

CYPRUS PROPERTY MARKET

2nd SEMESTER 2015



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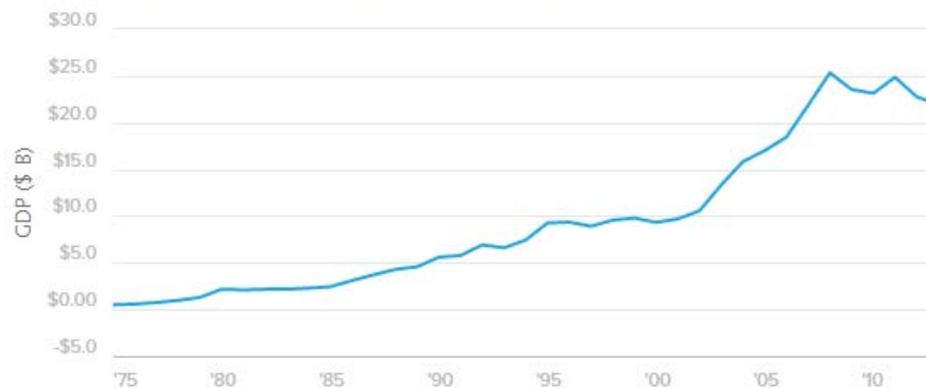
1. Economic outlook and Real Estate Sector

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

Economics Snapshot of Cyprus

GDP	GDP Growth Rate	GDP per Capita	Unemployment Rate	Inflation	Interest Rate
\$21.91B	-5.4%	\$25.2K	15.8%	-1.4%	2.0%

Cyprus ranked
105 out of 184 in
2013



Source: European Statistical Service

- The Cyprus economy appears to be emerging from the recession it has been in since the 2012 local financial crisis.
- GDP is expected to increase at a higher rate (1.4% in 2016 and 2% in 2017 according to the IMF), but has some way to go to return to pre-crisis levels: GDP is currently 10% lower than in 2008 and it is expected to take until after 2020 to make up this difference (in contrast to the wider Eurozone which already returned to 2008 GDP levels in 2015).
- Property sales and prices are usually correlated with GDP. Considering that GDP showed marginal growth in 2015 and is expected to gradually increase going forward, it could indicate that the decline in the real estate market might start to slow and eventually return to positive growth in the near future.
- The Government has taken significant steps in stimulating the industry, such as the promotion of large-scale developments. It is believed that the real estate market will follow track on projected economic growth starting in 2016.

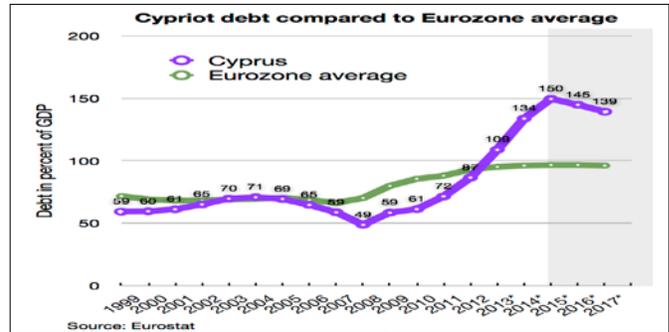
Unemployment Rate

Despite the fact that the unemployment rate has been decreased comparing previous year is still very high. According to the International Monetary Fund (IMF), signs of stabilization are expected in the next few years.



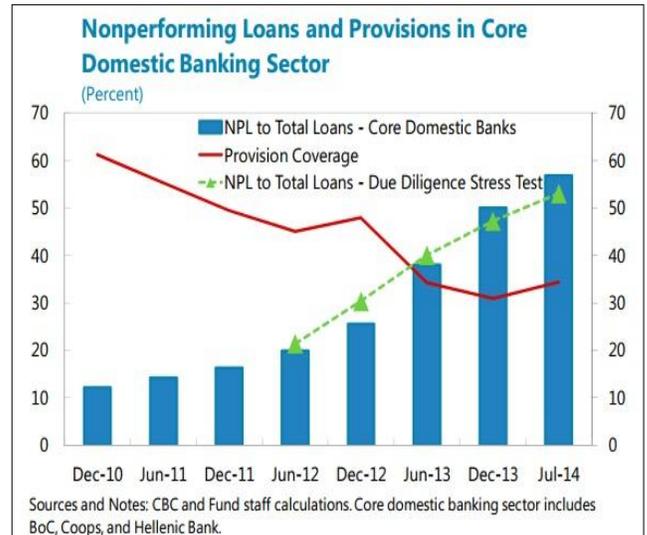
Banking Sector

Recapitalizing the Cypriot Credit Institutions but also minimizing their operating costs and restructuring their loans is considered as a significant factor which 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

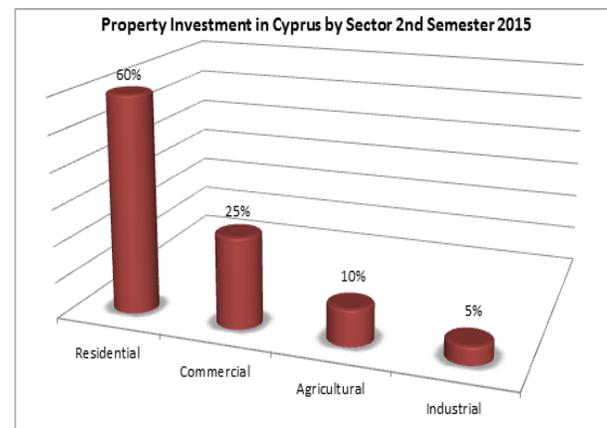
Cyprus has long been a desirable location for investors, expats, retirees and those looking for a second home in the sun. Due to the current economic climate, property buyers can find exceptional residential and commercial properties at attractive prices.

Apart from the expected economic recovery, the recent legislative tax breaks, such as the reduction of transfer fees by 50% and exemption from capital gains tax on property to be sold by the end of 2016, and the continuation of incentives for acquisition of permanent residence or citizenship by foreigners, is expected to give further impetus to the demand for properties from both foreigners and locals.

Also forthcoming legislating measures for the acquisition of property titles from buyers who have repaid the vendor but not get title even on loans charged to the piece of land which became the development, should also have a positive effect on demand for property as they correct a significant market failure.

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.



Source: Danos, in Alliance with BNP Paribas Real Estate

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.

3. Residential Market

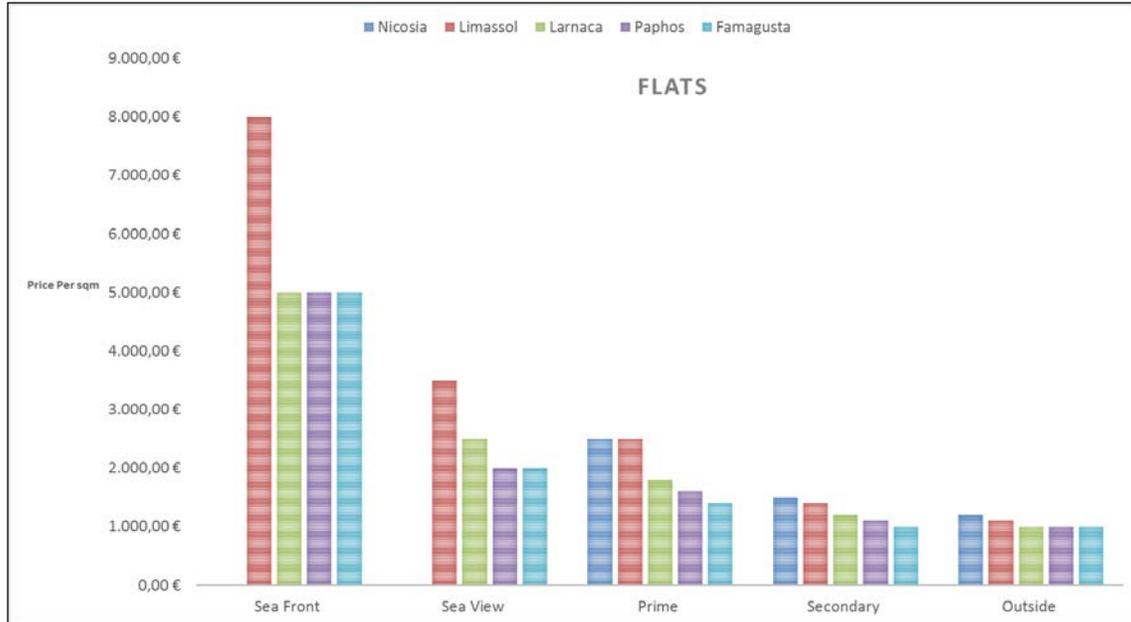
In most of the areas throughout the island residential property prices remain stable during the 2nd semester of 2015.

A marginal decrease of residential prices is occurred in areas with over supply and limited demand.

The demand for residential property and consequently the volume of sale have been increased during the last semester of 2015. In general the volume of sales has been increased by approximately 8% compared with the 1st semester of 2015.

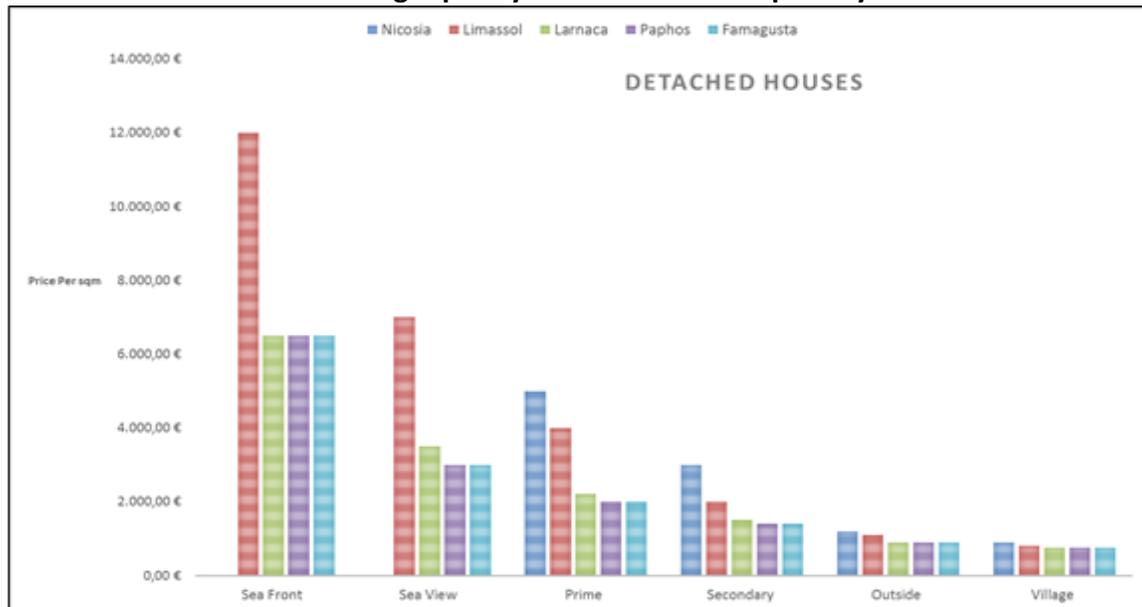
Residential Prices

Characteristics: Detached House with high quality of materials and up to 5 years old.



Source: Danos, in Alliance with BNP Paribas Real Estate

Characteristics: High quality of materials and up to 5 years old.



Source: Danos, in Alliance with BNP Paribas Real Estate

4. Retail Market

Retail development concentrates in the 4 main cities (Nicosia, Limassol, Larnaca, Paphos). However, the economic crisis and the tendency of consumers towards Malls or Department stores have negatively affected the City Centre. Consumers are now attracted by the more convenient conditions to do their shopping combined with entertainment and fun. The convenience of parking availability, accessible to all weather conditions, makes a visit to a single spot where one finds shopping, entertainment and eating out under one roof make malls the ideal place suitable for all ages. However, retail street such as Anexartisias in Limassol and Ledras in Nicosia are still highly desired by retail groups.

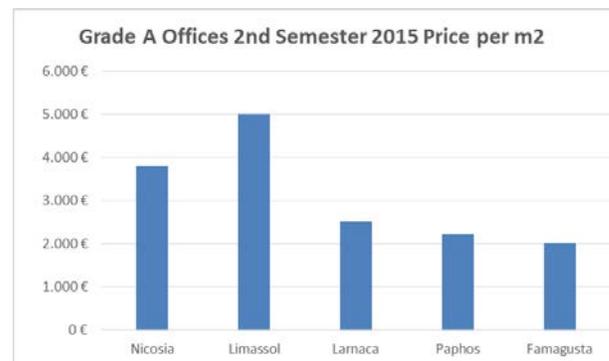
Shops-Rental Values

City	Street	Rental Value per m ² per month (€)
Nicosia	Arch. Makarios III	20-25
	Stasikratous	20-25
	Ledras	30-35
Limassol	Anexartisias III	20-40

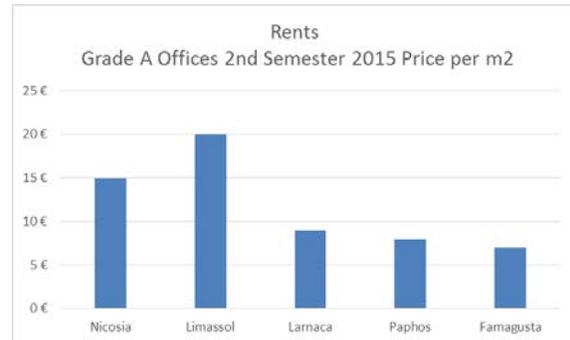
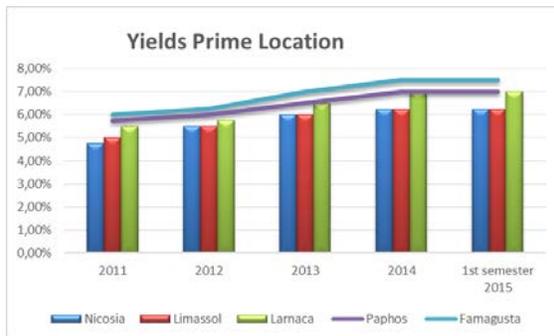
Source: Danos, in alliance with BNP Paribas Real Estate

5. Office Market

During the 2nd semester of 2015 the office Market in Cyprus has shown a sign of stabilization in contrast 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 a rate of return between 5, 5 – 7%.



Source: Danos, in Alliance with BNP Paribas Real Estate



Source: Danos in Alliance with BNP Paribas Real Estate

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

6. Industrial Market

The logistics market has affected of the current economic situation, during the 2nd 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 Total.

7. Property News

- Readjustment of Tax Rate is expected after the adjustment of Property Prices from 1980 prices to 2013 values by the Land Registry.
- Reduction of property transfer tax by 50%.
- Exemption from capital gains tax on property to be sold by the end of 2016
- 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.
- Makronisos Marina in Ayia Napa is progressing.
- The Oval building in Limassol will be the tallest commercial building in Cyprus at 16 floors with two basements. The Oval building will be completed by the end of 2016 and currently 45% of the building is sold/reserved.
- The Mall of Cyprus and Mall of Engomi in Nicosia have been sold for the amount of €193.000.000,00 to South African company- Atterburry.
- The Land Registry Building in Engomi, Nicosia, has been sold for the amount of €11.000.000,00 to foreign investor.
- H & M Hennes & Mauritz AB (H&M), the Swedish multinational retail-clothing company, will be opening its first store in Cyprus this year, replacing the current tenant Debenhams in the landmark Shacolas Tower on Ledra Street in Nicosia.
- Kelly's Shop, the Greek retail company, currently own a shop in Anexartisias, Limassol and soon will open a new branch in Kings Avenue Mall in Paphos.

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