

**“ FROM ASHES TO
RECOVERY”:**

The Cyprus Experience



Cyprus Association of Property Valuers
September 2016

General Information about Cyprus

- Cyprus covers an area of 9.251 sq kms (3.572 sq miles), extending 240kms (149 miles) from east to west and 100kms (62 miles) from north to south. It is the third largest island in the Mediterranean and stands at the crossroads of three continents: Europe, Asia and Africa. It is divided into six districts; i.e. Nicosia (where is the capital), Limassol, Larnaca, Paphos, Famagusta and Kyrenia.
- Cyprus was under the British rule from 1878-1960, milestone year as it gained its independence and was proclaimed as The Republic of Cyprus. However, during 1974, Turkey invaded Cyprus. The invasion was carried out into two stages (July 20-22 and August 14-16), in which the Turkish troops occupied 37% of the island's territory causing tremendous negative consequences in the financial, political and social sectors.
- Cyprus has gained accession as full member of EU since 1st May 2004 and has adopted the Euro currency, from 1/1/2008, i.e. full member of Eurozone, member of United Nations, Council of Europe, Commonwealth, World Bank & IMF.
- The total population of the island as per the last census is 865.900, of which Cypriots 79% circa and non Cypriots 21% circa.
- The total GDP €17.4billion, GDP per capita €20.400, (2015).

Cyprus Economy – Historical Perspective

- Cyprus Economy is based on the free market system where the private sector, is the major player of most economic activities. Cyprus economy has experienced significant changes during the last 40 years, reflecting the transformation from a purely agricultural economy to an economy with an open free market, a European standard of living, a growing industrial sector, a modernized agricultural sector and an internationally important tourist centre, as well as the rest of the services.
- Moreover, in 2008, Cyprus economy was classified by the IMF amongst the 31 advanced economies of the world. The largest economic sector being the services sector, which now contributes to around 82% of the country's Gross Domestic Product (GDP), followed by industry with 16% and agriculture with 2% of GDP.
- After 2008, higher public debt, higher government spending, exclusion from the international capital markets the unlimited credit expansion of the Banking system the previous years, the “haircut” (PSI) of the Greek bonds and other reasons (of local nature) have lead to a request by the Government of Cyprus on 25 June 2012, for financial assistance., to the European Monetary System (EMS).
- The European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) agreed an Economic Adjustment Programme with the Cypriot authorities on 2 April 2013, after the unprecedented decisions of the Eurogroup March 2013, which decided the very well known «haircut» on deposits and other financial means and the final signing of treaty of economic stability with Troika.
- The relevant “bail-out” deal reached €10 billion. Since then, the Cypriot Government's utmost priority has been the restructuring of the economy and restoration of the credibility of Cyprus , the restructuring of the banking system and building investor's, confidence and trust.
- Flat corporate tax rate @ 12,5%.

Cyprus Property Market General

The Cyprus real estate market has historically been driven:

(a) By local demand

Very high rate of Home ownership, about 75% -80%. This is due to the fact that investment into homes constitutes for Cypriot households the biggest, and maybe the only investment attempted (that provides economic and social power). The feeling of securing a privately owned residence provides a serious motive that is considered socially necessary, economically certain and a productive investment.

(b) By foreign demand

Increase attractiveness of holiday homes in the coastal towns from foreign investors, expats, retirees and other occupiers.

Cyprus Property “Boom”

During the previous decade, Cyprus has experienced a remarkable increase in land values and witnessed a property boom, especially from early 2000 until the second quarter of 2008.

Key Factors of the remarkable rise in property prices

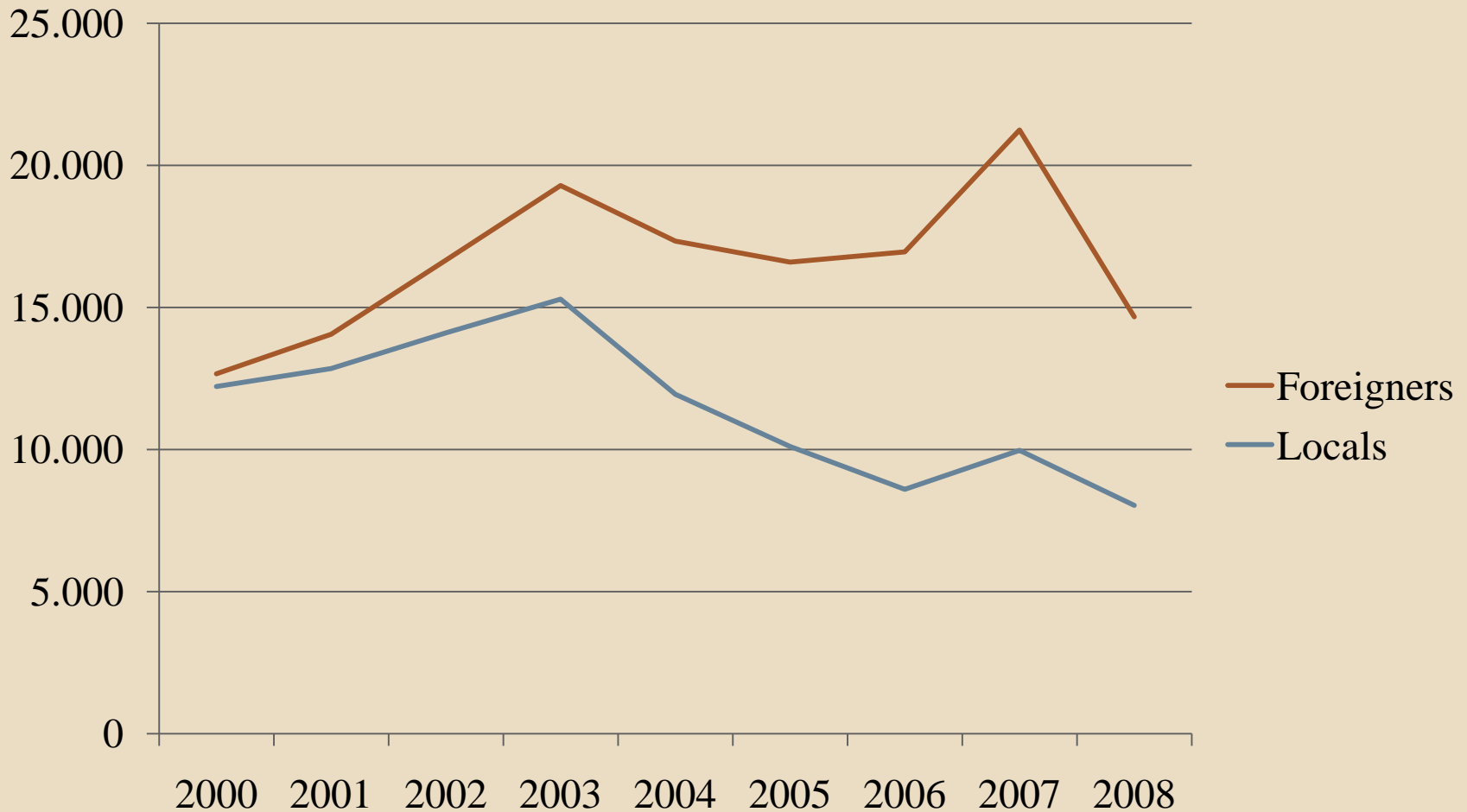
1. Improving economic indicators and low inflation, resulted in low unemployment and higher personal income.
2. Easy borrowing and low interest rates, increase in mortgage lending for house purchase, corporate loans, consumption loans .
3. The crash in CSE, virtually the only alternative investment is immovable property, hence an increase in demand and prices.

This increase is highlighted in the attached table below that provides the data, as far as the number of contract of sales are concerned, deposited with the Land Registry, within the years of 2000-2008.

TABLE OF CONTRACT OF SALES (DEPOSITED) WITH THE LAND REGISTRY IN CYPRUS FOR THE PERIOD 2000-2008 LOCALS & FOREIGNERS

| <u>Year</u> | <u>Locals</u> | | <u>Foreigners</u> | | <u>Total</u> |
|-------------|-----------------------------|--------|-----------------------------|--------|--------------|
| | <i>Number of properties</i> | % | <i>Number of properties</i> | % | |
| 2000 | 12,214 | 96.45% | 450 | 3.55% | 12,664 |
| 2001 | 12,849 | 91.41% | 1,207 | 8.59% | 14,056 |
| 2002 | 14,111 | 84.70% | 2,548 | 15.30% | 16,659 |
| 2003 | 15,294 | 79.31% | 3,991 | 20.69% | 19,285 |
| 2004 | 11,947 | 68.93% | 5,384 | 31.07% | 17,331 |
| 2005 | 10,106 | 60.91% | 6,485 | 39.09% | 16,591 |
| 2006 | 8,598 | 50.72% | 8,355 | 49.28% | 16,953 |
| 2007 | 9,964 | 46.90% | 11,281 | 53.10% | 21,245 |
| 2008 | 8,031 | 54.76% | 6,636 | 45.24% | 14,667 |

Contracts of Sales Local & Foreigners 2000-2008



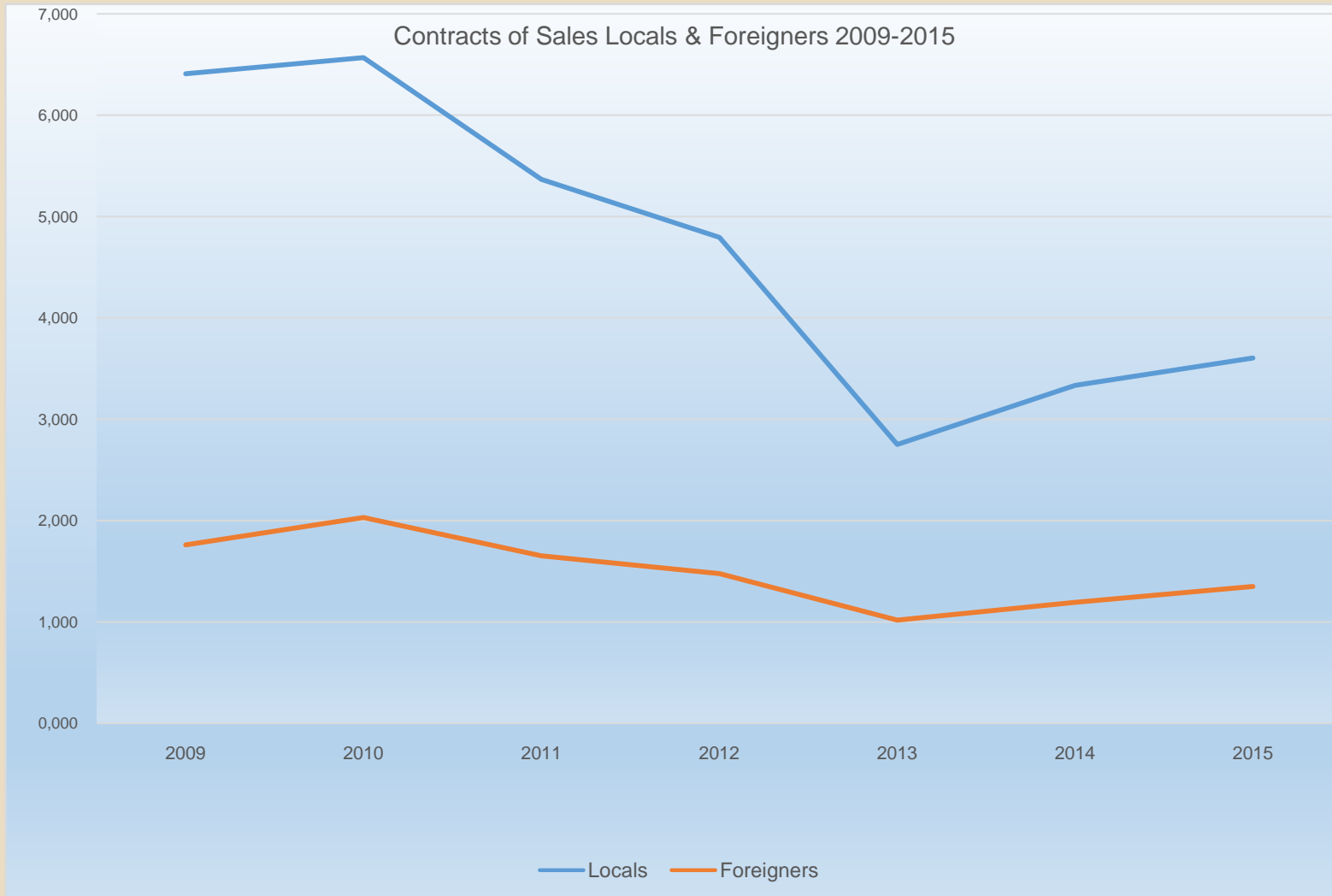
Cyprus property market crush

- ▣ Cyprus property market after the second quarter of 2008 followed the severe worldwide conditions in the world economy and the property markets, after the protracted crisis in global credit markets and consequently the side effects of the unforeseen financial crisis.
- ▣ This downturn in the residential market allied with the limited availability of credit and tightened lending criteria in Cyprus financial system has contributed to a significant fall in both transactions and development activity.
- ▣ The events that took place in Cyprus for the first time worldwide from 16.3.2013 and 26.3.2013 onwards, i.e. the restructuring of the two largest banks, and the “haircut” (bail - in) on the bank deposits, have shown the repercussions and reductions on property values.
- ▣ This decrease is highlighted in the attached table below that provides the data, as far as the number of contract of sales are concerned, deposited with the Land Registry, i.e. the years of 2009-2015.

**TABLE OF CONTRACT OF SALES (DEPOSITED) WITH THE LAND
REGISTRY IN CYPRUS FOR THE PERIOD 2009-2015
LOCALS & FOREIGNERS**

| <u>Year</u> | <u>Locals</u> | | <u>Foreigners</u> | | <u>Total</u> |
|-------------|-----------------------------|--------|-----------------------------|--------|--------------|
| | <i>Number of properties</i> | % | <i>Number of properties</i> | % | |
| 2009 | 6,409 | 78.45% | 1,761 | 21.55% | 8,170 |
| 2010 | 6,568 | 76.39% | 2,030 | 23.61% | 8,598 |
| 2011 | 5,366 | 76.46% | 1,652 | 23.54% | 7,018 |
| 2012 | 4,793 | 76.46% | 1,476 | 23.54% | 6,269 |
| 2013 | 2,750 | 73.00% | 1,017 | 27.00% | 3,767 |
| 2014 | 3,334 | 73.65% | 1,193 | 26.35% | 4,527 |
| 2015 | 3,603 | 72.76% | 1,349 | 27.24% | 4,952 |

GRAPH OF CONTRACT OF SALES (DEPOSITED) WITH THE LAND REGISTRY IN CYPRUS FOR THE PERIOD 2009-2015 LOCALS & FOREIGNERS



CY Government Direct & Indirect Measures

- New legislation modernizing the state's budgetary process, austerity measures with cuts of around 10-20% on the payroll of Civil Service and the private sector, increasing accountability for public spending, and improving the state's tax collection ability.
- Structural reforms, the Cypriot Government also introduced a number of measures, i.e. Economic and Town Planning wise, encouraging foreign direct investment in order to revive the Construction Industry/Property Market, i.e. tackling unemployment, social unrest, etc.
- These incentives include amongst others a simplification of bureaucratic processes and the introduction of incentives in the form of tax relaxations and increased building coefficients, on established Tourist establishments and for new strategic developments.

Some Measures are highlighted below:

□ Investment options for non- EU Citizens:

• Scheme for Permanent Residence Permit (PRP)

➤ *The applicant or his/her spouse must own a residence or other immovable property in Cyprus worth at least €300.000 plus V.A.T.*

➤ *Fixed Deposit to a Cypriot Bank amounted to €30.000 for the period of 3 years.*

➤ *The applicant, together with his/her spouse, must prove that they have at their disposal a secured minimum annual income of €30.000.*

• Scheme for Cypriot Citizenship/ passport, Amended last week

➤ *The applicant or his/her spouse must make an investment of at least €2.000.000 for the purchase of properties (residential or commercial buildings, tourist establishments or other infrastructure works). Moreover, vacant development land is included within the new recently changed criteria.*

➤ *The applicant must participate in Cypriot companies which operate and have their domicile in the Republic with a minimum of €2.000.000.*

➤ *The applicant must purchase units of minimum value €2.000.000 in alternative investment organizations, which are bound and come under the umbrella of the Cyprus Securities Committee.*

➤ *The applicant can make a mixture of all the above and in addition purchase new issue of Government bonds of maximum value €500.000.*

➤ *In all cases the applicant must own permanent residence in the Republic, of minimum market value €500.000, plus V.A.T.*

□ Tax Reforms:

- 50% reduction on transfer fees for all property transactions/transfers and registration of leases or subleases, that will take place until 31 December 2016.
- Any Properties acquired in the period 16 July 2015 up to 31 December 2016 will be exempt from Capital Gains Tax, upon their disposal.

□ Town Planning Incentives:

- Increased Building Density for large-scale or strategic developments
 - *General Increase 0,20:1*
- Increased Building Density within the Touristic areas
 - *General Increase of 20% for all touristic development types, inclusive of the mixed touristic development of condo hotels*
- Increased Building Density within Town Centers
 - *General Increase of 20% within the boundaries of the Local Plans and special provisions for each Town centre.*

Banking Sector

- ❑ The sector had in the past been critically hit by the exposure to Greek Government bonds and the relevant “haircut” through PSI (Private Sector Initiative), as well as a series of unsuccessful overseas bank acquisitions and the deterioration of loan portfolios, due to the economic crisis. The unsustainable at the time banking sector has since then undergone a number of changes and reforms.
- ❑ New insolvency and foreclosure regulations
- ❑ Restructuring of Loans through debt / asset swaps
- ❑ Main Target - Lowering of Non - Performing Loans (NPLs)
- ❑ Creation of Real Estate Management Units

Road To Recovery

- ▣ As a result of the Cyprus Government and the Cyprus Banking Sector efforts, the Cypriot economy returned to modest growth in 2015, after a three year recession, allowing Cyprus to exit its bailout program in March 2016.
- ▣ As a result of the successful implementation of the Cypriot Citizenship Scheme, the estimated total injection in the economy is of the order of €3 billion, approximately.
- ▣ The real GDP growth based on statistics obtained from the IMF reached 1.6% in 2015, forecast 1.6% - 2% for 2016 and is projected to rise further over the next five years. Unemployment is projected to decrease, accompanied with a steady and moderate inflation rate. The key economic indicators for the period are summarized below:

| <i>Percentage (%)</i> | 2014 | 2015 | 2016F | 2017F | 2018F | 2019F | 2020F |
|--|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Real GDP growth | (2.3) | 1.6 | 1.6 | 2.0 | 2.2 | 2.1 | 1.8 |
| Unemployment rate | 16.1 | 16.0 | 15.0 | 13.7 | 12.4 | 11.1 | 10.1 |
| Inflation rate (average consumer prices) | (0.3) | (1.0) | 0.9 | 1.3 | 1.5 | 1.8 | 1.9 |
| Gross government debt (% of GDP) | 107.5 | 106.4 | 98.4 | 93.2 | 87.3 | 82.4 | 77.8 |

Source: International Monetary Fund

- ▣ Strongly correlated with the upturn in the economy, the country's banking sector also recorded significant progress, with the restructuring of a large chunk of the problematic loans, lowering the percentage of non performing loans and getting back to business.

- ▣ Series of successful bond issuances
Successful issue of six year bonds and ten year bonds within the international capital markets ,with the latest issue offering a return of 3,8%.

The following are the most updated credit rating reviews from the international agencies:

- In September 2016, the ratings agency Standard & Poor's ("S&P") raised Cyprus' long-term ratings to "BB" from "BB-".

 - In October 2015, Fitch upgraded Cyprus' long-term ratings from B- to B+.

 - In November 2015, Moody's upgraded Cyprus' Government bond rating to B1 from B3.
- ▣ The tourism sector is witnessing record breaking arrivals, over 3 million this season.

Prospects

Tourism

Very good potential for the next year as well with the actual reservations from the main Tour operators.

Property Market

Steady and increasing interest by foreign investor to acquire property, construction side shows signs of bottoming out with the first record of higher production recorded.

Energy

The large potential of the hydrocarbons has not been utilized yet and is anticipated that with full exploitation there will be significant benefits to the general economy.

Potential threats

On the other hand, the markets are still very volatile and unpredictable. The banking sector is still facing a lot of problems with the challenges of the non – performing loans and the restructuring, being the main bet to be won.

The local demand is still weak and without strong banking/ financial sector is difficult to proceed to serious investments.

**Much obliged for your
attention and time !**

Kyriacos Talattinis,
President of Cyprus Association
of Property Valuers

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