

CYPRUS PROPERTY MARKET

1st SEMESTER 2015



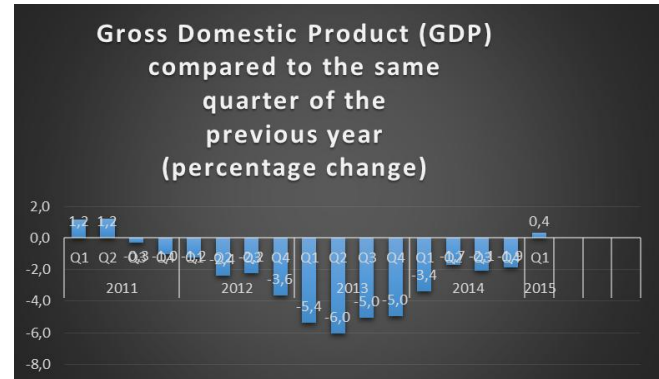
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1. Economic outlook and Real Estate Sector

During the first semester of 2015 the Cyprus economy showed some signs of stability, with the economy's performance being better than expected and tourism mildly outperforming forecasts.

GDP

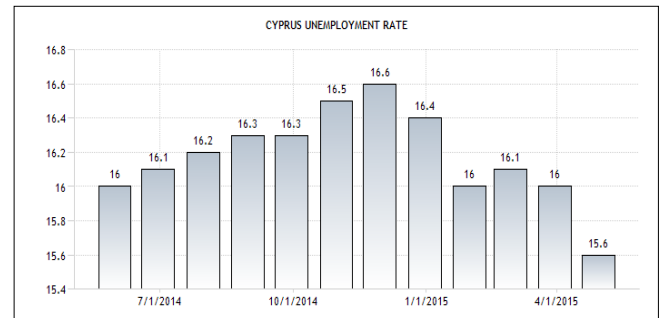
Signs of improvement for the 1st semester of 2015 and economic developments have been encouraging. The recession in 2014 was milder than expected and GDP growth was positive in the first quarter of 2015 for the first time in almost four years.



Unemployment Rate

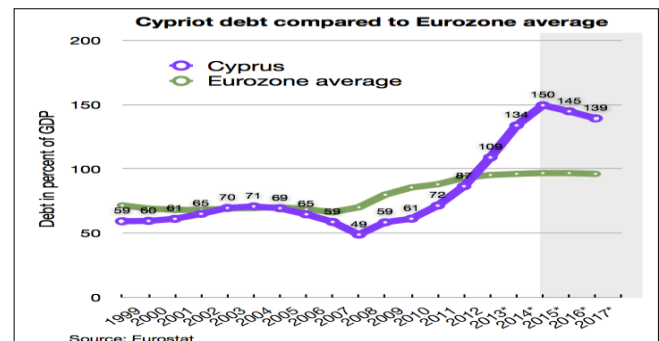
Despite the fact that the unemployment rate has been decreased comparing previous year is still very high.

Signs of stabilization are expected in the next few years based on International Monetary Fund (IMF).



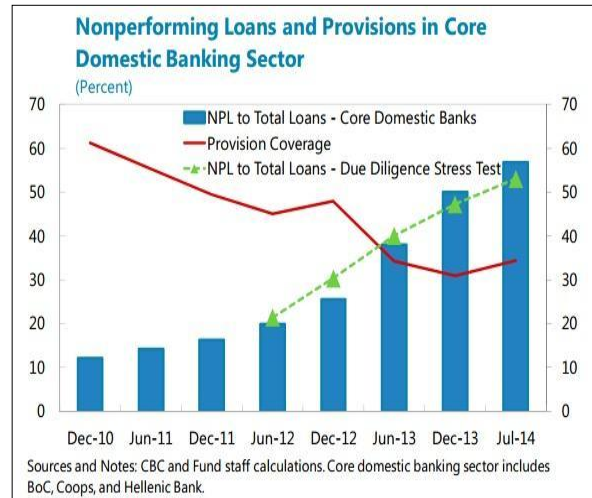
Banking Sector

Recapitalizing the Cypriot Credit Institutions but also minimizing their operating costs and restructuring their loans is considered as a main factor that will restore the stability of the financial sector, boost investor confidence and enhance economic recovery.



Non-Performing Loans

However, high percentages of Non-Performing Loans (NPLs) is another concerning challenge for the Credit Institutions with new Central Bank data revealing that bankers lent hundreds of millions without proper examination of customer data or sufficient collateral provided. According to the data released by the Central Bank of Cyprus (CBC), despite a reduction in the total amount of loans compared with the previous month of June, NPLs in the Cypriot banking system on July 31, 2014, reached 47.17 per cent (accounting for €28.88 billion) of total loans, standing at €61.24 billion.

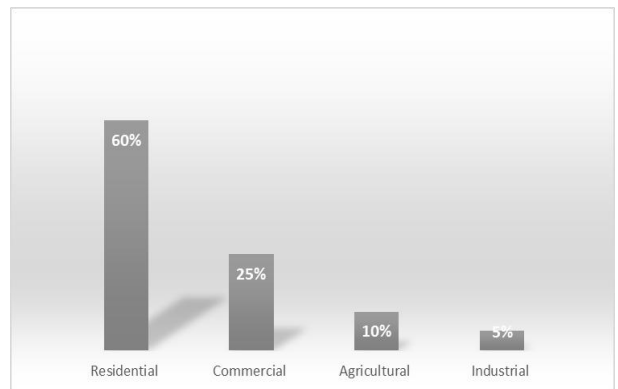


2. Investment Activity

Cyprus has long been a desirable location for investors, expats, retirees and those looking for a second home in the sun. Due to the current economic climate, property buyers can find exceptional residential and commercial properties at attractive prices. Apartment sales prices have fallen by over 44% since their mid-2008 peak, according to recent economic estimates.

Property Investment in Cyprus by Sector

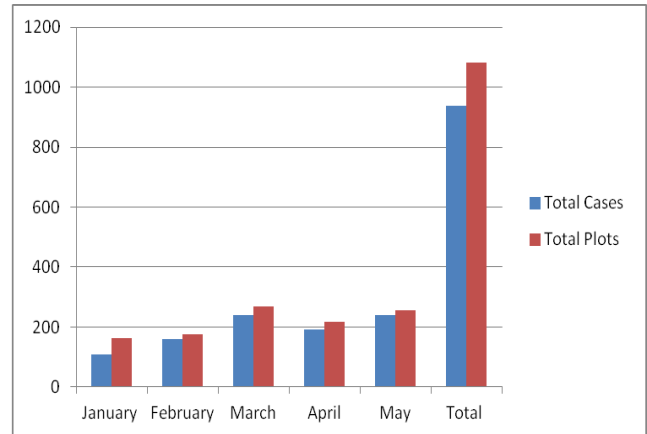
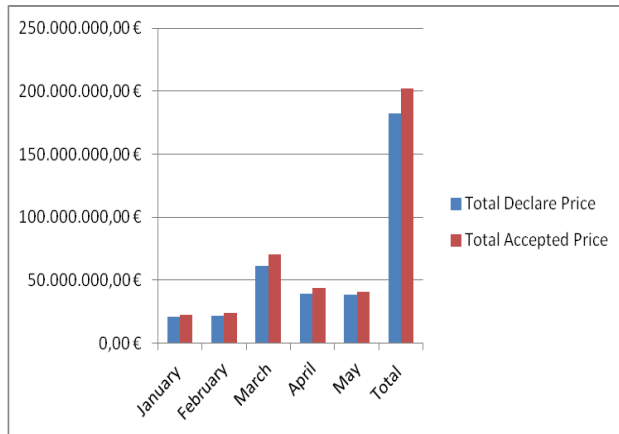
The Cyprus real estate market has historically been divided into the major urban centers of Nicosia, Limassol and Larnaca primarily driven by local demand and the seaside resort areas of Paphos and Famagusta mostly driven by foreign demand. Traditionally, the Cyprus property market is dominated by the residential sector, with the island’s geography and historical reasons partly dictating the dynamics of the various submarkets.



REASONS TO INVEST IN CYPRUS:

- European Union member (2004) and European Monetary Union Member (2008).
- A highly qualified and multilingual workforce to support industry, with 33.6% of Cypriots between the ages of 15-64 having a tertiary education compared to the EU27 of 23.6%.
- Constantly expanding extensive network of almost 50 Double Taxation Treaties (DTTs), includes treaties with important emerging markets such as Central and Eastern European countries, China and India.
- Political stability and good relations with both Israel and other Middle Eastern countries, further strengthening the potential of a leading role in energy by facilitating business between the region and the European Union.
- Strategic location between Europe, Middle East, Africa and Asia.
- A liberalized Foreign Direct Investment Policy for both EU and third country investors.
- Solid experience in business with emerging markets providing preferential access to Eastern Europe, Russia, China and India.
- A cost-effective business centre and beneficial tax framework for international business and regional headquarters. One of the most advantageous corporate tax rates in the EU at 12.5%.
- Transparent and modern legal system based on UK Common Law with a highly trained workforce of lawyers, accountants and corporate service providers.
- Attractive business base thanks to good telecommunications, transport and logistics infrastructure.
- High quality of life, low crime rates and 340 days of sunshine a year.

Transactions during the first semester in Cyprus (Jan – May) 2015



Source: Land Registry

3. Residential Market

Following some signs of stability in Cyprus economy the residential property values continue to fall, however, was the smallest change after 3 years of accelerate reductions.

Based on the RICS property index significant falls being recorded in Nicosia. Nicosia is clearly feeling the impact on the government and banking sector (the two sectors who dominate the local employment market), whilst other cities are progressively bottoming out. Across Cyprus, movements in property prices appear mix as residential prices for flats fell by 0.4%. The biggest drop being in Limassol (1.0% for flats).

Flats

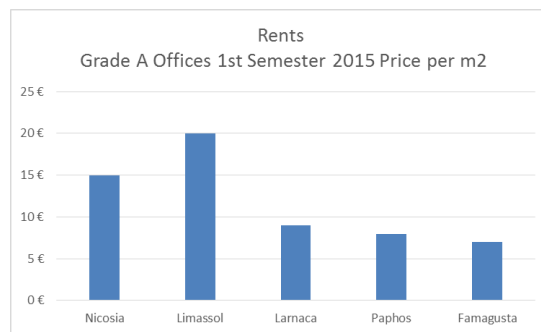
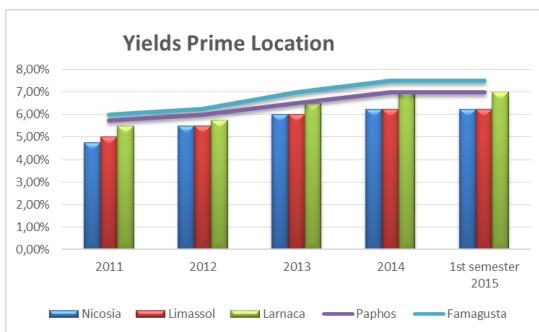
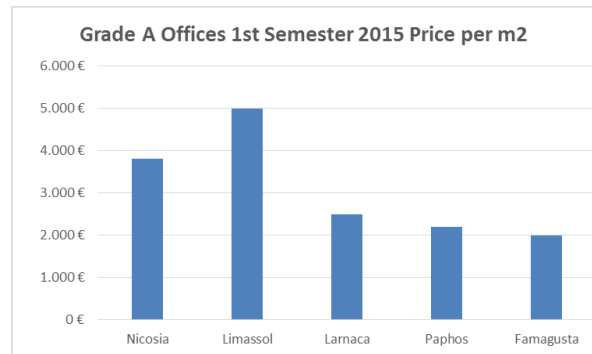
Location	2015 1 st Semester Capital Values per m2 € *
Nicosia	1,000 - 3,000
Limassol	1,000 - 8,000
Paphos	900 - 3,000
Larnaca	900 – 3,000
Famagusta	900 – 3,000

Detached Houses

Location	2015 1 st Semester Capital Values per m2 €
Nicosia	1,200 - 3,000
Limassol	1,000 - 8,000
Paphos	1,000 - 2,000
Larnaca	1,000 – 2,000
Famagusta	1,000 – 2,000

Source: Danos an Alliance Member of BNP Paribas Real Estate

During the 1st semester of 2015 the office Market in Cyprus has a sign of stabilization in comparison with the previous semester. The office market unexpectedly is performing relatively well focusing in the cities of Nicosia and Limassol. Demand is mainly for Grade A office in prime location. Foreign investment has shown interest for income producing assets with rate of return between 5, 5 – 7%.



Based on the Market Research that conducted by Danos the seafront offices in Limassol range between € 8,000 and 10,000 m2 and rental values range between € 25 and € 30 per m2.

Rental income is subject to both income tax and Special Defense Contribution (SDC). For income tax purposes it is assessed under corporate or individual rates depending on the status of the recipient. For SDC, the rate of SDC on rents is 3%. It is imposed on the gross rental income reduced by 25%. From 1 July 2011, the tenant (except for individuals), is obliged to withhold and lodge with the tax authorities, the SDC on the amount of the rent payable. The SDC contribution is not deductible for corporation tax purposes.

5. Industrial Market

The logistics market has affected of the current economic situation, during the 1st semester of 2015 limited transactions have been performed. The industrial and logistics market is under investigation by the companies related to energy, such as Halliburton and Petrolina.

Rental values range from 2 to 4 €/sq.m/month for new warehouse space, whereas the asking values of land intended for industrial use are around 80 – 150 €/sq.m.

6. Property News

- Launch of casino licensing process.
- Readjustment of Tax Rate is expected after the adjustment of Property Prices from 1980 prices to 2013 values by the Land Registry.
- Privatization of semi-public organizations according to MoU terms, starting with CYTA, EAC and Cyprus Ports Authority.
- In the process of finalizing town planning and regulations which will determine the development potential within the British Bases.

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