

October 2010

Cyprus – Real Estate and Construction industries optimistic despite the slowdown



www.pytheas.net



The Republic of Cyprus is the third largest island in the Mediterranean, a member of the European Union (EU) since 2004 and the EMU since 2008; with a per capita GDP well above the EU average and the lowest corporate tax (10%) within the EU.

The discovery of oil and natural gas between Cyprus and Egypt and Cyprus and Lebanon in the seabed areas is likely to give further boost to the Cyprus economy which already enjoys strong tourism, education, health and construction industries. As such, Cyprus real estate is likely to see better times despite the poor performance of the past two years.

Although the island has been somewhat shielded from the global financial crisis, largely because of its low reliance on exports, prudent fiscal policies, resilient financial sector, and limited exposure to subprime mortgages, the crisis has not left Cyprus unaffected.

Economic conditions have started to stabilize after the economic downturn, and the Cypriot economy is poised to return to modest growth in 2011. However, global financial risks remain elevated and growth prospects in main trading partners remain muted, which weigh on the outlook for Cyprus. Meanwhile, pressures in Euro area sovereign debt markets have intensified, and countries across the Euro area are responding by undertaking ambitious fiscal consolidation efforts. Cyprus also should act forcefully and with a greater sense of urgency to reverse its high fiscal deficits, in order to safeguard the sustainability of public financing and increase the scope for private sector growth. The banking sector remains sound overall, although the growth in non-performing loans calls for vigilance. Turning to medium-term prospects, containing the growth of public spending and enhancing wage flexibility are needed to boost productivity and improve growth.

The construction and real estate industry is a key driver and indicator of economic activity. In recent years, Cyprus has experienced a remarkable rise in property prices followed by intensive construction activity, especially in the residential property sector. The rising construction and real estate sector boosted by demand from the international community has contributed to the country's economic growth significantly.

Cyprus enjoyed a more than ten-year housing boom until 2008. Then the market began to fall in certain areas, mainly because of,

- (a) the fall in the value of Sterling against the Euro over the past two years means that British buyers, who accounted for more than 50% of foreign buyers, have less equity at their disposal. At the beginning of 2007 a pound Sterling would buy €1.47; today it will buy around €1.20, making investments in the Eurozone that much more expensive;

Perhaps the best reason to invest in a Cyprus real property is the fact that there are double-tax-treaty agreements with 46 countries, i.e. Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, France, Germany, Greece, Hungary, India, Ireland, Italy, Kuwait, Kyrgyzstan, Lebanon, Malta, Mauritius, Moldavia, Norway, Poland, Romania, Russia, Serbia and Montenegro, Seychelles, Singapore, Slovakia, Slovenia, South Africa, Sweden, Syria, Tajikistan, Thailand, Ukraine, United Arab Emirates, United Kingdom, United States of America and Uzbekistan.

This means that property purchased on the island cannot be taxed in those countries. Should an entity, private or corporate, seeks to invest in one or more properties, it is able to register as a limited company in Cyprus and pay a flat corporate rate of 10%. The other alternative is to pay a 6.25% rate on the (profits) of selling each property on as many as one wishes to sell. There is also an exemption if one is selling fewer than three properties in a financial year.

It is the opinion of Pytheas that there are better tax concessions in Cyprus than just about anywhere on the planet.

According to the latest World Investment Report of UNCTAD published in July 2010, Cyprus is one of the most attractive locations for foreign investments, ranking among the frontrunners of the world indicating both high FDI performance as well as high FDI potential.



- (b) the worldwide economic turmoil has also changed the characteristics of the “typical” overseas property buyer. Investors are now being much more cautious about their investment decisions;
- (c) the property related laws need to become more transparent, although the Cyprus government seems to be making concrete attempts to rectify the situation;
- (d) mortgage interest rates in Cyprus are amongst the highest in Europe.

Residential property prices in Paphos have fallen by as much as 20% and 30% in the past three years. Areas that rely mostly on local buyers, such as Nicosia, have dropped only 4% to 6%, with prices in Limassol, Famagusta and west of Larnaca recording smaller drops. It is fair to state that Cyprus real estate and construction industries compared to the other EU ones and the US (US dropped 40%, UK 35%, Greece 40%, Spain tourist areas 40%), are doing a lot better.

The Department of Lands and Surveys registered an average increase this year of 20% in real property sales volumes bought by Cypriots; a welcome change from 2009’s rather depressing figures which saw, a 16.7% drop tourist revenue, a 2% rise in unemployment, a 16.9% drop in the number of building permits issued, and a 1.7% drop in GDP.

As per the Cyprus Statistical Service (CYSTAT) the number of building permits authorized by the Municipal Authorities and the District Administration Offices during July 2010 was 763, comprising:

- Residential buildings - 546 permits
- Non-residential buildings - 115 permits
- Civil engineering projects - 33 permits
- Road construction - 7 permits
- Division of plots of land - 62 permits

The 546 permits issued for the construction of residential buildings, these were approved for 1,028 dwelling units – 454 single houses and 574 multiple housing units such as apartments and other residential complexes. Compared to the July 2009 total of 1,161 dwelling units, this represents a drop of 11.5%.

BUILDING PERMITS FOR THE CONSTRUCTION OF RESIDENTIAL PROPERTIES

Month	2010	2009	% Change
January	1,290	1,585	-18.6
February	1,691	1,587	6.6
March	1,758	1,381	27.3
April	1,176	1,252	-6.1
May	1,337	1,191	12.3
June	1,193	2,125	-43.9
July	1,028	1,161	-11.5
Total	6,492	6,492	-8.7

Source: Cyprus Statistical Service

Between January and July 2010 building permits were issued for the construction of 6,492 residential properties. Compared to the same period last year, when permits were issued for the construction of 7,110 residential units; a drop of 8.7%. **The weak recovery in Cyprus’ overseas property market, i.e. real property sales to foreigners, continued during September with sales during the first nine months of the year up by nearly 3 percent on the numbers sold during the first nine months of 2009.**



According to figures released by the Department of Lands and Surveys, a total of 180 contracts of sale in favor of overseas buyers were deposited at Land Registries throughout Cyprus in September compared to the 173 deposited in September 2009, a marginal increase. Although the market is showing signs of a weak recovery, the number of properties sold to foreign buyers during the first nine months of this year (1,402) is still down by more than 75% on the number sold during the same period in 2008 (5,622). So far this year, Nicosia has performed particularly well with sales up by 50.5% followed by Famagusta, where sales have gone up by 7.4% – and finally Limassol, where sales have increased by 3.2%. However, sales in Paphos and Larnaca are down by 6.8% and 12.4% respectively compared to last year.

REAL PROPERTY SALES TO FOREIGNERS 2008, 2009, 2010 – A COMPARATIVE TABLE

Sales/ City	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Nicosia	2010	18	26	34	18	21	31	30	12	37	N/A	N/A	N/A
	2009	8	15	6	13	19	15	37	10	28	22	31	15
	2008	29	61	45	36	44	25	43	19	28	26	22	12
Famagusta	2010	12	32	20	8	14	50	42	14	12	N/A	N/A	N/A
	2009	12	18	16	20	12	52	30	4	26	16	25	18
	2008	68	107	110	140	157	170	167	94	79	108	34	51
Larnaca	2010	14	20	15	25	34	28	16	19	34	N/A	N/A	N/A
	2009	26	28	17	18	23	29	41	29	23	19	31	30
	2008	142	147	157	171	171	178	156	140	139	105	48	51
Limassol	2010	22	34	35	31	35	60	33	42	33	N/A	N/A	N/A
	2009	34	41	25	36	31	40	52	20	36	27	35	38
	2008	63	83	114	99	109	140	122	76	104	83	57	33
Paphos	2010	28	34	65	45	50	69	46	40	64	N/A	N/A	N/A
	2009	51	58	41	35	43	65	90	30	60	33	36	22
	2008	189	246	198	207	206	196	216	167	224	174	126	84
Total	2010	94	146	169	127	154	238	167	127	180	N/A	N/A	N/A
	2009	131	160	105	122	128	201	250	93	173	117	158	123
	2008	491	644	624	653	727	709	704	496	574	496	287	231

Source: Department of Lands and Surveys

As per the Department of Lands and Surveys, the number of properties sold to locals is declining in the second half of the year. **Cyprus real property sales to locals in the first half of the year had increased by 26.8% compared to last year and there is considerable optimism about its future. However, for the third consecutive month, sales to locals have declined in spite of falling prices, other sales incentives and distressed sales. This decline has more than halved the overall increase this year, which by the end of September had fallen to 11.4%.**

REAL PROPERTY SALES TO LOCALS 2009, 2010 – A COMPARATIVE TABLE

Sales/ City	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Nicosia	2010	151	157	229	165	223	211	219	130	194	N/A	N/A	N/A
	2009	93	146	156	149	165	173	217	163	207	173	190	184
Famagusta	2010	34	43	63	41	67	52	54	56	46	N/A	N/A	N/A
	2009	25	34	33	51	56	30	84	60	57	72	67	63
Larnaca	2010	77	141	107	110	96	115	84	58	65	N/A	N/A	N/A
	2009	51	84	80	104	111	123	100	106	90	95	103	108
Limassol	2010	129	131	171	157	158	142	184	103	128	N/A	N/A	N/A
	2009	118	91	135	90	115	149	162	128	138	155	156	155
Paphos	2010	85	86	53	75	105	106	89	80	74	N/A	N/A	N/A
	2009	40	43	71	87	64	77	89	92	92	111	118	130
Total	2010	476	558	623	548	649	626	630	427	507	N/A	N/A	N/A
	2009	327	398	475	481	511	552	652	549	584	606	634	640

Source: Department of Lands and Surveys

During September, the number of contracts of sale in favor of Cypriot buyers deposited at Land Registries throughout Cyprus was 507 compared to the 584 deposited in September



2009; a reduction of 13.2%. The worst hit district was Larnaca, where sales fell by 27.8%. Larnaca was followed by Paphos (down 19.6%), Famagusta (down 19.3%), Limassol (down 7.2%) and finally Nicosia (down 6.3%). If this trend continues it seems probable that domestic sales for this year will only be marginally better than those achieved 2009, which was the poorest year for sales on record since 2002.

Opinion: Presently the real estate and construction industries are characterized by weaker demand compared to 2008. It is Pytheas' opinion, however, that despite the current real property and construction industries contraction, Cyprus remains one of the most popular destinations for Europeans and other nationals that seek to invest in a holiday, a retirement or an investment home.

In terms of risk, Cyprus is at the lower end of the spectrum, largely based on low reliance on exports, prudent fiscal policies and performance, resilient financial sector, prompt fiscal policy response to the recent global financial crisis and limited exposure to subprime mortgages.

In terms of real property product attraction, the financial and other benefits are comparatively to other EU countries immense, i.e. some of the best tax breaks in the EU (if not the best), lower cost of living compared to mainland Europe, excellent weather, rich heritage and culture, superb medical facilities and infrastructure.

Additionally, the discovery of oil and natural gas in the island's seabed areas is likely to give further boost to the Cyprus economy. As such, Cyprus real estate and construction industries are likely to boom once more despite the poorer performance of the past two years.

More decisive steps, however, need to be taken by the government to eliminate delays related to the issuance of title deeds. Moreover, due to the sizeable exposure of Cypriot banks to the ailing Greek economy caution should be exercised; note that the real estate market is a significant component of the banks' loan books and represents the majority of loan collaterals (more than 40%): the low overall profitability contribution to Cypriot banks from Greece and the elevated loan provisions that subsequently need to be undertaken will affect the funding ability of banks to real estate related clients for at least the next 12 months.

Most importantly, where some other countries have lowered their mortgage interest rates and property taxes to encourage overseas investors, mortgage interest rates in Cyprus are amongst the highest in Europe and the government is talking about increasing property taxes it charges large land owners; a charge that will no doubt be passed on to those buying property. This approach is a recipe for disaster, especially when competition (governments in other countries) has taken steps to reduce the costs associated with property ownership to encourage investment!

A major factor in turning the amazing potential that the island has into achievement in the overseas property market is the ability of the Cyprus Government to develop, introduce and enforce effective legislation to deal with the many problems in the country's real estate, banking and legal sectors.



New significant real estate projects in Cyprus

1. **Venus Rock** will be Europe's largest residential beachfront development on 1,000 hectares of land with 850 meters of beach front in the district of Paphos. It will include, two 18-hole golf courses designed by Tony Jacklin, extensive beachfront entertainment, more than 3,000 residences, a 5-star hotel with spa and branded villas, a yachting marina and other sport facilities; at an estimated €1 billion cost.



Venus Rock, a view of the estate

2. **The Larnaca Marina**. A €1 billion private/state consortium has undertaken the expansion of the existing seaport and the building of a 1,000 berth yachting marina, hotels and luxury villas in the town of Larnaca. The first phase to develop the existing port is expected to take three years to complete with the rest on target to be finished within six years. The sea port will now be able to provide facilities for the large third generation cruise ships which cannot currently dock on the Larnaca seaport. Throughout the duration of the BOT development (35 years), the state will receive 7% of all revenues.



The Larnaca Marina master plan

3. **The Eléa Resort**. The 18-hole golf course par 71 at Ayia Marinouda, Paphos that opened this month designed by Nick Faldo, is a premium development that that boasts 350 luxurious villas and apartments (to be released in the first half of 2011), and a luxury boutique hotel (within 2012) supported by a range of dining options, extensive spa facilities, a commercial center and other. The building cost is estimated in excess of €300 million.



The Eléa Golf Course, a view

4. **The Alakati Village**, a new waterside residential and commercial community in Nicosia suburbs, consists of 455 new buildings of which 420 are houses and apartments. Also 28,000 m² of commercial space in the form of restaurants, shops, a hotel, offices and serviced apartments and 2,5 hectares of public open space; all surrounded by parks, piazzas and water channels. The project is characterized by eco-friendly, contemporary, minimal architecture. The construction cost is estimated at €500 million.



The Alakati Village, a view



5. **The Limassol Marina** project, already underway, includes berthing and dry docks for 1,000 vessels, ranging from 30ft sailing boats to a handful of super yachts and it will be ready in the autumn of 2012. The commercial and residential units, including 280 dock-side villas, apartments, cafés and shops will be delivered in early 2013. The marina will be constructed and managed under a BOT agreement. The joint venture company owner of the project, will execute the plan and fully manage the marina for 53 years, and will retain profit rights for a further 37 years. The project cost will be in excess of €360 million.



The Limassol Marina master plan

6. **The St. Andrew's Golf & Country Club** in Alassa, Limassol on a 2,000 hectare plot features an 18-hole golf course, a 5-star hotel, a spa and wellness center, a village piazza, restaurants and bars, designer shops, residential units, a tennis academy, football fields, Olympic-size swimming pools and other sporting facilities. The project is eco-friendly and will have its own desalination plant.



St. Andrew's Golf & Country Club, a site view

7. **The Neapolis Smart EcoCity** project in the town of Paphos is the first of its kind in the Eastern Mediterranean and will be one of the largest in Europe, covering 1,100 hectares. It will include a University for 3,000 students and dormitories, an Innovation Research and Development center, a state of the art total health care park, a hotel and residential units. More than 70% of the land will remain as green area. Its town centre will include a commercial park with high street retail, an International Business centre, cultural and leisure



Neapolis a view, artist's impression

facilities, including theatres, museums and antiquity sites and restaurants. The project is eco-friendly with thousands of trees, shrubs, endemic flowers and fauna; it will adopt a single "intelligence platform" to accommodate the use of new green technologies, the latest in digital applications and sustainable town infrastructure solutions. The first phase of €171 million is underway. The total project cost is estimated at €2.5 billion.

8. **The Olympic Residence** in Limassol includes two 18-floor towers with swimming pools, an exclusive residential club, a wellness center and fitness club, tennis courts, selective high-end retail shops, cafeterias, landscaped gardens, a piazza and a pedestrian bridge leading straight to the beach across.



The Olympic Residence, front view



9. **The Limassol Landmark** right across the beach is a 28 floor tower (54,000 m²), consisting of 233 apartments with 7-star hospitality services, 14 commercial units, a piazza (25% of the whole) and park (17% of the whole). The tower is designed by Atkins. The construction cost is estimated at €370 million.



The Limassol Landmark, a view

10. **The Limni Golf Resort** is a mixed-use leisure resort by the town of Polis Chrysochous of 2,800 hectares. The project consists of two 18-hole golf courses designed by Gary Player and Jack Nicklaus (opening end-2012), 800 high-end residential villas, 300 semi-detached residences and apartments, a 200-room 5-star hotel (construction begins end-2010), spa and wellness center, restaurants, designer shops, sport facilities, nature trails, beach club and museum. The construction cost is estimated about €900 million.



The beach at Limni

11. **The Larnaca Golf & Country Club Resort** in the village of Tersefanou at the outskirts of the town of Larnaca sits on a 1,000 acre plot and it includes a PGA 18-hole championship golf course, golf and tennis academies, horseback riding, 300 hundred luxury villas, 200 hundred semidetached houses and apartments, 40 luxury suites, spa and wellness center and landscaping with 400,000 trees and other plants. The construction cost of the project is estimated at €400 million.



The Larnaca Golf & Country Club Resort, a view

12. **Porto Mare** at the outskirts of Larnaca is a mixed-use leisure resort with a 300-berth yachting marina, seafront villas, townhouses and apartments, a boutique hotel, restaurants and bars, a spa and wellness center and sporting facilities. The marina will be built on an artificial island 500 meters away from the shore; residences and a lido-style beach will be also featured on the artificial island.



Porto Mare, the yachting marina



Other new significant real estate development projects include:

#	Project name	Project description
13	JV between Cyprus & Qatari Diar, Nicosia	Hospitality, residential, commercial, retail
14	Lanitis Golf Farm, Limassol	Residential, golf
15	Lakkos tou Frangou, Kouklia, Paphos	Residential, golf
16	Ayia Napa Marina Resort, Famagusta	Yachting marina, hospitality
17	Fontana Amorosa Resort, Akamas, Paphos	Hospitality, residential
18	Afroditis Project, Paphos	Residential
19	Paphos Marina, Kissonerga, Paphos	Yachting marina, leisure facilities
20	Engomi Garden City, Nicosia	Hospitality, residential, commercial, retail
21	Eagle Pine, Limassol	Residential, golf
22	Apollo Heights Polo Resort, Limassol	Hospitality, residential, golf, polo
23	Barbara Hills Resort, Paphos	Hospitality, residential
24	Continental Resort, Pegeia, Paphos	Hospitality, residential
25	Med Life Club Village, Paphos	Retirees facility, residential, medical center
26	Santa Elisabeth Golf Resort, Limassol	Hospitality, residential, golf
27	Medgolf Resort, Tersefanou, Larnaca	Hospitality, residential, golf
28	Sunset Springs Resort, Limassol	Residential
29	Paralimni Marina, Famagusta	Yachting Marina, leisure facilities
30	Minthis Hills, Tsada, Paphos	Residential, golf

Sources

[Republic of Cyprus Statistical Service](#)
[Republic of Cyprus Department of Lands and Surveys](#)
[Global Edge](#)
[Cyprus Property News](#)
[Financial Mirror](#)
[Cyprus Mail](#)
[International Living](#)
[INBNEWS](#)
[Financial Times](#)
[Leptos Estates](#)
[Pafilia Developers](#)
[Med Life Club](#)
[Dolphin Capital Investors](#)
[Aristodemou Developers](#)
[Limassol Marina](#)
[The Sunset Springs Resort](#)
[Larnaca Golf Resort](#)
[Olympic Residence](#)
[Alakati Residence](#)
[Alpha Panareti](#)

Disclaimer

The above notes have been compiled to assist you; however, actions taken as a result of this document are at the discretion of the reader and not Pytheas Limited.