

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 beginning to accelerate, for both residential and commercial properties. This is likely to accelerate further if tourist arrivals/spending doesn't recover in 2021 & 2022 and the impact of the pandemic is felt across small businesses and households.

Market Summary

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

Source: WiRE analysis

Executive Summary

Prices & Rents

The Q1 2021 WiRE Price & Rental Index recorded quarter-on-quarter drops in prices across most property categories. Paphos had some of the biggest quarter-on-quarter drops in prices (2.6% for retail units, 1.7% for warehouses, 1.5% for offices, 3.2% for holiday apartments and 2.5% for holiday houses), whilst Limassol had the biggest drop in office rents (11.1%). Nicosia was the only district that had a price increase in some sectors (1.2% for houses, 1.3% for retail and 2.3% for offices).

Transaction Volume

Year-on-year transaction volume across Cyprus decreased by 21%. Transactions in Nicosia increased by 8% and decreased in Limassol by 24%, in Larnaca by 22%, in Famagusta by 11%, and in Paphos by 40%. Over the past year, from 04/2020 to 03/2021, contracts of sale were deposited for 7,932 properties, of which 2,186 in Nicosia (28%), 2,491 in Limassol (31%), 1,240 in Larnaca (16%), 576 in Famagusta (7%) and 1,469 in Paphos (19%).

Lending

Household lending for housing loans totalled €9.4bn in March 2021, with 93.1% being to local residents, 0.4% to residents of other Eurozone countries, and 6.5% to other (not Eurozone) countries. Compared to March 2020, housing loans to locals increased by €156.1m whilst those to residents of other Eurozone countries, and to other (not Eurozone) countries decreased by €13.1m and €244.8m respectively. As shown, progressively outstanding loans are increasingly concentrated on local residents.

Building Permits

Year-on-year building permits for residential properties showed a decrease of 9% in terms of sqm and 15% 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. With banks flushed with liquidity, having circa €19bn of NPLs in the economy, and government debt exceeding 100% of GDP, there is danger of the economy sliding into 'Japanisation', i.e. low growth and deflation (in real terms).

Prices, Rents and Yields

The Q1 2021 WiRE Price & Rental Index recorded slight drops across Cyprus' most urban areas.

Prices

Residential prices for apartments remained broadly the same compared to Q4 2020 and increased by 0.4% for houses. Prices of holiday houses and apartments fell by 1% and 0.2% respectively. The biggest drops were in Limassol (1.8% for apartments) and in Paphos (3.2% for holiday apartments and 2.5% for holiday houses). House prices across all districts remained the same, with those in Nicosia increasing by 1.2%. Prices of retail properties and warehouses fell by 0.7% and 0.8% respectively, whilst those of offices increased by 0.3%. Compared to Q1 2020, prices of retail units fell by 5.3%, of warehouses by 4.5%, of office space by 1.0%, holiday apartments by 1.2% and holiday houses by 3.2%. Over the same period, house prices increased by 1.5%.

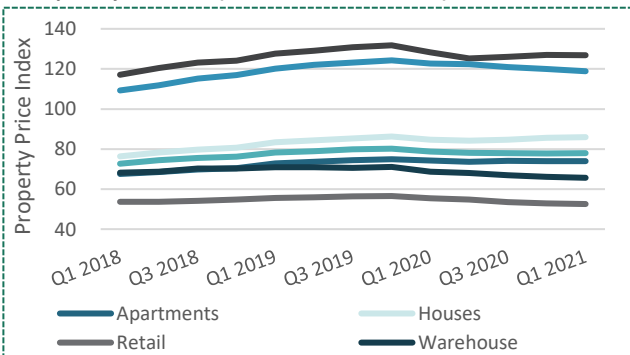
Rents

Quarter-on-quarter rental prices decreased by 0.1% for apartments, 1.4% for houses, 1.8% for retail units, 2.6% for offices, 0.4% for holiday apartments and 2.9% for holiday houses, while rental values for warehouses increased by 0.4%. Compared to Q1 2020, rents dropped by 0.6% for apartments, 6.4% for retail properties, 3.2% for offices, and 5.4% for holiday houses. Rents of houses, warehouses and holiday apartments increased by 2.6%, 0.7% and 0.1% respectively.

Yields

At the end of Q1 2021, gross yields stood at 4.7% for apartments, 2.5% for houses, 5.5% for retail, 4.7% for warehouses, 4.7% for offices, 4.7% for holiday apartments and 2.0% for holiday houses.

Property Prices (2018Q1-2021Q1)

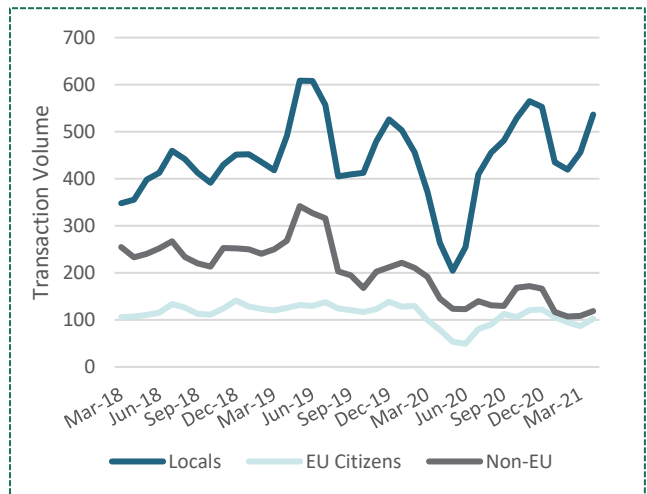


Source: WiRE Price Index, Q4 2009=100

Transaction Volume

Year-on-year transaction volume decreased by 21%. Transactions in Nicosia increased by 8%, whilst they decreased in Limassol by 24%, in Larnaca by 22%, and in Famagusta by 11%, and in Paphos by 40%. Overall, contracts of sale were deposited for 7,932 properties, of which 2,186 in Nicosia (28%), 2,491 in Limassol (31%), 1,240 in Larnaca (16%), 576 in Famagusta (7%) and 1,469 in Paphos (19%).

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



Source: Land Registry, Rolling three-month average

Over the period (from 04/2020 to 03/2021), sales to local residents comprised circa 70% (5,235 properties) of total transaction volume. Transactions to locals across Cyprus decreased by 9%. Nicosia had the highest reliance on local buyers, with them accounting for 1,925 transactions out of total. This is followed by Limassol and Larnaca (1,723 and 788 respectively), 523 for Paphos and 306 for Famagusta. In particular, transactions to locals decreased by 19% in Limassol, 7% in Larnaca and 32% in Paphos, whilst in Nicosia and Famagusta increased by 10% and 11% respectively.

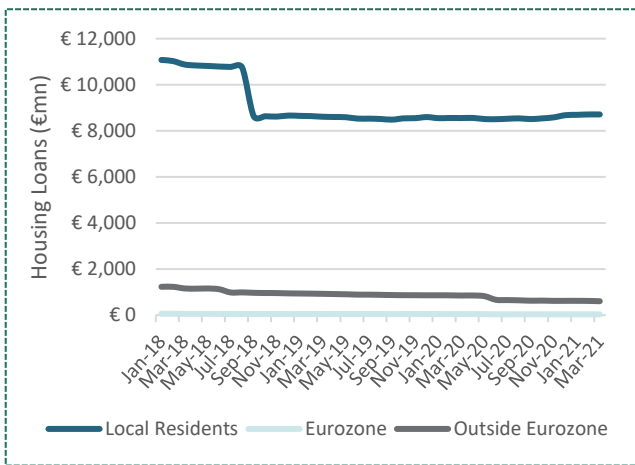
In terms of transactions to foreign buyers, all districts experienced significant drops – 44% for Paphos, 39% for Larnaca, 33% for Limassol, 27% for Famagusta and 7% for Nicosia.

Lending

Household lending for housing loans totalled €9.4bln in March 2021, with 93.1% being to local residents, 0.4% to residents of other Eurozone countries, and 6.5% to other (not Eurozone) countries. Compared to March 2020, housing loans to locals increased by €156.1m whilst those to residents of other Eurozone countries, and to other (not Eurozone) countries decreased by €13.1m and €244.8m respectively.

As shown, progressively outstanding loans are increasingly concentrated on local residents.

Household Housing Loans (January 2018-March 2021)



Source: Cyprus Central Bank

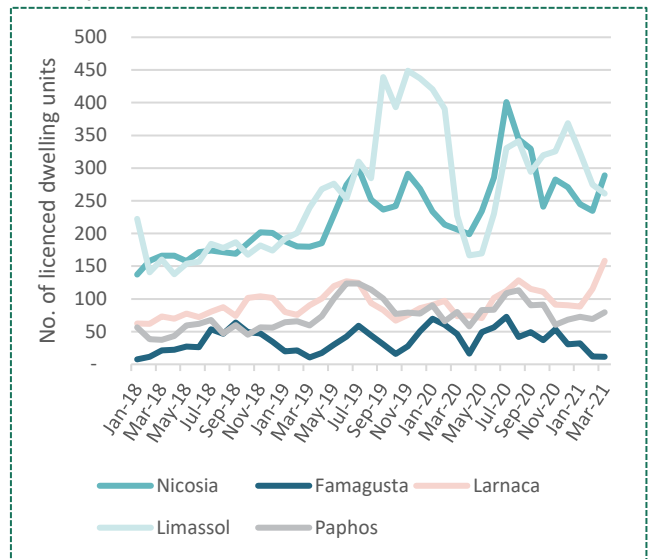
Building Permits

Year-on-year building permits for residential properties showed a decrease of 9% in terms of sqm and 15% by number of dwellings.

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 15% (year-on-year). Increases were experienced in Nicosia (19%) and Larnaca (26%) whilst decreases were experienced in Paphos (16%), Limassol (15%) and Famagusta (13%).

Examining the geographical distribution of these permits, the biggest decrease was experienced in urban areas.

Licensed Dwelling Units (January 2018-March 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.

There appears to be 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 demand and thus 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.

With banks flushed with liquidity, having circa €19bn of NPLs in the economy, and government debt exceeding 100% of GDP, there is danger of the economy sliding into 'Japanisation', i.e. low growth and deflation.

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.

Business Lines

Asset Management

WiRE's team works with a diverse range of financial institutions, corporations, high net-worth individual investors, and retail consumers to achieve their goals by taking an innovative approach sourcing, marketing, managing and transacting opportunities across the real estate spectrum.

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