Cyprus Real Estate Market Report - The Insights

10th edition
Annual report outlining the key trends and major drivers of the Real Estate Market for 2018

April 2019

kpmg.com.cy
Dear Reader,

The real estate sector continues to play a pivotal role in the Cypriot economy, therefore we are pleased to present our newest KPMG Cyprus Real Estate Market Report – The Insights. This is the 10th edition of our report, which provides insightful leads into the Cypriot economy and the local real estate market.

This report provides an overview of the Cypriot economy and an assessment of the performance of the real estate sector during 2018.

Overcoming the challenges of recent years, the Cypriot economy continued to exhibit a solid growth and has maintained its status as one of the fastest growing economies in Europe. Given the significance of the real estate sector for the Cypriot economy, we continue publishing our expert sectoral report. This edition delves into the key economic conditions and provides invaluable insights into demand and supply, key trends and notable sectoral developments.

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 “one-stop-shop” real estate service offering covers advisory, audit and tax related matters, customised to provide real added value to your specific needs and environment.

Christos V. Vasiliou
Managing Director
KPMG in Cyprus
Positive economic growth has continued in 2018 for Cyprus, with GDP exhibiting an annual 3.9% increase (considerably higher than the EU average).

The Real Estate sector (including construction activities) has contributed c. 38.5% of the annual growth rate and 16% of the Cypriot economy Gross Value Added.

The issuance of Building Permits continued its upward trend in 2018, both in terms of volume (+12% year-on-year) and value (+20% year-on-year).

Famagusta district exhibited the biggest annual increase in terms of volume (36%) and in terms of value (77%).

Transactions activity remained strong, with the number of Contracts of Sale exhibiting an annual increase of 6%.

Limassol had the highest share (37%) of the market for 2018, same as in 2017, and Nicosia exhibited the largest year-on-year increase (+10%) in sales.

Non-nationals contributed 47% of total transactions activity.

Notable Real Estate Matters include:

- An annual increase of 27% in the volume of transactions for high value residential properties (> €1 million) in 2018
- New Building Permits for hotels have exhibited a growth of +122% in terms of m² during 2018, when compared to 2017
- Bookings through Airbnb showed an annual increase of 71% in 2018.
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Cyprus at a glance
Key Benefits

**Tax System**
- Attractive tax regime: modern, simple and low rates (e.g. corporate tax 12.5%)
- A huge network of Double Tax Treaty (circa 60 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 degree (investcyprus.org.cy)
- More than 73% of Cypriots speak English (investcyprus.org.cy)
- Best island economy for 2017/18 in terms of lifestyle and human capital (FDI) magazine

**High Quality of Life**
- One of the best climates worldwide
- Top 5 safest country in the world (Value Penguin 2015)
Economic overview
Positive growth in 2018 at 3.9% (y-o-y)
Cyprus’ annual GDP growth is starting to stabilise at approximately twice the EU average
IMF is forecasting a growth rate of 3.5% in 2019 and then milder growth rates in the next 5 years
The largest growth driver in 2018 was construction and real estate activities, closely followed by tourism, wholesale and retail trade

- **GDP growth**
- **Inflation**
- **Unemployment rate**

### GDP YoY change - Cyprus vs EU

- **% change YoY**
- **Projections**

### Inflation % change (YoY)

### Unemployment rate, Cyprus vs Euro area, %

Source: CyStat, Eurostat, IMF projections (World Economic Outlook Database, 2019), KPMG analysis
Since the events of the Cypriot economic crisis in 2013 and the downgrade of Cyprus’ sovereign rating by various international credit rating agencies to “Non-Investment Grade”, the country has significantly progressed.

The positive economic growth has led to a series of upgrades of the Cyprus sovereign rating from international credit rating agencies.

A Cypriot 10-year government bond yield issued in mid 2013 (July) was priced c. 3.43%, and this has now dropped to 0.52% in March 2019, signifying the strong fiscal performance of the economy.

The uncertainty surrounding the troubled Coop Bank had increased the Cypriot bond yield to c. 2.99% in July 2018, but the normal trajectory was re-established once the resolution deal was completed.

### Cyprus credit rating

<table>
<thead>
<tr>
<th>Agency</th>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>Fitch</th>
<th>DBRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Previous Rating</strong></td>
<td>Ba3</td>
<td>BB+</td>
<td>BBB-</td>
<td>BB</td>
</tr>
<tr>
<td><strong>Current Rating</strong></td>
<td>Ba2</td>
<td>BBB-</td>
<td>BBB-</td>
<td>BBB (low)</td>
</tr>
<tr>
<td><strong>Explanation</strong></td>
<td>Non-Investment grade (two grades below investment)</td>
<td>Investment grade</td>
<td>Investment grade</td>
<td>Adequate credit quality</td>
</tr>
<tr>
<td><strong>Current rating as of</strong></td>
<td>27 Jul 2018</td>
<td>14 Sep 2018</td>
<td>12 Apr 2019</td>
<td>23 Nov 2018</td>
</tr>
<tr>
<td><strong>Upgrades / Downgrades</strong></td>
<td>upgrade</td>
<td>upgrade</td>
<td>stable</td>
<td>upgrade</td>
</tr>
<tr>
<td><strong>Outlook</strong></td>
<td>stable</td>
<td>positive</td>
<td>stable</td>
<td>stable</td>
</tr>
</tbody>
</table>

Source: Credit rating agencies

### Government bonds with maturity close to end of 2022

Source: Stock Markets data
Deposits and Loans breakdown

Deposits movement

- The level of total bank deposits shows aggregate stability over the past few years, since the events of 2013.
- Local deposits have been relatively stable during the last three years, whereas foreign deposits exhibit a steadily decreasing trend from 2011 to 2018.
- Loans have significantly reduced since 2011. There was a decrease of c. 24% between 2017 and 2018.
- The decline in loans is multi-faceted; 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, particularly in 2018, to the sale of loan portfolios and the recent transfer of the Coop Bank’s NPL portfolio outside the banking system.
- The loans to deposits ratio has decreased significantly during the last 5 years. Loans have a lower aggregate value in 2018, compared to deposits for the first time since 2011.

Loans movement

Loans to deposits ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Loans to deposits ratio %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>99%</td>
</tr>
<tr>
<td>2012</td>
<td>103%</td>
</tr>
<tr>
<td>2013</td>
<td>135%</td>
</tr>
<tr>
<td>2014</td>
<td>133%</td>
</tr>
<tr>
<td>2015</td>
<td>136%</td>
</tr>
<tr>
<td>2016</td>
<td>113%</td>
</tr>
<tr>
<td>2017</td>
<td>104%</td>
</tr>
<tr>
<td>2018</td>
<td>82%</td>
</tr>
</tbody>
</table>

Source: CBC, KPMG analysis
Interest rates have been declining since 2013. The decision of the Central Bank of Cyprus in February 2015 to lower the ceiling of its base interest rate by 1%, is reflected in the declining trend.

More specifically, new housing and corporate loans interest rates continued their decline and stand at 2.13% and 3.41% respectively, as of December 2018. However, the interest rates for both housing and corporate loans are still significantly higher than Eurozone’s average.

The interest rate spread between Loans and Deposits has been reduced in Cyprus for both Households and Corporates. However, Cypriot Banks are still enjoying a bigger spread than the Eurozone average.

<table>
<thead>
<tr>
<th>Loans - Deposits interest rate spread (% points)</th>
<th>Households</th>
<th>Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2013 Dec 2018 Dec 2013 Dec 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>2.44 1.73</td>
<td>3.76 2.96</td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.20 1.30</td>
<td>2.99 1.91</td>
</tr>
</tbody>
</table>

Source: Eurostat, KPMG Analysis
Keys pillars of the economy

Cyprus Gross Value Added (GVA) by sector (2018)

- Tourism, wholesale and retail trade: 25%
- Real estate and construction: 16%
- Professional scientific and technical activities: 10%
- Financial and insurance activities: 10%
- Real estate and construction: 16%
- Information and communication: 5%
- Mining & quarrying, Electricity, gas, water supply & management: 3%
- Agriculture, forestry and fishing: 2%
- Manufacturing: 6%
- Public administration and defence: 19%
- Arts, entertainment and recreation: 4%

Source: CyStat, KPMG Analysis

Despite the fact that Real estate and construction activities employ only 9% of the working population, they account for 16% of GVA.

Real Estate in the Real Economy 2018

Economic Contribution

Real Estate contributed €2.78 billion to Cypriot Economy for 2018, significantly higher than either the Financial and Insurance Activities sector or Manufacturing sector.

- Financial and Insurance Activities sector: €1.75 billion
- Manufacturing sector: €968 million

Source: CyStat, KPMG Analysis

Jobs

The sector directly employs 36,528 people. More jobs than in the Manufacturing sector and more than in the Financial and Insurance Activities sector.

- Real Estate sector: 36,528
- Manufacturing sector: 27,564
- Financial and Insurance Activities sector: 21,069
Tourism

- Tourist arrivals have continued their strong growth over the past years. Tourist arrivals in 2018 exhibited an increase of 7.8%, compared to 2017.

- Revenues from tourism hit a double-digit percentage increase in the previous two years (11.9% and 11.7% in 2016 and 2017 respectively). The growth was milder in 2018 (2.7%).

- Revenue per arrival has a decreasing trend: from €865.7 in 2013 to €688.2 in 2018 (20.5% cumulative decrease). This is a combined result of the decrease in the average length of stay and of the average spend per day. However, these reductions are compensated by the increasing trend in arrival numbers.

<table>
<thead>
<tr>
<th>Tourist sources</th>
<th>Arrivals (thousand)</th>
<th>Revenue (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>1.328 (+6%)</td>
<td>€980 (+3%)</td>
</tr>
<tr>
<td>Russia</td>
<td>784 (-5%)</td>
<td>€523 (-13%)</td>
</tr>
<tr>
<td>Israel</td>
<td>233 (-11%)</td>
<td>€114 (-25%)</td>
</tr>
<tr>
<td>Germany</td>
<td>189 (0%)</td>
<td>€146 (0%)</td>
</tr>
<tr>
<td>Sweden</td>
<td>154 (+12%)</td>
<td>€93 (+8%)</td>
</tr>
<tr>
<td>Greece</td>
<td>86 (+10%)</td>
<td>€66 (+13%)</td>
</tr>
<tr>
<td>Italy</td>
<td>1.065 (+30%)</td>
<td>€789 (+23%)</td>
</tr>
</tbody>
</table>

Note: Comparisons between 2018 and 2017

- **Revenue per person per arrival** (-12% from 2013)
- **Average stay** (-11% from 2013)
- **Revenue per arrival** (-20% from 2013)

- **Tourist sources**
  - UK is still the top market of origin (34%) with Russia in second place (20%).
  - The UK market of origin exhibited a 5.9% (74 thousand arrivals) y-o-y increase in 2018. Revenues from the UK market have increased by 3.2% (€31 million) for the same period. It is noted that the effects of Brexit may have profound implications for the local tourist industry in the future.
  - The second (Russia) and third (Israel) highest tourist sources recorded decreases in arrivals (5% and 11.2% respectively in 2018).
  - The source markets with the highest increase in tourist arrivals in 2018 compared to 2017 were Poland (58%), Ukraine (44.5%) and Romania (35.8%).

Source: CyStat, KPMG Analysis
Potential growth drivers

**Casino Resort**
The development of a luxurious integrated casino resort, a €550 million project, has commenced in Limassol. The resort is expected to be completed by 2021. It is estimated that it will contribute €700 million/year (over 3% of Cyprus’ annual GDP).

**Satellite Casinos**
- 3 Satellite casinos commenced operations in 2018: Nicosia, Larnaca and Limassol
- The remaining 2 are expected to operate in 2019-2020: Paphos and Ayia Napa

**Energy Sector**
- Natural gas has already been discovered in Block 12 (Aphrodite field) by Noble Energy
- The second drilling programme, “Glaucus 1,” of Block 10 has been completed in February 2019 with positive results. Excellent quality of natural gas was discovered and the quantities of natural gas in the Block are estimated between 5 and 8 trillion cubic feet.

**Shipping Industry**
- Cyprus registry ranks 10th worldwide
- 3rd largest merchant fleet in the EU and among the largest merchant fleets worldwide

**Education**
- 48,172 post-secondary education students over the academic year 2017/2018
- 8.4% growth in 2018

**Alternative Investment Funds**
- New legislation governing the AIFs
- Low set-up and operation costs
- Flexible structures: UCITS and AIFs

**Movement of Assets under Management and number of entities 2012-2018**

- Source: Central Bank of Cyprus, Cyprus Securities and Exchange Commission, KPMG Analysis
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Real Estate sector
Building permits activity steadily rising

The issuance of new building permits exhibits a steady growth in numbers over the last few years but even more so in value.

Nicosia is the district with the highest number of building permits (37% of total).

In terms of value, Limassol is the leading city (31% of the total), closely followed by Nicosia (29% of the total).

Source: CyStat, KPMG Analysis
The majority of building permits issued in 2018 is related to residential developments (70% of total volume), with a total value of €1,3 billion (63% of total value).

8% of the building permits issued are for projects bigger than 900 m² – with a value of €1,2 billion (52% of the total building permits value).

Proportion of building permits for small and big projects - 2018

Note: Big projects are those with area > 900 m² (as classified by CyStat)
Construction Price Index

The construction sector was one of the sectors which was affected severely, as a result of the economic crisis of 2013.

The 2018 index reflects a year-on-year growth, following years of no or negative growth, indicative of the increased construction activity on the island.

Average construction cost per building permit issued - 2018

The average construction cost per building permit issued varies between regions, implying moderately higher scale developments in certain geographical areas. One such example is Famagusta, which is mainly touristic-oriented and a big percentage of construction activity is attributed to hotels; for 2018 demonstrates by far the highest average construction cost per building permit.
Increased sales activity annually since 2014

Following the 2004-2008 rise in transactions, the market experienced a sharp drop in 2009 through to 2013 when it reached a trough. The market is gradually rebounding, with continuous increases every year since 2014. The largest y-o-y increase in transactions since 2013 was recorded in 2014 (43%), albeit starting from a very low base, followed by 2017 (24%). 2018 was a year of consolidation with still a healthy growth rate of 6%.

Arguably, the increase in property transactions has been enhanced by improved economic conditions. The latter led to improved domestic confidence levels and to an increase in domestic demand. In addition, various Government incentives have also led to a surge in foreign demand; such measures include the abolition of immovable property taxes, schemes for permanent residency and naturalisation of investors by exception.

It should be noted that Debt for Asset Swap (‘DFAS’) transactions are not included in these numbers.
Sales breakdown by nationals and non-nationals

In 2018, a total of 4,367 contracts of sale were submitted to the DLS by non-nationals, accounting for 47% of total sales contracts.

The highest share of contracts of sale by non-nationals was recorded in Paphos (40%), followed by Limassol (30%), Larnaca (16%), Famagusta (10%) and Nicosia (5%).

Paphos and Limassol remain the preferred cities of choice by non-nationals, with Nicosia being the least preferable city.

In terms of domestic demand, Limassol is leading with 43% of the market, followed by Nicosia with 28%.

2019 started on a similar trend, with an 11% increase in sales, compared to the corresponding 2018 period and non-nationals accounting for 47% of the total sales.

Source: DLS, KPMG Analysis

Disclaimer: DLS changed the methodology of counting the sales to non-nationals in 2018
Price evolution

The residential price evolution is monitored by both the Central Bank of Cyprus (CBC) and the Royal Institution of Chartered Surveyors (RICS). In addition to these two indices, there is a third one monitoring the residential price evolution from Eurostat.

These indices have different methodologies but all have displayed similar negative trajectories after 2010, which have been reversed from early 2017 onwards.

As per the CBC index apartments in Limassol exhibit an 8.6% year-on-year increase, followed by apartments in Paphos and Famagusta with annual increases of 5.3% and 4.9% respectively.

According to RICS, commercial properties have moved along similar lines, with a negative trajectory from 2010 onwards and mild growth exhibited towards the end of 2016 - beginning of 2017 onwards, with offices displaying a sharper rise.

At the same time, price indices for all property types are still much lower than the respective 2010 levels.
Property yields

Despite the economic crisis of 2013, Residential yields both for apartments and houses have been relatively steady, according to RICS. The latest available data (Q4 2018) indicates a yield of 2.4% for houses and 4.5% for apartments.

In contrast, yields for Commercial and Industrial Properties have had more volatility as a result of the crisis. Office yields have been contracting since the economic crisis of 2013 but have shown a notable growth since the end of 2016, with the latest data by RICS (Q4 2018) suggesting yields in the region of 5.1%.

Retail properties have been constantly performing better compared to the other non-residential properties. Following the drop experienced in 2013, retail properties have been yielding a steady rate of return with a slight increase since 2016.

Warehouse (industrial) properties have exhibited a constant decline, with no signs of recovery over the past few years.

Residential yields - Q4 2018

<table>
<thead>
<tr>
<th></th>
<th>Houses</th>
<th>Apartments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houses</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Apartments</td>
<td>4.5%</td>
<td></td>
</tr>
</tbody>
</table>

Commercial yields - Q4 2018

<table>
<thead>
<tr>
<th></th>
<th>Offices</th>
<th>Retail</th>
<th>Warehouse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offices</td>
<td>5.1%</td>
<td>5.5%</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Warehouse</td>
<td></td>
<td></td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Source: RICS, KPMG Analysis
Rental prices evolution

Rental prices in the residential sector exhibited significant increases across all cities in 2018.

Commercial properties exhibited milder increases.

% change in rental prices compared with % change in earnings

Annual rental increases for residential properties, averaged across all cities, have been rising sharply during the past few years, at a much faster rate compared to the trend of annual average employee earnings.

Source: CyStat, RICS, KPMG Analysis
Notable Real Estate sector matters
Hotel locations
Famagusta and Paphos are dominating the starred hotels market, with a combined 62% of the units. They also have 69% of the 4* & 5* hotels.

Nicosia is the district with the fewest units, which reflects the fact that it has the lowest number of tourists.

Paphos, on the other hand, has the most units in Cyprus, the majority of which belong to the “Other” category (no-star hotels, apartments, villas etc.).

The Hill Resort hotel scene is dominated by no-star agrotourism units.

The increase in tourist arrivals has driven the strong increase in Cypriot hotel occupancy, which was, however, coupled by a slightly decreasing hotel capacity until 2017.
Hotels sector: key facts

- The available beds capacity has increased by 3.7% y-o-y in 2018 reaching 87,000, the same level as in 2014.
- The capacity in beds is expected to further increase, by almost 5-6% by 2020, a result of the commencement operations of 14 new hotels. An additional 4,8 thousand beds are under planning are expected to further increase the capacity after 2020 (by a further 5-6%).
- Cyprus’ aggregate Net bed occupancy rate of licenced establishments has increased from 59.8% in 2014 to 75.7% in 2017, slightly dropping to 73.1% in 2018 against the backdrop of increased beds capacity.

**In the number of tourist arrivals for the year 2018 (3,938,625) +7.8%**

**Net Bed occupancy rate in licenced establishments in 2018 73.1%**

**Total revenue from tourism in 2018 €2.7 billion**

**14 new hotels with 4,774 beds are expected to commence operations in 2019 and 2020**

**Number of beds at 31/12/2018 in licensed establishments 87,081**

**In new hotel permits (m²) between 2017 and 2018 +122%**
Number of high value residential properties transactions > €1 mln

Source: Department of Land and Surveys, KPMG Analysis
Disclaimer: The data refer to the Contract of Sales, that represent the sale agreements only submitted to the Department of Land and Surveys with an agreement date as of 31/12/2018, for the acquisition of property, as extracted by the DLS portal, as of 15/03/2019. The data were sorted and consolidated in order to be presented. KPMG Ltd accepts no liability in case the data prove to be incorrect.
High value residential properties analysis > €1 mln

High value residential properties transactions, > €1 million, have been exhibiting a remarkable increase in the past few years. Notably, the Compound Annual Growth Rate (CAGR) from 2013 to 2018 was 74%.

2016 and 2017 exhibited a 146% and 39% y-o-y growth, respectively. During 2018, the number of high value residential property transactions exhibited a further increase of 27%.

Limassol is the key driver of this growth, with more than half of the transactions relating to the coastal city in all years since 2016.

Further analysis of high value residential properties transactions, indicates 67% of total volume lies in the price range of €1-2 million, with 26% in the €2-3 million range and 7% over €3 million.

The biggest volume for high value residential properties transactions in Limassol related to flats.

In contrast, the Paphos market for high value residential transactions was dominated by houses.

Source: DLS, KPMG Analysis
Disclaimer: The data above refers to the number of Contracts of Sale; this represents the sale agreements submitted to the DLS for the acquisition of property, as extracted by the DLS portal up until 15/03/2019. The data was sorted and consolidated.
**Airbnb**

**Number of booked properties**

![Bar chart showing the number of booked properties from 2016 to 2018.](image)

- **2016**: 37,862 bookings made (2018) +71% y-o-y
- **2017**: 4,538 Active property listings (as at Feb 2019)
- **2018**: 48,359 guests 44,825 international, 3,534 domestic +41% y-o-y

**Active property listings (Feb 2019)**

- **Paphos**: 45%
- **Lamaca**: 18%
- **Limassol**: 17%
- **Nicosia**: 7%
- **Famagusta**: 13%

**Top markets of origination:**
- Russia
- United Kingdom

**Average daily rate (2018)**

<table>
<thead>
<tr>
<th>Location</th>
<th>Average Daily Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paphos</td>
<td>€123</td>
</tr>
<tr>
<td>Lamaca</td>
<td>€48</td>
</tr>
<tr>
<td>Limassol</td>
<td>€65</td>
</tr>
<tr>
<td>Nicosia</td>
<td>€46</td>
</tr>
<tr>
<td>Famagusta</td>
<td>€81</td>
</tr>
</tbody>
</table>

Source: AirDNA, KPMG Analysis
Student accommodation has been growing strongly, with an estimated 97% increase in the number of available rooms from 2017 to 2018. 2019 is expected to add another 16% to the existing stock of licensed accommodation units. The number of university and college students saw a strong growth of 8.4% in the academic year 2018.

Unsurprisingly, Nicosia is the dominating city in regards to student accommodation units, as most of the major universities and colleges are based in the capital.

Source: KPMG internet research
Real estate foreclosures

Real estate foreclosures from banking institutions

<table>
<thead>
<tr>
<th>Year</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>398</td>
<td>321</td>
<td>1,558</td>
<td>453</td>
<td>343</td>
<td>430</td>
</tr>
<tr>
<td>2016</td>
<td>77</td>
<td>332</td>
<td>791</td>
<td>798</td>
<td>647</td>
<td>792</td>
</tr>
<tr>
<td>2017</td>
<td>863</td>
<td>1,496</td>
<td>3,151</td>
<td>2,625</td>
<td>647</td>
<td>792</td>
</tr>
</tbody>
</table>

*for which a date of auction has been set

Source: Stockwatch, KPMG Analysis

Property foreclosure legislation

A new procedure was introduced in 2015, to enable the enforcement of mortgages through foreclosure. The purpose of the amendment was to remove the involvement of the DLS and the Courts of Justice in such a manner that an out of court procedure is driven by the secured creditors instead, in an attempt to expedite property foreclosures, protect creditors’ rights and offer an alternative, more efficient approach to security realisation.

One of the most prominent features of the new procedure is the imposition of strict deadlines for adherence, in an attempt to reduce the time of completion of the process, without jeopardising the debtors’ rights.

The new law came into effect in April 2015. The way distressed auctions will develop in the future will have a significant bearing on the real estate market.

Real estate foreclosures by city*

- Famagusta: 4%
- Paphos: 41%
- Limassol: 19%
- Nicosia: 23%
- Larnaca: 13%

*for which a date of auction has been set

Source: Ministry of Interior, KPMG Analysis

Real estate foreclosures by type of asset*

- Parcel / Field: 56.9%
- Other Property: 1.0%
- Commercial property: 9.8%
- Hotel: 0.9%
- Residential / Apartment (ready or under construction): 14.5%
- Main residence / apartment: 2.0%

*for which a date of auction has been set

Source: Stockwatch, KPMG Analysis
Topics of interest
Immovable property fees & taxes

01 Capital gains tax
20% on the gain between sales price and indexed cost, except disposal of:
- Any property up to €17,086
- Agricultural land of up to €25,628
- Permanent residence of up to €85,430

02 Municipal tax
Municipality dependent annual tax

03 Inheritance tax
Not applicable in Cyprus

04 Stamp duty

<table>
<thead>
<tr>
<th>Value</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to €5,000</td>
<td>0%</td>
</tr>
<tr>
<td>€5,000 - €170,000</td>
<td>0.15%</td>
</tr>
<tr>
<td>€170,000 and over</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

*Up to a maximum stamp duty of €20,000 per instrument/agreement

05 VAT
19% on acquisition of new immovable property, buildable land, construction or leases. Exemptions/reductions apply

06 Immovable property transfer fees

<table>
<thead>
<tr>
<th>Value</th>
<th>Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to €85,000</td>
<td>3%</td>
</tr>
<tr>
<td>€85,001 - €170,000</td>
<td>5%</td>
</tr>
<tr>
<td>€170,001 and over</td>
<td>8%</td>
</tr>
</tbody>
</table>

Reduction/exemptions apply

The VAT rate for acquisition of residential property or renovation/repair purposes can be reduced to 5% provided that:
- The property is intended to be used by the beneficiary as his/her main permanent place of residence while staying or visiting Cyprus
- The reduced rate is applied only on the first 200 m² building coefficient
- The property is not used for investment or leasing purposes or to exercise any other economic activity
Citizenship by Investment scheme

New terms and conditions in place (effective from 15th May 2019)

- Have a clean criminal record
- Hold a valid Schengen Visa
- Possess a permanent, privately owned residence in Cyprus of at least €500 thousand
- Hold a residence permit in Cyprus for at least 6 months

Financial criteria

Donations

- €75 thousand donation to the Research and Innovation Foundation or a certified innovative enterprise or a certified social enterprise (the obligation is lifted in case the applicant has made an investment in the purchase, establishment or participation in Cypriot Companies or Businesses, as per below investment criterion)

AND

- €75 thousand donation to the Cyprus Land Development Corporation

Investments

- €2 million in the construction or purchase of residential or commercial developments, infrastructure projects or land under development

OR

- €2 million in the purchase, establishment or participation in Cypriot Companies or Businesses. The invested funds shall be used towards the financing of the Companies’ investment objectives exclusively in Cyprus

OR

- €2 million investment in Alternative Investment Funds, Registered Alternative Investment Funds or financial assets of Cypriot companies or Cypriot organisations that are licensed by Cyprus Securities and Exchange Commission

OR

- Combination of the above investment options with a minimum total investment of €2 million
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