

Economy

The Cyprus economy is heavily reliant on the property industry, as Cypriots have one of the highest home ownership rates in Europe, there is a significant overseas market for holiday homes, and asset lending is the most often used method by businesses to raise capital.

The combination of a sizeable overhang of Non-Performing Loans (NPLs), in and out of the banking system, the termination of the Cyprus Investment Program (Citizenship by investment), and the drop in tourist arrivals are causing a significant drag across multiple sectors.

Short Term Outlook

Repricing in secondary commercial areas and tourist areas is accelerating, for both residential and commercial properties. This is likely to stabilise in the first half of 2022 as there will be more clarity on the performance/outlook of the tourist season.

Market Summary

	Current Position	Outlook
Capital Values	➔	➔
Rents	➔	➔
Transactions	➔	➔
Lending	➔	➔
Construction Activity	➔	➔

Source: WiRE analysis

Executive Summary

Prices & Rents

The Q2 2021 WiRE Price & Rental Index recorded quarter-on-quarter drops in prices for all property categories. Paphos had the biggest quarter-on-quarter drop in prices and rents across all property types. In contrast, Nicosia, experienced price increases for both apartments (1.9%) and warehouses (2.8%).

Transaction Volume

Year-on-year transaction volume across Cyprus increased by 13%. Transactions in Paphos decreased by 17% and increased in Nicosia by 41%, in Limassol by 19%, in Larnaca by 6%, and in Famagusta by 27%. Over the past year, from 07/2020 to 06/2021, contracts of sale were deposited for 9,167 properties, of which 2,560 in Nicosia (28%), 2,942 in Limassol (32%), 1,444 in Larnaca (16%), 652 in Famagusta (7%) and 1,559 in Paphos (17%).

Lending

Household lending for housing loans totalled €8.8bn in June 2021, with 93.3% being to local residents, 0.4% to residents of other Eurozone countries, and 6.3% to other (non-Eurozone) countries. Compared to June 2020, housing loans to locals decreased by €344.9mn, those to residents of other Eurozone countries, and to other (non-Eurozone) countries decreased by €6.2mn and €115.7mn respectively. As shown, progressively outstanding loans are increasingly concentrated on local residents.

Building Permits

Year-on-year building permits for residential properties showed an increase of 3% in terms of sqm and 10% by number of dwellings.

Expectations

Activity and prices in the main commercial centres of Nicosia and Limassol are currently stable, as locals are acquiring residential properties, mostly apartments, taking advantage of various government subsidies and in order to generate income.

Businesses are upgrading their office requirements, resulting in an increase in demand for Grade A office space and a contraction across lower quality premises. The other districts are continuing to experience low levels of demand, as they are more reliant on overseas markets and have a higher dependency on tourism. A notable exception is Larnaca due to the redevelopment of the port and the dismantling of the oil processing plants.

The overall outlook will be determined by the expected bounce-back in tourism in 2022 and how SMEs will manage the post-covid (and non-subsidy) era.

Prices, Rents and Yields

The Q2 2021 WiRE Price & Rental Index recorded slight drops across Cyprus' most urban areas.

Prices

Residential prices for apartments decreased slightly by 0.1% compared to Q1 2021 and 0.4% for houses. Prices of holiday houses and apartments fell by 1% and 0.4% respectively. The biggest drops were in Paphos (3.5% for apartments, 3.6% for houses, 4.0% for holiday apartments and 3.8% for holiday houses). House prices in Larnaca and Famagusta remained the same, with those in Nicosia and Limassol increasing by 0.8% and 1%, respectively. Prices of retail properties, warehouses and offices fell by 0.9%, 0.3% and 0.6% respectively. Compared to Q2 2020, prices of retail units fell by 5.1%, of warehouses by 4.0%, of office space by 0.8% and holiday houses by 3.8%. Over the same period, houses and holiday apartments' prices increased by 1.7% and 0.8%, respectively.

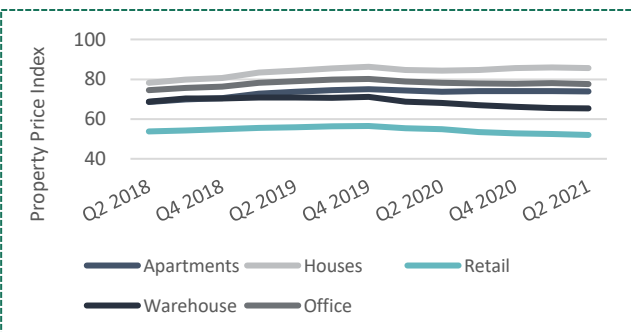
Rents

Quarter-on-quarter rental prices decreased by 1.2% for houses, 2.1% for retail units, 0.9% for warehouses, 0.4% for offices, 0.6% for holiday apartments and 1.5% for holiday houses, while rental values for apartments increased by 0.1%. Compared to Q2 2020, rents dropped by 0.5% for apartments, 8.0% for retail properties, 3.6% for offices, and 5.5% for holiday houses. Rents of houses and holiday apartments increased by 0.8% and 0.4% respectively, whilst of warehouses remained the same.

Yields

At the end of Q2 2021, gross yields stood at 4.7% for apartments, 2.5% for houses, 5.4% for retail, 4.6% for warehouses, 4.7% for offices, 4.6% for holiday apartments and 2.4% for holiday houses.

Property Prices (2018Q2-2021Q2)

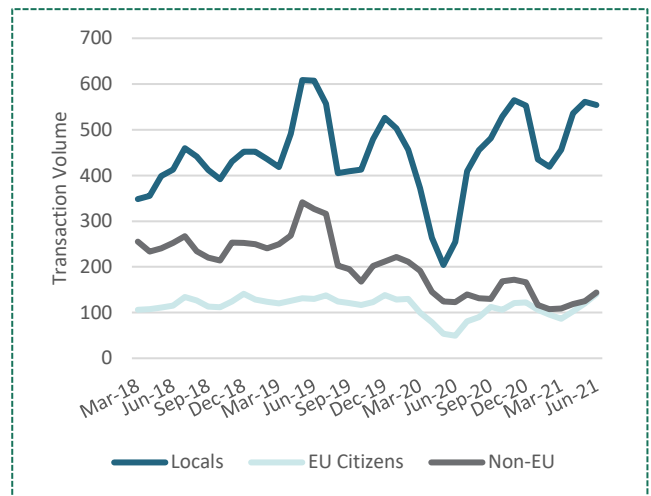


Source: WiRE Price Index, Q4 2009=100

Transaction Volume

Year-on-year transaction volume across Cyprus increased by 13%. Transactions in Paphos decreased by 17% and increased in Nicosia by 41%, in Limassol by 19%, in Larnaca by 6%, and in Famagusta by 27%. Over the past year, from 07/2020 to 06/2021, contracts of sale were deposited for 9,167 properties, of which 2,560 in Nicosia (28%), 2,942 in Limassol (32%), 1,444 in Larnaca (16%), 652 in Famagusta (7%) and 1,559 in Paphos (17%).

Transactions: Locals vs. Overseas (March 2018-June 2021)



Source: Land Registry, Rolling three-month average

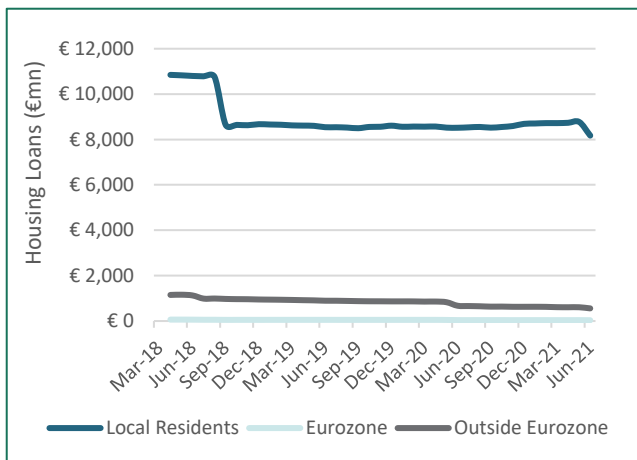
Over the period (from 07/2020 to 06/2021), sales to local residents comprised circa 67% (6,134 properties) of total transaction volume. Transactions to locals across Cyprus increased by 31%. Nicosia had the highest reliance on local buyers, with them accounting for 2,245 transactions out of total. This is followed by Limassol and Larnaca (2,073 and 875 respectively), 652 for Famagusta and 621 for Paphos. In particular, transactions to locals increased by 29% in Limassol, 16% in Larnaca and 19% in Paphos, whilst in Nicosia and Famagusta increased by 41% and 72% respectively.

In terms of transactions to foreign buyers, there was a 30% drop for Paphos, 5% for Larnaca, 2% for Famagusta, whilst there was a slight rise (2%) for Limassol, and a significant one for Nicosia (44%) albeit from a small base.

Lending

Household lending for housing loans totaled €8.8bn in June 2021, with 93.3% being to local residents, 0.4% to residents of other Eurozone countries, and 6.3% to other (not Eurozone) countries. Compared to June 2020, housing loans to locals decreased by €344.9mn, those to residents of other Eurozone countries, and to other (not Eurozone) countries decreased by €6.2mn and €115.7mn respectively. As shown, progressively outstanding loans are increasingly concentrated on local residents.

Household Housing Loans (March 2018-June 2021)



Source: Cyprus Central Bank

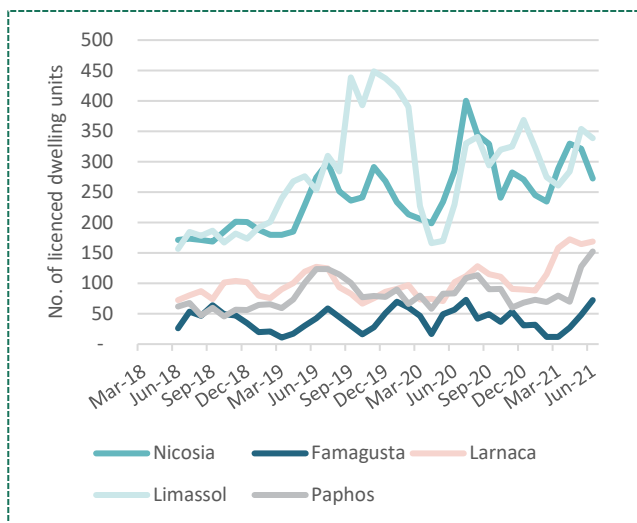
Building Permits

Year-on-year building permits for residential properties showed an increase of 3% in terms of sqm (2,111,799 sqm, permitted from 07/2020 to 06/2021) and 10% by number of dwellings (10,533, permitted over the same period).

With residential properties representing circa 80% of the total sqm licensed during the year, the number of dwelling units for which a building permit was issued, decreased by 10% (year-on-year). Increases were experienced in Nicosia (17%), Larnaca (55%) and Paphos (14%), whilst decreases were experienced in Limassol (5%) and Famagusta (11%).

Examining the geographical distribution of these permits, the biggest decrease was experienced in rural areas. In terms of composition, the permitted residential properties from 07/2020 to 06/2021, are 3,548 single houses, 983 buildings with two housing units, 5,394 residential apartment blocks, and 608 residential/commercial apartment blocks.

Licensed Dwelling Units (March 2018-June 2021)



Source: Cystat, Rolling three-month average

Expectations

Activity and prices in the main commercial centres of Nicosia and Limassol are currently stable, as locals are acquiring residential properties taking advantage of various government subsidies and in order to generate income. Businesses are upgrading their office requirements, resulting in an increase in demand for Grade A office space and a contraction across lower quality premises. The other districts are continuing to experience low levels of demand, as they are more reliant on overseas markets and have a higher dependency on tourism. A notable difference is Larnaca, due to the signing for the redevelopment of the port, the dismantling of the oil processing plants, and the attraction/ relocation of Lebanese and Israelis to the city.

There is a significant miss-match between supply and demand, as there is considerable stock of land, (dated) industrial buildings, and sizeable houses available for sale, whilst demand is mainly for city-centre residential properties and good quality offices. This misalignment, is causing prices in certain parts of the real estate sector to increase, whilst in other parts there is a lack of activity and prices are falling.

WiRE FS

WiRE is a PropTech company which brings transparency to the real estate market by using innovative technology to help individuals and companies research, value, buy and sell real estate. WiRE's clients are private equity funds, financial institutions, corporations and high net-worth individuals who have a significant economic exposure to real estate, intentionally or otherwise. WiRE is currently active in Cyprus, with aspirations (and plans) to expand across the Balkans.

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Asset Management

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