



CYPRUS RESIDENTIAL DEVELOPMENT

Prime market report 2012

Knight Frank



ECONOMIC OVERVIEW
CYPRUS HOUSING MARKET
PRIME RESIDENTIAL MARKET
MARKET OUTLOOK

CYPRUS RESIDENTIAL DEVELOPMENT

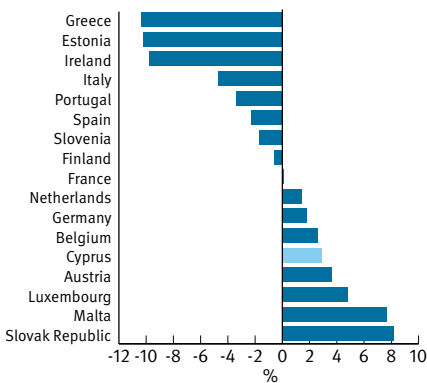
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INTRODUCTION

In recent years Cyprus has emerged as a key location for the development of high-end residential property. Its offer as a location to wealthy purchasers is reinforced by its location, lifestyle and tax position.

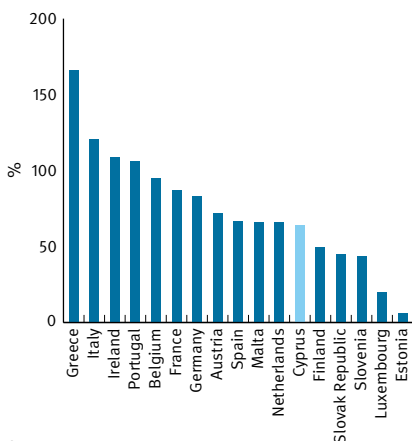
“Despite the impact of the Eurozone crisis, Cyprus has performed relatively well compared to other economies within the EU.”

Figure 1
Cumulative GDP growth since 2007



Source: IMF

Figure 2
Gross debt as % GDP, 2011



Source: IMF

In this report we provide an overview of the economic backdrop, detail the current state of the residential market’s recent performance, assess what state the development market is in following the global recession, highlight some of the key projects aimed at wealthy purchasers and identify what is driving performance at the top end of the market.

With the recent discovery of hydrocarbons in Cypriot waters we also consider the huge impact this will have on the Cyprus economy and the prime development market.

Economic overview

The credit crunch in 2008 was followed by recession in Cyprus. While economic growth returned during 2010, the sovereign debt crisis within the Eurozone has weakened economic sentiment and activity.

Despite the impact of the Eurozone crisis, Cyprus has performed relatively well compared to other economies within the EU. Since 2007, economic growth has been in line with other Eurozone members such as Belgium and Austria, and compares favourably to other Eurozone countries such as Greece, Ireland and Portugal, all of which have seen negative growth (Figure 1). The forecast for growth during 2012, according to the IMF, is positive at 1.0%.

While growth has been relatively strong in Cyprus, more noticeably the level of national debt is still comparatively low (Figure 2). Whilst some of Cyprus’ Eurozone counterparts such as Greece, Italy, Ireland and Portugal had gross debt levels equivalent to over 100% of GDP in 2011, the figure in Cyprus was relatively modest at 64%, with only five other Eurozone members having lower levels of debt, pointing to an underlying strength in the Cyprus economy.

Hydrocarbons

Aside from the travails from the EU, a recent development has the potential to alter the future dynamic of the economy. The discovery of an estimated 5 to 8 trillion cubic metres of gas to the south of the island.

Cyprus currently relies on imported fuel to fulfil its annual requirement for 1 billion cubic metres of gas. There is a real potential that Cyprus could become a sizable net exporter of energy.

Tourism

The economy of Cyprus is driven predominantly by the services sector (accounting for over 80% of GDP in 2010), of which tourism represents a key component. Indeed, the relatively small Cyprus economy compared to the large number of tourist arrivals means tourism has a much greater impact on the direction and scale of economic growth than most other European destinations. Figure 3 shows the total number of tourist arrivals to Cyprus since 2001.





While the number of tourist arrivals has declined by 11% since 2001, in recent years the figure has been relatively static at around 2,400,000 to 2,500,000 each year.

Over recent years there has been a shift in the profile of tourists. The UK still remains the biggest source market, accounting for 52% and 46% of all arrivals in 2005 and 2010 respectively. However, the greatest increase in arrivals over the same period has been from Russian nationals, accounting for 6% and 10% during the same years, or in real terms an increase from 146,000 to 224,000 arrivals.

Our experience in the international second homes sales market confirms that the profile of tourist arrivals tends to mirror the profile of international buyers at a location. Frequent visitors are more likely to move to, or at least purchase a second home at a destination they are well acquainted with.

An illustration of this point is that over the past 20 years, the number of non-Cypriot residents has been gradually increasing in total numbers and as a share of the total population in Cyprus (Figure 5), and according to the most recent census the key nationalities taking up residence in Cyprus have been Greek, British, Eastern European and Russian nationals (Figure 6).

Cyprus housing market

The national housing market

The impact of the credit-crunch and the current global economic downturn, has been to see house prices in Cyprus slide from their 2008 peak level, with prices falling by 12% from Q3 2008 to Q2 2011.

The last few years have not only been characterised by depressed capital values, but also by a reduction in transaction activity (Table 1). In particular the number of foreign

buyers has diminished in total numbers and as a proportion of total sales, reflecting the uncertain economic climate. During the boom years, UK buyers in particular were drawn by the climate, relatively affordable living costs, good public facilities and widespread use of English, but the onset of the recession saw a decline in the number of UK buyers and other nationalities.

Development market

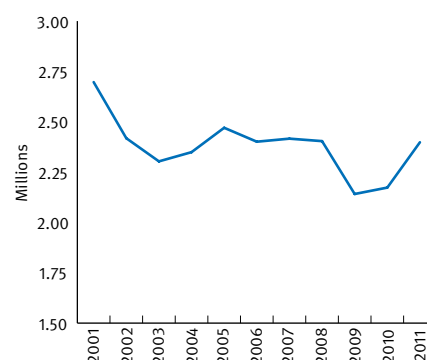
The rate of housing development in Cyprus witnessed an upsurge from the turn of the millennium to the peak of the market in 2007/08, driven by a strong underlying economic environment and the confidence instilled by joining the Eurozone. While construction volumes were maintained at historically high levels over the past 3 years as developments were followed through to completion, dwelling permits (Figure 8), which represents the lead indicator for completions, dropped off significantly during 2009 and 2010. Completion rates are also likely to decline over the next two years.

Core second-home market

In Cyprus the key holiday and second-home areas are geographically set apart from the five towns where the majority of Cypriots live (Nicosia, Limassol, Larnaca, Paphos and Famagutsa). Indeed the house price performance indicators we have alluded to previously in the report relate largely to the domestic market rather than the key second-home locations. Values in these second-home markets tend to be more volatile, rising faster in times of prosperity and falling sharper in times of austerity.

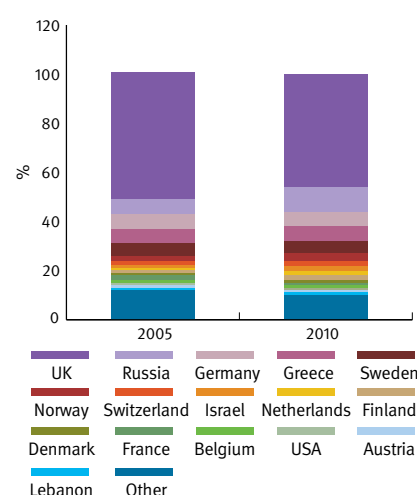
Price performance in these sub-markets is determined by a range of factors, such as the presence or not of sea views, proximity to beaches and scale of development.

Figure 3
Total tourist arrivals



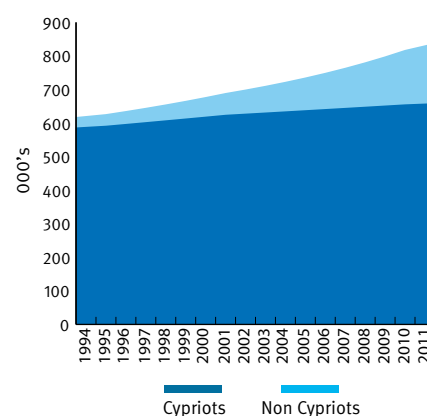
Source: Cyprus National Statistics

Figure 4
Tourist nationality



Source: Cyprus National Statistics

Figure 5
Population growth (Republic of Cyprus)



Source: Cyprus National Statistics

Table 1
Transaction volumes, Cyprus

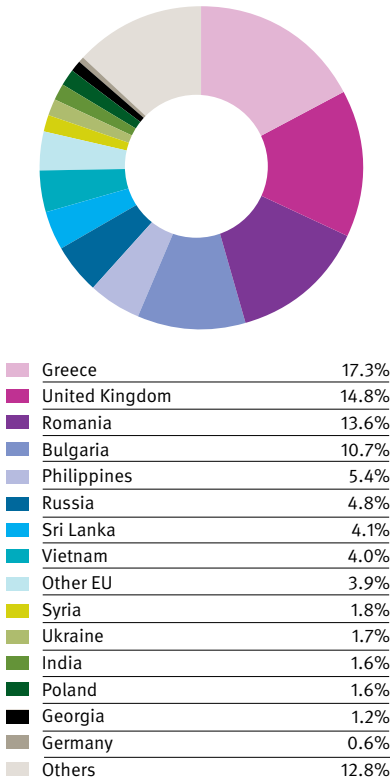
	2006	2007	2008	2009	2010	2011
Local buyers	8,598	9,964	8,031	6,409	6,568	5,366
Foreign buyers	8,355	11,281	6,636	1,761	2,030	1,652
Total	16,953	21,245	14,667	8,170	8,598	7,018

Source: Land Registry

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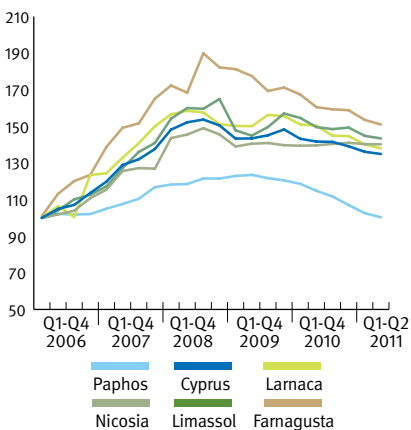
Figure 6
Foreign residents, 2011



Source: Cyprus National Statistics

“As a former British colony, there is an established historical relationship with UK buyers.”

Figure 7
House price growth, Cyprus



Source: Central Bank of Cyprus

Since the peak of the market it has been estimated that the best second-home locations have held up relatively well in terms of value, witnessing price contractions of around 20%, while secondary and tertiary locations have seen falls of around 30% and 40% respectively.

Prime residential market

The very top-end of the second home market in Cyprus is dominated by just a handful of exclusive developments. As with all prime residential markets, the offer in Cyprus is differentiated from the wider market by price, location, performance, and the demand profile. These schemes are spread across the island, typically with unit capital values in excess of €500,000.

Bucking the trend

Unlike the domestic housing market and the core second-home market, demand for the very top-end of the market has remained strong over the past couple of years. Estimates vary, but against a backdrop of falling prices across the country, values across prime markets have generally remained flat over the past two years. However, at some of the very top developments unit prices have risen by around 10% on average.

Prices across the prime market have been supported by strong demand and constrained supply. For instance, at Limassol Marina there have been nearly 45 sales over the past 12 months, which represents 25% of available units. At Akamas Bay Villas 60% of

the first phase has been sold and delivered, and the second phase is now being launched due to high demand. These rate of sales are comparable to those achieved at other notable prime European developments such as Porto Montenegro, and even compares favourably with locations such as Andermatt in Switzerland, PGA Catalunya Resort in Spain and Toscana Resort Castelfalfi.

The prime market in Cyprus has only a few developments, some of which we feature in the report. The tight supply conditions for prime development is unlikely to be alleviated any time soon, as Cyprus is a small island with a finite capacity for development, and tough planning restrictions on beachfront locations, such as 15% build-to-plot ratios and a two-storey height restriction. This makes land expensive to buy.

Weaker demand in the core markets in recent years has driven some of the development in the prime markets. Developers have realised that demand from HNWI's continues to grow, and they have therefore raised the bar at their schemes to target these customers. Competition in the core second home market from other European locations, such as Turkey and Spain has also driven this 'flight to quality'.

While the supply of prime property might be somewhat restricted, the amenities on offer for purchasers are strong, both on-site and across Cyprus, notably the selection of world class golf courses.

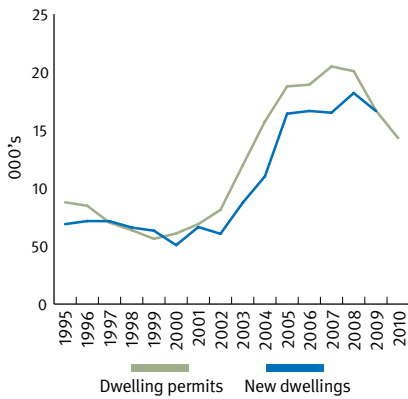
Demand profile

Demand at prime developments is entirely driven by international buyers. The sub-€500,000 market is dominated by buyers from the UK. In the €500,000-€2m price bracket, the market is made up mainly of





Figure 8
Starts and completions, Cyprus



Source: Cyprus National Statistics

Russian and other European buyers, while the very top-end (over €2m) attracts buyers from Russia and other CIS countries.

British buyers

As a former British colony, there is an established historical relationship with UK buyers.

This follows in the purchase of holiday homes on the island, with buyers from the UK accounting for around 60% of all international sales in 2008. However, since the credit crunch in 2008, demand from British buyers had declined on the back of poor economic conditions, and many British

investors chose to sell their property assets. This has had a negative impact on values across the sub-€500,000 market.

Despite this decline in demand from UK buyers during 2008 and 2009 the fundamentals of what made Cyprus a tourism and second-home hotspot remain. Indeed, interest improved during 2010 and 2011 and British buyers still account for half of all international demand. Demand for core second home market product is still not up to the pre-recession level, there is increasing interest from British buyers at the very top-end of the market as Cyprus has slowly rebranded itself as a prime residential hotspot.

**CASE STUDY:
Limassol Marina**

Living on the sea



JAMES PRICE
Head of International Residential Development
Knight Frank



PROJECT: Exclusive waterfront development in Limassol featuring homes, restaurants, cafes, shops, high-end boutiques and a spa, set in a state-of-the-art marina within walking distance from the city. The 273 residential properties range from luxury apartments and penthouses to villas with private berths for yachts (up to 60 metres), or direct access to the beach. The marina accommodates 650 yachts, from 8 metres to 115 metres in length.

WHAT SETS IT APART? It is the only new development in the Mediterranean offering private berths attached to residential properties and the only marina able to accommodate super-yachts on the island. It is the first integrated project of its kind. The fact that it sits on the edge of the old town means owners will have use of the new amenities around the marina, as well as the established and increasingly upgraded old town of Limassol. The architecture was designed to blend seamlessly with the historical part of Limassol, the medieval castle and old port. It has managed to retain the charm and character of the traditional buildings in the area and provides an extension of the town.

STAGE: The project is still under construction but the marine works are drawing to a close. Land reclamation is nearing completion and the marina will be fully operational by October 2012. The first properties to be delivered will be the Nereids Residences (94 apartments and penthouses) in November of 2012 – the show apartment is already available for viewings. The commercial area, cultural centre and marine training school will follow in spring 2013 and the villas will be delivered in phases by the end of 2013 and 2014. The overall project is due for completion by the end of 2014.

TARGET AUDIENCE: While interest in Limassol has historically come mainly from Russians, the rise in the number of international hotel brands and retail outlets has drawn a broader international visitor base which is now translating to buyers. Buyers have come from Cyprus (including foreigners residing and working on the island), as well as Russia, CIS countries, the Middle East and Israel. Interest from the rest of Europe has also been growing, particularly from those interested in the yachting features. Generally, these are HNWIs who have been to Cyprus and have a connection with Limassol.

WHO'S INVOLVED? Limassol Marina Ltd was formed by a group of developers, construction companies and investors. The shareholders of Limassol Marina Ltd are: Cybarco Limited, J&P-Avax S.A., Joannou & Paraskevaides Ltd, Francoudi & Stephanou Ltd, Athena S.A., CADS Holdings Ltd and Limassol Marina Development

Company Ltd. The project and sales are managed by Cybarco, an international contractor and property developer. Camper & Nicholson's Marinas has been appointed as the marina operator. Xavier Bohl, the renowned designer of Port Grimaud, is the architect. Knight Frank is working with Cybarco on international sales.

LESSONS LEARNED: Demand for high-end residential developments in prime locations has remained strong, despite the turbulent economic climate. Limassol Marina benefits from this as well as the fact that waterfront properties, particularly those that come as part of a masterplan or an integrated resort, offer a unique concept that is highly sought-after. Having a show apartment available has also been invaluable.

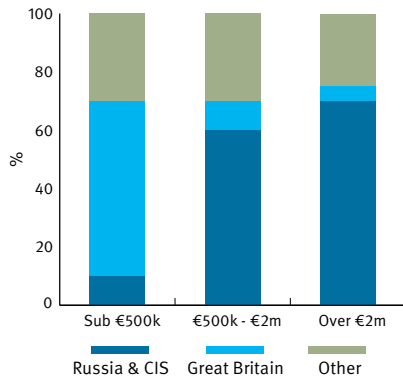
INFLUENCE ON THE MARKET: Limassol Marina is firmly placing Cyprus on the global yachting map and raising awareness of the advanced infrastructure and quality of services available on the island. It has already had a knock-on effect on business across the island and encouraged improved standards in other new projects. It has also boosted investment by luring more HNWIs to the area.

SUCCESSES: When considered in the context of the wider European market, and compared to other projects selling off-plan properties, Limassol Marina has been one of the most successful projects in terms of sales in the last 12 months. Its great site, clear construction progress, good value and a strong development track record have been critical ingredients.

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Figure 9
Russia and UK – lead prime demand



Source: Developers and local agents

Russian buyers

Russia and Cyprus also have strong historic links, due in part to their shared religion. Also, following the collapse of the Soviet Union, Cyprus became one of the first international locations that Russians looked at to invest and diversify their assets, so there has now been 20 years of Russian investment in Cyprus.

This is borne out in the statistics, with the number of Russians living in Cyprus and visiting Cyprus on holiday continuing to rise. If English is the second language, Russian is certainly the third, with a particularly large Russian community concentrated in and around Limassol. Russians are also attracted by the low crime rates and provision of international schools.

Increased numbers of residents and tourist visits has translated into prime residential transactions – and it is Russians (and those from other former CIS countries) driving demand at the very top-end of the market, over €2m.

Russian buyers fall into two broad categories: older (aged 45 to 60 years), who typically own their own business and want to buy a family home specifically in Cyprus. Perhaps

drawn by the weather, they may have visited the island a few times before deciding to move, and benefit from the tax environment with extended family. The second group are younger, aged between 35 and 50, have a good job, but might be looking for a second-home overseas. This group is looking for a very high specification, but perhaps cannot afford a comparable villa in the more traditional prime European locations such as Italy and the south of France.

The motives for Russian buyers are often quite different from the British purchaser. British buyers will often buy a property as a holiday home to possibly rent out when they are not using it during the shoulder and off seasons. Russians do not tend to buy as an investment, purely as a primary or secondary home for themselves.

While dominant, Russian and British nationals are not the only purchasers of prime residential property in Cyprus. Other northern European countries, such as Germany and Scandinavia are important sources of demand, as are some Middle Eastern countries. The Arab Spring has unsettled much of the Arab world and as such Middle Eastern investors are looking for alternatives to the more traditional

“Crucially, because of the size of Cyprus, all of the key developments in Cyprus benefit from being fairly close to an airport, with a maximum 4.5-hour flight to all major European hubs.”



AKAMAS BAY VILLAS

Location: Akamas Peninsula, Latchi, west coast

No. of residences: 39

Price: €1.75m - €4.8m (inc 17% VAT)

Features: Arguably the premier luxury property development in Cyprus. Villas set within very large plots with unobstructed sea views. Each villa has a pool set in its own landscaped garden. On-call concierge.



LIMASSOL MARINA

Location: Limassol

No. of residences: 273

Price: €428,000 - €16.6m (VAT exempt development)

Features: Edge-of-town marina environment with restaurants, cafes, shops, high-end boutiques and spa. Range of apartments, penthouses and villas with private berths for yachts.



residential locations such as Abu Dhabi and Dubai. Cyprus benefits from its location in this regard.

Key developments

There are a number of features that all prime residential schemes must have, regardless of buyer profile. These include:

- Between four and five bedrooms
- High-specification finish
- Sea views
- Swimming pool
- On-site amenities

Crucially, because of the size of Cyprus, all of the key developments in Cyprus benefit from being fairly close to an airport, with a maximum 4.5-hour flight to all major European hubs. Below are a selection of developments that demonstrate what is being offered at the very top-end of the market.

The prime development is diverse, offering different styles, amenities and environments. The first major prime development in Cyprus was the Aphrodite Hills Resort, located near Paphos, and comprises a wide range of different unit types, in addition to a spa, 18-hole golf course and academy, alongside

other sports and leisure facilities. Limassol Marina offers marina environment and immediate access to the amenities the town offers. This contrasts with the more tranquil locations, such as Akamas Bay Villas.

Market outlook

The Cyprus economy has certainly been impacted by the Eurozone woes and the sovereign debt crisis. However, the discovery of significant gas reserves in Cypriot waters could have a huge and lasting impact on the island.

The prime property market appears to be in good health, characterised by strong sales rates and property at least holding its value. This performance is driven by a mix of strong demand, from Russians in the higher price brackets and Brits at the lower end of the prime sector.

The impact of the discovery of gas reserves is not only likely to bolster the economy, but also the property market. The discovery will improve GDP and the budget deficit and will attract international companies, which in turn will bring managerial-level staff looking for high-quality residential accommodation.

Drivers for second home purchases in Cyprus

- Strategically located at crossroads of three continents
- More than 330 days of sunshine a year
- Relatively low cost of living
- Advantageous tax environment – in particular low corporate tax rate in Europe (10%)
- Relatively easy to obtain a permanent residence permit when buying a property over €300,000
- Broad network of legal, accounting and banking services
- Advanced telecommunications and infrastructure
- Low crime rate
- English and Russian widely spoken
- Highly developed education system offering both public & private education
- First-class healthcare system
- Strong location for second home, permanent residence or property investment



SEA GALLERY VILLAS

Location: Amathus, Limassol

No. of residences: 17

Price: €2m - €3.5m (inc 17% VAT)

Features: Each villa enjoys panoramic sea views and has a private garden with overflow swimming pool. Nearby are 5* luxury hotels, restaurants and beachfront bars. Blue flag beach 100 metres away.



CAP ST GEORGES

Location: Sea Caves coast, Paphos

No. of residences: 43

Price: €3m - €13.2m

Features: All villas offer sea views and a private infinity swimming pool.



APOLLO HEIGHTS

Location: Aphrodite Hills Golf Resort, between Paphos and Limassol

No. of residences: 82

Price: €290,000 - €965,000 (inc 17% VAT)

Features: Part of the Aphrodite Hills Resort – the first ever fully integrated golf, leisure and real estate development in Cyprus. Apartments share communal pools while the villas benefit from private pools.



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Front cover image: Limassol Marina

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