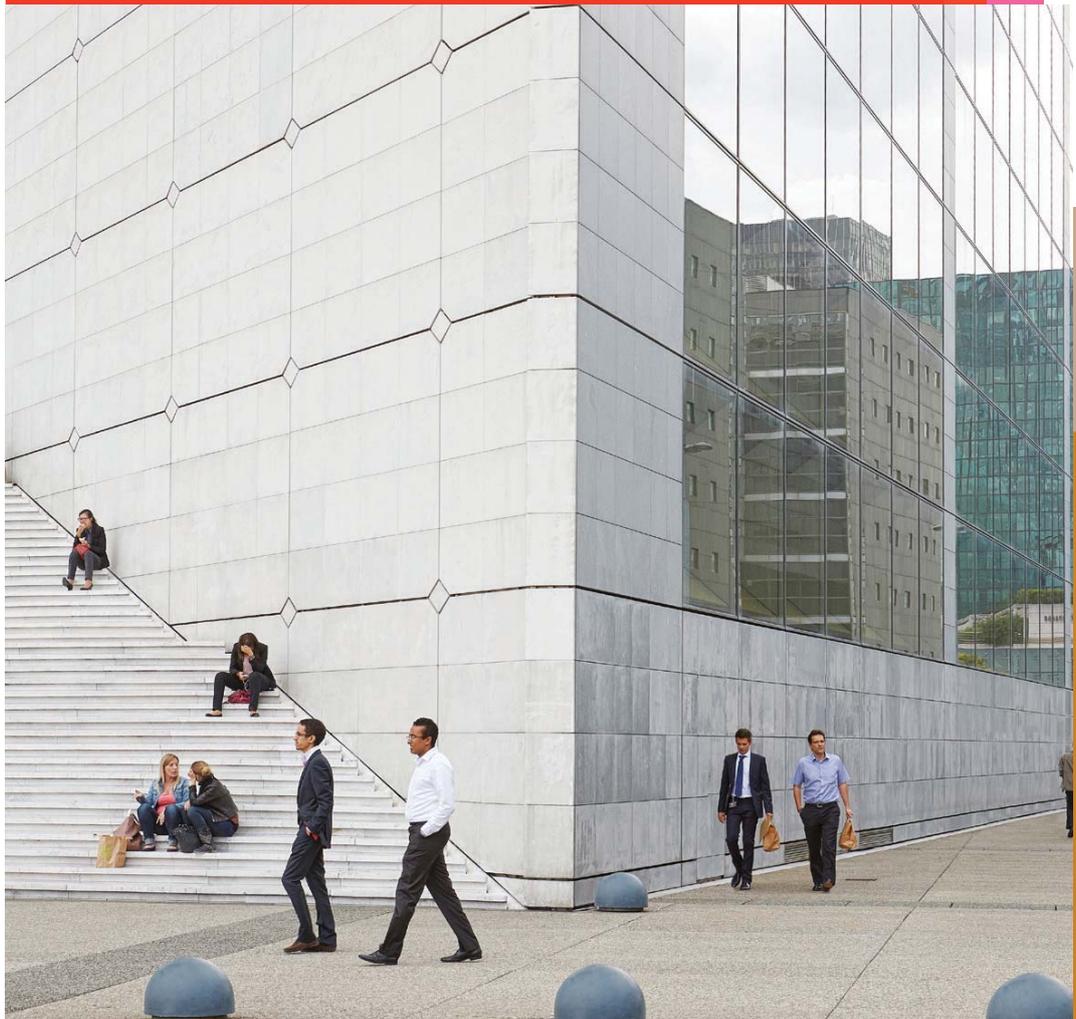


Cyprus Real Estate Market

2016 Year in Review

June 2017





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Foreword



This publication provides information about the Cyprus economy in general and the Cyprus real estate market in particular. The publication provides a comprehensive analysis of the Cyprus real estate market, based on available market data up until December 2016 and using PwC's rich and in-depth market expertise.

At PwC, we provide a 'one-stop-shop' solution offering, handling all issues relating to real estate, including investment support, M&A advisory, legal and tax structuring, valuation advice, as well as accounting advice on real estate assets and leases.

Our dedicated team comprises real estate professionals with robust local expertise. Combined with our strong international network, we are able to offer tailor-made solutions in support of our clients' needs. Whether you are looking to develop, invest, own, lease or dispose real estate property, we can help you make the most suitable decision based on your specific circumstances and requirements.

Evgenios C Evgeniou
CEO
PwC Cyprus

Overview of the Cyprus Economy

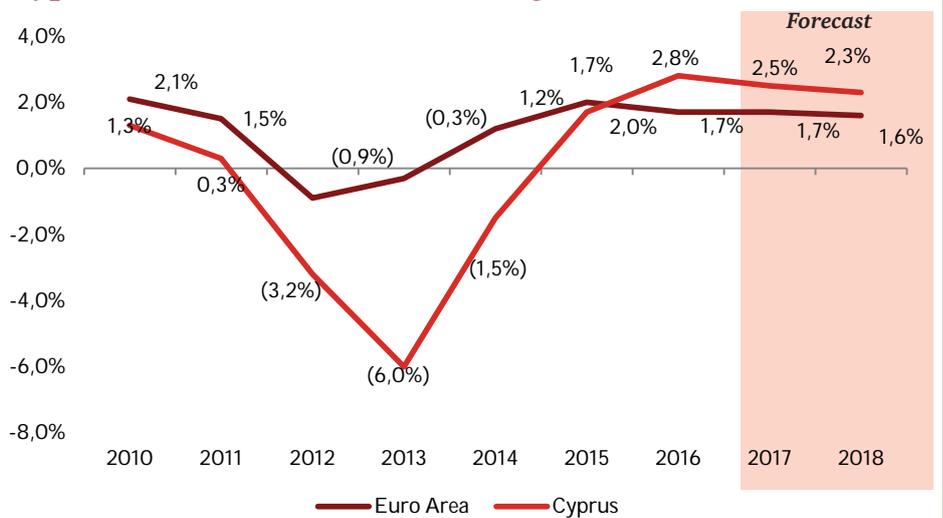
Cyprus Economic Crisis

The severe deterioration of the macro-economy and of the public finances as well as problems relating to the over-expansion of the banking sector led Cyprus to enter into a financial assistance programme in April 2013.

During 2013, when the Cypriot economic crisis was at its peak, GDP contracted by c6,0%, while unemployment stood at a high c15,9%, reaching its peak in 2014 at c16,2%.

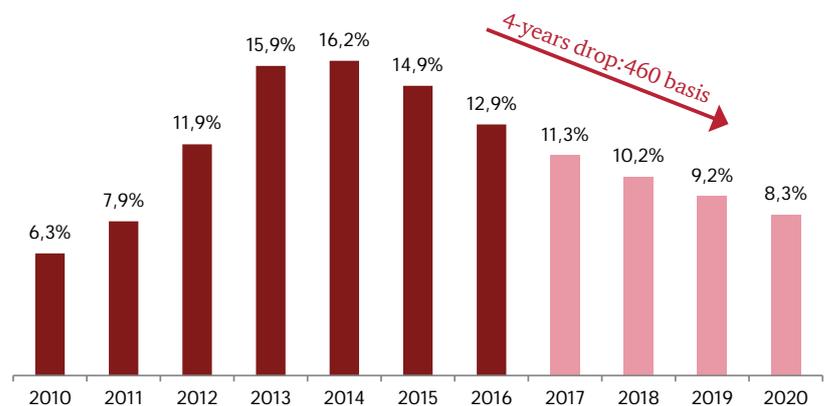
Since 2013, Cypriot economic growth and fiscal performance continuously surpassed expectations while macro-economic projections have constantly been revised favourably. By May 2016, Cyprus managed to exit the financial assistance programme earlier than scheduled having utilised €7,2bn of the €10bn that was made available.

Cyprus vs Euro Area GDP (% change)



Source: IMF (World Economic Outlook Database, April 2017)

Unemployment rate in Cyprus (2010-2020)



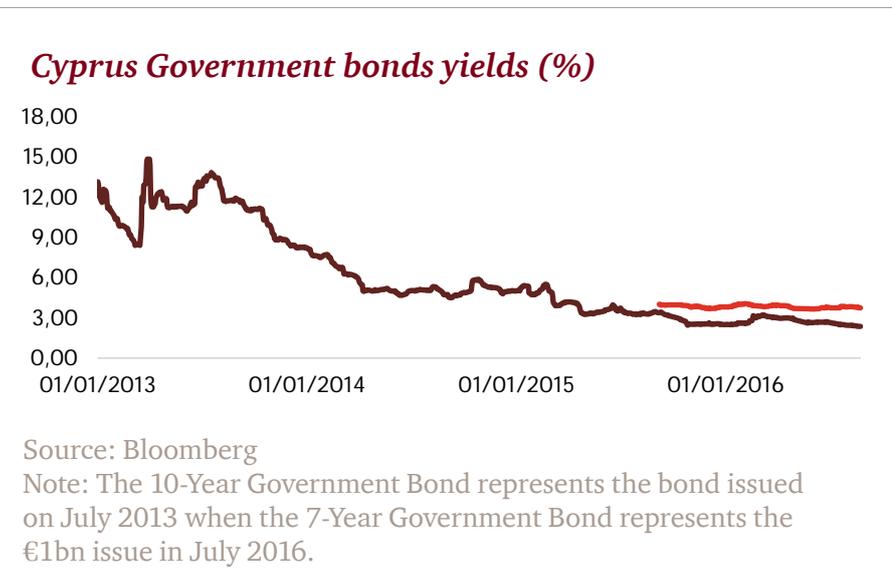
Source: Actual 2010-2016: Cystat, 2017-2020 forecasts, IMF, World Economic Outlook, April 2017: Gaining Momentum?, Eurostat, Labour Force Survey (Last updated 03/2017)

Positive Economic Outlook

The Cyprus economy exhibited positive GDP growth as early as 2015, just 2 years following the peak of the economic crisis. The upward trend was maintained in 2016, placing the island amongst the highest accelerating economies in Europe. According to IMF forecasts, the Cypriot economy will continue on its recovery path with projected GDP growth of c2,5% in 2017 and c2,3% in 2018.

While still relatively high, the unemployment rate has been gradually falling from its peak reaching c12,9% in 2016. As per IMF forecasts, unemployment is expected to drop to c8,3% by 2020 approximating the EU-28 average.

The better-than-expected macro-economic performance also led to a series of credit rating upgrades for Cyprus, enabling the country to tap the capital markets. Yields of 10-year Government bonds, which were priced at c13,5% in 2013, have fallen to c3,48% by the end of 2016, reflecting the strong fiscal performance of the country.



2016 GDP% change (constant prices)	
Ireland	5,2
Malta	5,0
Luxembourg	4,0
Slovak Republic	3,3
Spain	3,2
Cyprus	2,8
Slovenia	2,5
Lithuania	2,3
Netherlands	2,1
Latvia	2,0
Germany	1,8
Euro Area	1,7
Estonia	1,6
Austria	1,5
Portugal	1,4
Finland	1,4
France	1,2
Belgium	1,2
Italy	0,9
Greece	0,0

Source: IMF (World Economic Outlook Database, April 2017)

Credit Rating Agency	Previous Credit Rating	Date Changed	LT Credit Rating (03/2017)	Outlook
Moody's	B3	13/11/15	B1	Positive
S&P	BB	13/03/17	BB+	Stable
Fitch	B+	21/10/16	BB-	Positive

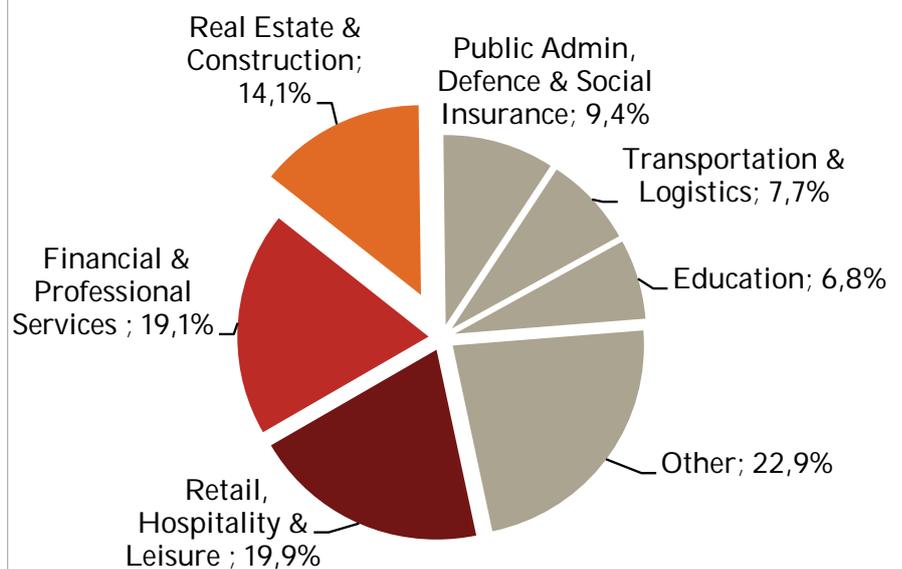
Source: Rating Agencies, PwC Research

Pillars of the Cyprus Economy

The Three Pillars

Hospitality and Leisure, Financial / professional services and Real Estate and Construction sectors constitute the main pillars of the Cypriot economy. Additionally, the energy sector could be an important opportunity for the economy in the longer term.

Cyprus GVA – Sector Contribution (2016)



Source: CyStat- National Accounts (based on preliminary estimates)

Hospitality and Leisure

Tourist Arrivals

Cyprus constitutes one of the most popular travel destinations in south-eastern Europe. Over the period 2004 to 2014, the average number of tourist arrivals were in the range of 2,4mln. In 2015, tourist arrivals recorded an annual growth of 9%, reaching 2,7mln. This increase was largely attributed to the political instability in neighbouring tourist markets, as well as the depreciation of the Euro relative to the GBP, leading to a notable growth in tourist arrivals from the UK (19% YoY). During 2016, the number of tourist arrivals further increased to a record high of 3,2mln representing a YoY increase of c19,9%.





On average, c41% of the tourists visit Paphos, c22% visit the Famagusta area (Ayia Napa and Paralimni), whereas Limassol and Larnaca account for c13% of tourist visits each. Only c9% of tourists visit Nicosia.

The United Kingdom and the Russian Federation constitute the main markets for the tourism industry with visitors from the two countries accounting for c61% of the total in 2016.

The average spending per visitor during 2016 stood at c€742 (2015: c€741).

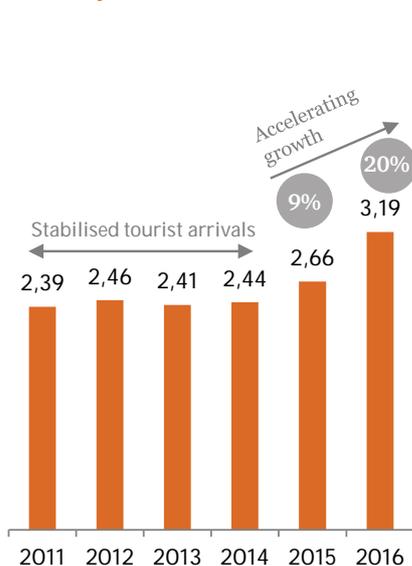
Tourism Revenue

The evolution of revenue from tourism appears to be in line with the trend in tourist arrivals. Total revenue from tourism has been increasing since 2011, reaching its peak of c€2,36bln in 2016.

Sector Outlook

The contribution of tourism to total GVA reached c7,2% in 2016 compared to c6,6% in 2015. As per the World Travel & Tourism Council, the contribution of tourism to GVA is estimated to reach c11% by 2024, through diversification and expansion of product offerings. Possible increase in the tourism revenue, as a result of enhancements in the tourist product, access to new categories of tourists (e.g. casinos, medical tourism, sports / golf tourism) and prolongation of the tourism season, will have a positive boost on the whole of the economy.

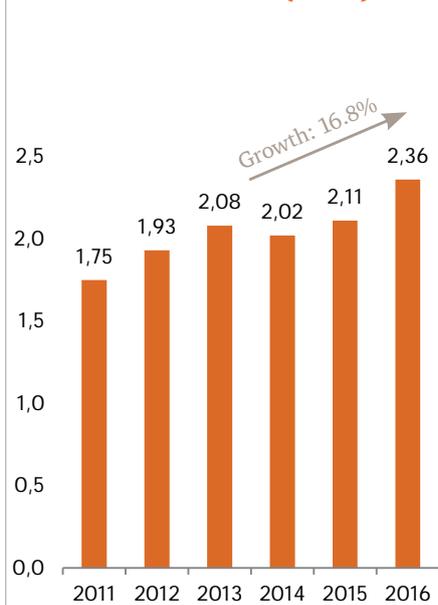
Tourist Arrivals (mln of tourists)



Tourist Arrivals



Tourism Revenue (€bln)



Tourism Revenue





Financial and Professional Services

The financial and professional services sector has become increasingly important over the years as indicated by its almost 20% contribution to GVA and its share in employment. The size and rate of growth of this sector, in combination with the hospitality and leisure sector have transformed Cyprus into a 'service economy'.

Financial and professional services include amongst others banking, accounting, legal and human capital services.

Despite the economic crisis, and particularly the banking crisis of 2013, the international business services sector was not as severely affected, as it was originally expected, as the competitive advantages of the country have remained intact (e.g. tax regime, educated workforce, developed business infrastructure).

Real Estate and Construction

Property prices surged in the years prior to the economic crisis, driven primarily by strong demand from overseas buyers for holiday homes. However, the sector has felt the economic pinch in recent years with a fall in prices and decreased sales; the sector's share in the GVA has fallen by more than 35% since 2010.

More recently, the decline in the real estate and construction sector has begun to ease, showing signs of stability. The sector is anticipated to stabilise further in the short term and exhibit growth in the medium term. Following the banks' restructuring and recapitalisation efforts, it is expected that the real estate market will gradually start to recover given the availability of funding for real estate projects and infrastructure works.





Energy

Natural Gas discoveries in the EEZ's (Exclusive Economic Zones) of Cyprus and Israel exceed 40tcf. The Aphrodite field in the Cyprus EEZ appear to hold around 5 tcf of gas with US based Noble Energy having made the most important discoveries in the EEZs of Cyprus. The Cyprus Government is currently in discussions with Noble Energy aiming to reach an agreement soon for the commercialisation of the Aphrodite discovery. Total of France, Exxonmobil of the USA and the consortium of Eni of Italy and KOGAS of Korea have also been awarded offshore blocks in the Cyprus EEZ and there are drilling and other exploratory activities scheduled for these blocks.

Although significant risks exist in relation to the exploration and exploitation of the natural gas in the Cypriot EEZ, the economy could benefit considerably from its exploitation. Such benefits include:

- Foreign direct investment (e.g. LNG terminal) that can contribute towards job creation;
- Indirect positive impact on the revenue of various service providers that provide complimentary/ satellite services to energy companies;
- Positive impact on the local economy in general through the potential improvement of GDP, employment rates, government finances and trade deficit/surplus;
- Potentially lower energy cost for Cypriot businesses.

Concurrently, the government of Cyprus is encouraging renewable energy initiatives through the provision of subsidies; to this end, the first large scale renewable energy projects, such as wind parks and photovoltaic parks have been established.



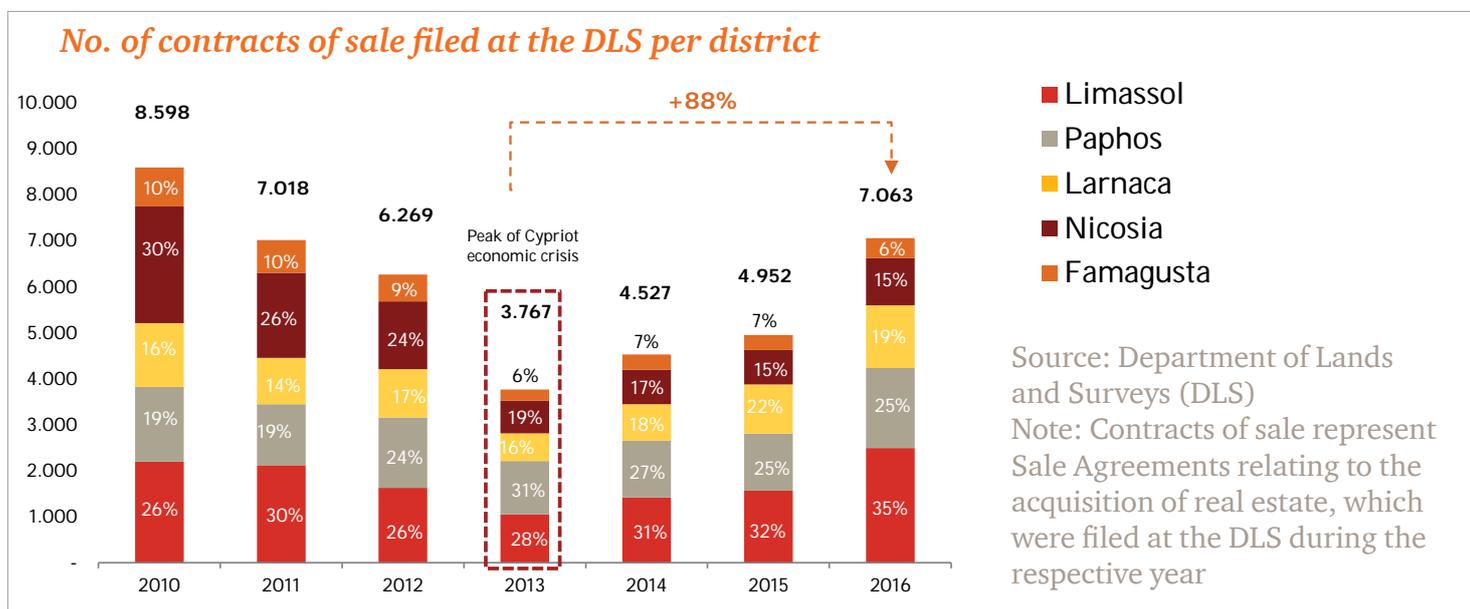
Cyprus Real Estate Sector

The Boom Period (2004 to 2009)

During the period 2004 to 2009, substantial financing was provided to real estate developers, as well as to individuals for the purchase of land and other types of real estate property. The Cypriot real estate market flourished with strong demand for property, both by foreign holiday home seekers and local primary residence buyers.

Severe Contraction (2010 to 2013)

Decline in the real estate sector commenced in 2010, mostly as a result of the drop in demand for property by foreigners following the European economic downturn. The decline accelerated in 2013 when the Cypriot financial crisis was at its peak. Specifically, during the period 2010 to 2013 the number of sale contracts filed at the Department of Lands and Surveys (DLS) dropped by 56% reaching 3.767 in 2013. Real estate sales in Nicosia and Ammochostos districts were affected the most; demand in Paphos, Larnaca and Limassol districts has been less affected, attributed to demand from foreign buyers in these areas.



Period of Recovery (2014 to date)

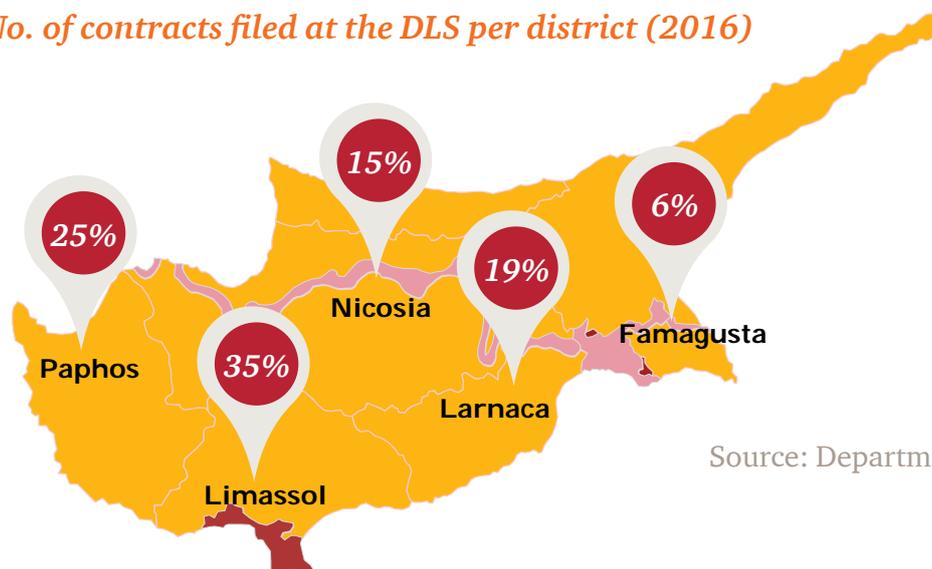
Throughout 2014 and 2015, there were signs of improved transaction activity. As a result of improved confidence in the Cyprus economy and the real estate market, a further significant increase was recorded in 2016 with total sales reaching a six-year high of 7.063 (YoY increase of 43%).

The increase in real estate property transactions observed in 2016 was largely driven by:

- The introduction of property tax incentives and the government's citizenship program, which has attracted mainly non-EU (Chinese, Russian, Indian and UAE) buyers;
- Transactions recorded by local banks in the context of implementing Debt-for-Asset (DFA) swaps for the restructuring of their Non-Performing Exposures (NPEs);
- Increase in relatively cheap available debt funding, as a result of intense competition in the banking sector combined with excess liquidity on banks' balance sheets.

No. of sale contracts	% annual growth (2016)	CAGR (2010 – 2016)
Nicosia	37,7%	(13,9%)
Limassol	59,4%	2,1%
Larnaca	26,9%	(0,4%)
Paphos	40,2%	1,2%
Famagusta	34,6%	(10,5%)

No. of contracts filed at the DLS per district (2016)



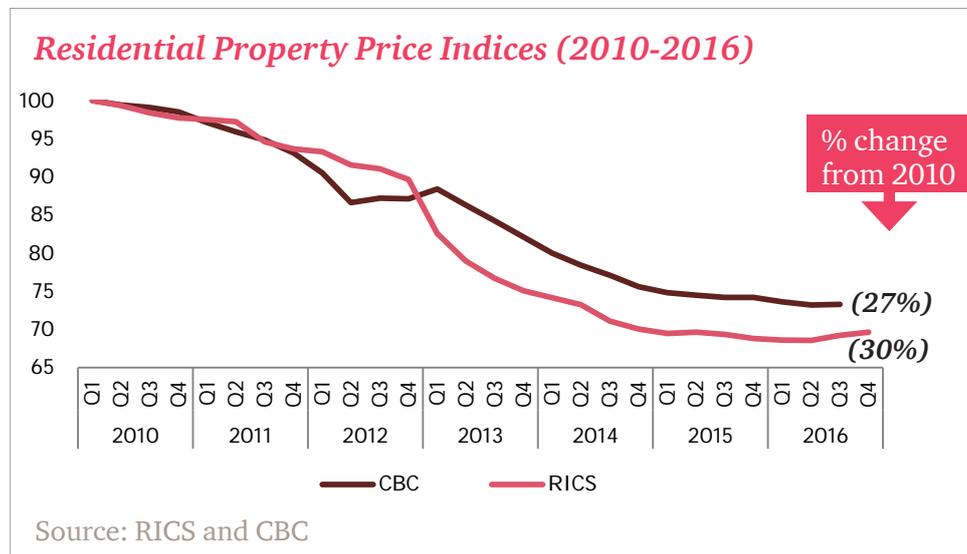
Source: Department of Lands and Surveys (DLS)

Real Estate Price Evolution

Residential Property Prices

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

Both indices have exhibited a negative trajectory since 2010, reflecting the declining trend in demand for residential property, including demand for holiday homes by foreign buyers. This negative trajectory continued until 2015, resulting in an overall drop in residential property prices in the region of 27% to 33% compared to 2010 values.



Annual price change	2011	2012	2013	2014	2015	2016
RICS (Residential Index)	(4%)	(4%)	(16%)	(7%)	(2%)	1%
CBC (Housing Index)	(5%)	(6%)	(6%)	(8%)	(2%)	(1%)

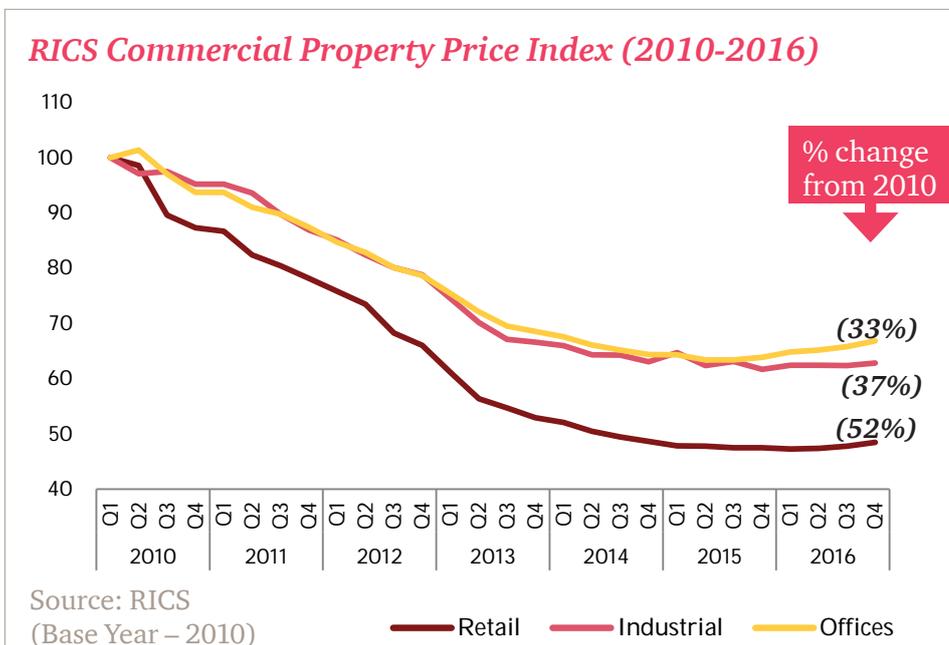
Price stabilisation

Commercial Property Prices

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

During the period 2010 to 2013, commercial property prices experienced consecutive and sharp decreases. During 2014 to 2015, prices continued to drop albeit at a slower rate. The decline in commercial properties mainly reflected cost cutting measures and downsizing behaviour by businesses in Cyprus as a reaction to the economic crisis and the lack of available debt funding (for investment / acquisition). Overall, according to the RICS price index for commercial properties, during the 6-year period to 2016, prices exhibited a c33% drop for offices and c37% for industrial properties; the most significant drop was recorded in the retail property segment (c52%).

By 2016, price index movements demonstrated signs of stabilisation and marginal improvement. Specifically, the annual price increase for retail and industrial properties was c2%, while for offices, prices exhibited growth of 5% primarily due to increased demand for Grade A office space.



Annual price change	2011	2012	2013	2014	2015	2016
Retail	(10%)	(16%)	(20%)	(8%)	(2%)	2%
Industrial	(9%)	(9%)	(15%)	(5%)	(2%)	2%
Offices	(7%)	(10%)	(13%)	(6%)	(1%)	5%

*Indicative characteristics for the RICS index: Retail – high-street retail, 100m², ground floor area with 50m² mezzanine; Industrial – Light industrial area 2.000m², office space 200m²; Office space – Grade A, city centre location, 200m².

Signs of stabilisation (early 2016) and marginal increases (end of 2016)

Foreign Transaction activity

Foreign Buyers

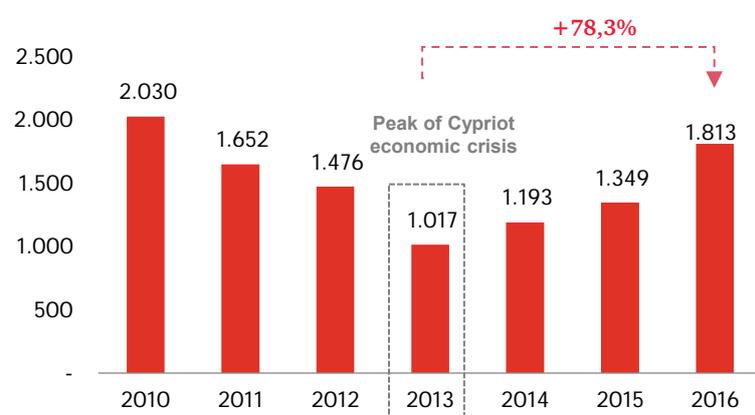
In line with the overall decline in real estate transaction activity across Cyprus, during the period 2010 – 2013, the number of properties for which sale contracts were filed at the DLS by foreigners, dropped by 50% reaching 1.017 in 2013.

Throughout 2014 and 2015, demand from foreign buyers increased, demonstrating a CAGR of c15%. In 2016, a further significant increase was recorded with total properties reaching a six-year high of 1.813 (YoY increase of 34%).

During 2016, the highest volume of properties for which sale contracts were filed by foreign buyers, was recorded in Paphos (35%), followed by Limassol (34%) and Larnaca (18%).

The large majority of sales to foreigners relate to residential properties. During the past few years such sales have been increasing as a result of the revisions to the Cyprus Citizenship Program for investors.

Foreign Transactions: No of properties for which sale contracts were filed by foreigners (2010-2016)



Source: Department of Lands and Surveys (DLS)

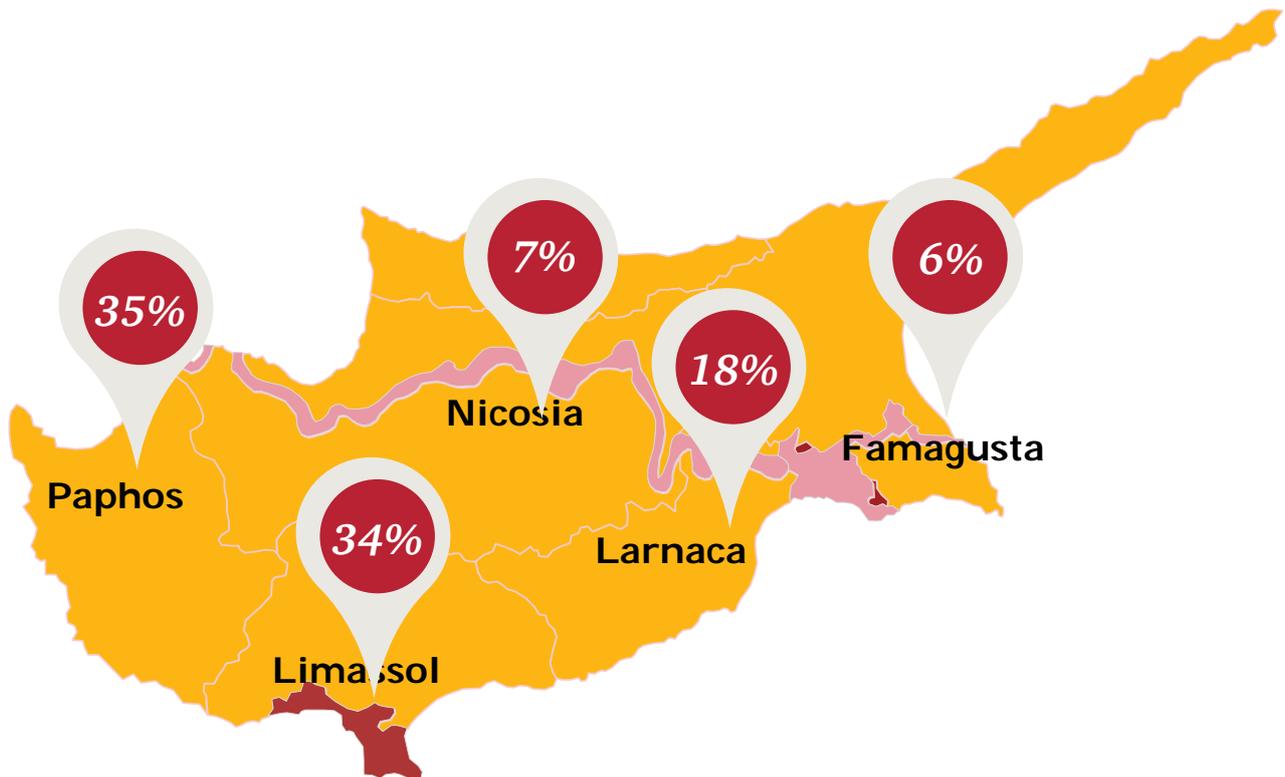
Foreign Transactions: Geographic distribution of properties for which sale contracts were filed (2010-2016)

	2010	2011	2012	2013	2014	2015	2016
Nicosia	16%	16%	12%	9%	8%	7%	7%
Limassol	23%	23%	24%	26%	24%	29%	34%
Larnaca	15%	19%	15%	13%	20%	22%	18%
Famagusta	14%	14%	12%	8%	10%	6%	6%
Paphos	32%	29%	37%	44%	38%	36%	35%
Total	100%						

Source: Department of Lands and Surveys (DLS)



Foreign Transactions: Geographic distribution of properties for which sale contracts were filed (2016)



High-end residential property segment (> €1,5mln)

Demand for high-end residential property (>€1,5mln)

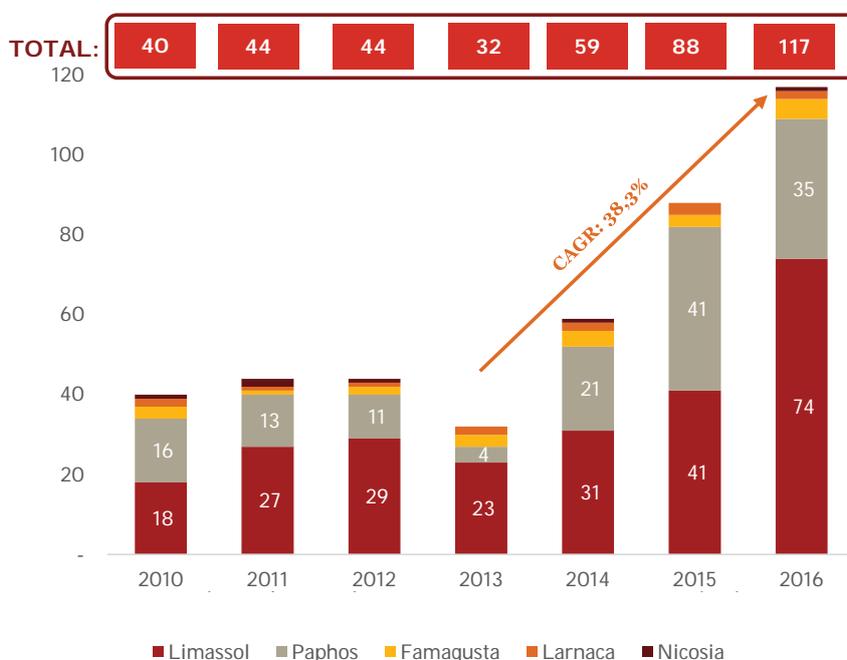
Up until 2013, sales of high-end residential properties across Cyprus were stable, averaging 40 units per annum.

From 2014 onwards and following revisions to the Cyprus citizenship program for investors, demand for this type of properties increased substantially. By 2016, the number of high-end residential transactions had almost quadrupled compared to 2013.

The majority of transactions in the high-end residential segment across Cyprus is within the €2mln - €3mln band.

Demand for properties in excess of €3mln has been increasing over the years; this is largely the result of the launch of new high-end residential developments in the market increasing the supply of units of this price range.

No. of residential transactions over €1,5 million



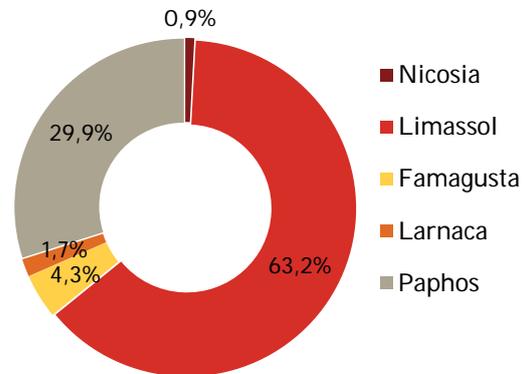
Source: Department of Lands and Surveys, PwC analysis

Distribution of high-end residential transactions per district

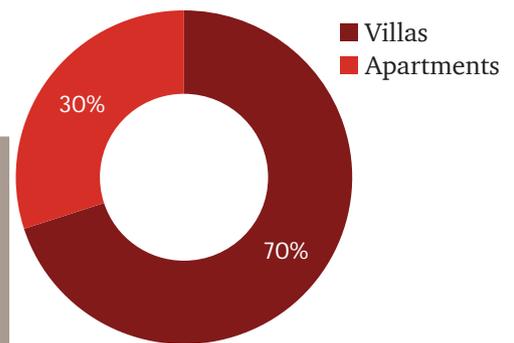
Limassol actively responded to the increased demand for this type of properties with an increasing number of high-end residential projects currently being developed or planned. Accordingly, Limassol has been the preferred location for transactions of high-end residential properties (c63,2%

of total transactions for 2016) followed by Paphos (29,9%). During 2016, 70% of high-end residential property transactions in Limassol related to apartments, with the remainder 30% relating to villas. As regards Paphos, all high-end residential transactions recorded in 2016 related to villas. Nicosia, Larnaca and Famagusta represent the least active districts, with transactions ranging between 1 and 5 per annum in total.

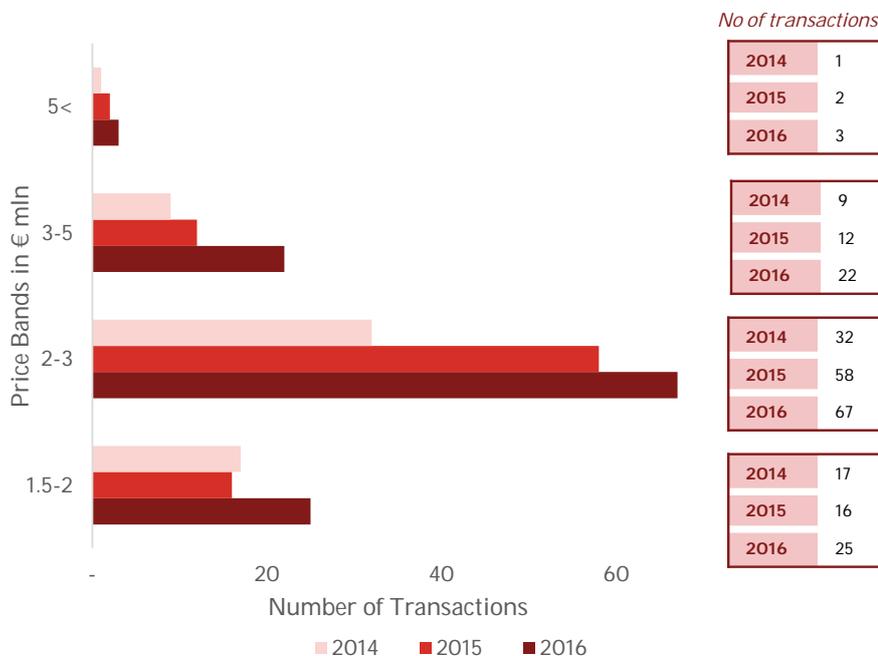
Distribution of high-end residential property transactions per district (2016)



Distribution of Limassol high-end residential property transactions per type of property (2016)



Transaction Volume by Price Band



Source: Department of Lands and Surveys, PwC analysis

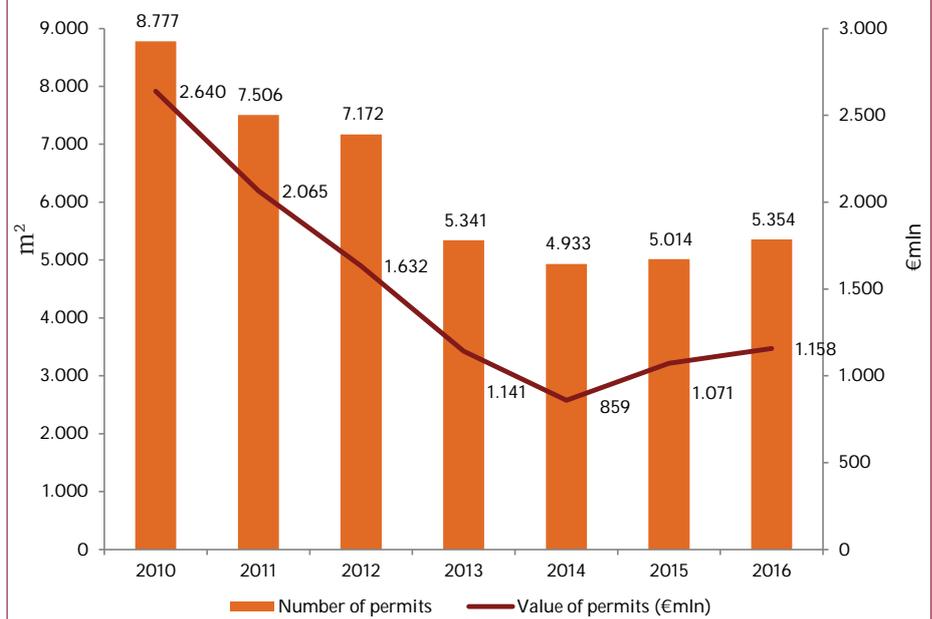
Construction Activity

Building Permits

Construction in Cyprus experienced severe deceleration during the period 2010-2014. This was driven by depressed demand (and thereby oversupply of properties), lack of funding and restricted public expenditure in infrastructure projects as a result of the economic crisis. Specifically, during the period 2010 to 2014, the number of building permits dropped by 44% in total.

However, in line with Cyprus' economic recovery and given increased demand for properties, building permits have exhibited CAGR of 4,2% during the 2-year period to 2016.

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

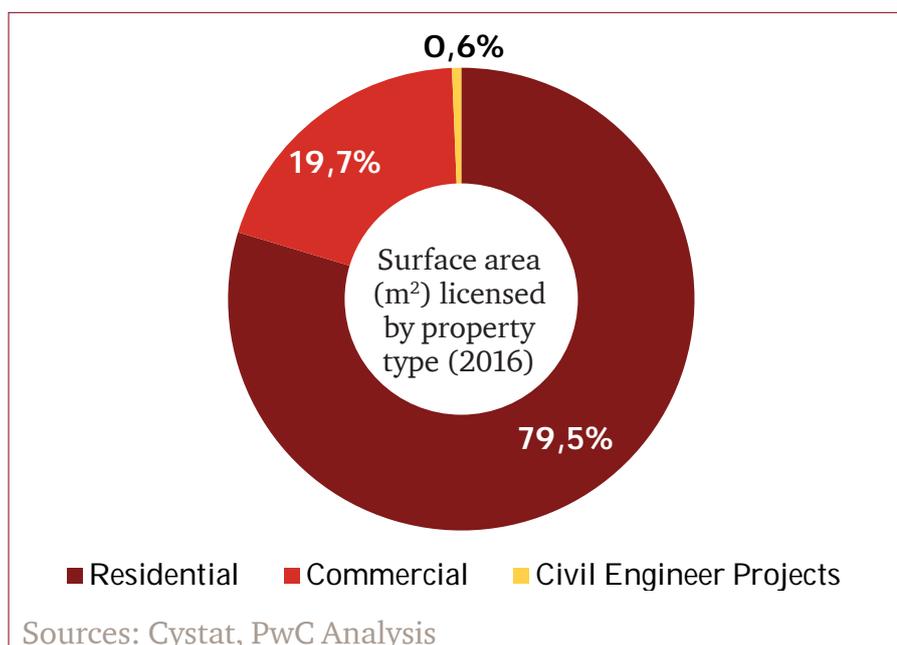
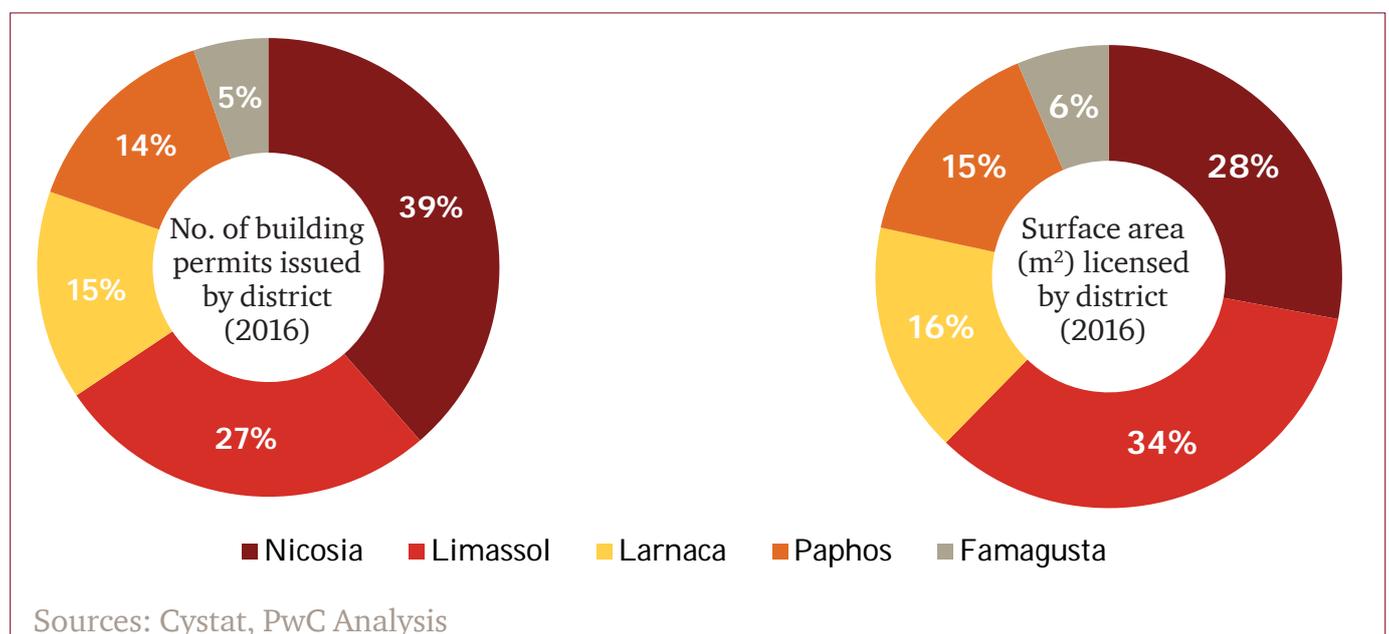


Source: Cystat



Most of the building permits issued during 2016 related to real estate developments in Nicosia (39%), followed by Limassol (27%) and Larnaca (15%). Despite the largest number of building permits being issued for new developments in Nicosia, more than a third of licensed surface area (m²) related to developments in Limassol.

With respect to the type of properties licensed for development during 2016, the vast majority of building permits, measured by licensed surface area (m²), relates to residential properties (79,5%), followed by commercial properties (19,7%) and other infrastructure projects (0,6%).



Real Estate Advisory Services

How PwC can help

Our experts offer our clients the value they are looking for, value that is based on the knowledge drawn from our extensive international presence and on experience shaped from the local environment and needs.

Through our extensive and diverse track record, we have gained a deep understanding of the local real estate market and its behaviour.

- Our experienced real estate focused team provides tailored-made solutions of high quality for specific needs to clients who develop, invest, own, lease, dispose or acquire all types of property.
- Our clients draw comfort from working with PwC, the leading organisation of its kind in the world, and from the integrity, reliability and security that it brings with it.
- Our strong international network combined with our local expertise, enable us to support our clients' needs in all their countries of operation.

What we bring to our clients



Qualified Chartered Surveyors, *Members of RICS*



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



Ongoing monitoring of the behaviour of the market and its dynamics



Data analytics of official Land Registry transaction records



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



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

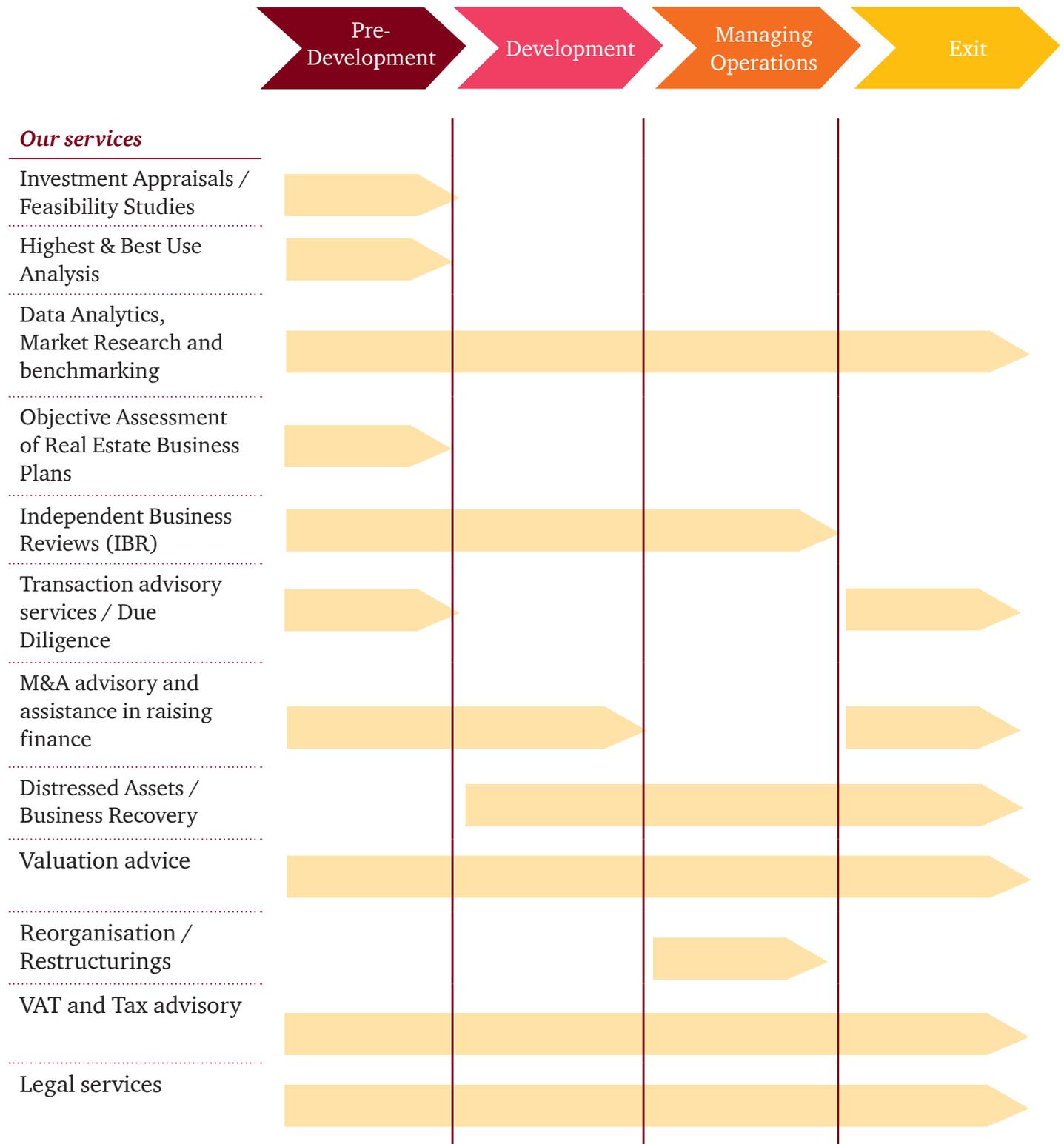


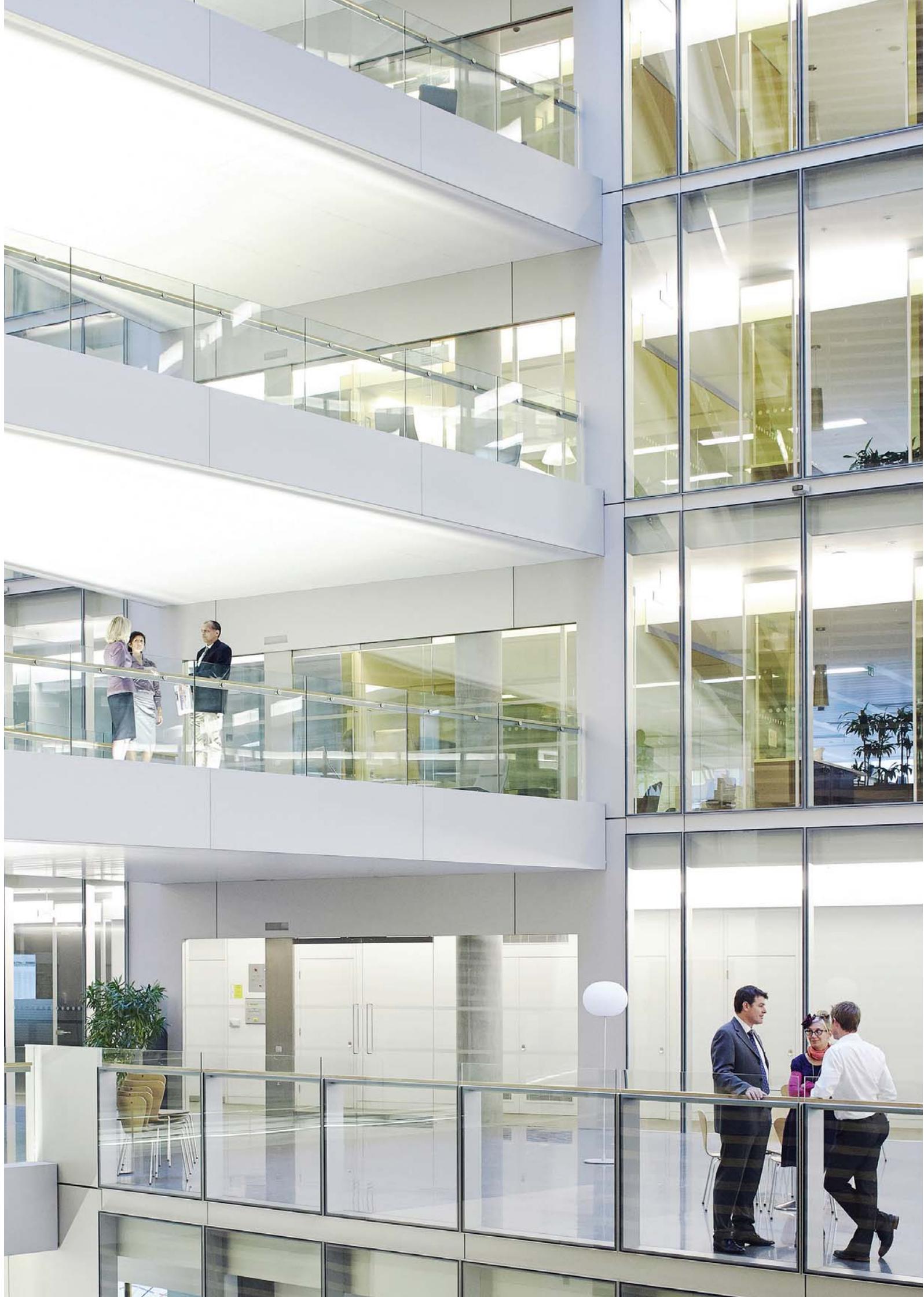
Regularly updated own-database of property transactions



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

Real Estate Life Cycle





PwC in Cyprus



We support you to create the value you are looking for by providing specialised solutions based on quality. Together we build relationships based on trust and we say things as they are, to assist you to deal with issues that tomorrow will prove important.

We adapt the expertise of our almost 1.000 professionals in Cyprus and the power of our global network of 223.000 experts in 157 countries to your specific needs, helping you make the difference.

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

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

- Banking
- Insurance
- CySec regulated entities
- Funds
- Real Estate
- Energy
- Hospitality & Leisure

- Transportation & Logistics
- Public Sector
- Retail, Consumer & Manufacturing
- Telecommunications
- Construction & Engineering

- Assurance
- Consulting
- Deals
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Visit www.pwc.com.cy to discover the benefits we can bring to you.

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