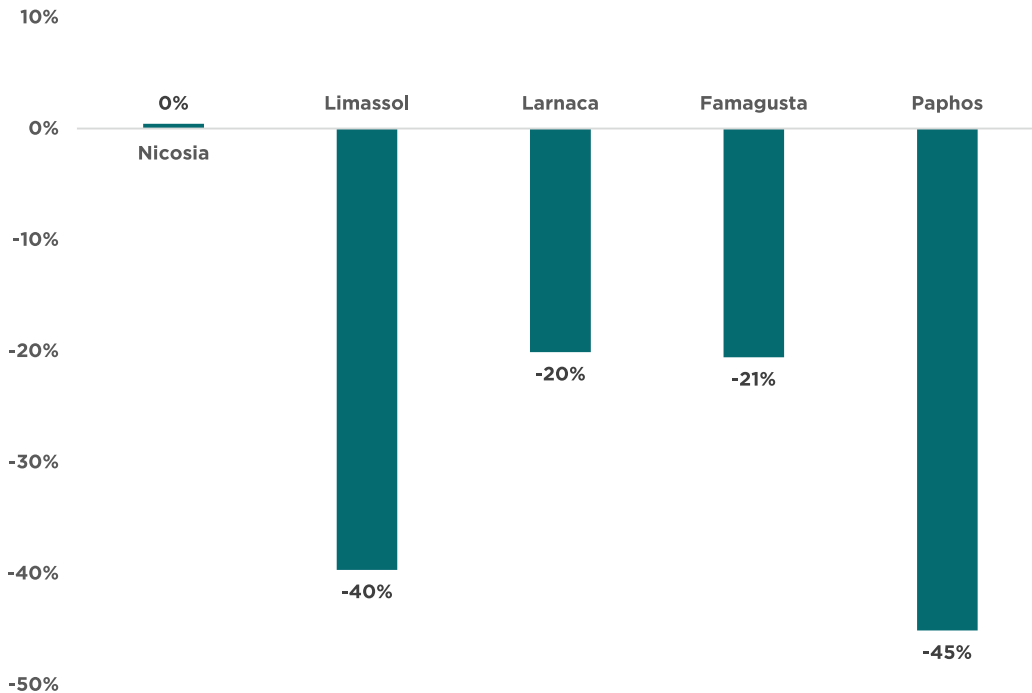


Graph 7 | Source: Department of Land and Surveys (DLS)

During the period January – September 2020, an annual decrease in the number of sales transactions was recorded in all districts except of Nicosia where the number of transactions remained at the same level as per the equivalent period of 2019. The biggest decrease was recorded in Paphos (c.45%) followed by Limassol (c.40%) while decreases were also observed in Famagusta and Larnaca with c.21% and c.20% respectively.

As the majority of sales transactions in Nicosia traditionally refer to local buyers, the relatively good performance of the district was mainly supported by the domestic demand which has recovered after the loosening of government's restrictions and the introduction of the Interest Rates' Subsidy Scheme. (Graph 8)

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



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



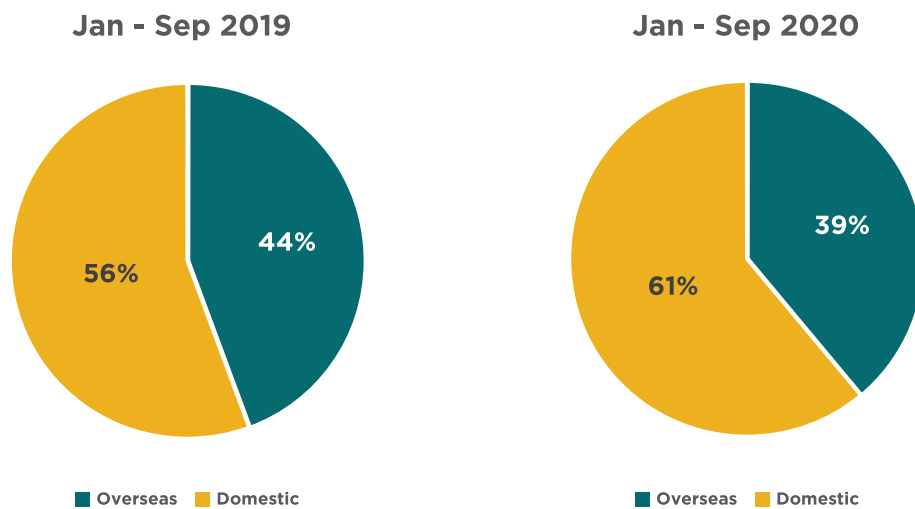
## Foreign Transaction Activity

During the first nine months of the year, 2,119 sales contracts referred to foreigners, representing the c.39% of the total number of sales. For the same period, the number of sales contracts to overseas buyers recorded an annual decrease of 38%, as for the period January – September of the previous year the total number of sales to foreigners was 3,430.

Out of the 2,119 sales transactions from overseas buyers, 37% (786) were buyers within the European Union while the 63% (1,333) were buyers outside the EU. Compared to the same period of the previous year, the total number of sales to EU citizens recorded a decrease of c.29% while the annual decrease for non-EU buyers was c.42%.

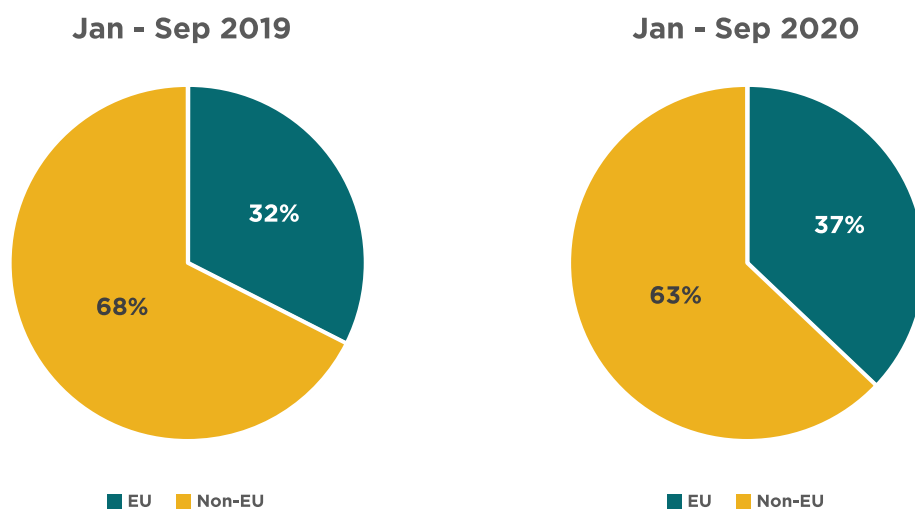
Paphos was the district where the highest number of sales transactions to foreigners was recorded during January – September 2020, representing a market share of c.37% (776), followed by Limassol with c.27% (580) and Larnaca with c.18% (392). Nicosia was the district with the lower market share of sales transactions to foreigners with c.7% (150) followed by Famagusta with c.10% (221). (Graph 9, 10 and 11)

## Overseas vs Domestic Transaction Activity



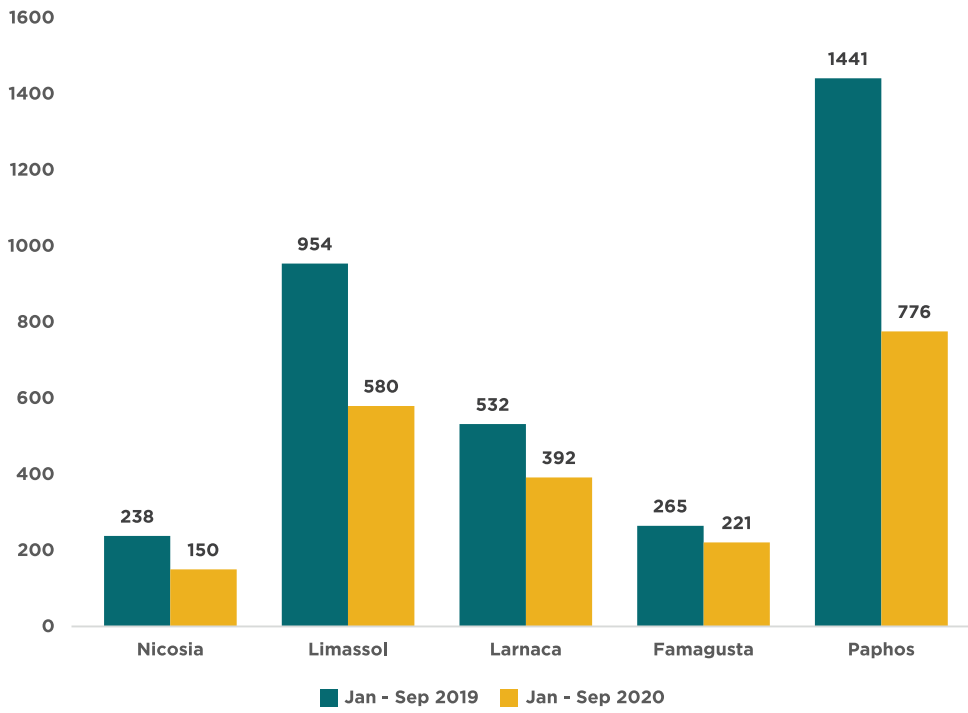
Graph 9 | Source: Department of Land and Surveys (DLS)

## EU vs Non-EU Overseas Buyers



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

## Foreign Transaction Activity per Region (Jan - Sep 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 September 2020 reached 100,75 units (base year 2015=100.00), recording an increase of 0.03% compared to August 2020.

For the period January - September 2020, the Index recorded a decrease of 0.61% compared to the same period of 2019.

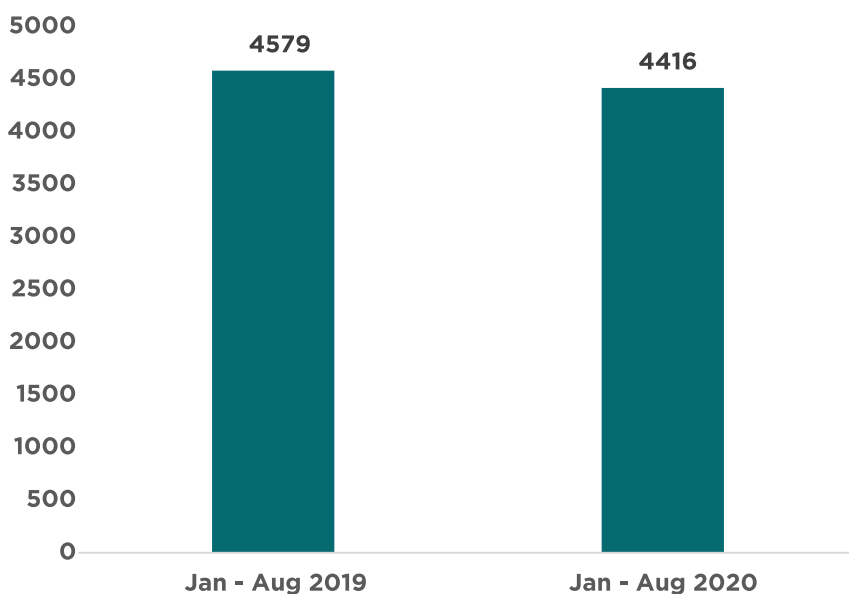
(Source: CYSTAT)

### Building Permits

The latest available information for building permits refers to the period January - August 2020. According to the Statistical Service, during the period January - August 2020, 4,416 building permits were issued, recording an annual decrease of c.4% compared to 4,579 in the equivalent period of the previous year. The total value of building permits reached €1,745.2 mln and the total area 1,427.3 thousand sqm, recording a decrease of 19.1% and 7.2% respectively. The number of dwelling units recorded an increase of 6.1%. (Graph 12, 13 and 14)

(Source: CYSTAT)

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

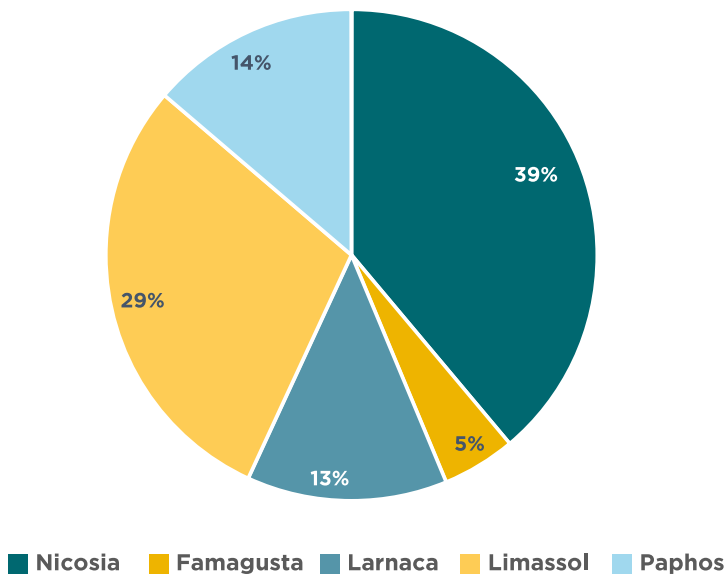


Graph 12 | Source: CYSTAT



Over the period January – August 2020, the highest number of building permits was recorded in Nicosia (1,717) and Limassol (1,296), representing a market share of c.39% and c. 29% respectively. Famagusta was the district with the smallest number of building permits as only 213 building permits were issued in the district (c.5%), followed by Larnaca with 583 (c.13%) and Paphos with 607 (c.14%).

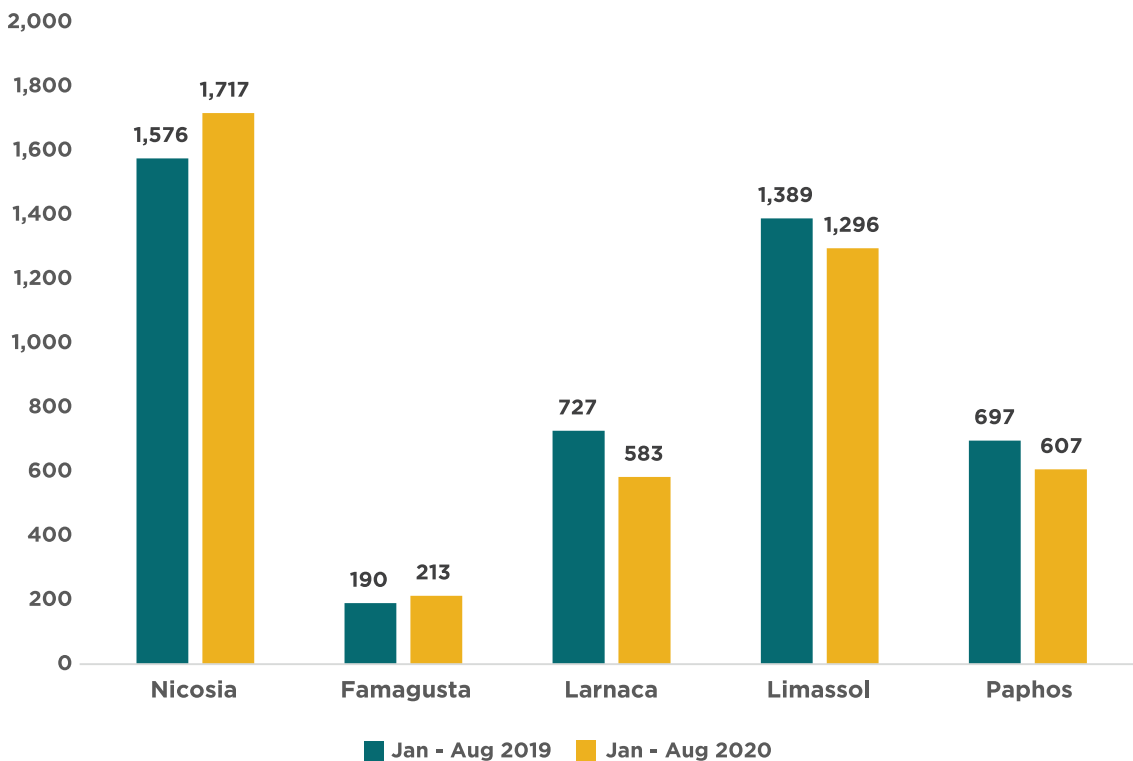
### Geographical Distribution of Building Permits (Jan - Aug 2019/2020)



Graph 13 | Source: CYSTAT

During the first 8 months of the year, an annual increase in the number of building permits was recorded in Famagusta (c.12%) and Nicosia (c.9%) while the highest decrease was recorded in Larnaca (c.20%) followed by Paphos (c.13%) and Limassol (7%).

### Building Permits Per Region (Jan - Aug 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.

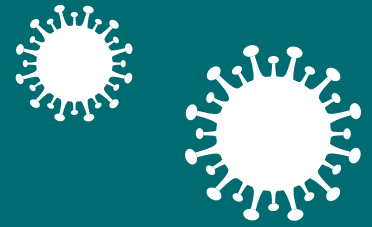
According to the latest available information released by the Statistical Service, the HPI for the second quarter of 2020 amounts to 109.48 units. Compared to the previous quarter, the HPI increased by 0.3% while compared to the corresponding quarter of 2020 the Index recorded a decrease of 2.9%.

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

	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
HPI (2015=100)	112.73	105.64	106.51	109.13	109.48
Quarterly Change (%)	4.5	-6.3	0.8	2.5	0.3
Annual Change* (%)	8.4	2.4	-0.5	1.1	-2.9

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

(Source: CYPSTAT)



## **Domestic Demand Drives the Market Recovery**

- Travel restrictions, lockdowns and curfews as well as other measures introduced in Cyprus since March 2020 has caused a sharp decline in Real Estate transaction activity.
- However, the market is expected to recover during the following year mainly driven by the domestic demand which remains strong due to the government support measures and the record low interest rates.
- In addition, the pandemic has made many people realise the importance of owning a home.
- On the other hand, the international travel restrictions and the abolition of the Cyprus Investment Program keep foreign demand below normal levels.

## **Projects' Delivery Deadlines have been Extended**

- As the construction activity had totally stopped during the period April – May 2020, projects' delivery dates have been extended for most projects.
- Due to the termination of the Cyprus Investment Program some projects that are currently at the stage of design may not proceed to construction.
- It is also expected that supply of residential properties for the local market to be increased in order to meet the increased demand from local buyers.

## **Affordability of Properties is Projected to be Improved**

- A small decrease in House Price Index has been recorded in the second Quarter of 2020.
- Affordability of properties is projected to be improved as many new projects will be oriented to the local market and interest rates will probably remain at record low levels.
- No significant impact on rental prices has been observed so far due to the slowdown on the increase of Supply.
- The Office rental prices may experience a slight decrease during the following period. Nevertheless, rental prices for Grade A offices are expected to remain at the same levels.

## **Impact per Property Type**

- “Working from Home” trend may decrease the demand for office spaces in the near future. However, demand for Grade A offices remains strong as companies need flexible and technologically advanced offices to support remote working.
- Luxury Real Estate has been affected more than the other asset classes so far due to the international travel restrictions while further impact is expected to be observed due to the termination of the CIP.
- The COVID-19 has a negative impact on the Retail sector, however, the government economic response to COVID-19 which has been swift and on a massive scale has helped businesses to continue their operations thus mitigating the impact on the retail Real Estate.
- Residential Real Estate is expected to continue its slow recovery as domestic demand remains strong, while government measures support further the market recovery.
- In the long term, we expect that the effects of the crisis on Cyprus Real Estate market will be transient and the market will experience a healthy recovery during the following year.



## **Cyprus Cancels Citizenship by Investment Programme**

On 13 October 2020, the government of Cyprus announced the Council of Ministers' decision to abolish the Cyprus Investment Programme with effect from 1 November 2020.

According to the government, the decision was based on the long-term weaknesses, as well as the abusive exploitation of the provisions of the programme.

The programme's cancellation comes after an investigation from Qatar-based broadcaster Al Jazeera claiming that Cyprus officials were willing to aid a Chinese businessman with a reported criminal record to obtain Cypriot citizenship. The revelation comes two months after Al Jazeera's Investigative Unit published "The Cyprus Papers", a leak of 1,400 government documents related to the Cyprus Investment Programme claiming that Cyprus provided citizenship through the CIP to several people linked to crime and corruption.

Cyprus began offering citizenship in exchange for substantial investment as back as 2007, but the scheme was stepped up following the Cyprus financial crisis of 2013.

Nicosia has faced pressure from Brussels to reform the scheme over concerns it may have helped organised crime gangs infiltrate the European Union.

Although, initially the government spokesperson said that the administration will examine a new policy to encourage foreign investment on the island in a "comprehensive manner", Minister of Interior said on Monday 16 November 2020 that the Cyprus Investment Programme has been terminated once and for all.

Minister said that the Ministry of Interior will continue and should still have the ability to supervise those who have been granted passports and for this reason existing regulations and laws should not be abolished.

He also said that a process is already underway for the revocation of nationalities based on the suggestions of the investigative Committee, while he did not rule out the possibility that more revocations will follow.

The Minister also said that at the moment the government is planning new ways to stimulate the country's economy.

(Source: FinancialMirror, In-Cyprus.Philenews)





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