

Transaction Volume

The number of units transacted has progressively increased since 2009, as more developments / projects targeting the luxury market are being completed. The number of transactions appears to be uncorrelated to the state of the economy, probably due to that buyers of this type of real estate are not so affected by fluctuations in the real economy.

Price Distribution

Close to 80% of transaction volume is for properties under €3.0m. Over the past year, transaction volume for properties over €5.0m has increased.

Market Summary

	Current Position	Outlook
Demand	➔	➔
Supply	➔	➔

Profile of Analysis

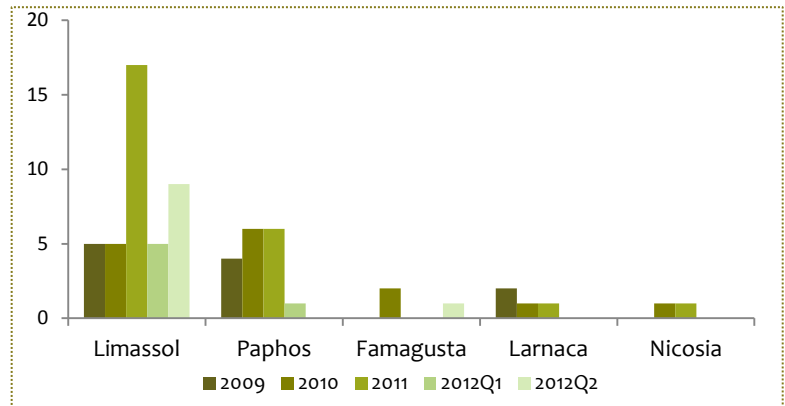
This publication uses Leaf Research's proprietary tool, 'Project RED' (Real Estate Dynamics), to examine a specific segment of Cyprus' real estate market.

The report focuses on the luxury segment of the residential market, which is defined as houses and apartments with a transaction price over €2.0m.

The analysis includes all units transacted from 2009 onwards, as recorded by Cyprus' Land Registry.

Geographical Distribution

Figure 1: Number of Units Transacted by District



Source: Cyprus Land Registry, Leaf Research

Figure 1 shows the transaction volume from 2009 onwards of luxury units by district. With Limassol being Cyprus' main commercial centre and having the highest number of companies of overseas' interests, it is not surprising that since 2009 64% of transactions took place in this district. Paphos constituted 23% of transaction volume, followed by Larnaca 6%, Famagusta 5%, and Nicosia 2%.

With Nicosia being the main banking, and accounting hub, one would expect that the district would have a higher number of high-end residential transactions. This can be partly explained by two reasons. Firstly, Nicosia is dominated by locals (more than 90% of transaction volume is by local buyers) who tend to have lower budgets than overseas buyers. Secondly, locals tend to prefer to build their own homes rather than acquire the end product. As most tend to live in these houses for life, transactions of such properties are few and far between.



Transactions by Property Type

The luxury segment is dominated by houses, constituting circa 75% of transaction volume (tables 1 and 2). Only Limassol district has any apartments sold for over €2.0m, as other districts tend to have lower density housing and a larger coastline relative to their population. Real estate development in Limassol tends to be confined within the extended urban area of the city of Limassol, contrary to, Paphos where this takes place mainly along the coastline and nearby hills. As a result, high-end multi-storey housing is developed to accommodate demand for luxury real estate within an urban environment.

Table 1: Transaction Volume – All Properties

	2009	2010	2011	2012 Q1	2012 Q2
Limassol	5	5	17	5	9
Paphos	4	6	6	1	0
Famagusta	0	2	0	0	1
Larnaca	2	1	1	0	0
Nicosia	0	1	1	0	0
Total	11	15	25	6	10

Source: Cyprus Land Registry, Leaf Research

As shown in table 2, there is a “spike” in transaction volume in 2011 with an almost doubling of transactions in that year. This is partly due to an increase in the transaction volume of apartments (7 in 2011 compared to 3 in 2010). The main driver however appears to be the launching of the Limassol marina and the high number of sales in the early part of the marketing period.

Table 2: Transaction Volume - Houses

	2009	2010	2011	2012 Q1	2012 Q2
Limassol	2	2	10	4	6
Paphos	4	6	6	1	0
Famagusta	0	2	0	0	1
Larnaca	2	1	1	0	0
Nicosia	0	1	1	0	0
Total	8	12	18	5	7

Source: Cyprus Land Registry, Leaf Research

Project RED (Real Estate Dynamics)

Project RED is Leaf Research's proprietary process of analysing real estate transactions lodged at Cyprus' Land Registry. These transactions comprise of properties where ownership has been transferred to the name of the buyer, as well as sale and purchase agreements where the contract has been deposited against a given property.

Leaf Research has reviewed each transaction from 2006 onwards, sorting it by type, geography and price. A similar analysis is possible for specific projects or areas up to a “neighbourhood” level (sheet/plan), for specific property types, or price bands.

Analysis of this kind is of paramount importance to real estate investors, financiers and policy makers as it shows the dynamic nature of demand and thus helps formulate more accurate real estate strategies.

As shown in tables 1 and 2, the luxury property segment continues to perform well despite the ongoing economic and financial turbulence, with transaction volume in the first half of 2012 (Q1&Q2) having exceeded the total transaction volume of 2009 and 2010, and approaching that of 2011.

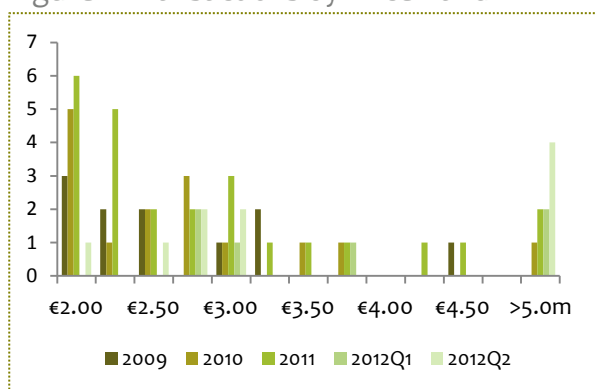
Although the high number of transactions is mainly due to the Limassol marina, there has been a steady stream of transactions in some of the other developments that are in the process of being completed. This goes to show not only the strength and depth of the market, but also how its performance is not interlinked to that of the economy as buyers at that level of the market tend not to be materially affected by it.

Particular reference needs to be made to the nature of properties transacted. These tend to be part of larger developments rather than individual units. These developments are newly completed or in the last stages of construction, and tend to be abutting or be very near the beach.

Price Distribution

The distribution of prices casts more light into the nature of demand. As shown in figure 2, 70% to 80% of transaction volume is for properties between €2.0m to €3.0m with properties over €5.0m constituting circa 5% to 10% of transaction volume. Apartments are generally acquired for under €3.0m, with only 2 out of the 17 apartments acquired since 2009 having a price over €3.0m. Houses tend to have a broader distribution, although 60% to 70% of transactions also fall in the under €3.0m category.

Figure 2: Transactions by Price Band



Source: Cyprus Land Registry, Leaf Research

With reference to the top-end of the luxury market, it is shown that demand for units over €5.0m has increased over the period. Transaction volume at this price level is confined in only a handful of developments/ projects, but goes on to demonstrate further that the dynamics of this segment are unrelated to the performance of the economy. It is also worth noting that some of the properties transacted in 2012 are well in excess of €5.0m.

Supply Dynamics

The majority of luxury units transacted tend to form part of larger developments rather than stand alone units. The reason for this is twofold; firstly, what appears to be of primary importance is proximity to the beach, ideally abutting it. Whilst sea views is a definite enhancement of a particular unit's appeal, in order for a unit to be of interest to buyers of this price level of luxury real estate, sea views alone are not sufficient. Secondly, luxury is not only the distance to the

beach, but also the amenities and services that are "attached" to the unit. If a unit forms part of a larger development/ project, then usual services would include security (most developments are gated), maintenance of common areas, some form of concierge service, etc. With most land abutting the beach having been already developed or having been acquired by developers for this type projects in mind, transaction volume is mainly confined to those developments/ projects offering the above.

With construction activity slowing down and no new projects being initiated, most luxury units are in the process of being completed or they have recently been completed. With supply remaining constrained over the next two to three years at least – the minimum construction period needed to complete such a project – the only units available on the marketplace are likely to be those remaining unsold in already completed projects and those that are to be completed by 2014 as part of the Limassol marina.

With Nicosia, Larnaca and Famagusta having such a small volume of luxury properties, it is highly unlikely that any new developments will be underway in the foreseeable future targeting this segment. Paphos remains a question mark, as the overall state of the property market is one of over-supply. However, there have been some pockets of demand in luxury developments in Pegia and Polis which may continue to drive transaction volume, and possibly supply, higher.

Expectations

With activity and prices in the main commercial centres of Nicosia and Limassol only beginning to experience significant declines, re-pricing across the property market is expected to accelerate in the coming months. Whilst this is unlikely to have any bearing on demand for luxury real estate, the state of the economy and of the property market in general are likely to lead to an even further decrease in available finance for end buyers. It will also constrain finance for developers targeting this segment, thus further constraining supply in the mid-term.



Property Market Background

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. Nicosia, the capital, is dominated by government services and houses the headquarters of most banks and finance houses. Limassol, the main commercial port, has a high proportion of overseas residents and of companies active in shipping, financial services, etc with have a more outward looking focus. Larnaca and Paphos house the island's international airports, with both cities having a sizeable proportion of overseas residents and holiday homes. Paphos has been the district of preference for many British who choose to retire to Cyprus (34% of the population of Paphos is from overseas). Famagusta has a small local and a sizeable seasonal population, as many Cypriots have holiday homes in the district (32% of residential units in the district are used as second/ holiday homes).

The property market experienced significant growth, both in terms of demand, prices and supply, during 2004 - 2008. This was partly fuelled by overseas demand for holiday homes and for investment and by increased lending towards real estate by most local banks (household lending towards real estate increase by 211% from 2006 to 2009). The result was significant growth in construction activity, an increase in residential and land prices, and a shift in market demand to it being dominated by overseas nationals (overseas buyers from 2005 to 2007 represented circa 40-45% of transaction volume).

Post 2008 overseas demand subsided, partly as a result of the global financial crisis. The combination of the decrease in overseas demand with significant amount of stock in the development pipeline, resulted in a decrease in property prices especially post 2009. The latter has had a negative knock-on effect on a number of construction related companies and on a number of banks who financed them and the buyers of the end product. The situation has been further complicated by problems in the issuance of title deeds and the use of properties that have been developed/ sold by their original owners for collateral purposes.

Leaf Research

Leaf Research is a real estate consulting firm, providing real estate market research, strategic consultancy, valuation, financial advisory and modelling. We undertake valuations, feasibility studies, competitor analysis, and business plans, on residential and commercial real estate, specialising in alternative types of real estate such as hotel, leisure, health, education, and renewable energy.

Leaf Research provides consultancy services to a wide range of individuals and corporate clients, including financial institutions, banks, corporates and private investors. We arch prepare reports that lay the foundation of financial decisions for banks, property companies, developers, investors and fund managers. The more challenging economic conditions are, the more important the information becomes.

Our expert consultancy team provides informed, independent advice on a whole range of property interests, from one-off valuations to consulting for entire portfolios or company policy.

What sets us apart is the quality of our service and advice. Leaf Research was the first company in Cyprus to be "Regulated by RICS" and to be registered under the RICS' "Valuer Registration Scheme" (VRS).

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