

Industry Semi-Annual Update: Cyprus Real Estate

October 2023



Foreword

The EY firm in Cyprus is delighted to present this report, designed as a valuable resource for investors, developers and other decision-makers. The report tracks real estate industry activity, identifies trends and assesses macroeconomic influences. Published semiannually, it aims to capture key fluctuations and patterns in both demand and supply, providing time to gauge the impacts and be proactive.

The report is drafted by leveraging our deep market expertise and data analytics, complemented by valuable insights from key market players. Our analysis draws from both available 2022 market data and survey responses collected in July 2023, offering a broad view of the local sector's landscape. The Strategy and Transactions team actively engages in the market, facilitating access to key stakeholders and transaction activity.

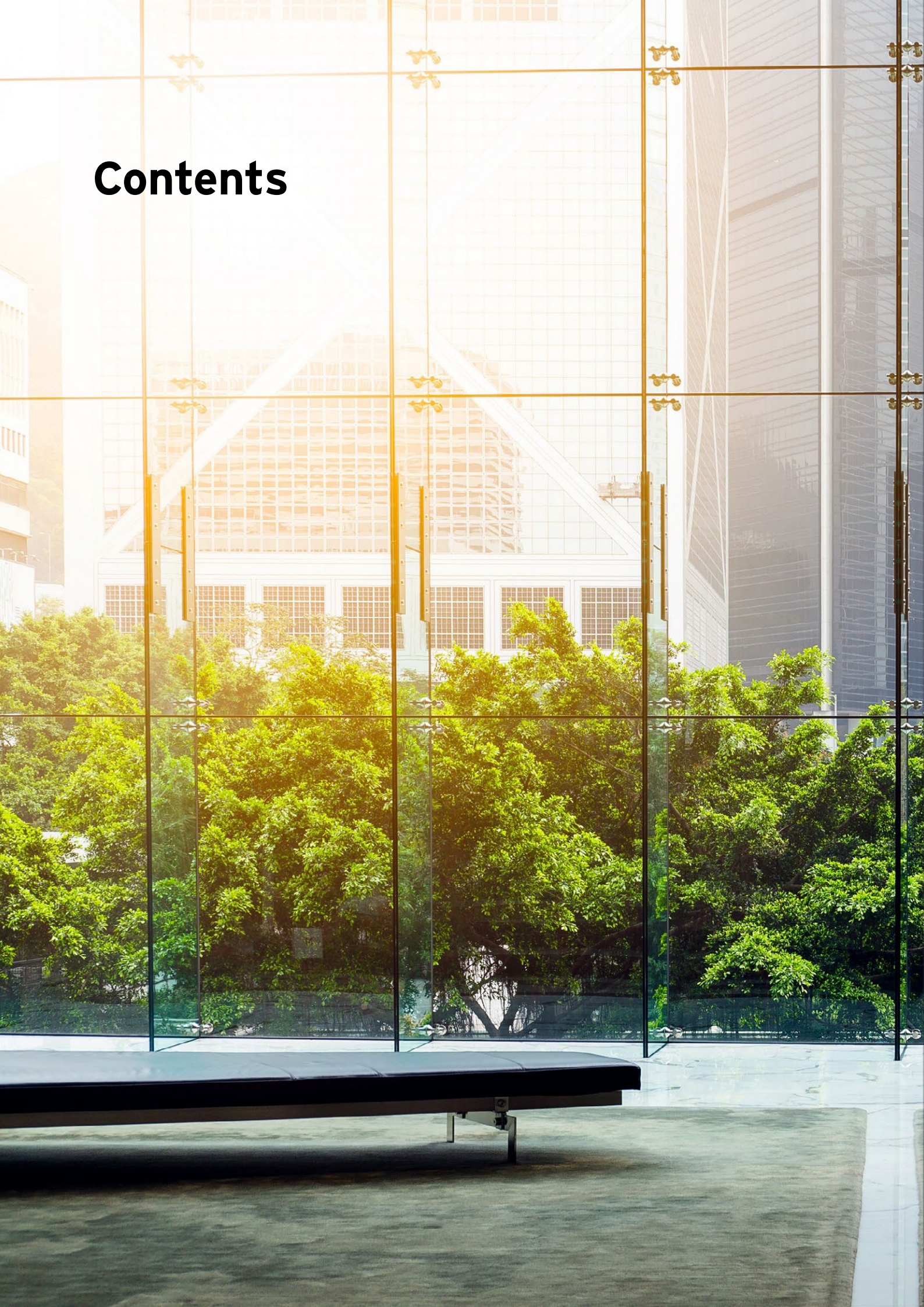
Amid an ever-evolving global economic landscape characterized by challenges and opportunities, this report underscores the robustness of the local real estate market and scrutinizes its intricate dynamics. It further addresses investor demands, taking into consideration the impacts of both domestic and international developments.

The findings of the report unveil the sector's steadfast and resilient performance. Despite challenges and evolving buyer behaviors, the market maintains its positive growth trajectory. Supply factors are on the rise, even amid higher prices, and the foreign investor landscape remains promising.

The pulse survey carried out as part of the report, conducted among key industry stakeholders, casts further light on their sentiments and outlook. The prevailing optimism among respondents indicates a promising path forward. Insights into shaping factors and stakeholder expectations contribute to a comprehensive understanding of the sector's foreseeable journey.



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01 | Market trends and overview

European market trends (1/2)

In this first section of the report, we cover changing sector trends and developments at a European level that are set to impact the local market. Over the past year, major European markets have witnessed a cautious "wait and see" approach among investors due to high financing costs and macroeconomic challenges, causing difficulties in decision-making. This section examines the recent shifts in dynamics within different segments of the European real estate (RE) sector. There is typically a lag of six to nine months between trends observed in Europe and their manifestation in Cyprus. By analyzing these trends, we aim to understand the potential implications on the local RE landscape.

Residential



Europe

- ▶ A highly sought-after class, as it is considered a good inflation hedge. During 2022, financing conditions resulted in a decline in volumes.
- ▶ Strong performance is underpinned by structural undersupply, recently heightened by high construction costs.
- ▶ Increasing utility bills and environmental, social and governance (ESG) focus are pushing demand toward energy-efficient assets.
- ▶ Heightened rental demand predominates housing markets, driven by urbanization. Cities struggle to deliver new homes to meet demand, and affordability pressures put ownership out of reach. On the other side, remote-working models favor urbanization.

Cyprus

- ▶ Stable or marginally less local interest to acquire own assets is expected in Cyprus, due to the rising construction costs and interest rates, and reduced VAT sponsorship. Apartments are expected to be less affected due to the size of investment required.
- ▶ Renting is becoming more popular as the high cost-of-living crisis effect is being replicated in Cyprus.
- ▶ Foreign nationals are expected to continue purchasing homes in coastal areas for various purposes.
- ▶ The market is expected to slowly catch up with ESG trends, with a need to readjust to attract further demand for both new build and older stock upgrades.

Offices



Europe

- ▶ Green energy and newer, grade A assets significantly outperform the rest of the market as tenants need modern infrastructure and that complies with ESG and net-zero practices.
- ▶ The majority of office stock in most cities is over 20 years old. A big share of buildings will become obsolete and will soon need to be retrofitted or converted to new uses.
- ▶ Furthermore, in a post-pandemic setting, remote working has reshaped office dynamics. Tenants seek adaptable spaces that foster hybrid working arrangements. Professionals are also less keen to commute to their offices.

Cyprus

- ▶ Strong demand in specific cities is expected to continue, underpinned by the growing headquartering/business relocation trend (especially following the war in Ukraine).
- ▶ EU directives for energy efficiency will be impacting the local market. A lot of old stock will need to be upgraded. Having said this, in contrast to the EU, the supply of newly built assets in this category in Cyprus is relatively high.
- ▶ The EU remote working trend is not currently expected to have greater impact, as only a small part of local professionals are commuters.

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European market trends (2/2)



Retail

Europe

- ▶ Consumer demand has softened due to the broader squeeze on disposable incomes.
- ▶ Online shopping accelerated during the COVID-19 pandemic and changed the dynamics of retail space absorption. Even well-capitalized retailers in main destinations are amalgamating their physical store footprints to take advantage of larger units.
- ▶ Retail sales are expected to slow further. Also, consumer focus on convenience should support occupancy in well-located, high-quality spaces. Regional shopping centers have suffered greatly because of this.

Cyprus

- ▶ Cyprus is likely to follow European trends as online sales become more and more popular. However, this effect is likely to be more limited locally, where many popular online shopping platforms do not deliver.
- ▶ The cost-of-living crisis, on the other hand, is expected to continue adversely impacting the retail sector, with vacancy rates increasing.



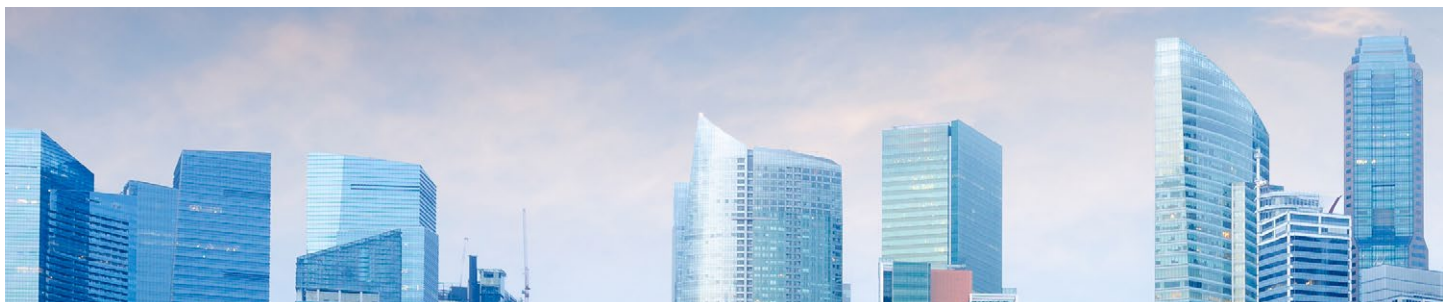
Industrial

Europe

- ▶ This was the hottest industry during COVID-19 due to the surge in online sales.
- ▶ Currently experiencing a decline in leasing due to occupiers' lengthier decision-making.
- ▶ Underpinned by low vacancy (EU average 12.2%) and a healthy supply pipeline. As demand softens due to the general macroeconomic environment, rental growth will slow. The groundbreaking figures it experienced during the COVID-19 pandemic have slowed.
- ▶ Energy efficiency is imposing facility improvements such as charging stations and rooftop solar panels.

Cyprus

- ▶ Cyprus has not evolved into a major logistics hub. Industrial activity is also limited compared with its European counterparts.
- ▶ A number of industrial assets have ended up in real estate owned (REO) portfolios and marketed accordingly.
- ▶ On the other hand, the steep drops in entry yields experienced in Europe were not replicated locally, so no major shifts are expected.
- ▶ As with offices, ESG practices are likely to impact the sector in the short term.



01 | Market trends and overview

Emerging themes in the Cypriot real estate sector

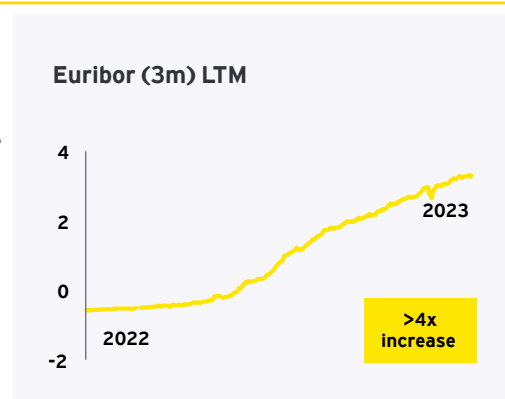
In this section, we further investigate the potential implications of the changing environment for the local RE sector.

Geopolitical tensions

The war in Ukraine brought ripples of uncertainty to the local economy. The restrictions imposed on Russian-related investments, and the travel bans, were forecasted to have a material adverse effect on the local RE market. However it proved to be more resilient. On the contrary, 10,000+ professionals from Ukraine and other CIS countries (together with other household members estimated at c.24,000)¹ relocated to Cyprus, increasing demand for housing and driving both rents and prices upward in specific areas. Still, the local RE sector continues to receive direct and indirect pressures as a consequence of the war. In addition, many Israeli and Lebanese nationals are relocating to Cyprus, due to its proximity to their home nations.

Hiking interest rates and stricter lending criteria

In response to the aim of curbing inflation, the ECB has implemented a series of successive interest rate hikes. Simultaneously, local banks are adopting a more cautious stance and implementing stringent criteria for loan disbursement. Despite these factors, new lending in 2022 has surpassed pre-pandemic levels, currently reaching approximately €3.2 billion, a 10% year-on-year increase primarily driven by corporate loans. Within the RE sphere, escalated borrowing costs are also influencing higher yields. Moreover, certain investors have adopted a "wait-and-see" approach in light of less favorable financing terms. This trend is further augmented by the fact that individuals are holding on to substantial cash reserves, seeking opportunities for deployment due to unchanged deposit rates.



Inflationary pressures

Since 2021, elevated inflation is being underpinned by both demand (recovery from the COVID-19 pandemic, excess savings, shifts in spending patterns and an influx of foreigners) and supply (labor shortages, supply chain disruptions, high energy costs, etc.). Inflation is expected to stabilize but remain high in the coming quarters. High levels of inflation will continue affecting construction price indices as well as rents and house prices, eroding the purchase power of potential buyers and reducing RE development margins. On the other hand, inflation in Cyprus has been slowing down for nine consecutive months and remains among the lowest in the Eurozone. Also, underlying pressures and global disruptions are starting to fade, with the supply side shifting to meet demand.

Changes in government strategy and incentive schemes

Cyprus has been operating various schemes to encourage the relocation of foreign companies, increase foreign direct investment (FDI) activity and attract international talent. Lessons were also learned from the abolition of the Cyprus Investment Program (CIP) leading to the adjustment of the schemes and enhancing diligence. The following schemes have gained popularity in recent years:

Investors Immigration Permit: Allows third-country individuals purchasing a property worth over €300,000 to obtain a permanent residence permit through an expedited process. The criteria have recently been revised and scrutinized with the aim of eliminating any weaknesses through the introduction of checks and verification mechanisms to avoid exploitation of the scheme.

Companies of foreign interests: Enables fast-track provision of work permits for third-country employees of companies relocating to Cyprus. This is causing demographic shifts and an acceleration of relocation of foreign operations, thus increasing office and housing demand.

¹ the Cyprus Investment Promotion Agency.

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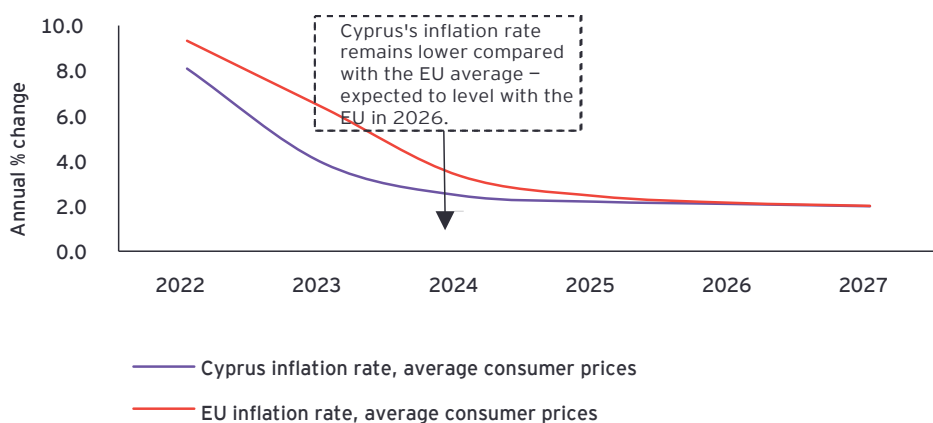
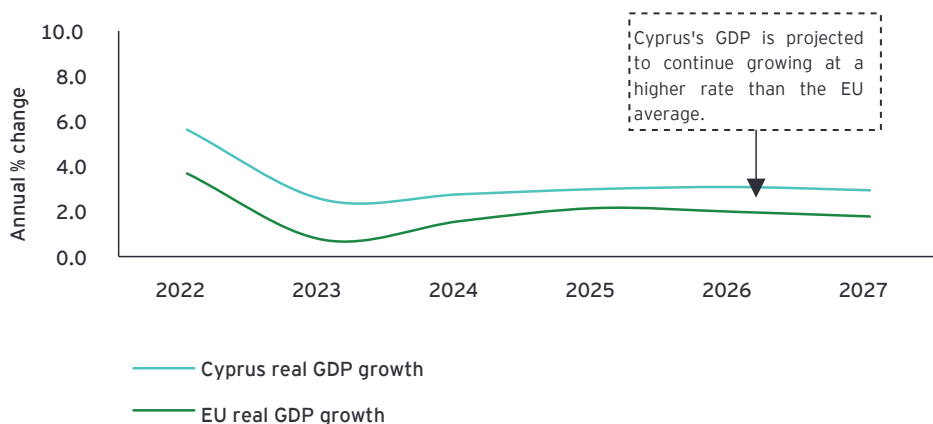
Macroeconomic environment (1/3)

In this section, we provide a quick overview of the local macroeconomic environment impacting the sector's performance.

Key economic indicators

Cyprus's economic indicators suggest a growing economy. The International Monetary Fund (IMF) projects growth to continue in the medium term, albeit with some lingering war-related effects. As portrayed by the data below, Cyprus is anticipated to experience higher gross domestic product (GDP) growth and lower inflation rates compared with the European average.

Cyprus's projected metrics vs. Eurozone



Source: IMF.

¹ As at 31/07/23.

² Year-on-year 2022 vs 2021 – Eurozone average.

Macroeconomic snapshot

Unemployment ¹

Cyprus	EU
4.8%	6.4% ²
2.4% (yoy) ↓	0.3% (yoy) ↓

10-Year Government Bond Yield

Cyprus	Germany
3.98%	2.43%

Inflation¹

Cyprus	EU
1.9% ↓	5.5% ↓

GDP growth²

Cyprus	EU
3.98% ↑	3.5% ↑

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Macroeconomic environment (2/3)

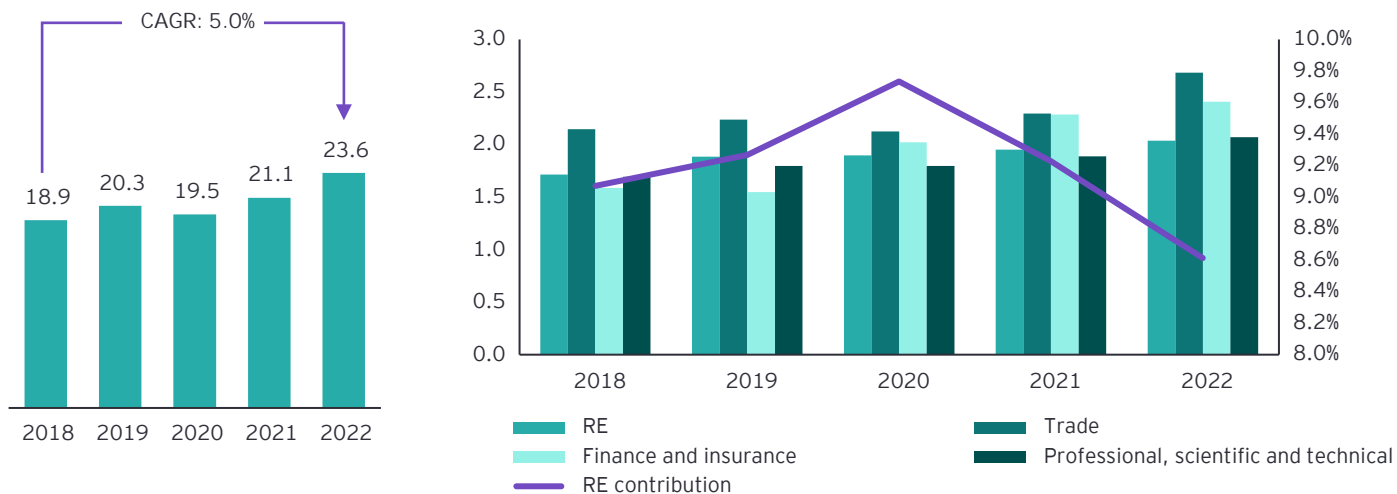
Sovereign credit rating overview

	MOODY'S	FitchRatings	S&P Global Ratings
Current rating	Baa2 (09/23)	BBB (03/23)	BBB (09/23)
Outlook	Stable (09/23)	Stable (03/23)	Positive (09/23)

Gross Value Add (GVA) and sector contribution

Despite the COVID-19 pandemic and the effects of the war in Ukraine, economic output in Cyprus grew at c.5.6% yoy³ from 2021 to 2022, highlighting the resilience of the local economy. The Cypriot economy is underpinned by multiple sectors, with construction and RE, professional services, and tourism and hospitality being key. RE has historically been one of the main pillars, with an important role in attracting foreign investment, with especially regard to large-scale development projects. In the past year, the RE and construction sector generated 9% of the country's GVA.

Total GVA of Cypriot economy (€ billion) GVA contributions by main sectors (€ billion)



Source: CYSTAT.



³ Statistical Service of the Republic of Cyprus.

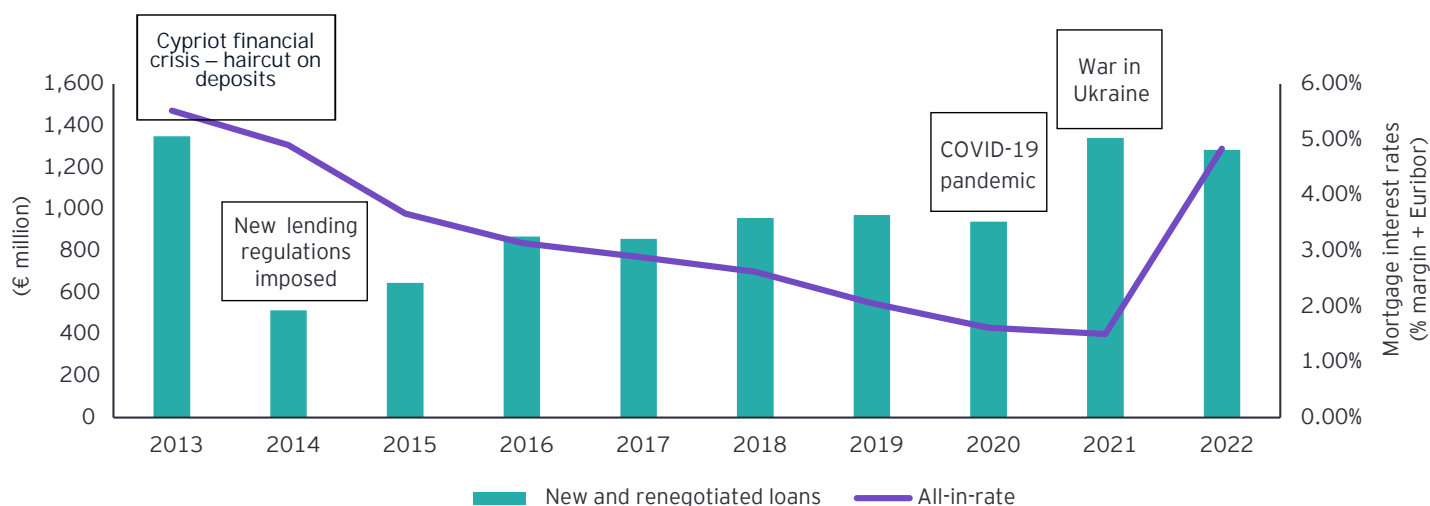
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Macroeconomic environment (3/3)

Mortgage loans

Mortgage loans remain a key facilitator for the RE sector. In 2014, there was a 60% drop in new mortgage loans due to stringent post-crisis regulations (lower loan-to-value ratios, higher equity contribution, stricter approval criteria and borrower assessments, etc.). The trend started reversing in 2015 with the introduction of new regulations and lower interest rates. Interest rates reached a historic low of 2% in 2021. Yet 2022 brought a sharp increase to 5%, driven by Euribor's rise from -0.54% to 2.56%. New mortgage activity dipped by 4% but remained resilient, reflecting the sustained demand for property. The implications of higher interest rates, however, are anticipated to wield a more pronounced influence in the forthcoming period, potentially reshaping the dynamics of the mortgage market.

New mortgage loans and mortgage interest rates



Source: Central Bank of Cyprus (CBC).





Real estate market performance



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Transactions – Cyprus-wide (1/2)

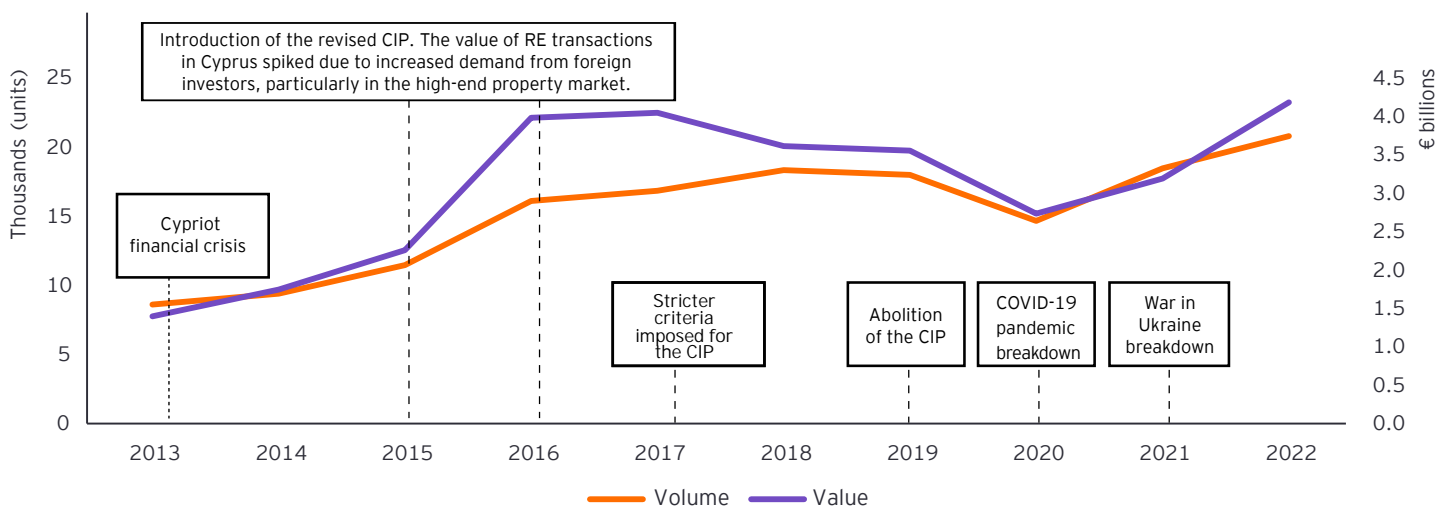


Moving from the broader economic context to Cyprus's RE sector, this section explores the dynamics shaping its performance. The analysis delves into factors driving success, including rising sales values and transaction volumes.

Amid the backdrop of Europe's rising property values and the cautious stance of investors, 2022 was a very busy year in terms of both transfers and contracts of sale in Cyprus. Total sales values exceeded €4.2 billion (yoy increase of 31%) while volume of transactions exceeded 20,000 (13% yoy increase). The high performance could be attributed to multiple factors, including but not limited to the high influx of FDI and relocation incentive schemes aimed at attracting high-net-worth-individuals (HNWI) and talent from abroad. This source of talent has also been favored by geopolitical developments in both the surrounding and the wider region (war in Ukraine, political tensions in neighboring countries, etc.). Anticipated further changes in the Cypriot RE market are likely to coincide with a convergence toward European market sentiments. As the market adjusts to align with broader EU trends, several factors are expected to play a role in stabilizing the current robust growth. Prospective buyers may adjust their expectations and preferences.

In terms of volume, the graph below covers three key periods. Firstly, from 2013 to 2016, it reflects post-financial crisis recovery boosted by the introduction of the CIP. Then, from 2017 to 2020, there's a plateau followed by a decline due to stricter CIP criteria, its abolition and the COVID-19 pandemic. Lastly, there's a clear recovery phase from 2021 to 2022.

Transactions activity (2013–22)¹



Source: DLS, EY Real estate data analytics platform, EY analysis.

¹ The analysis was based on data sourced from the Department of Lands and Surveys (DLS) in May 2023. Data relates to both transfers and contracts of sale (COS) between 1 January 2013 and 31 December 2022. Any differences with other publications are attributed to amended DLS records, as the data source changes from time to time.

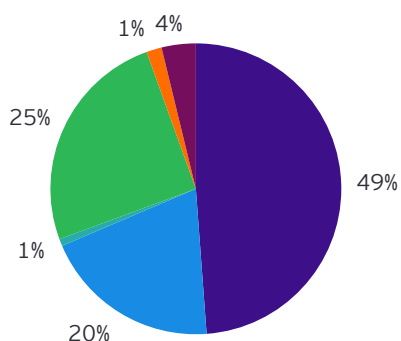
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Transactions – Cyprus-wide (2/2)

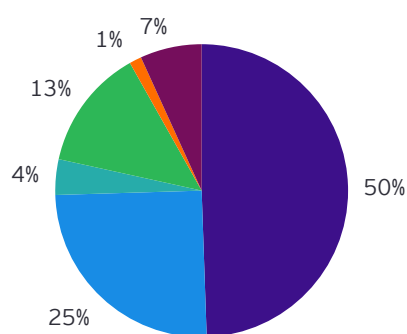
Analysis by asset type

The charts below provide a breakdown of last year's transaction activity by the type of asset.

Transactions by type – volume (2022)



Transactions by type – value (2022)



■ Apartments ■ Houses ■ Offices ■ Land ■ Shops ■ Other

■ Apartments ■ Houses ■ Offices ■ Land ■ Shops ■ Other

It is evident that apartments remain the hottest asset class, both in terms of volume and value (49% and 50% of total respectively). Houses rank second, with 20% in volume terms and 25% in value, followed by land assets (collectively 25% of total volume and 20% of total value). Offices, on the other hand, constitute only 1% of the island's total transactions and 4% of total value. Finally, shops account for only 1% of total transactions, both in terms of volume and value. Other property types (gyms, plantations, vineyards, etc.) comprise 4% of the total volume and 7% of total transactions value.

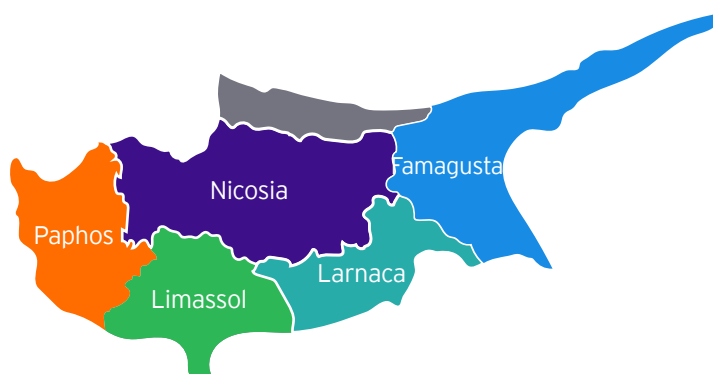


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Transactions and investment activity – district analysis (1/2)

Analysis by district

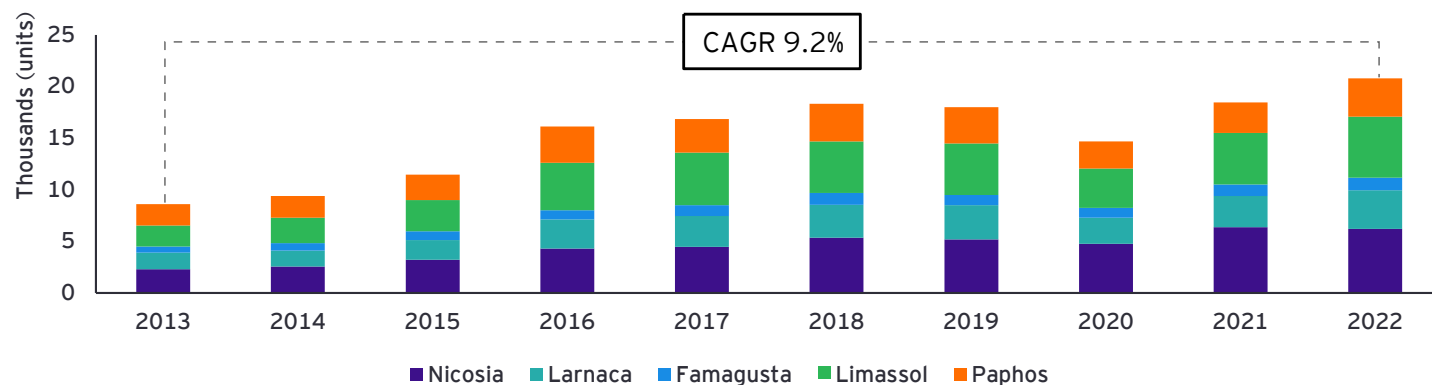
Cyprus, despite its small size, boasts diverse districts that attract a wide range of demand profiles. Nicosia, the capital, functions as the hub for administration, politics and culture, primarily drawing in local investors. Limassol has emerged as the island's commercial hub, traditionally driven by the shipping and construction sectors, drawing high-net-worth foreign individuals and businesses. Larnaca, with the island's largest airport, and Paphos, known for rich history and culture, are popular holiday home and retiree destinations. Lastly, Famagusta's economy thrives on tourism, particularly during the summer season, thanks to its clear waters and blue flag beaches.



Looking at the individual districts' compound annual growth rate (CAGR) over the 10-year period 2013–2022, Limassol exhibited the most substantial increase in transaction value at 14.4%, followed by Famagusta at 12.8%, then Nicosia at 11.1% and Larnaca at 10.5%. Paphos showed the lowest increase in transaction value at 8.9%. In terms of transaction volume, Limassol took the lead with an 11.2% increase, followed by Nicosia at 10.5% and Larnaca at 8.7%. Famagusta and Paphos had more modest growth rates of 7.2% and 6.1% respectively.

Focusing on the last full year (2022), Famagusta, Limassol and Larnaca all experienced remarkable double-digit growth rates in transaction value compared with 2021 (39%, 36% and 33% respectively). Nicosia saw the smallest rise, registering a marginal 2% increase. Paphos, on the other hand, recorded the highest growth with an impressive 70%. The varying growth rates likely stem from a combination of localized economic, demographic and market dynamics that impact property demand and investor interest in each city. Market observers attribute the shift away from Limassol to other coastal cities to factors such as market saturation and elevated property prices. Additionally, changes in the profile of foreign investors have also contributed to this shift, particularly with regard to their demand shaping the RE market in Larnaca and Paphos. Nicosia's demand, mainly from local sources, has led to a positive but slower upward trajectory, relatively unaffected by external influences. Further detail on the transformation of the foreign investor landscape will be provided in the next section.

Transactions volume by district: 2013–22

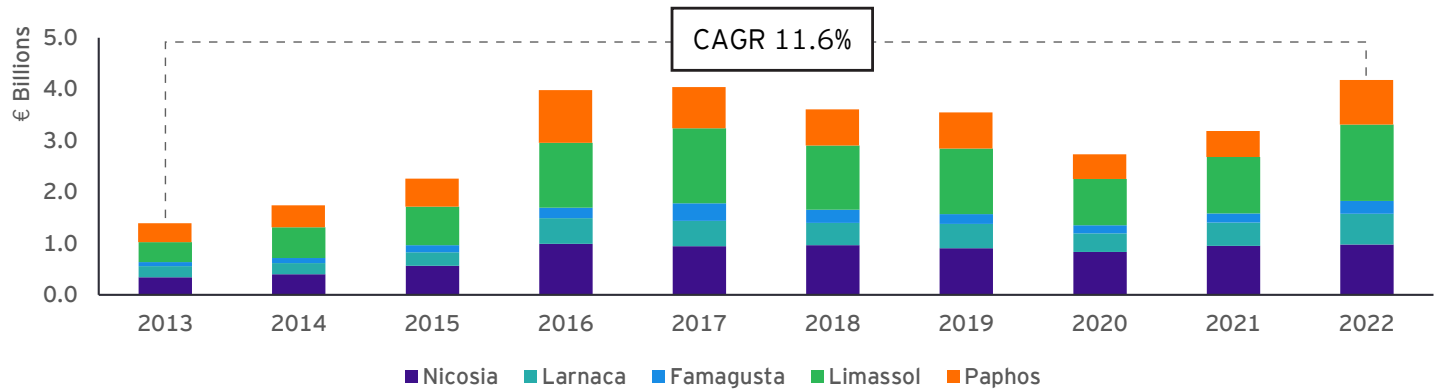


Source: DLS, EY Real estate data analytics platform, EY analysis.

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Transactions and investment activity – district analysis (2/2)

Transactions value by district: 2013–22



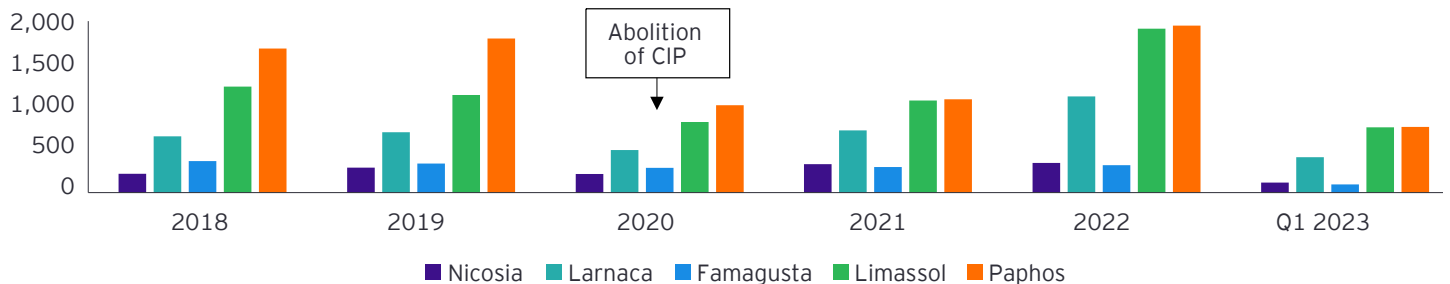
02 | Real estate market performance

Transaction activity by foreign buyers (1/2)

The contribution of foreign buyers has been crucial in the development of the local RE sector, and thus cannot be neglected. Below, we provide some relevant data.

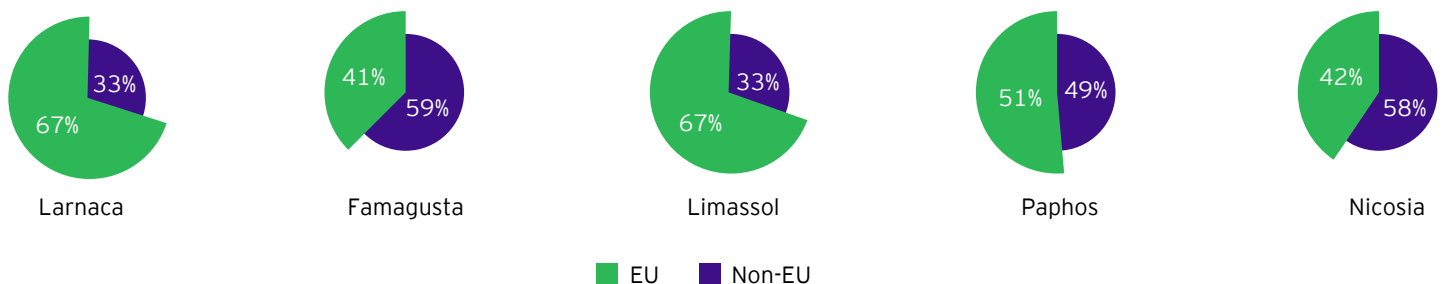
Cyprus has been a popular destination for foreign investors seeking opportunities in the RE market. The island's strategic location, favorable tax environment, quality of life, mild climate, security, etc., make it an attractive choice for international investors. Cyprus allows foreign individuals and entities to own property without significant restrictions. This has contributed to the influx of foreign investors acquiring residential, commercial and investment properties in Cyprus. Historically, more than 40% of contracts of sale are deposited by foreign buyers. The island has a vibrant tourism industry, with numerous visitors flocking to the island for vacation as well as retirement purposes. This has led to increased demand for residential properties, particularly in coastal areas and popular tourist destinations. At the same time, following the war in Ukraine and Brexit, in conjunction with governmental incentive schemes, more than 1,000 companies have undertaken to relocate to Cyprus, leading to higher demand for both residential and commercial properties. Moreover, with a time lag between the Cypriot financial markets and Europe, investors who have been struggling to deploy capital in Europe during the last quarters of 2022 shifted their attention toward Cyprus. Despite the abolition of the CIP, FDI in the sector continues to grow. The highest number of foreign sales on record since 2007 were recorded in Q1 2023.

Number of foreign buyers



Source: DLS, EY Real estate data analytics platform, EY analysis.

With regard to nationalities, a big gap can be seen between EU and non-EU foreign buyers, especially in coastal areas. It is worth noting that contracts deposited by foreigners from non-EU countries (third-country nationals) in January 2023 rose a startling 148%. In the chart below, we can see the split between EU and non-EU buyers during the past three years. The big gap between EU and non-EU buyers in districts such as Limassol and Larnaca, previously attributed to CIP-related transactions, continued even after the scheme's abolition.

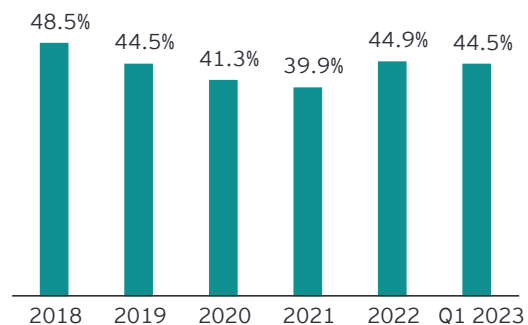


Source: DLS, EY Real estate data analytics platform, EY analysis.

02 | Real estate market performance

Transaction activity by foreign buyers (2/2)

% of contracts of sale by foreign buyers



Source: DLS, EY Real estate data analytics platform, EY analysis.

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Market data suggests a positive sector outlook, reflecting stability and resilience. The significant foreign investor activity, accounting for almost half of property transactions, also underscores the strong and continuous foreign interest in the sector. This trend varies across cities, with Limassol and Paphos leading the market. Security and lifestyle considerations play a key role in driving this interest.



02 | Real estate market performance

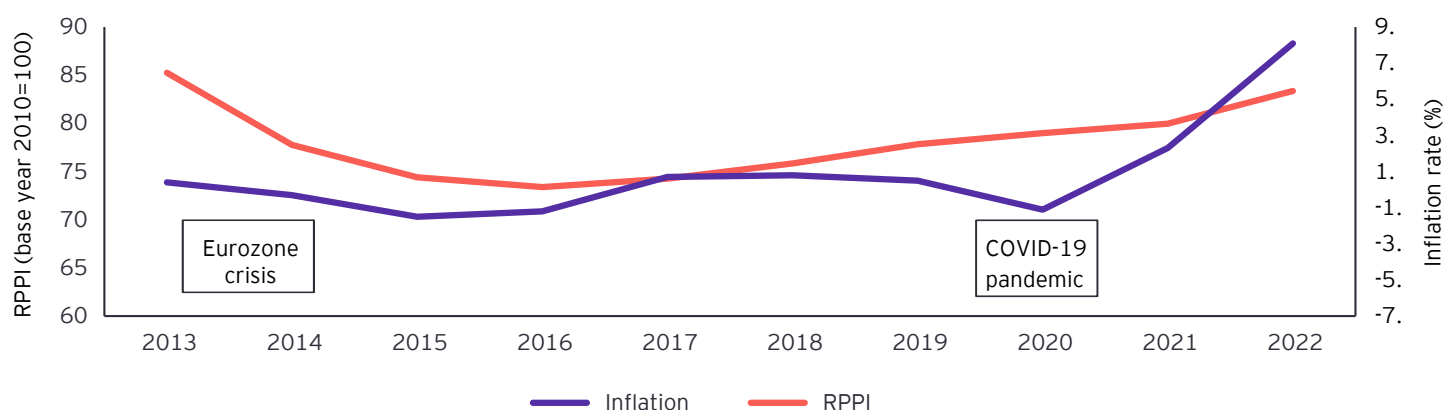
Sales: price evolution (1/2)

The evolution of prices amid the changing circumstances and developments outlined in the previous pages sheds further light with regard to the overall performance of the sector.

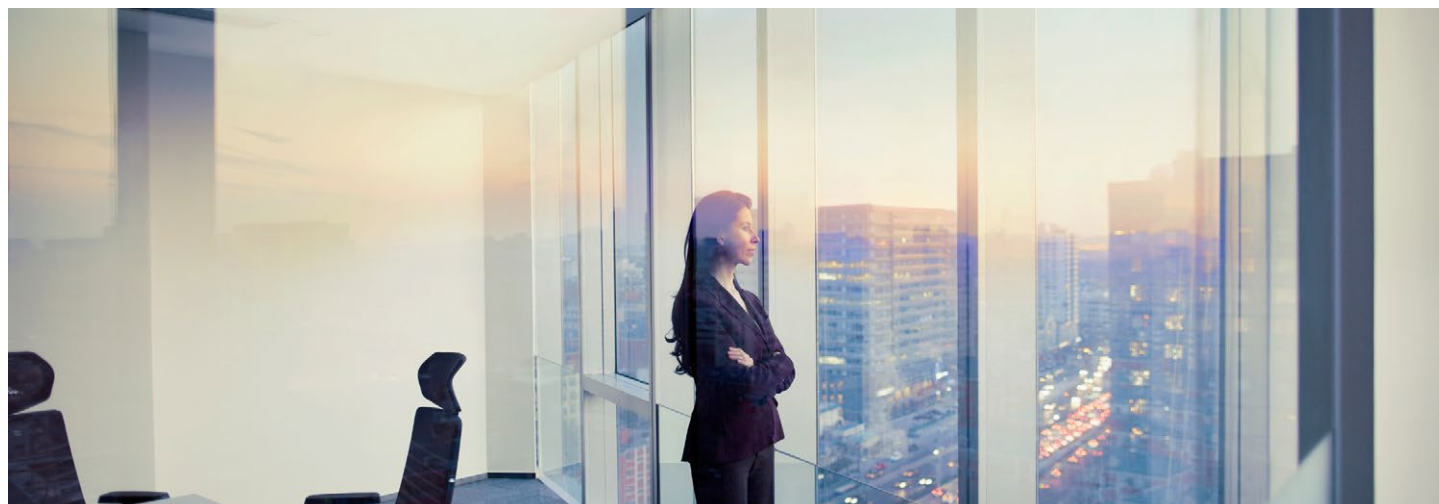
With respect to Residential Property Price Index (RPPI), indices have historically remained lower than the base year 2010. However, according to the latest data made available by the CBC, the RPPI recorded an accelerated annual increase of 4.7% in 2022. Price evolution was mainly driven by increased construction costs as well as surges in demand by both local and foreign buyers. Changes in the RPPI were impacted by both apartment and house price increases. Apartment prices recorded a 2% annual increase, while houses increased by 3%. The upward trend in residential prices is expected to continue throughout 2023 before stabilizing, as there are expectations for increased interest by foreign buyers. Despite the price increases, Cyprus remains highly competitive when compared with some of the competing destinations. This is due to factors such as its location, security, political stability, high quality of living and the favorable tax regime.

The steady demand for RE in Cyprus consistently drives residential property values up. In 2017, a drop in real estate transactions led to the Consumer Price Index (CPI) catching up with the RPPI. Notwithstanding the RPPI's growth trend, the unique hyperinflationary environment of 2022 briefly caused the CPI to move more rapidly than the RPPI. As inflation moderates, the RPPI is expected to align with the CPI once again. This dynamic has important implications for real returns, highlighting how residential RE investments can hedge against inflationary impacts.

Residential Property Price Index (RPPI) and inflation rate (%)



Source: CBC, EY Real estate data analytics platform, EY analysis.



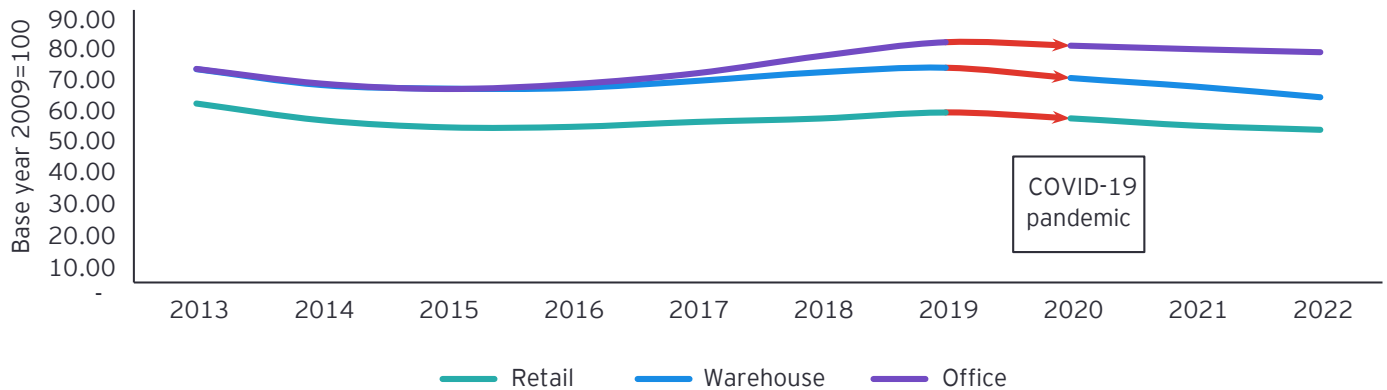
02 | Real estate market performance

Sales: price evolution (2/2)

With respect to commercial real estate (CRE), historical indices consistently show values below the 2009 base year. Recent sales values saw slight declines across different property types, with 3% for retail, 5% for warehouses and 1% for offices. Retail and warehouse assets displayed marginal negative CAGRs over the period (-1.6% and -1.4% respectively) while offices maintained relative stability at 0.75% CAGR. The COVID-19 pandemic caused negative growth for these asset types due to limited economic activity and increased online shopping.

The discrepancy between residential and CRE results is also linked to the former's stronger inflation hedge perception. Residential demand remains robust, while CRE demand is more volatile due to macroeconomic factors. Resilience in residential stems from limited local investment alternatives, whereas foreign demand persists, driven by factors such as security concerns and stability for some buyers in the region (Lebanese, Israelis, etc.) and Europeans seeking second homes. In comparison, CRE ownership in other countries often involves real estate investment trusts (REITs) or real estate operating companies (REOCs), which differ from Cyprus's less institutionalized market structure.

CRE price index (per type)



Source: Ask Wire.



²Data depicted in this section is based on the Ask Wire index (Q4 2022). The index relies on a methodology involving hypothetical properties in various key markets in Cyprus, which are subsequently valued by professional valuers.

02 | Real estate market performance

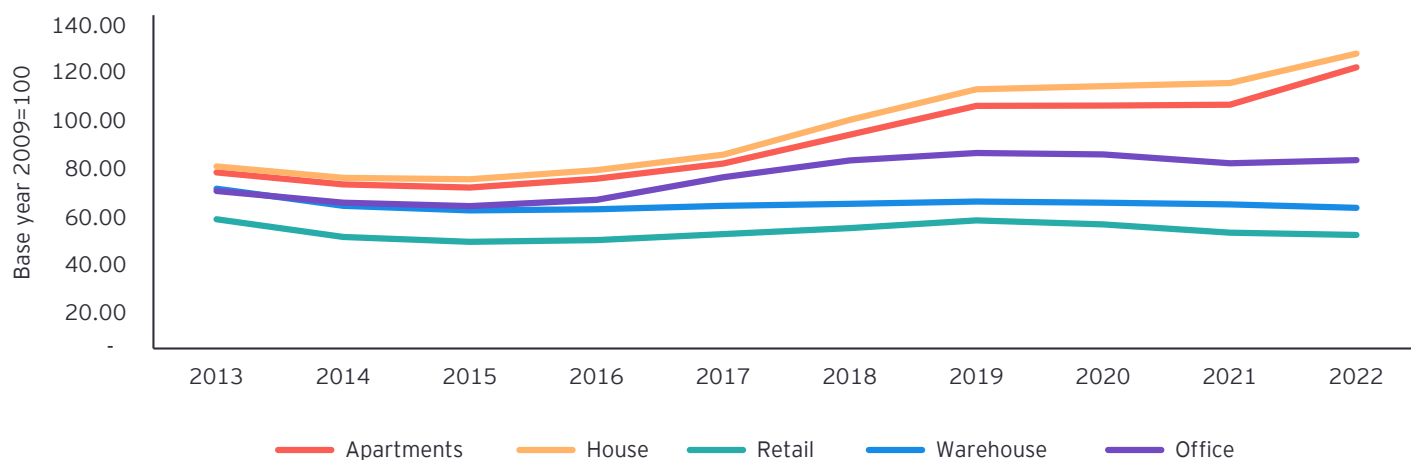
Rents: rates evolution (1/2)

This section aims to explore the rent rates and yield evolution, offering a comprehensive understanding of the prevailing trends.

The increase in rents in 2022 was more noticeable than the increase in sales prices. This is attributed to increased demand from both Cypriots and foreigners. Many foreign individuals and companies have set up a corporate base in Cyprus to either benefit from the tax structure and ease of doing business, or flee the war and unrest in their own countries. These individuals usually choose to rent before they buy. Moreover, as inflation takes its toll, owning a house has become significantly more expensive, adding to the challenges faced by potential homeowners. Furthermore, mortgage rates have become considerably higher, making the prospect of purchasing a house even more financially demanding.

Apartments and houses led the growth in rents, with a yoy increase of 15% and 11% respectively. Both apartments and houses have also been growing on a 5% CAGR for the past 10 years. For offices, rental growth eased but maintained a 0.2% growth yoy, while rents for retail and warehouses fell marginally by 0.2%. These figures reflect the trends of online shopping, reduced physical shop footprint and remote working. Rapid increases for residential, on the other hand, are mainly justified by increased demand from both locals and foreigners, while another driver is university students flocking back to university post-pandemic. In addition, there is an increasing number of highly paid foreign workers as explained in previous sections of the report.

Rental index by type (2013–22)



Source: Ask Wire, EY analysis.

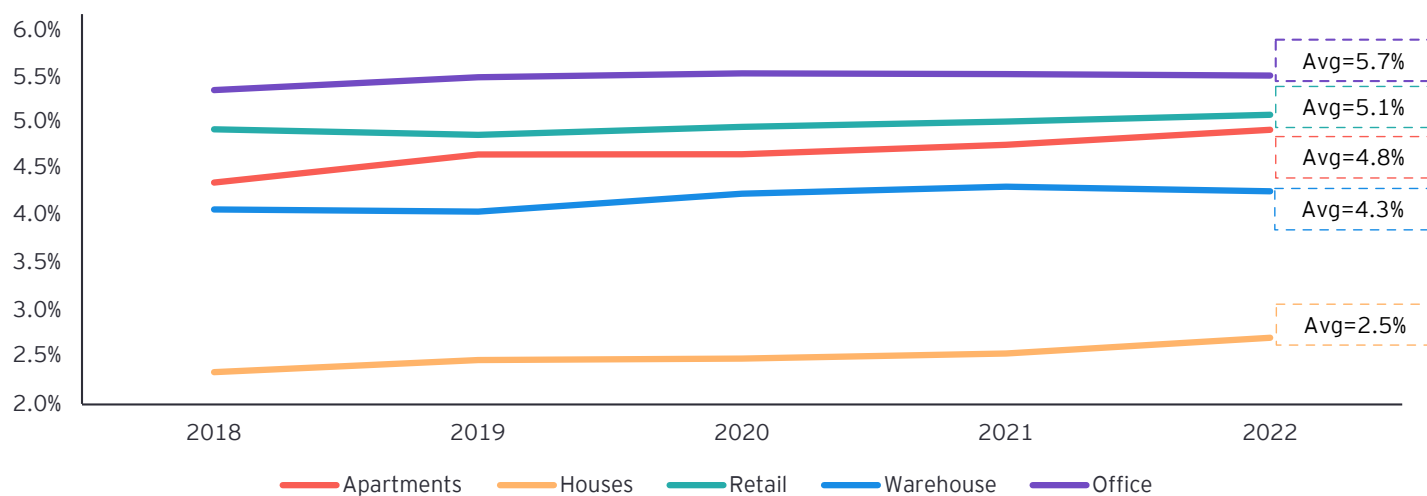


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Rents: rates evolution (2/2)

Over the period under review, apartments have increased by 100 basis points (bps) and houses by 50 bps. The rest of the asset classes increased by approximately 10 to 20 bps. It is important to note that yields vary greatly by district. Limassol, Nicosia and Paphos, for example have higher-than-average yields for apartments, ranging from 4.5% to 7%. Nicosia offers the highest yields in all other asset classes, with an average of 5.3%, followed by Limassol (5%), Larnaca (4.5%) and then Paphos (4.3%) and Famagusta (3.8%)

Running yields per property type (2018–22)



Source: Royal Institute of Chartered Surveyors (RICS), EY analysis.





Real estate market supply factors



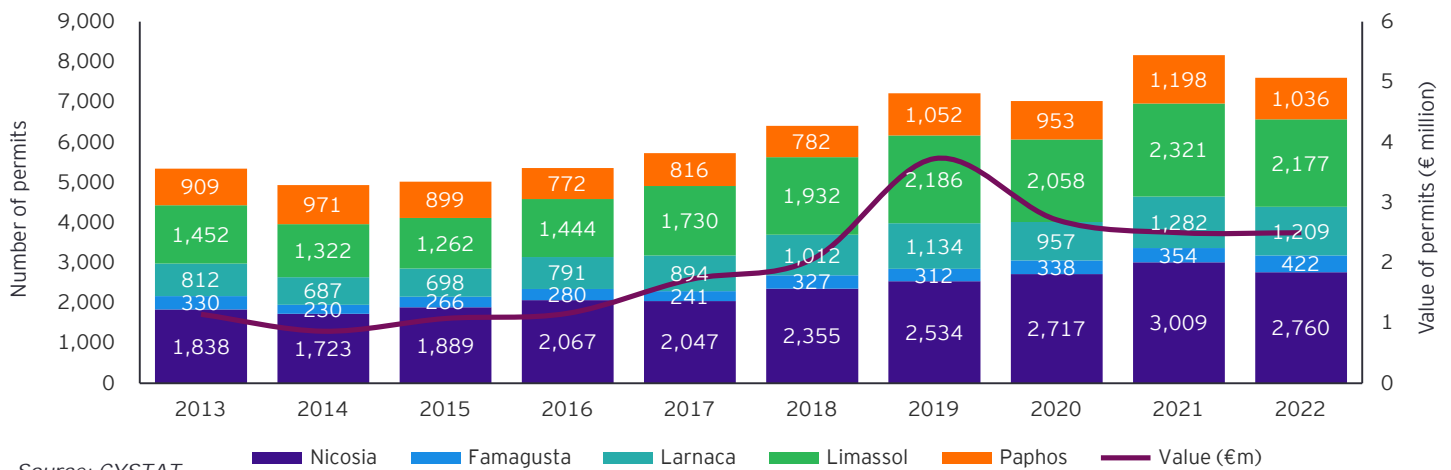
03 | Real estate market supply factors

Building permits

Having explored the demand aspects of the Cyprus RE market, we shift to various facets of the supply side. Our analysis starts with an overview of building permit applications and their significance.

The building permit is the last permit required to be issued before the commencement of any construction activities. Consequently, it is not considered as an “opportunistic” permit, but an execution permit issued only for projects that are more likely than not to be developed. Statistics on building permits constitute a key indicator of the performance of the RE market and the supply available. They are a proxy for the new stock that will enter the market, which in turn reflects the overall sector performance. For the past five years building permit numbers have been growing on a 5% CAGR. For the year 2022, a decrease of 7% in the total permits issued was noted, while values remained about the same. The reduction in the permits in 2022, may reflect fears over changing buyer behaviors and falls in demand due to long periods of inflation and high interest rates.

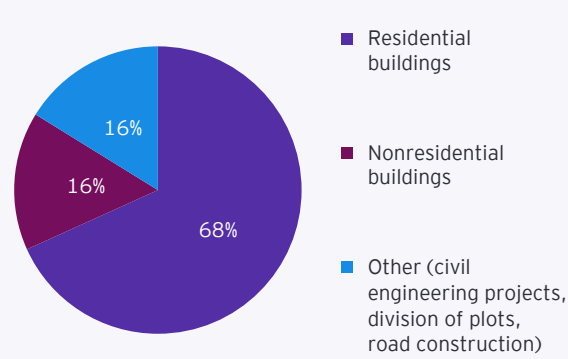
Number and value of building permits per district (2013–22)



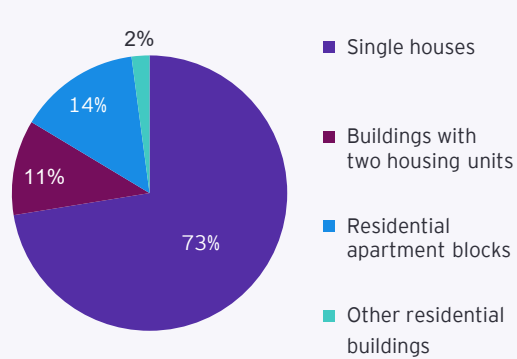
Source: CYSTAT.

In terms of type of properties that are licensed, residential assets encompass the vast majority, representing three out of four permits issued. Apartment blocks represent around 14% of the total building permits, while 73% represent single houses. Building permits issued for office units equate to approximately 9% of the total, in terms of number of permits.

Building permits per asset type



Building permits per residential type



Source: CYSTAT.

03 | Real estate market supply factors

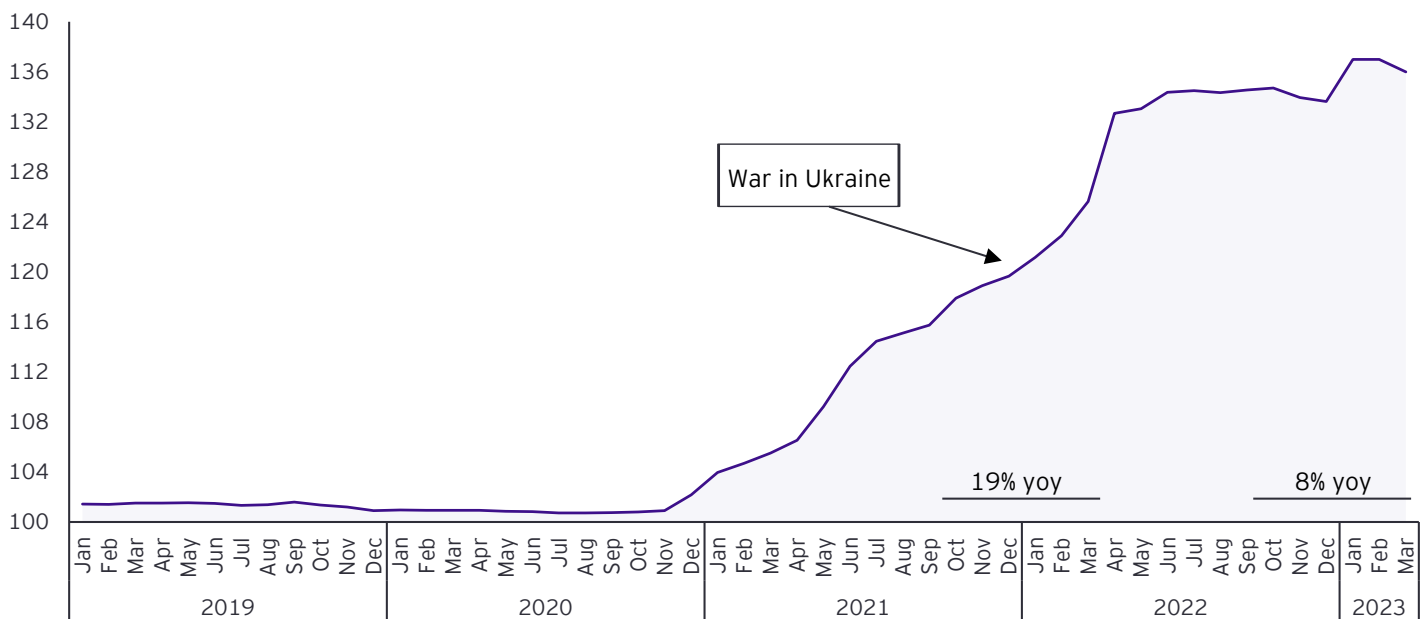
Construction costs and output (1/2)

This section focuses on the pivotal role of construction costs in shaping RE supply and how the construction output has changed over time.

Adding to the inflationary pressures worldwide following the COVID-19 pandemic, the war in Ukraine has caused further widespread supply chain disruptions and inflating of raw materials and energy costs. In combination with the soaring material prices, the supply chain disruptions have threatened Cyprus's construction ecosystem by delaying projects and causing promoters to reconsider their strategies.

Indicatively, from 2021 to 2022, construction costs rose by 19% yoy. Construction costs in 2022 reached a historical high since 1986 (when data was first collected). By main commodity category, increases were recorded in metallic products, products of wood, insulation materials and minerals, among others. It seems as if the rapid growth of prices is stabilizing, as yoy growth between March 2022 and the same month in 2023 stood at 8%.

Price index of construction materials (2019 to Q1 2023)



Source: CYSTAT.



03 | Real estate market supply factors

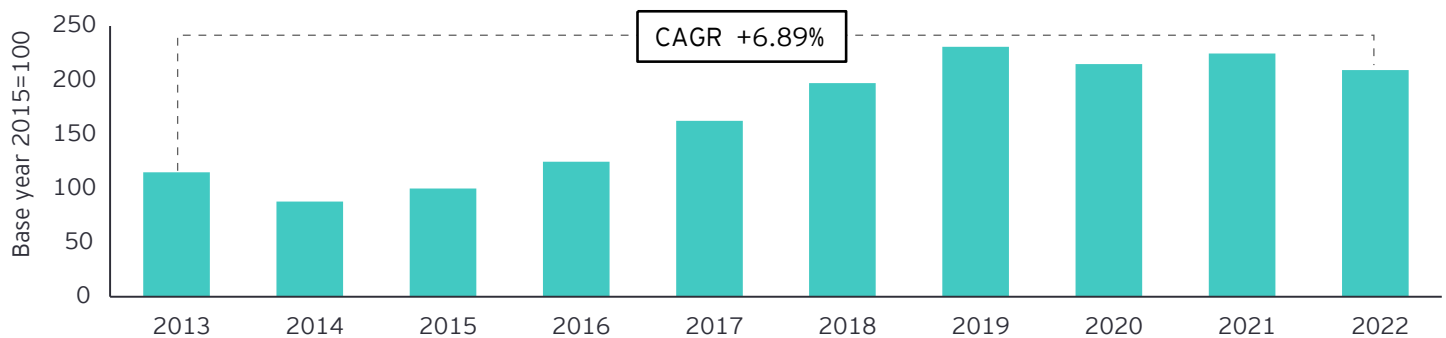
Construction costs and output (2/2)

The index of production: construction of buildings serves as a business-cycle indicator, meticulously gauging the inflation-adjusted fluctuations in the production of diverse building structures such as houses and towers.

Analyzing the graph below reveals a noteworthy trend: Since 2013, the output in the construction of buildings has exhibited a robust CAGR of 6.9%. This trend underscores the dynamic growth in the supply of buildings within Cyprus, effectively catering to the escalating demand. Interestingly, this growth in output appears to have endured even in the face of the aforementioned surging prices, a testament to its resilience. This output encapsulates projects initiated several years prior, indicating a buffer against the immediate impact of fluctuating market conditions. The observed 7% decline in 2020, compared with the previous year, can be largely attributed to the far-reaching impact of COVID-19 restrictions on workplaces and trade bans. These measures substantially disrupted construction activities and had a cascading effect on the overall output.

Similarly, the 7% decline experienced in 2022 could be ascribed to a confluence of factors including higher construction costs.

Index of production: construction of buildings



Source: CBC.





Industry sentiment

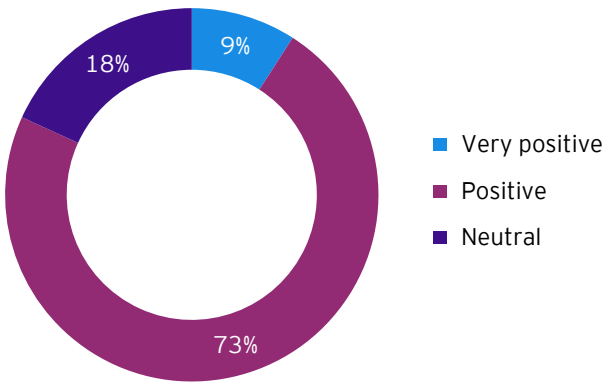


04 | Industry sentiment

EY survey results (1/5)

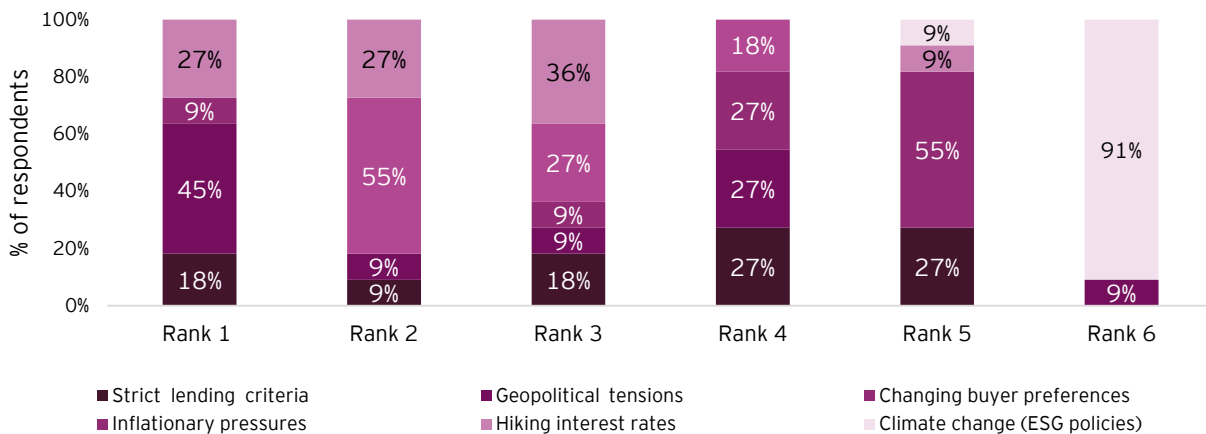
To gauge the feelings and opinions of key sector stakeholders for the remainder of the year, we conducted a pulse survey between June and July 2023. Participants included a diverse group of RE stakeholders, such as developers, contractors, asset managers, real estate advisors, agents, financial institutions and non-performing loans (NPLs) servicers. The primary objective of the survey was to document the participants' current expectations and perspectives concerning different aspects of the sector. It is important to note that the responses obtained represent the views of the participants at the specific time the survey was conducted.

Q1 Overall, what is your sentiment for the RE industry for the next six months?



As shown in the adjacent chart, there is an optimistic sentiment among key stakeholders regarding the sector's future. A staggering majority expressed a positive outlook for the upcoming six months, with a remarkable 82% of respondents conveying their confidence in the sector's growth and potential. By contrast, a mere 18% adopted a neutral stance, indicating cautious optimism. Notably, the survey unveiled a striking absence of pessimism, as not a single participant responded with a negative outlook. This resoundingly positive sentiment among key stakeholders bodes well for the Cypriot RE market, hinting at potential opportunities and prosperity on the horizon.

Q2 Please rank the following macro challenges on a scale of 1 (major impact to Cyprus RE) to 6 (minor or no impact to Cyprus RE) for the next six months



The responses to this ranking question exhibited significant diversity among the participants. It is remarkable to note that nearly 50% of respondents regarded geopolitical tensions as the primary factor expected to exert a major impact on Cyprus RE in the upcoming six months. Meanwhile, over 50% of the respondents identified inflationary pressures as the second most influential factor. On the other hand, more than half of the participants considered changing buyer preferences to have the second-to-last impact on the RE market. Strikingly, climate change (ESG policies) was ranked the least important, with nine out of ten respondents ranking it as the least influential factor.

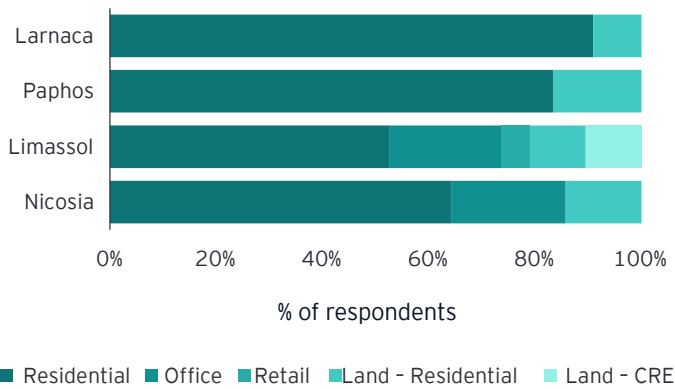
Source: EY survey.

04 | Industry sentiment

EY survey results (2/5)

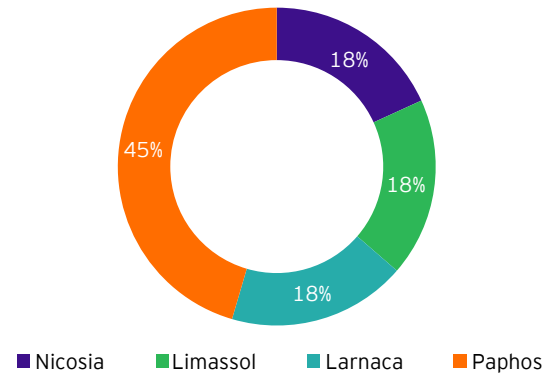
Q3

Which asset class do you consider will prevail investor preferences in each district?



Q4

Please choose the district that you consider will pose the greatest opportunity over the next six months



Strikingly, 90% of respondents showed a strong inclination toward residential and land (residential) options in all districts. Offices were cited by only a small fraction of the respondents and only for Limassol and Nicosia. Retail and CRE land was even less favored. Notably, no respondents cited a preference for industrial assets, suggesting limited demand for this segment.

The survey revealed varied perceptions. Respondents viewed Limassol as their favorite district but also consider Paphos an opportunity, due to its affordability compared with Limassol. Those interested in Larnaca also see it as a more budget-friendly option.

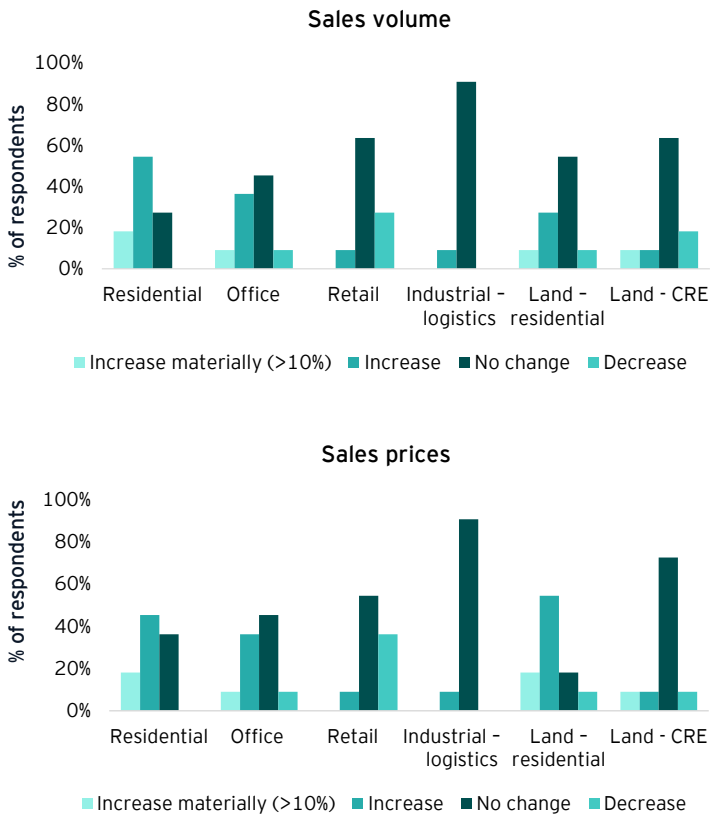


04 | Industry sentiment

EY survey results (3/5)

Q5

How do you expect sales volumes and prices to change over the next six months?



The two adjacent graphs clearly demonstrate a strong correlation between sales volumes and prices, as they closely track each other in terms of responses. The majority of stakeholders anticipate an increase in transactions for residential properties driven by both foreign and local investment, with a particular focus on apartment transactions. For offices, most stakeholders expect either no change or a moderate increase, as they believe that the recent transactions made for under-construction projects will maintain stability in the short term. By contrast, the retail sector is projected to experience a decrease or remain stagnant due to the adverse global demand for retail properties. As for industrial properties, stakeholders expect little to no change, considering Cyprus's limited focus on logistics due to its island location. Residential land follows the same upward trend as residential properties, with many expecting developers to purchase land for constructing new apartment blocks to meet the rising demand. Land in the commercial RE sector, on the other hand, is expected to remain constant, while demand for offices, retail and logistics is expected to stabilize. It is important to note that no respondent believes that volumes and prices in this category will decrease.

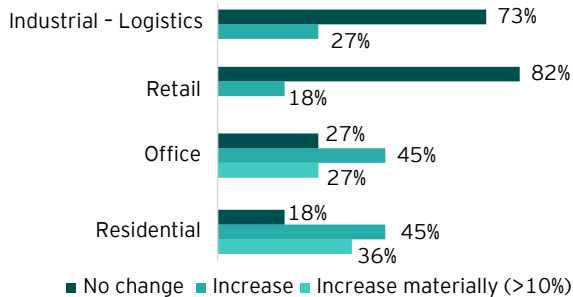
Source: EY survey.



04 | Industry sentiment

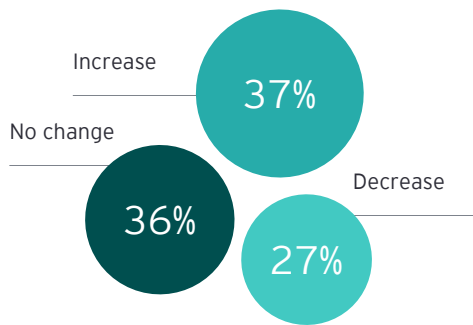
EY survey results (4/5)

Q6 How do you expect rents to change in the next six months?



Respondents expect no change in rents for industrial and retail assets, in line with demand trends from sales data. For offices and residential properties, nearly half foresee a modest increase, while 27% and 36% respectively expect a severe increase, indicating a positive outlook for rental rates in these sectors. Rents are largely expected to follow the trend of prices.

Q7 How do you expect construction costs to change over the next six months?



It is intriguing to observe the diverse range of responses concerning the anticipated change in construction costs. Some stakeholders, who anticipate either no change or a decrease, base their perspective on the notion that the impact of inflation and the war in Ukraine has already been factored into the current prices, leading to a cessation in further escalation. On the other hand, there are those (37%) who believe that the full effect of these factors has not yet reached its maximum, leading them to expect continued increases in construction costs.

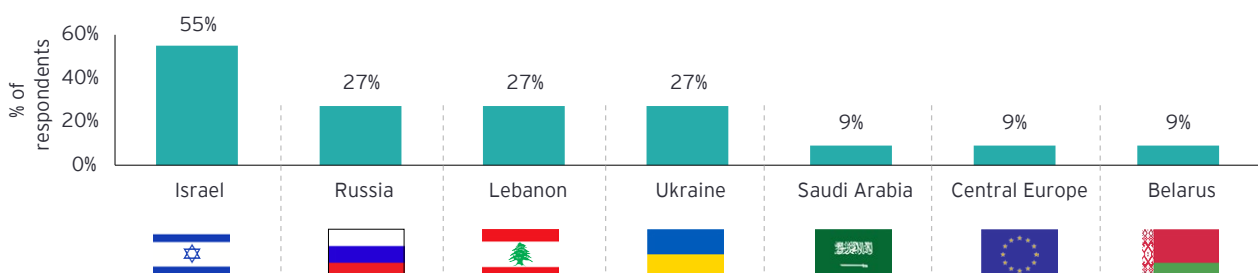
Q8 With respect to foreign investors, what do you think has changed in terms of their profile and preferences during the past 12 months?

Survey respondents reported that in 2023, the foreign nationals expressing interest in Cyprus mainly comprised high-income investors and developers, with a growing focus on residential and commercial properties and a shift toward Larnaca and Paphos, at the expense of Limassol. Having said this, Limassol remains a key destination for them, due to its cosmopolitan lifestyle and business friendly ecosystem.

Significant inflows of Israeli investors and developers stood out, showing interest in both residential and commercial RE around the island. These investors cite safety as a key factor driving their interest in Cyprus. In Limassol, middle- to high-income investors were drawn, while Larnaca attracted mostly those with lower income. Larnaca also continues to be popular with Lebanese and other Middle Eastern investors and developers.

Notably, substantial inflows of Russian investors with higher social standing continue to be witnessed in Limassol. Many young Russians are relocating to Cyprus due to safety reasons and ease of doing business. This trend was also observed among investors from Ukraine and Belarus, who also showed a preference for Limassol. They primarily targeted residential properties for personal use, as well as offices for headquartering reasons.

The following graph presents the perception of participants who identified investors from the nationalities listed below.



Source: EY survey.

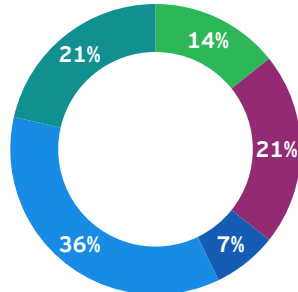
04 | Industry sentiment

EY survey results (5/5)

Q9

With respect to foreign buyers, what has been the main reason for buying property in Cyprus during the past two years?

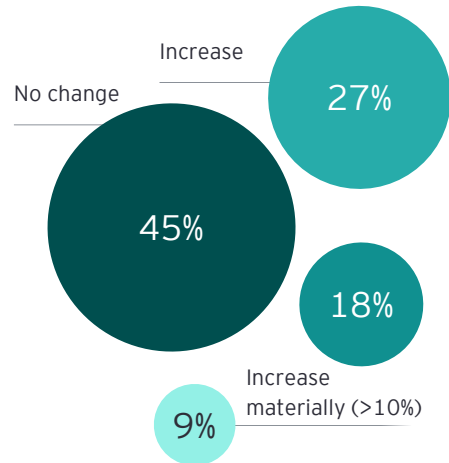
- Investment purposes
- Residency and visa schemes
- Lifestyle choices (retiring, holiday homes)
- Security reasons
- Other



More than one-third of the participants feel that foreign buyers are motivated by security reasons, largely influenced by the war in Ukraine and geopolitical tensions or unrest in the region. Another 21% of stakeholders attributed the investments to Cyprus's residency and visa schemes. Additionally, 21% of respondents cite other factors such as headquartering. Only around 14% of the participants feel that investors are exclusively seeking investment opportunities, finding Cyprus attractive for potential returns. Lastly, 7% attributed the investments to lifestyle choices, including retirement and holiday homes, suggesting that the island's appealing lifestyle also plays a role in attracting foreign property buyers.

Q10

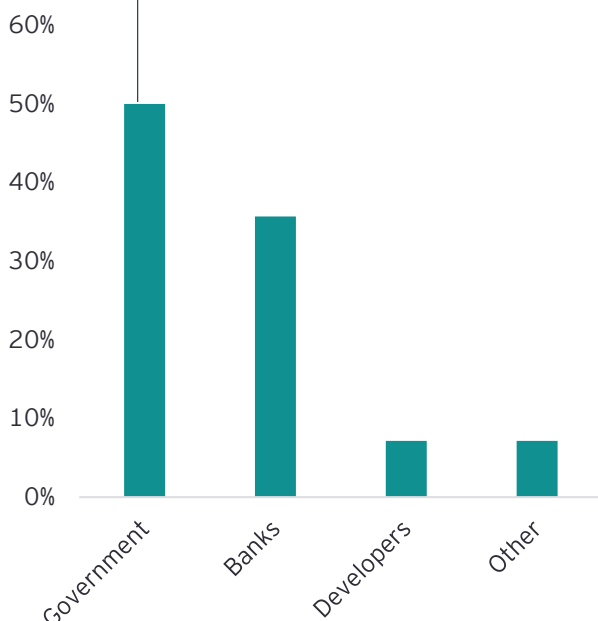
How do you expect foreign investor numbers to change over the next six months?



The participants' expectations on foreign investor numbers show that 45% expect no change, while collectively 36% expect an increase. The prediction of no change might be due to a perceived market saturation and stable demand. Only 18% expect a decrease and attribute it mainly to the high interest rates and global uncertainty.

Q11

Over the next six months, which stakeholder do you consider will mostly affect the RE sector's growth? In what ways could the aforementioned stakeholder help accelerate and sustain the sector's growth?



Half of respondents feel that government is the stakeholder that can mostly affect the sector's growth. One in three participants also cited the banks as a determining factor. By contrast, only 7% of the participants cited developers themselves. The small percentage selecting "Other" referred to the contribution of foreign investors.

To enhance the efficiency of the RE sector, participants offered several suggestions. They proposed that the government further improves its effectiveness in dealing with bureaucracy and praised the different incentives offered in terms of building coefficients, etc. They highlighted the importance of expediting permit applications and approvals through digitalization of services. In parallel, participants cited the positive impact of new large-scale, integrated projects on the development of the sector and the need to support such projects. With regard to the banking sector, they feel that banks should be more accommodating or quicker in dealing with incoming overseas funds and also in providing lending for RE projects and products.

Source: EY survey.



EY Real Estate team



05 | EY Cyprus Real Estate team

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