



# Cyprus' Real Estate Insights

12<sup>th</sup> Edition

Key trends and major drivers of the Real  
Estate Market in 2022 and beyond

May 2023

## Foreword

### **KPMG Cyprus Real Estate Market Report – The Insights**

We are pleased to present our latest edition of the real estate sector performance publication. In recent years, the Cypriot economy and the Real Estate sector in particular, have proven their robustness and resilience. Given recent developments, including the aftermaths of COVID-19 pandemic and of the Russian-Ukrainian war, the outlook is hard to predict, however the real estate sector performance has exceeded our expectations.

Our report provides valuable information about the Cypriot economy and the local real estate market for 2022 and beyond. Offering a snapshot of key economic conditions and invaluable insights into the real estate sector, including demand and supply, price evolution, notable sectoral developments, alongside certain observations portraying 2022 and early 2023 conditions.

We hope that you will find our report enlightening and useful in supporting your future business decisions related to the real estate sector. Kindly feel free to contact us for further inquiries. KPMG's wide-ranging real estate service offering covers advisory, audit and tax related matters, customised to provide real added value to your specific needs and environment.

We hope you find our publication insightful and valuable.

Kind Regards,

**Christos V. Vasiliou**

Managing Director of KPMG in Cyprus

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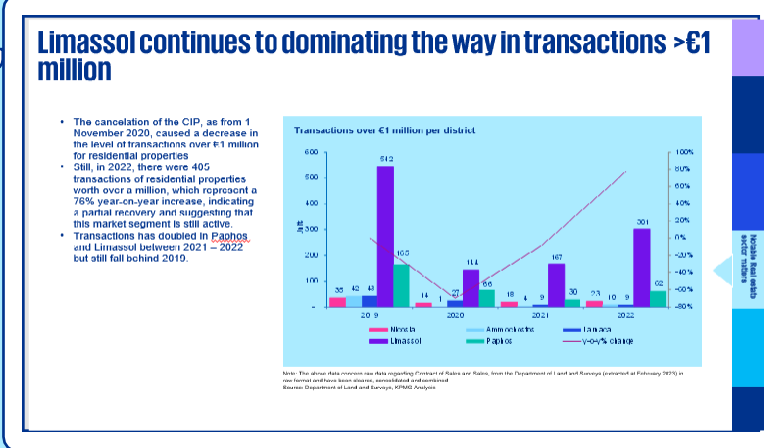
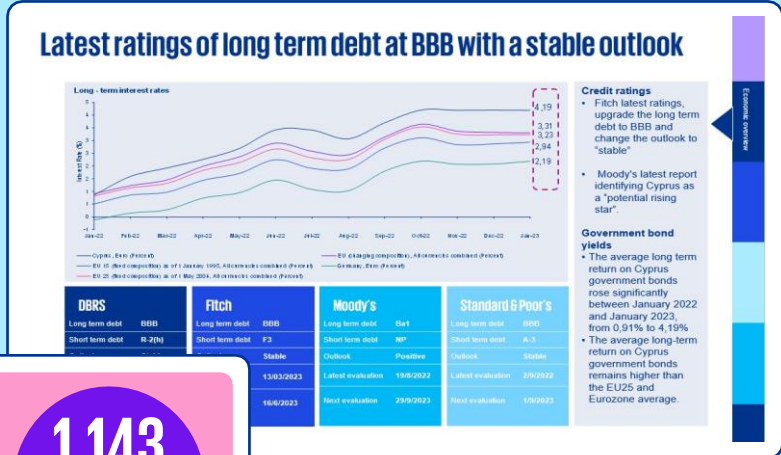
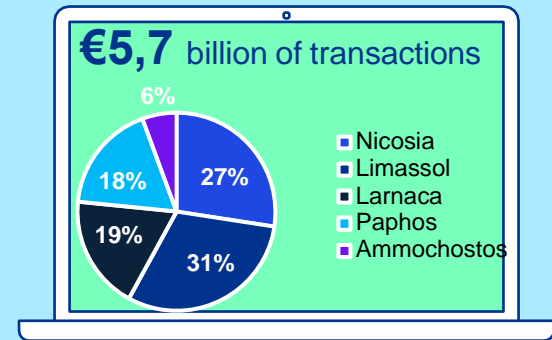
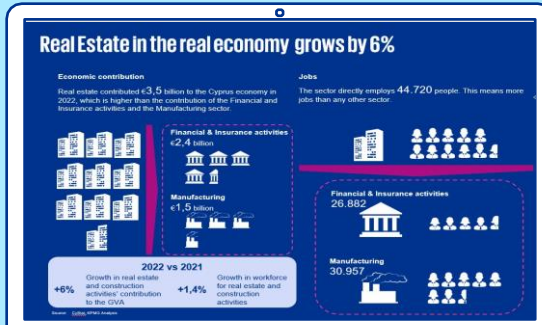
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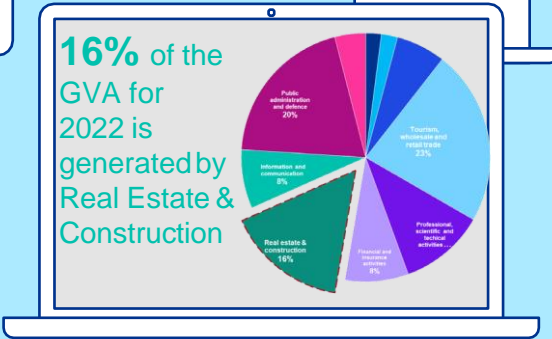
**Real Estate Services**

# Insights



**1.143**  
Building permits in Jan-Feb 2023

**-12,7%**  
compared to Jan-Feb 2022





# Cyprus at a glance

# Cyprus at a glance

## Tax System

- Attractive tax regime: modern and low rates (e.g. corporate tax 12,5%)
- A huge network of Double Tax Treaties (circa 67 countries)

## Legal and Regulatory framework

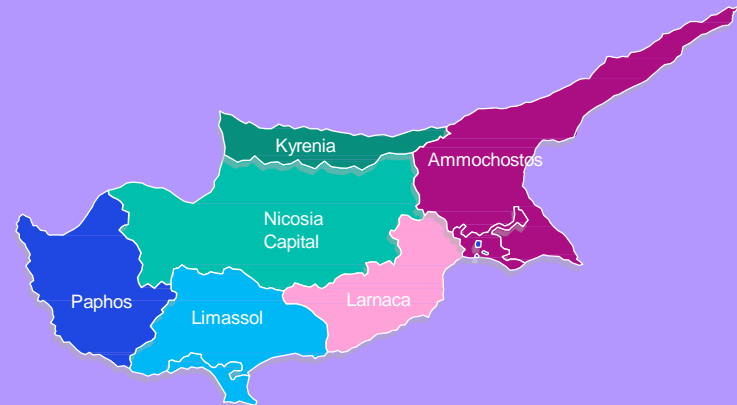
- Robust regulatory structure, closely aligned to the English common law legal system
- Strong protection for investment and intellectual property (IP)

## Human capital

- Access to talent, youngest population and workforce in the EU, 55% of the workforce has tertiary education (*investcyprus.org.cy*)
- More than 73% of Cypriots speak English (*investcyprus.org.cy*)
- Best island economy for 2019/2020 in terms of economy potential (*fDi magazine*)

## High quality life

- One of the best climates worldwide, ranked as the 5th best relocation destination worldwide by the latest Knight Frank Global Lifestyle Review (2013)
- Value Penguin, ranked Cyprus 5<sup>th</sup> safest country in the world (2015)



**Two Deep sea ports** (Limassol and Larnaca)

**Two International Airports** (Larnaca and Paphos)



**Currency:** Euro (€) (since 2008)

**Political System:** Presidential Democratic Republic



**Memberships:** EU member (since 2004)

**Official languages:** Greek, Turkish



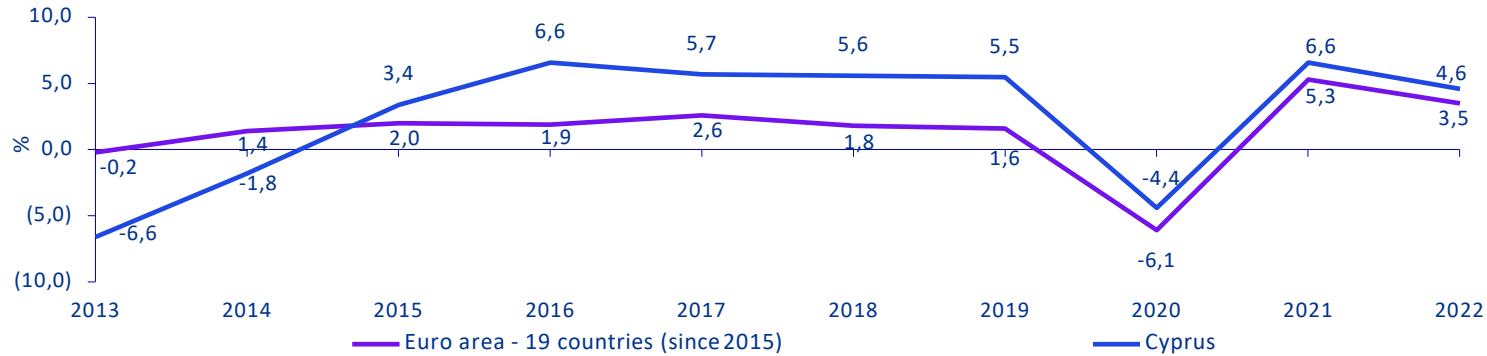
**Population:** 918.100 (Census 2021)



# Economic overview

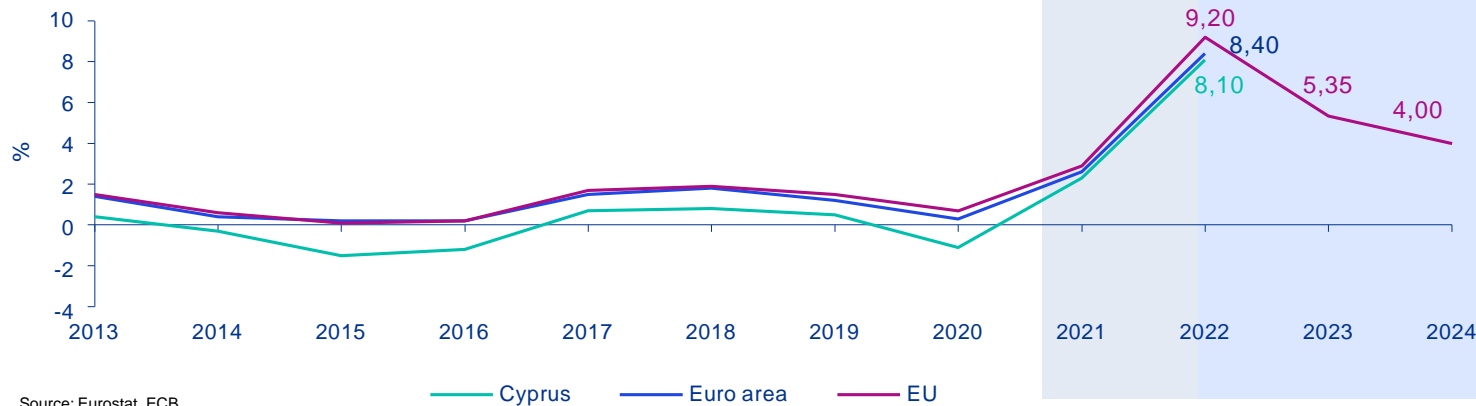
# Cyprus performs slightly better than Eurozone both in GDP and inflation...

Gross domestic product (y-o-y % change)



Source: Eurostat, ECB

Inflation (y-o-y % change)

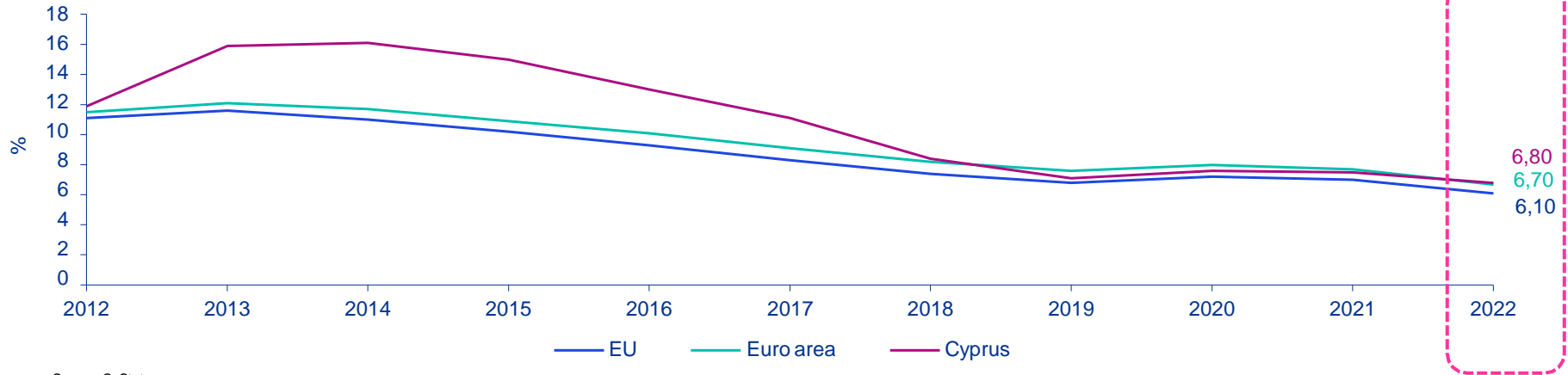


Source: Eurostat, ECB



# But lagging behind in employment

## Unemployment rate



Source: CyStat

1

### Unemployment Rates

Information and communication	+9,07%
Construction	+5,78%
Tourism, Wholesale and retail trade	+22,03%
Real estate activities	+8,69%

2

Positive GDP y-o-y growth in 2022 at 4,6%

Cyprus' annual GDP growth rate has been consistently above the Euro area average since 2015.

3

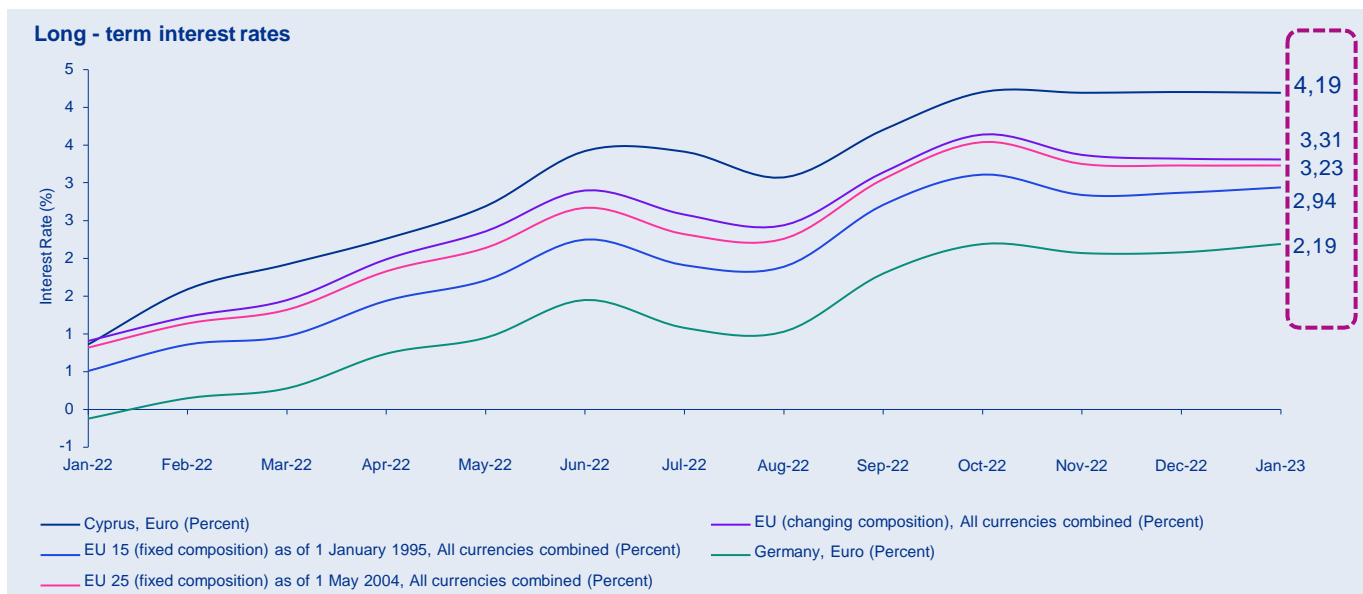
The latest CyStat figures show a drop of unemployment to 6,8% in Cyprus in 2022, dropping below the Euro area average of 6,7%.

4

Inflation in Cyprus for 2022 stood at 8,10%, while Eurozone's average stood at 8,4%

Inflation is expected to drop to 5,35% and 4% for Europe in 2023 and 2024 respectively.

# Latest ratings of long term debt at BBB with a stable outlook



## Credit ratings

- Fitch latest ratings, upgrade the long term debt to BBB and change the outlook to “stable”
- Moody's latest report identifying Cyprus as a “potential rising star”.

## Government bond yields

- The average long term return on Cyprus government bonds rose significantly between January 2022 and January 2023, from 0,91% to 4,19%
- The average long-term return on Cyprus government bonds remains higher than the EU25 and Eurozone average.

DBRS	
Long term debt	<b>BBB</b>
Short term debt	<b>R-2(h)</b>
Outlook	<b>Stable</b>
Latest evaluation	<b>7/10/2022</b>
Next evaluation	<b>29/9/2023</b>

Fitch	
Long term debt	<b>BBB</b>
Short term debt	<b>F3</b>
Outlook	<b>Stable</b>
Latest evaluation	<b>13/03/2023</b>
Next evaluation	<b>16/6/2023</b>

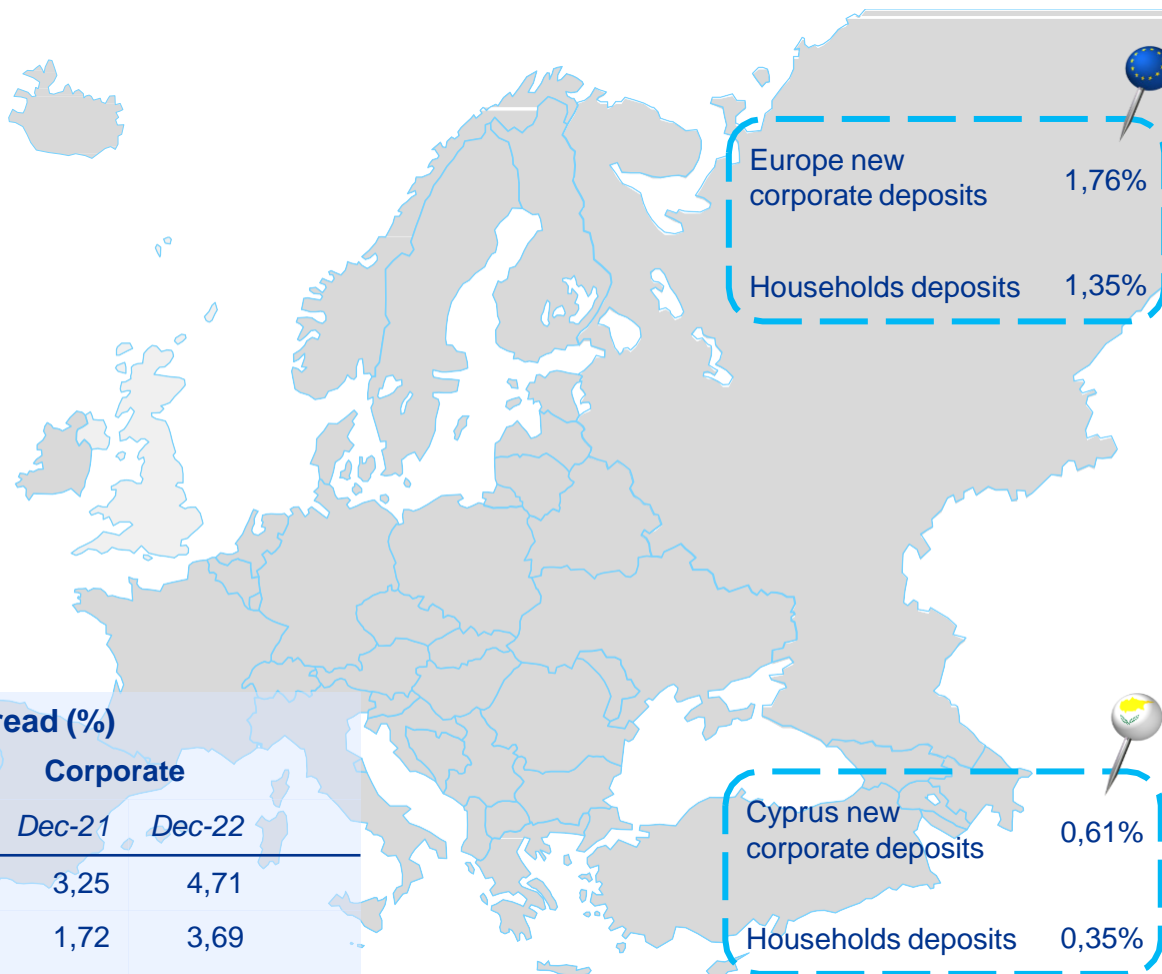
Moody's	
Long term debt	<b>Ba1</b>
Short term debt	<b>NP</b>
Outlook	<b>Positive</b>
Latest evaluation	<b>19/8/2022</b>
Next evaluation	<b>29/9/2023</b>

Standard & Poor's	
Long term debt	<b>BBB</b>
Short term debt	<b>A-3</b>
Outlook	<b>Stable</b>
Latest evaluation	<b>2/9/2022</b>
Next evaluation	<b>1/9/2023</b>

Source: DBRS, Fitch, Moody's, S&P, Eurostat

# Interest rates across Europe rise significantly

- Both household and corporate loan interest rates have increased since 2022
- Loans to Cypriot corporations are still more “expensive”, compared to their Eurozone counterparts
- The interest rate spread between loans and deposits has been reduced in Cyprus for both households and corporations. However, Cypriot Banks are still enjoying a higher spread than the Euro area average.

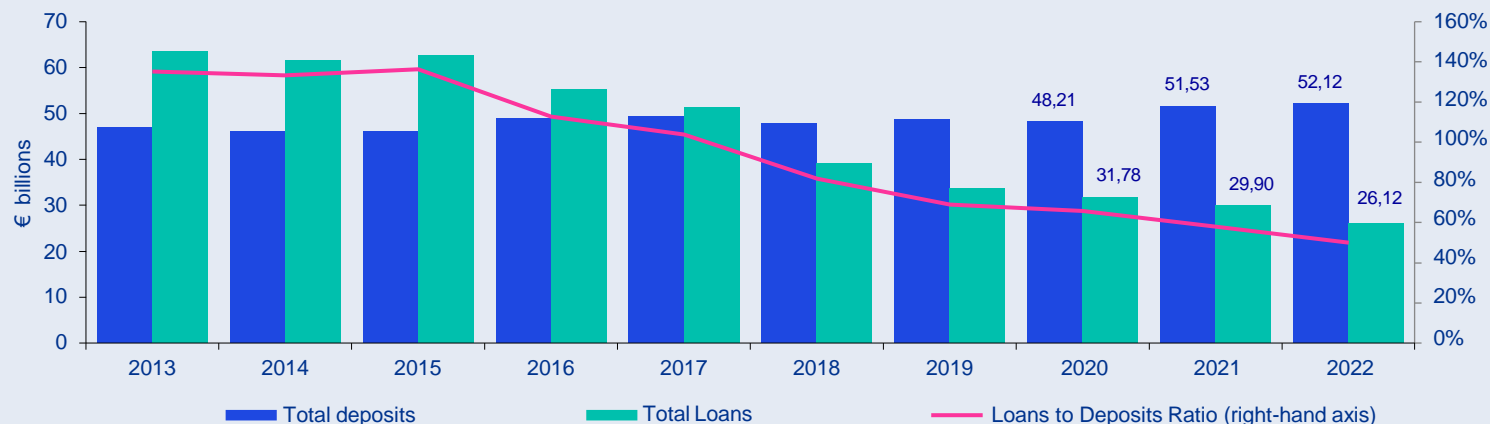


	Loans – Deposits interest rate spread (%)			
	Households		Corporate	
	Dec-21	Dec-22	Dec-21	Dec-22
Cyprus	2,21	3,34	3,25	4,71
Eurozone	1,34	3,07	1,72	3,69

Source: ECB

# Deposits increase slightly and loans decrease in 2022

Loans - Deposits trends in Monetary Financial Institutions in Cyprus



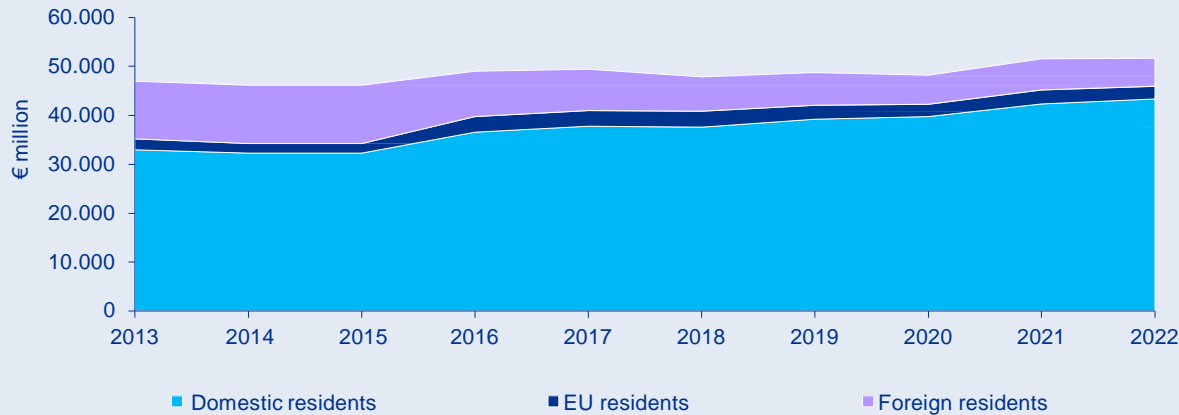
- The aggregate level of total bank deposits remains relatively stable since 2013
- Loans have more than halved since 2013
- There was a decrease of circa 2,81% in loans between 2021 and 2022.

- The loans to deposits ratio has decreased significantly during the last five years, indicating the banking system's surplus liquidity.

Source: CBC

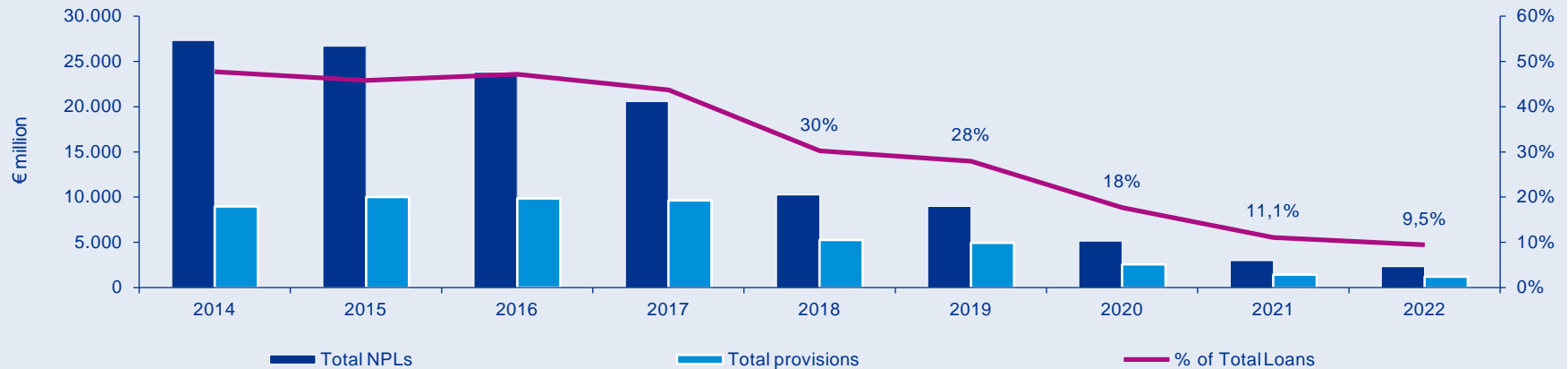
# NPL have significantly reduced in Cyprus Banks

Deposits in Cypriot Monetary Financial Institutions



- Local deposits have been gradually increasing, while foreign deposits were stable over the last four years
- The decline in loans is multi-faced; it is attributed to the banks' efforts to de-leverage their balance sheets via debt for asset swaps, write offs and cash collections, but more importantly, in 2021 and 2022, the shift of NPL portfolios outside the banking system.

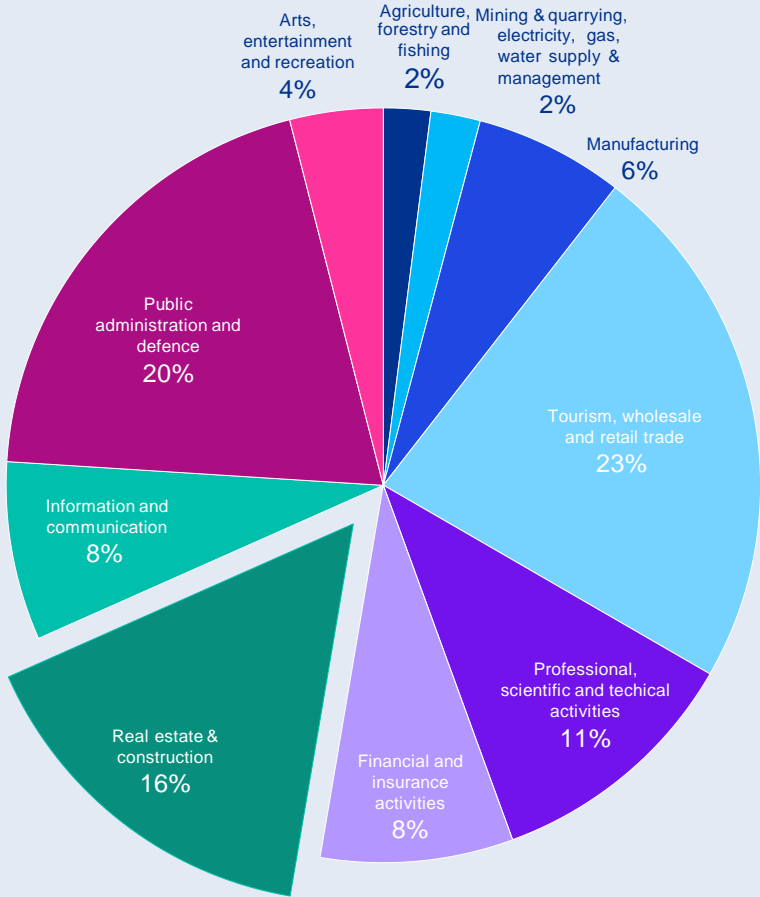
Non-Performing Loans in Cyprus



Source: CBC, ECB, KPMG Analysis

# Tourism, trade and real estate remain the most important sectors

Cyprus Gross Value Added (GVA) by sector 2022



Source: Cystat, KPMG Analysis

## Tourism

- Tourism has been the traditional growth driver of Cyprus
- “Sun & sea” branding has been the main force of attracting tourists
- The Cyprus government is aiming to enrich this by promoting all year round tourism and upgrading Cyprus’ offering.






## Real estate & Construction

- Real estate and Construction activities contributed 16% of the GVA 2022
- The sector has recovered strongly since 2013, mainly because of the external demand.

## Financial, Professional and Other Services

- The attractive tax system, the legal and regulatory framework and the educated workforce are the drivers of the “service economy” in Cyprus
- With a contribution of 8% for financial and insurance activities and 11% for professional scientific and technical activities, the services sector comprises one of the strongest pillars of the economy.

# Tourist arrivals increase, total spending increases, revenue per arrival falls

Arrivals 2022 (thousands) (y-o-y change)	1.213 [+2,1%]	52 [-0,9%]	277 [+2,37%]	170 [+0,55%]	198 [+1,12%]	119 [+2,05%]	2.728 [0,55%]	3.201 [+0,65%]
								Total
Spending per person (€) December 2022 (y-o-y change)	583,84 [+0,13%]	[n/a]	396,82 [-0,08%]	358,69 [+0,13%]	690,2 [+0,06%]	655,26 [+0,46%]	[n/a]	523,42 [-0,05%]

## Spending per person in 2022

  
**€2,44 bln**

Total spending

(+61% y-o-y)



  
**3.201.080**

Tourist arrivals in 2022

(+65% y-o-y)



  
**€762**

Revenue per arrival

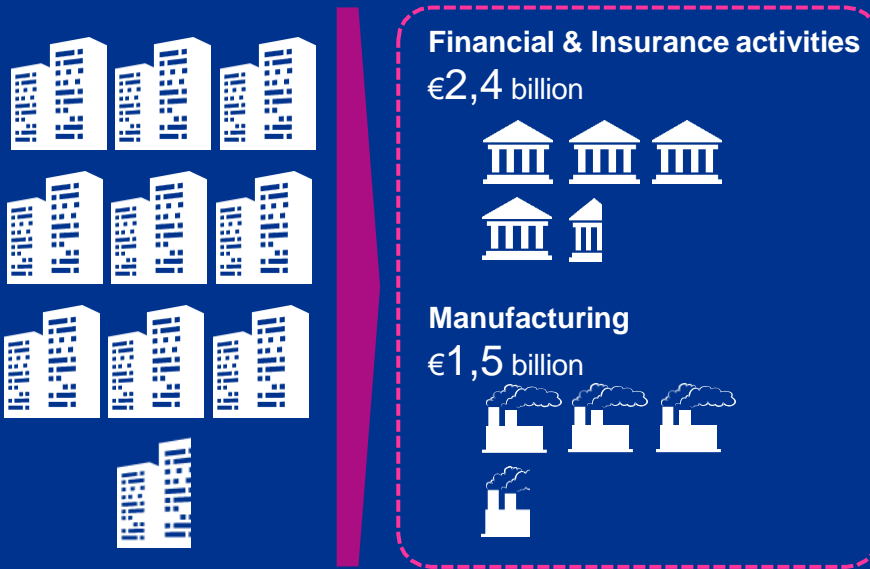
(-2,43% y-o-y)

Source: Cystat, KPMG Analysis

# Real Estate in the real economy grows by 6%

## Economic contribution

Real estate contributed €3,5 billion to the Cyprus economy in 2022, which is higher than the contribution of the Financial and Insurance activities and the Manufacturing sector.

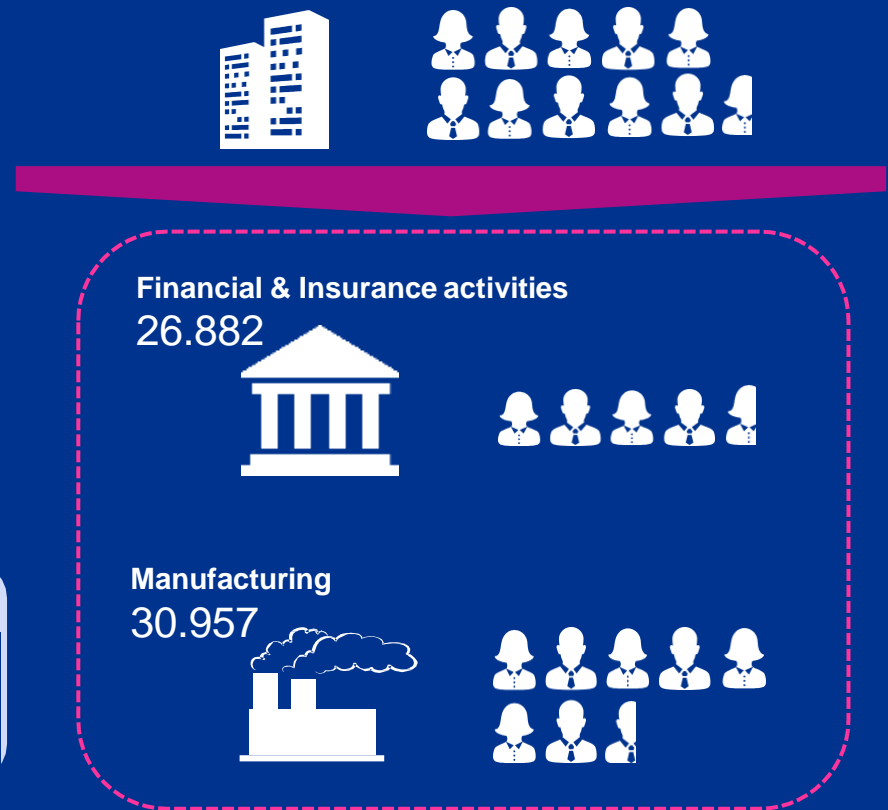


2022 vs 2021

Source: CyStat, KPMG Analysis

## Jobs

The sector directly employs 44.720 people. This means more jobs than any other sector.



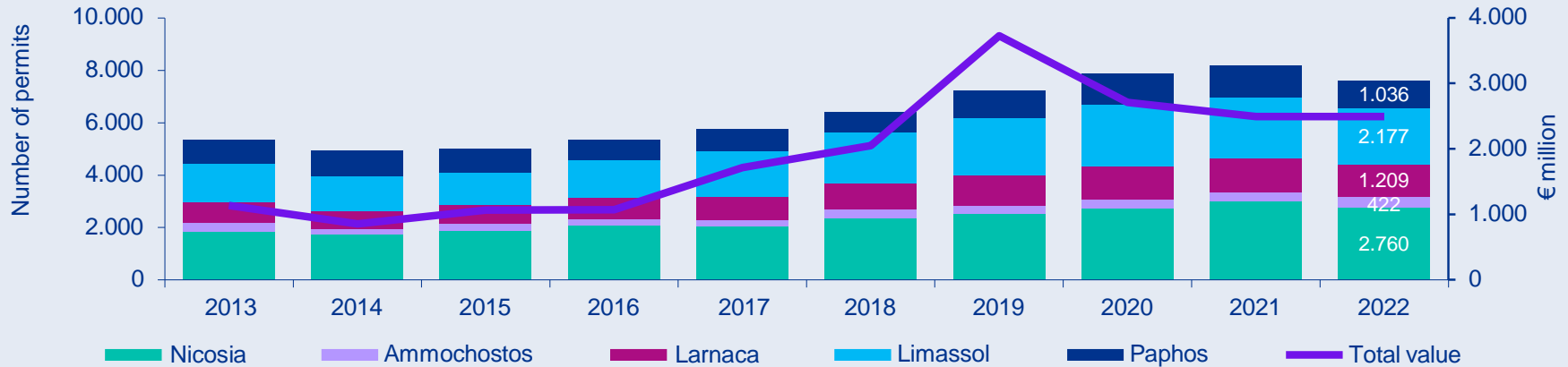




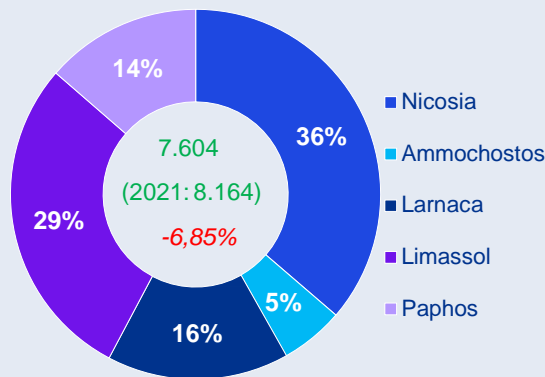
# Real Estate Sector

# Building permits exhibit a drop in value and volume for 2022

## Number and value of building permits

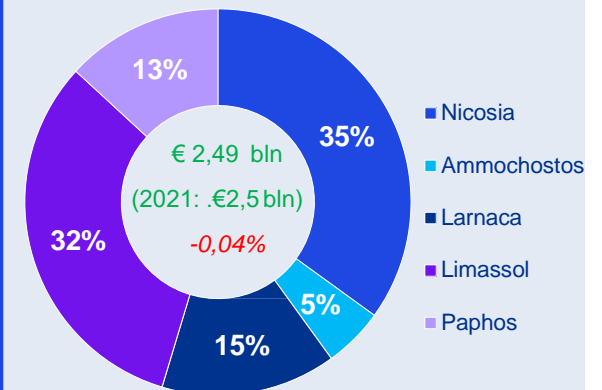


### Building permits 2022- Volume



- In 2022, a total of 7.604 permits were issued compared to 8.164 in 2021, recording a 6,85% decrease
- Nicosia is the district with the highest number of building permits (36% of total), and 35% in terms of value
- Limassol accounts for 29% of the total number of permits and 32% of the total value of permits.

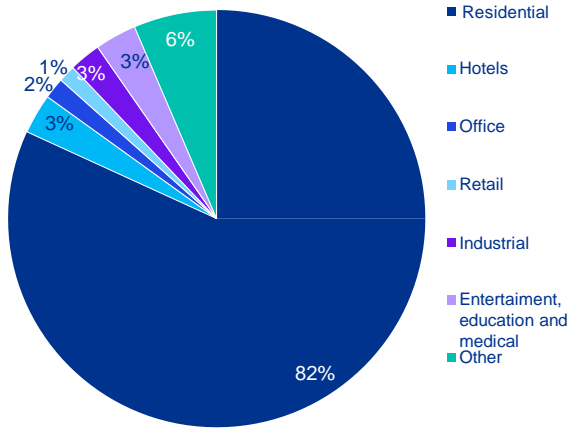
### Building permits 2022 - Value



Source: Cystat, KPMG Analysis

# Majority of building permits relate to residential developments

Number of building permits by type



- 82% of total volume of permits in 2022 are residential developments
- Hotel developments account for 3% of the total permits but 5% of the total permits value.

- 6.810 permits refer to small projects
- Total value of small projects contributes 45% of total value of all permits.

**Proportion of building permits for small and big projects**

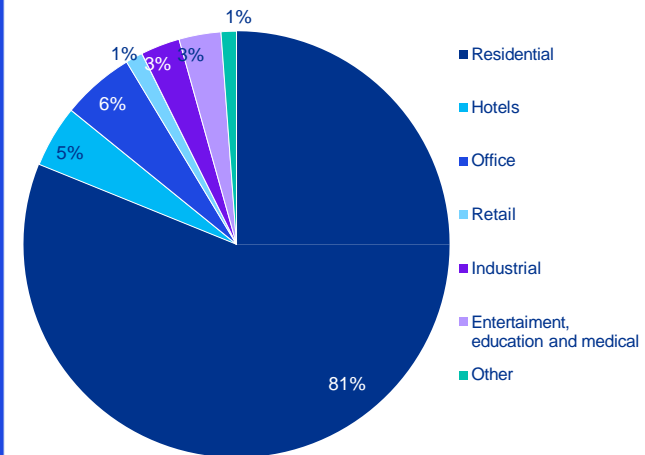
Project Type	Number of Permits	Percentage
Small projects	6,810	90%
Big projects	794	10%

■ Big projects ■ Small projects

- 794 permits refer to big projects and correspond to 10% of total volume of permits and 55% of total value of permits.

- 10% of the building permits issued were for projects bigger than 900m<sup>2</sup> – with a combined value of €1,23 billion, representing 56% of the total value of building permits
- The value of big projects permits more than doubled from last year (€1,27 billion).

Value of building permits by type

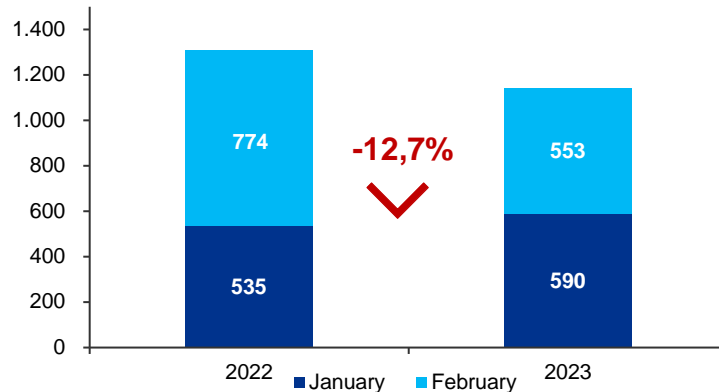


Source: Cystat, KPMG Analysis

# 6,9% decrease in volume of permits and marginal decrease in value for 2022 when compare with 2021

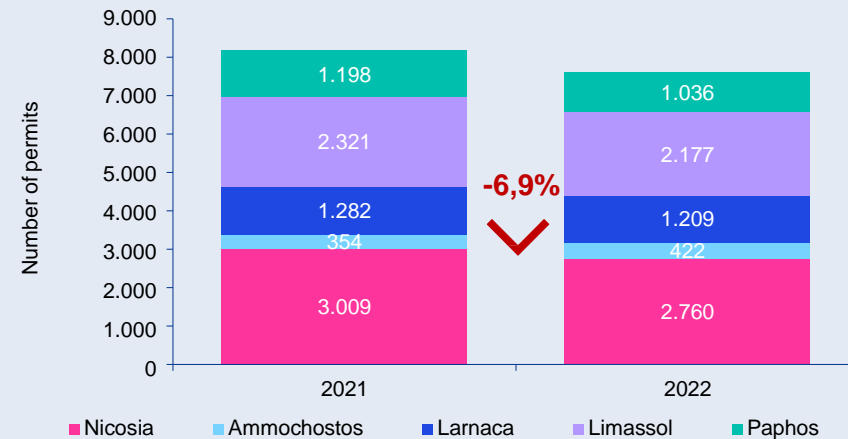
- Although there was a decrease overall of 6,9% in volume of permits Ammochostos was the only district exhibiting a notable increase of circa 19%
- Monitoring the overall volume of permits the trend for the first two months of 2023 continues a decline exhibiting -12,7%
- Looking at value of permits for 2022 it is noted that the decrease was marginal of 0,05%
- Signifying that although the number of permit has decrease the overall remains overall the same
- With district like Limassol, exhibiting notable increase in the overall value.

Volume of building permits Jan- Feb 2022 vs 2023

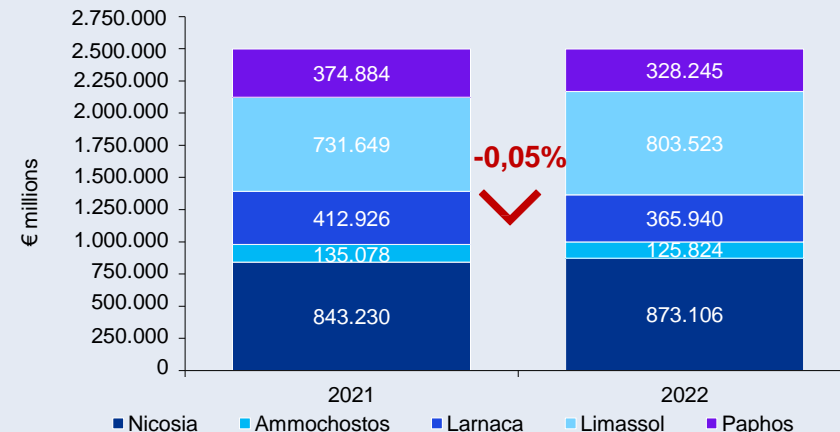


Source: CyStat, KPMG Analysis

Volume of building permits 2022 vs 2021

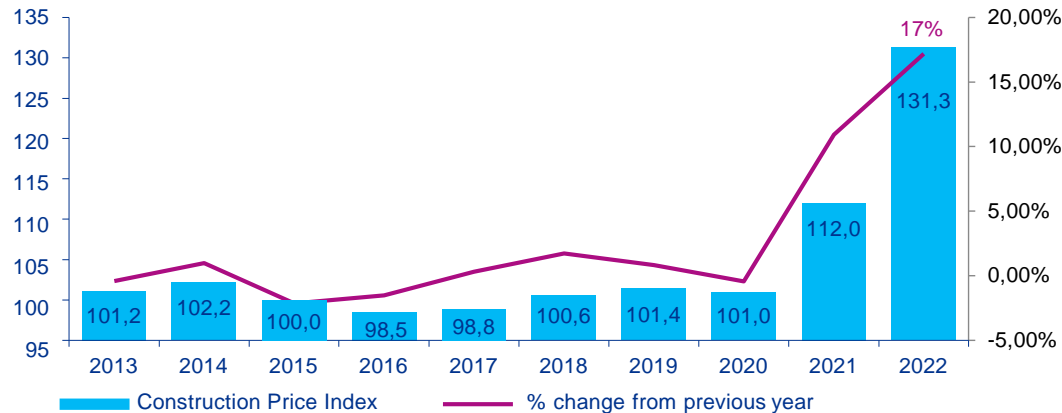


Value of Permits 2022 vs 2021



# Construction cost continue to rise fast

## Construction Price Index 2013 - 2022



Source: CyStat, KPMG Analysis

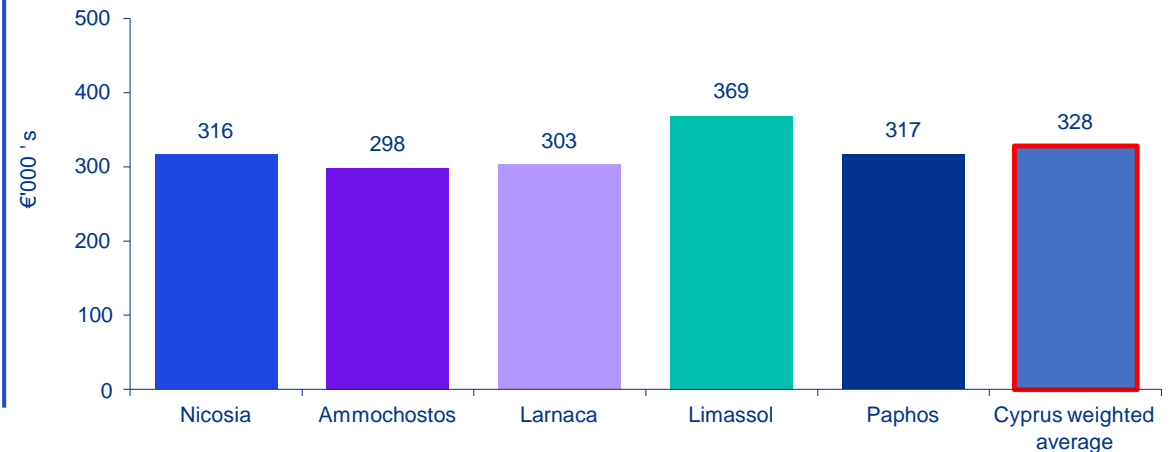
## Construction output

- Between 2013 and 2020, the construction sector has been recording stable growth rates
- In 2021 and 2022, a significant surge in prices was observed
- In 2022 the construction output experienced an annual growth of 17%, which is the higher growth rate recorded the last decade.

## Construction cost per building permit

- Larnaca has the smallest average value of construction cost per building permit
- With Limassol having the greatest average construction cost per building permit, standing at €369.000

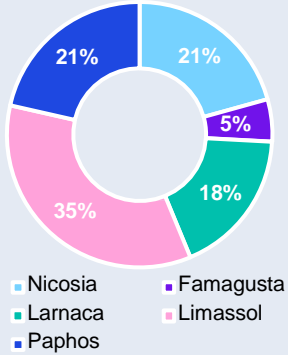
## Average construction cost per building permit issued - 2022



Source: CyStat, KPMG Analysis

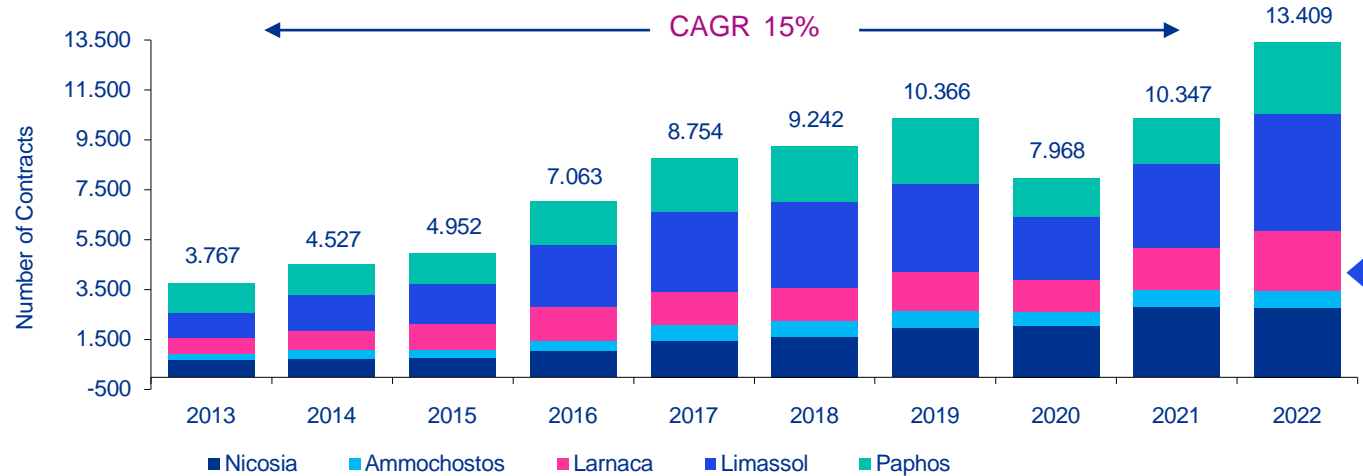
# CoS increase by 30% in 2022, continue in 2023, while Limassol leads the way

CoS per district 2022

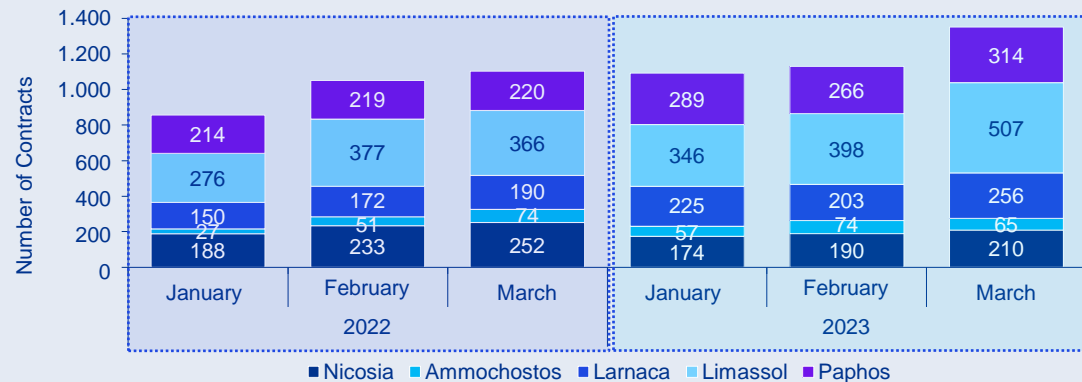


- The highest concentration of transactions in 2022 has been recorded in Limassol (35%), followed by Paphos and Nicosia (21%)
- The largest y-o-y growth in the number of contracts was recorded in Paphos (+58%), followed by Limassol (+40%)
- CoS are 8,57% lower than the all time high of 2008.

Contracts of Sale submitted to the Department of Land and Surveys - annualy



Contracts of Sale submitted to the Department of Land and Surveys - monthly

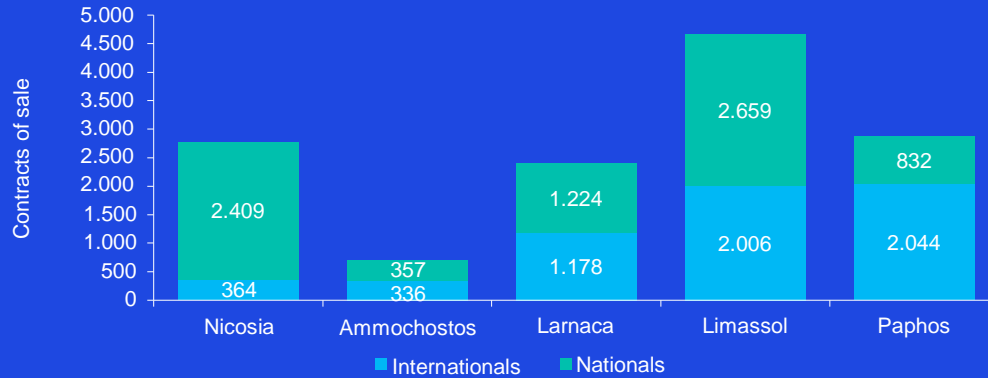


+19%

Source: DLS, KPMG Analysis

# Non-nationals account for 44% of CoS

CoS per city and nationality - 2022



- In 2022 a total of 5.928 CoS was submitted to the DLS by non-nationals, accounting for 44% of total sales contracts, exhibiting a 61% increase in 2022
- Domestic demand showed a strong growth in 2022, with the CoS submitted by Cypriots increasing by 12%.

Contracts of sale submitted to the DLS

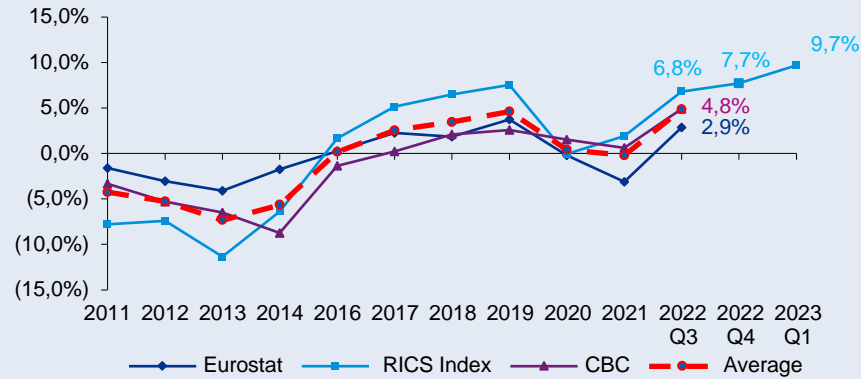


Source: DLS, KPMG Analysis

Note: As per the DLS, the Non-nationals counting methodology changed from 2018 onwards, with exception on 2020

# Residential price evolution exhibits the largest increase in 2022

Cyprus Residential Price Indices (y-o-y % Change)



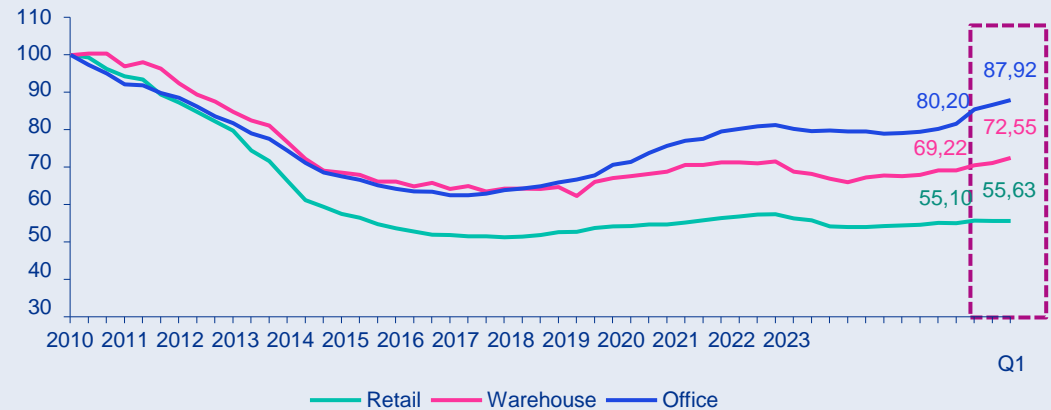
Source: RICS, CBC, EuroStat, KPMG Analysis

- The residential price evolution is monitored by the CBC, EuroStat and RICS
- These indices have different methodologies but all displayed similar negative trajectories between 2011 and 2016. However, the trend has been reversed since early 2017
- EuroStat's index displayed a decrease in prices in the last quarter of 2021, while the other two indices showed increases
- RICS's index showed an increase of 9,7% between 2022Q1 and 2023Q1.

- Retail and Warehouses prices based on RICS Index exhibit a similar trend over years with latest quarter updates exhibiting small increases
- Offices display a more notable increase in the latest quarter with more robust recovery in recent years
- Overall despite small variations within 2022, commercial properties exhibit increases in all asset classes

Source: RICS, CBC, EuroStat, KPMG Analysis

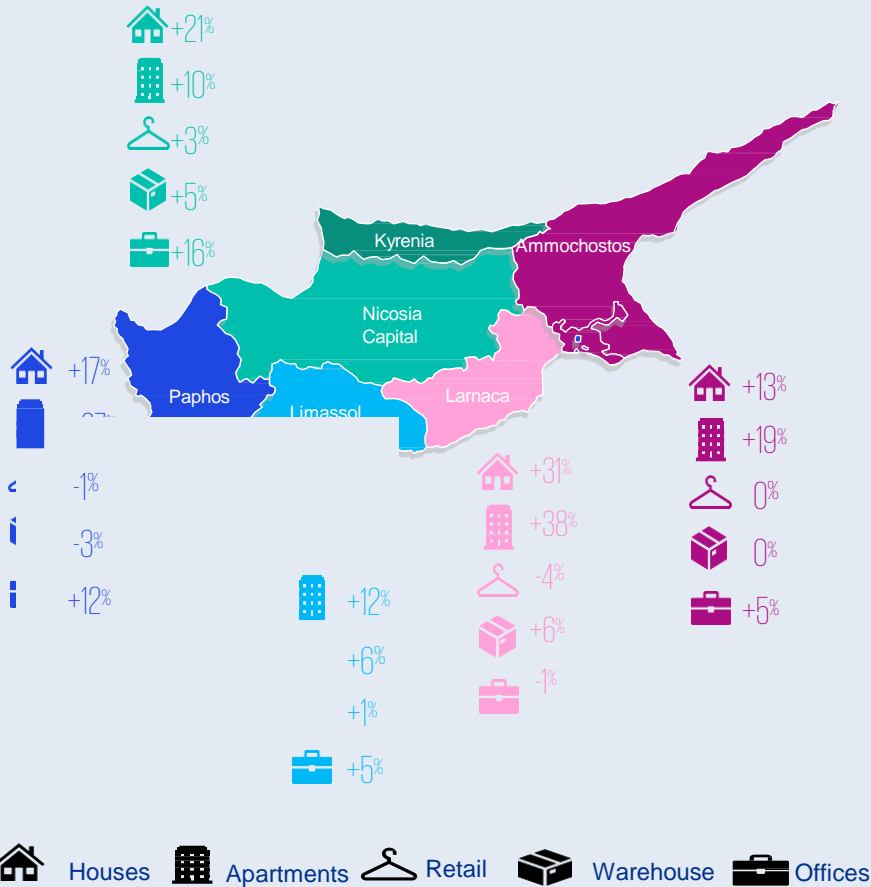
RICS Cyprus Commercial Price Index





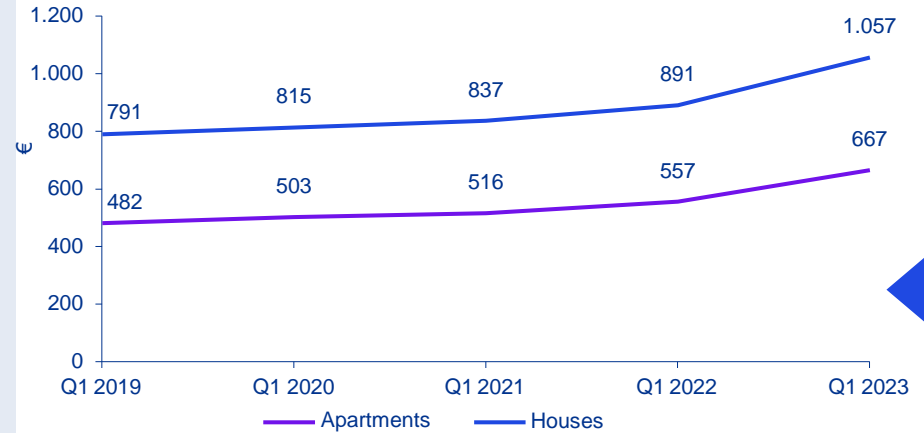
# Rental prices continue an upward trend for all asset classes

Rental prices (y-o-y % change) 2022 Q1 vs 2023 Q1



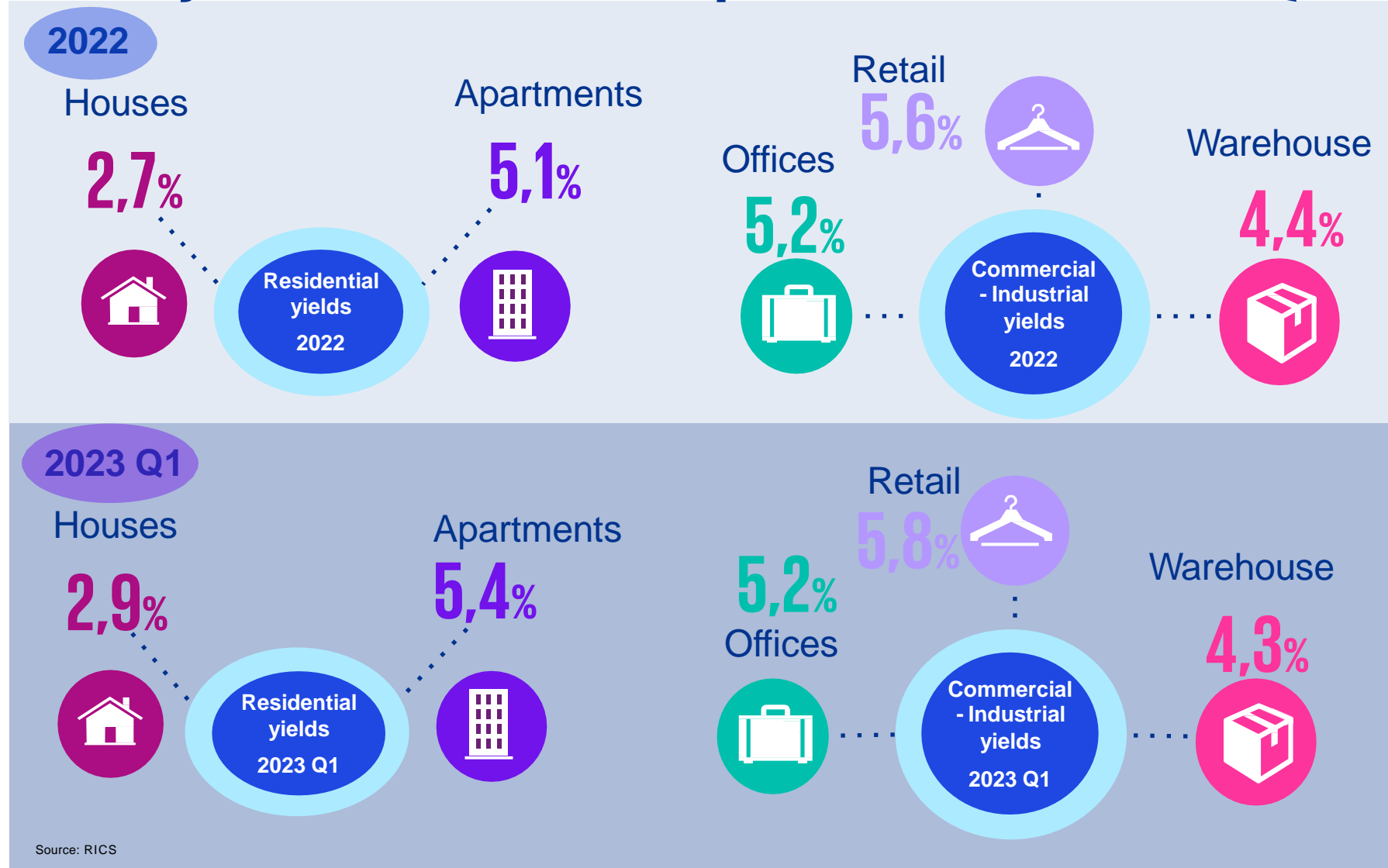
Source: RICS

Cyprus Average Monthly Rent



- Rental prices in the residential sector exhibited significant increase across all districts in 2023Q1
- The most notable increases were recorded for apartments and houses in Larnaca (+38% and +31% respectively) and apartments in Paphos (+27%)
- Rents for commercial properties also exhibit an upward trend in 2023 Q1, most notably offices in Nicosia (+16%) and offices in Paphos (+12%)
- Average Rental prices have been rising the last 5 years.

# Overall yields continued their upward trend in 2022 and Q12023



Source: RICS



# Notable Real Estate Sector matters

# 804 licensed touristic establishments across Cyprus in 2022



**29** 5 star hotels across Cyprus, where 38% are located in Paphos



**71** 4 star hotels across Cyprus, where 32 are located in Ammochostos



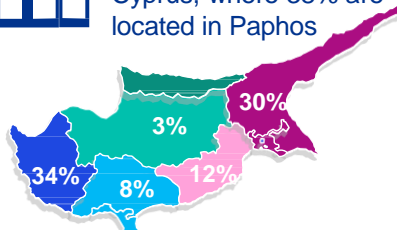
**74** 3 star hotels across Cyprus, where 50% are located in Ammochostos



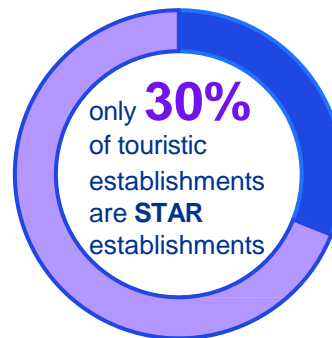
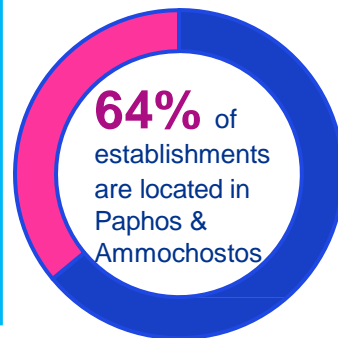
**47** 2 star hotels across Cyprus, where 40% are located in Larnaca



**583** 1 star hotels and Other across Cyprus, where 38% are located in Paphos



	5*	4*	3*	2*	1*	Other	Total
Nicosia	1	1	5	6	2	8	23
Limassol	7	8	9	4	2	37	67
Larnaca	1	6	4	19	2	68	100
Ammochostos	9	32	37	10	2	147	237
Paphos	11	23	13	4	6	217	274
Hill Resorts	-	1	6	4	8	84	103



**2% increase** in new licensed establishments in Paphos or 2022 vs 2018



**3% increase** in new licensed establishments in Ammochostos for 2022 vs 2018



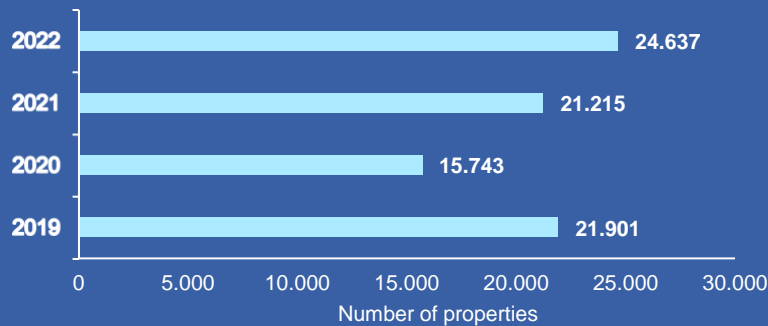
**15% decrease** in licensed establishments in Nicosia for 2022 vs 2018

# +41% in volume, +16% in value of transactions for 2022

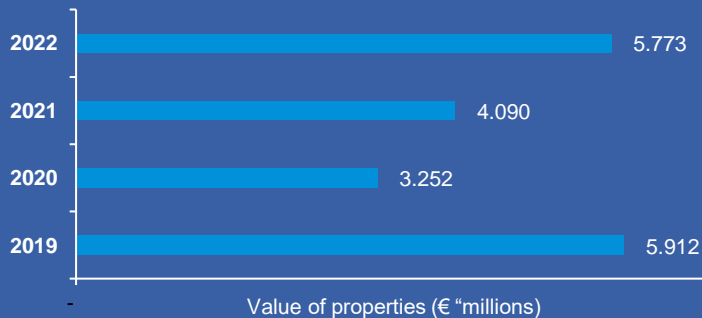


The Real Estate Sector continues to exhibit its resilience for the Cypriot economy in 2022 demonstrating why it's considered one of the key pillars of the economy.

## Volume of transactions



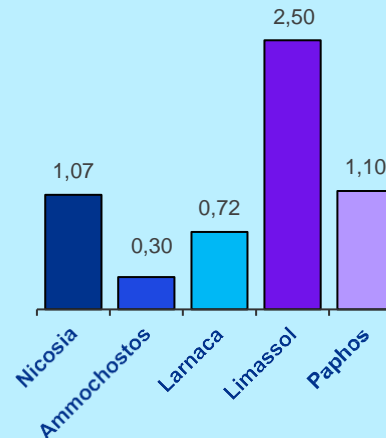
## Value of transactions



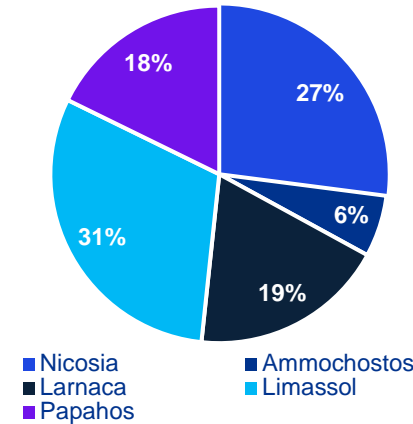
## €5,7 bln

worth of transactions were recorded in 2022. Limassol had the highest share with circa €2,5bln, followed by Paphos with circa €1,1bln.

## Value of Transactions 2022 (€bln)



## 2022 Volume of transactions per district



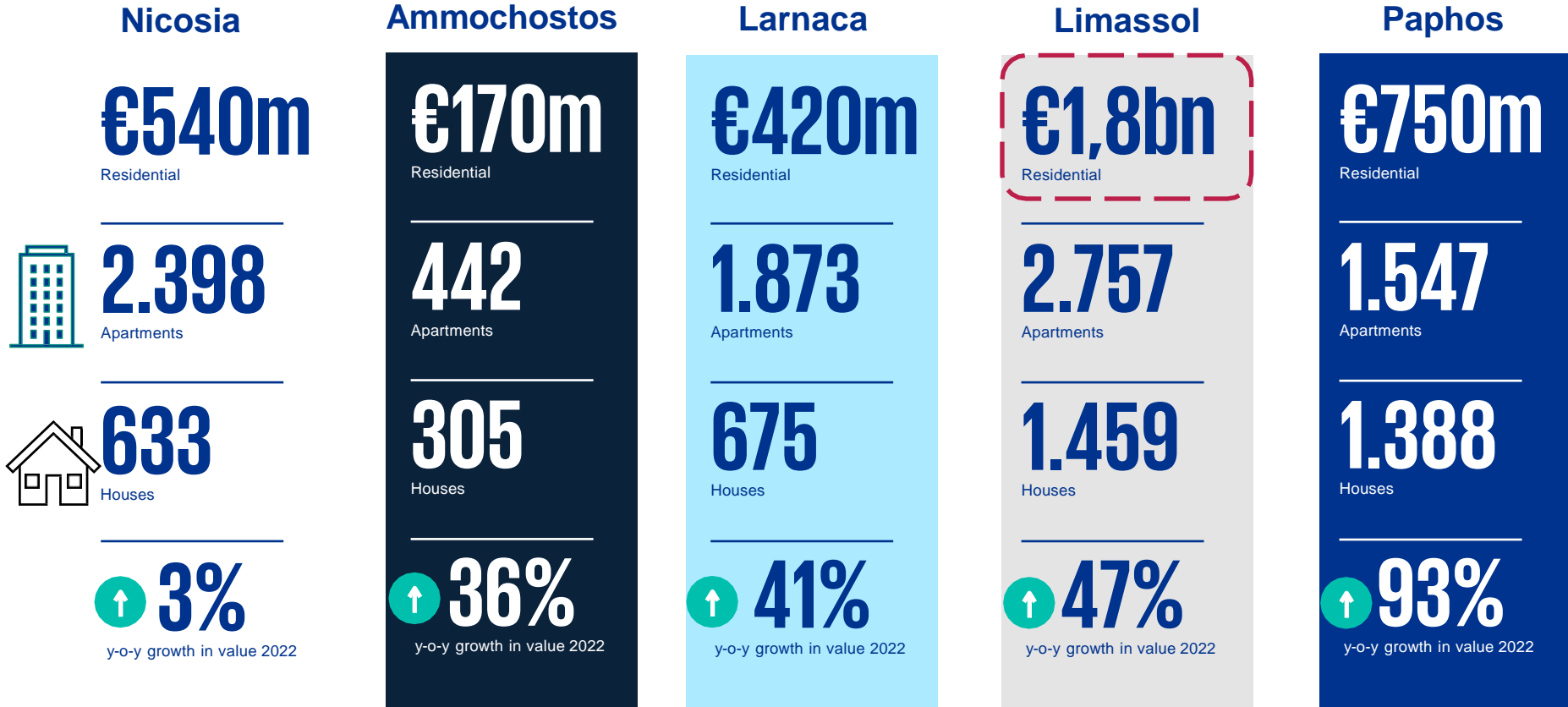
**+41%**  
In value of transactions compared to 2021 (y-o-y)

**+16%**  
In volume of transactions for 2022 compared to 2021 (y-o-y)

Source: Department of Land and Surveys, KPMG Analysis

Note: The above data concern raw data regarding Contract of Sales and Sales, from the Department of Land and Surveys (extracted at February 2023) in raw format and have been cleared, consolidated and combined.

# Limassol leads almost half of the value, but Paphos records highest increase



Source: Department of Land and Surveys, KPMG Analysis

Note: The above data concern raw data regarding Contract of Sales and Sales, from the Department of Land and Surveys (extracted at February 2023) in raw format and have been cleared, consolidated and combined.

# Significant increases in transactions recorded in all price categories

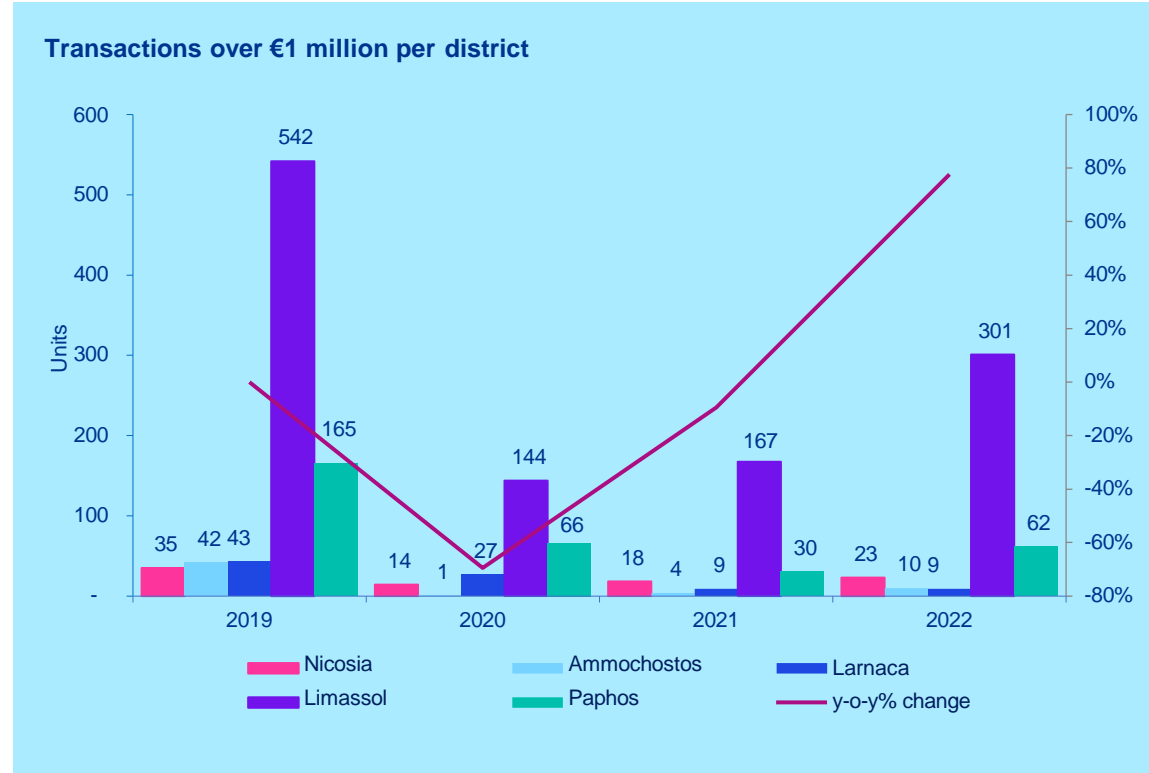


Source: Department of Land and Surveys, KPMG Analysis

Note: The above data concern raw data regarding Contract of Sales and Sales, from the Department of Land and Surveys (extracted at February 2023) in raw format and have been cleared, consolidated and combined

# Limassol continues to dominating the way in transactions >€1 million

- The cancelation of the CIP, as from 1 November 2020, caused a decrease in the level of transactions over €1 million for residential properties
- Still, in 2022, there were 405 transactions of residential properties worth over a million, which represent a 76% year-on-year increase, indicating a partial recovery and suggesting that this market segment is still active
- Transactions has doubled in Paphos and Limassol between 2021 – 2022 but still fall behind 2019.



Source: Department of Land and Surveys, KPMG Analysis  
 Note: The above data concern raw data regarding Contract of Sales and Sales, from the Department of Land and Surveys (extracted at February 2023) in raw format and have been cleared, consolidated and combined



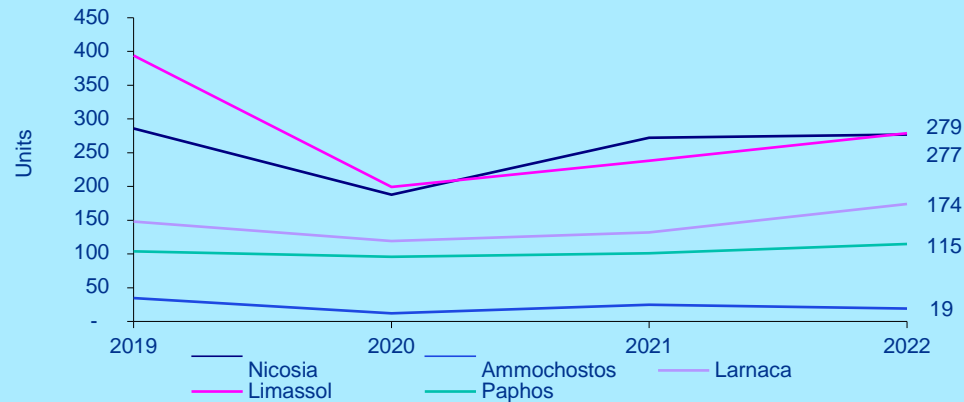
# 40% of land transactions in 2022 were in Nicosia, but 32% of commercial transactions in 2022 were in Limassol

864

Commercial Transactions in 2022

Limassol and Nicosia experience the highest transaction volume in commercial properties

Commercial property transactions



+13%

y-o-y increase in commercial transactions

8.647

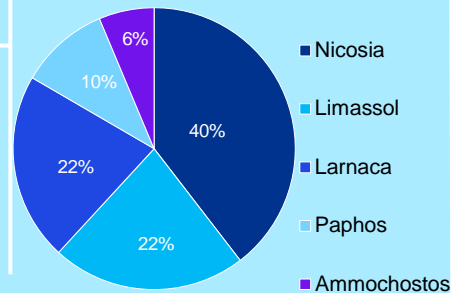
Land transactions in 2022

+1%

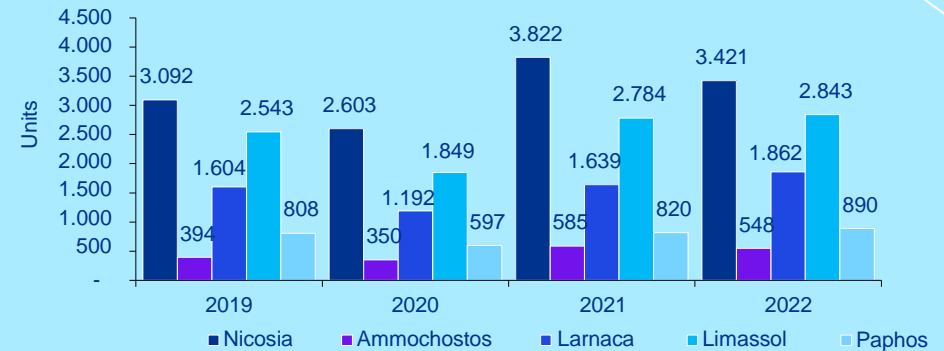
y-o-y increase in land transactions

Nicosia has the highest land transaction volume over the past 4 years

2022 Land transactions



Land property transactions

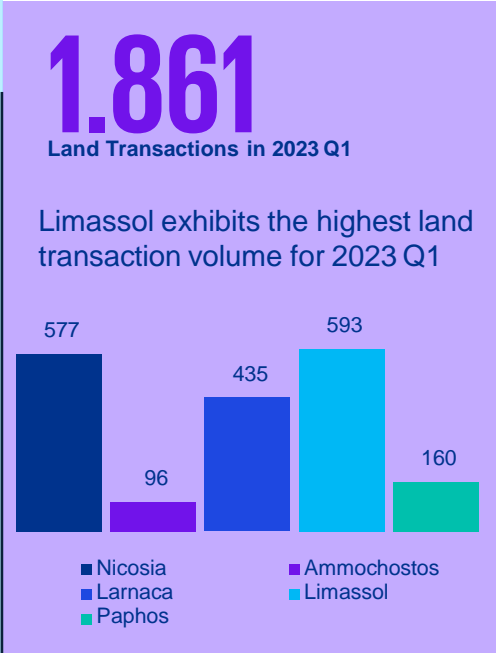
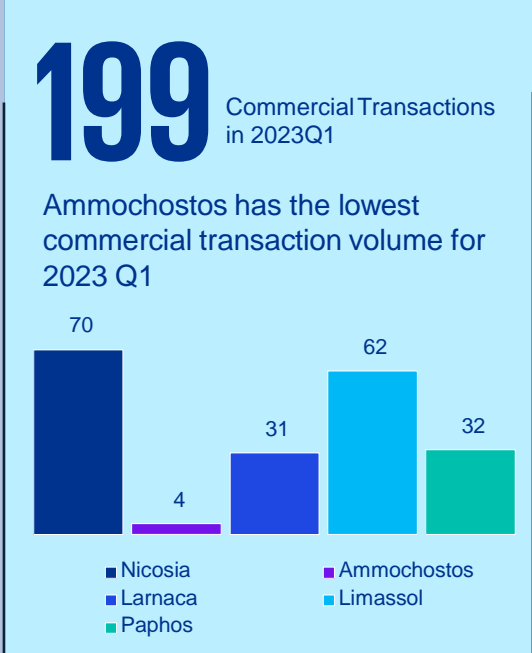
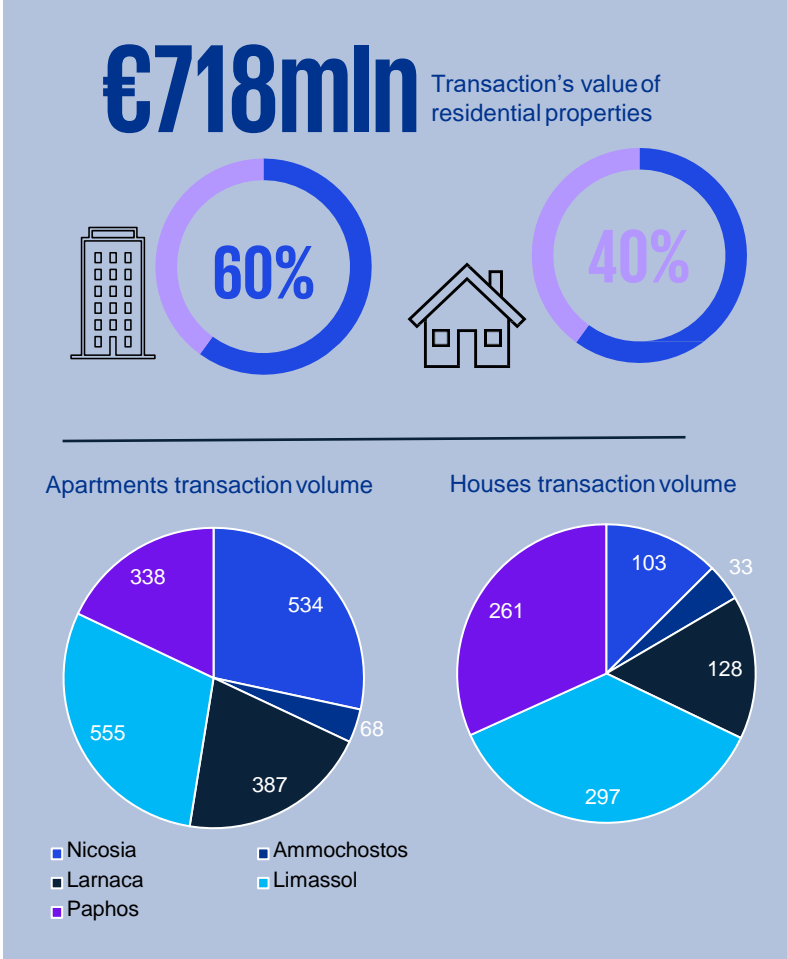


Notable Real estate sector matters

Source: Department of Land and Surveys, KPMG Analysis

Note: The above data concern raw data regarding Contract of Sales and Sales, from the Department of Land and Surveys (extracted at February 2023) in raw format and have been cleared, consolidated and combined.

# 27% increase in transaction volume for Q1 2023 vs Q1 2022, with Limassol having the majority of the transactions



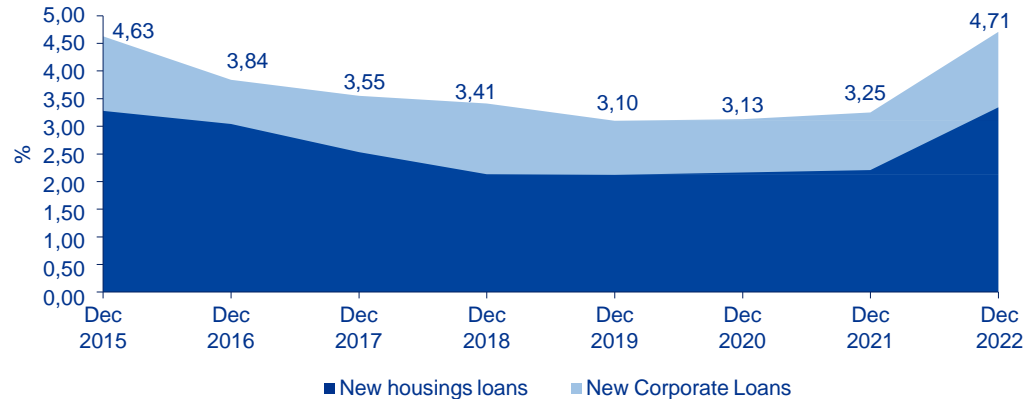
Source: Department of Land and Surveys, KPMG Analysis  
 Note: The above data concern raw data regarding Contract of Sales and Sales, from the Department of Land and Surveys (extracted at April 2023) in raw format and have been cleared, consolidated and combined.



# Lending Market

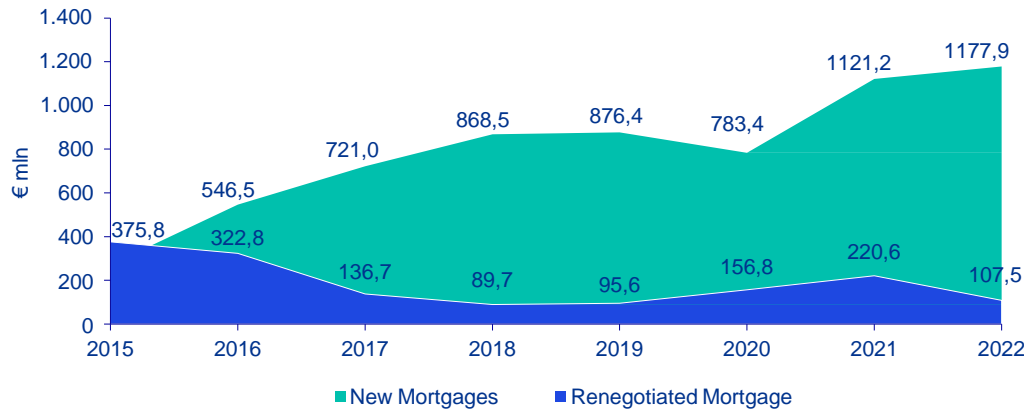
# Interest rates rise, mortgages decline

Interest rates



- Interest rates in Cyprus have gone through a significant period of change
- Monetary easing policies were implemented, such as reducing interest rates on bank deposits and loans, to stimulate the economy
- The COVID-19 pandemic and Russian-Ukrainian war led to an increase in interest rates to tackle inflation
- In 2022, new net lending reached €3,23 billion, up 10% from 2021, according to the CBC.

New mortgages

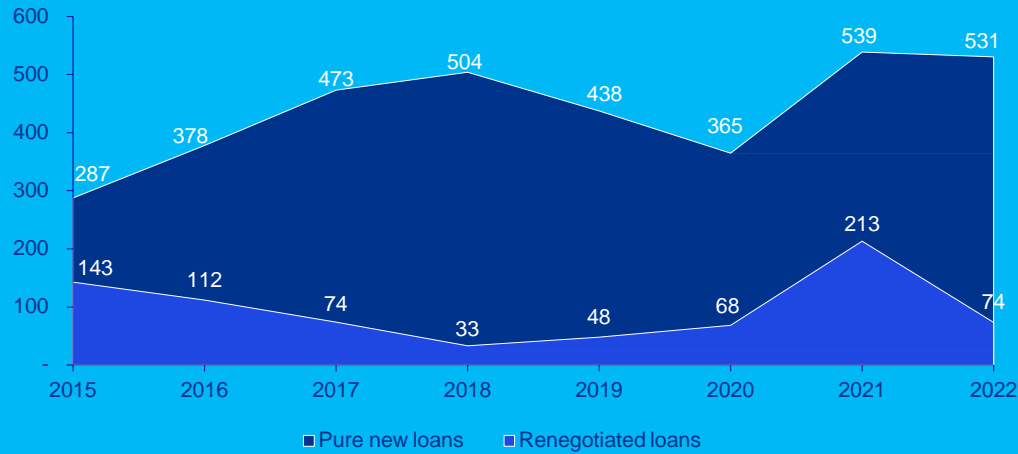


- In 2022, new mortgages accounted for 36% of new net lending, totaling €1,18 billion, a 5% increase from 2021
- Renegotiated mortgages amounted to €108 million
- Total mortgages in 2022 amounted to €1,28 billion, a small 4% decrease from the previous year
- The increase in mortgages since 2020, despite the pandemic, can be attributed to the interest rate subsidy until the end of 2021 and overall market demand in 2022, according to CBC data since 2015.

Source: CBC, KPMG Analysis

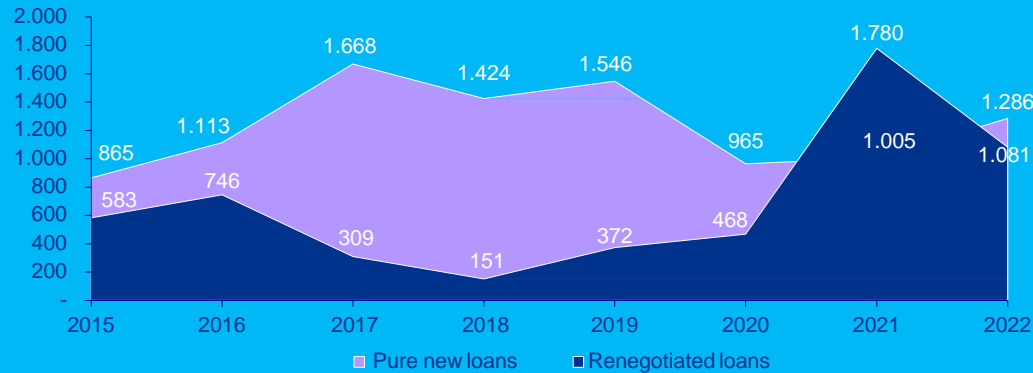
# New corporate lending declines, renegotiated loans continue

New corporate loans of up to €1 mln



- In 2022, new corporate loans up to €1 million amounted to €604 million, with €531 million of net new lending and €74 million of renegotiated loans, representing an overall 20% decrease from 2021
- Net lending decreased by 2% and renegotiated loans decreased by 65%
- The drop in new lending and renegotiated loans in 2022 can be attributed to the tougher economic climate faced by corporations, despite a rise in renegotiated loans in 2021 following the pandemic.

New corporate loans over €1 mln



- Similar picture with new corporate loans up to €1 million are the over €1 million, with 15% decrease in 2022 vs 2021 exhibiting the tougher economic climate within the year
- Increased amount of renegotiated loan is observed from 2020 onwards versus the relative stable pure new lending observed during the same time.

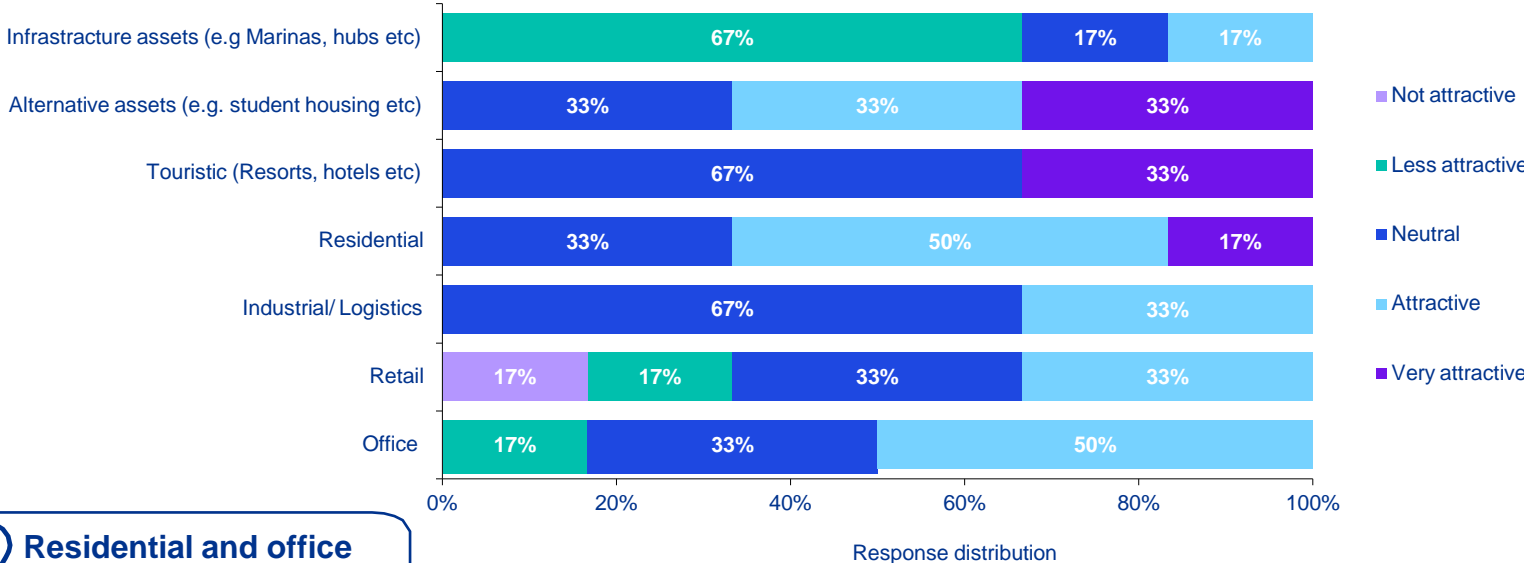
Source: CBC, KPMG Analysis

# Neutral attractiveness for touristic properties

KPMG Cyprus in an effort to capture the banking sector expectations, carried out an interview based questionnaire during Q4 2022 with the participation of almost all local banks to identify the appetite of banks for lending on different asset categories, and the factors that are expected to affect the bank’s loan portfolio.



## How do you rate the attractiveness of different real estate subsectors for the bank?



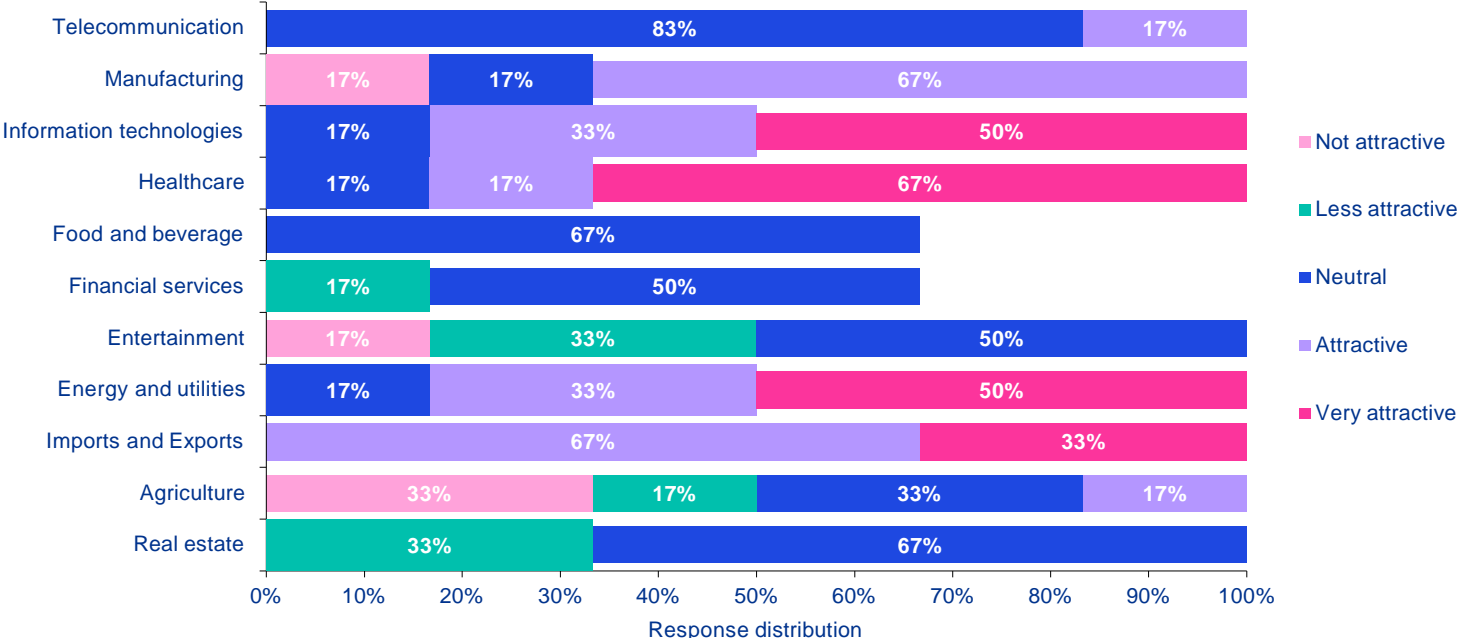
**Residential and office properties are the most attractive subsectors for banks**

Source: Cyprus Property Lending Barometer survey

# Healthcare, Information technologies and Energy and utilities are the most attractive industries for banks



How do you rate the attractiveness of different industries for the bank, strategically?



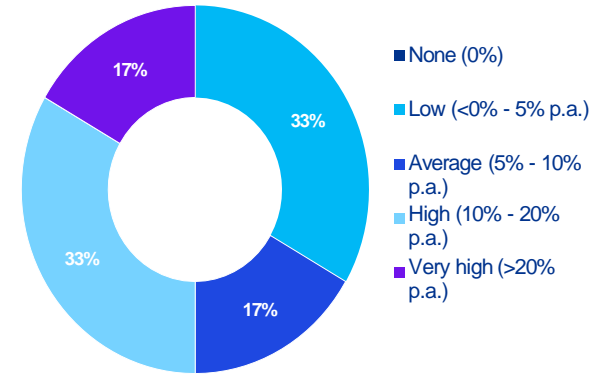
**Agriculture appears to be the least attractive industry for banks, while the majority of banks rank Real estate as neither attractive nor not attractive**

Source: Cyprus Property Lending Barometer survey

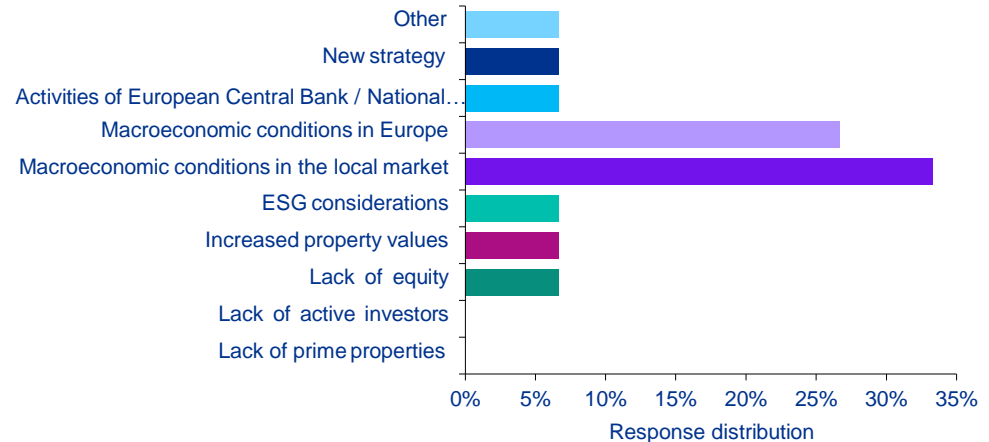
# Macroeconomic conditions in the local market and Europe affect real estate loan portfolio



**Growth potential for the next three years in \*green/sustainable link loans in your RE portfolio**



**Most important factor expected to affect each bank's real estate loan portfolio significantly**



Lending Market

Source: Cyprus Property Lending Barometer survey  
 Note: \*green/ sustainable link loans refer to loans given with criteria directly relate to ESG metrics e.g capturing the impact of externalities i.e. climate change, representation of social and governance issues





# Real Estate Services

# Real Estate related services



Business Plan Preparation assistance, business modelling



Transaction Services (Buy side, Sell side)



Corporate Finance, Feasibility Studies, Business and Assets Valuation



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Immigration Services



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Asset Management & Strategy



Audit & Tax Services

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# Glossary

<b>CoS</b>	Contracts of Sale
<b>CIP</b>	Cyprus Investment Program
<b>CBC</b>	Central Bank of Cyprus
<b>CyStat</b>	Cyprus Statistical Authority
<b>DLS</b>	Department of Land and Surveys
<b>EU25</b>	European Union of 25 member states
<b>EU</b>	European Union
<b>ESG</b>	Environmental social and governance
<b>GDP</b>	Gross Domestic Product
<b>GVA</b>	Gross Value Added
<b>IP</b>	Intellectual Property
<b>NPL</b>	Non Performing Loans
<b>RE</b>	Real Estate
<b>RICS</b>	Royal Institution of Chartered Surveyors



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