

DFAS Insights 2016-2022

In-Depth Real Estate Data Analytics

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29/08/2022



Preface

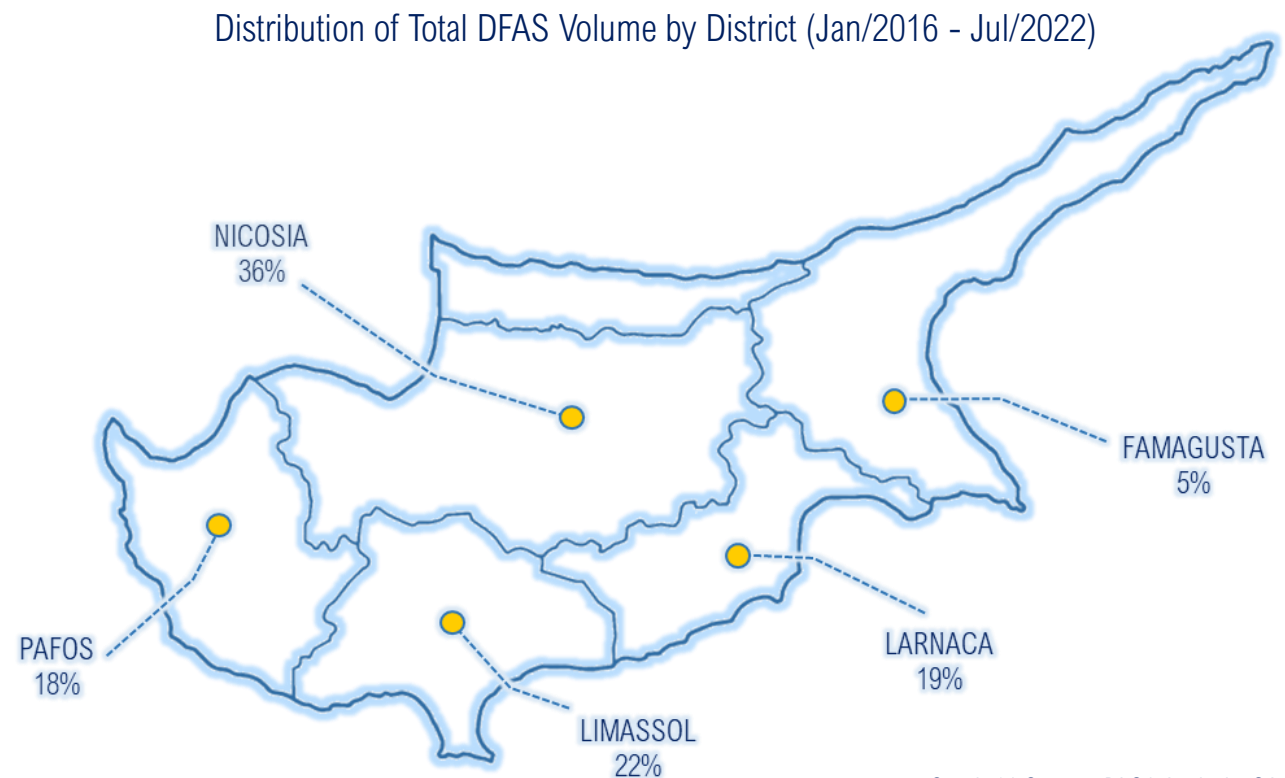
Debt restructurings (a.k.a. Debt For Asset Swaps, abbreviated as DFAS or DAS or DTA, etc.) of real estate properties are consisting a portion of the transfer transactions recorded each year at Land Registry Departments (DLS) across Cyprus. In brief, DFAS transactions usually occur from non-performing loans (NPL), which according to the relevant laws, if a loan with an asset as collateral has been in default for a given period, then the lender has the right to auction the property, and if the auction is not successful then a procedure for possessing the asset by the lender initiates. Hence, DFAS can be defined as an arrangement between a mortgage lender and a mortgage debtor to repay part or in full (swap) a debt with the mortgaged asset when the loan is not performing.

Debt restructurings have become a serious issue in Cyprus, since the crisis of 2013 and starting to *be indicated* in the data of DLS from 2015 and onwards. Certainly, DFAS cannot be categorized as Free Open Market (OM) sales, as most of these transactions have not been occurred from an agreement between a willing buyer and a willing seller. However, a DFAS transaction is indeed a transfer of an asset from the borrower to the lender by exchanging financial instruments, which in this case is debt. Therefore, DFAS or any kind of property transfers which do not fall under the category of OM sales, it would be more comprehensible to be studied also separately. Thus, this analysis aims to isolate and identify the volume and value extent, as well the trends of DFAS within the under-study period through an in-depth data analysis.

Overview

The aggregated DFAS transactions from January 2016 to July 2022 constitute 15.5% of the total transfer volume corresponding to approximately 16300 transfers. Most DFAS transactions identified in Nicosia consisting 36% of the total volume (see Graph 1), followed by Limassol with 22%, Larnaca 19%, Paphos 18% and Famafusta with 5%.

The total Declared Amount of DFAS sum up to 4 billion euros which is approximately 20.3% of the grand total amount of all transfers recorded at DLS within the period under consideration.



Graph 1 | Source: DLS | Analysis: SA

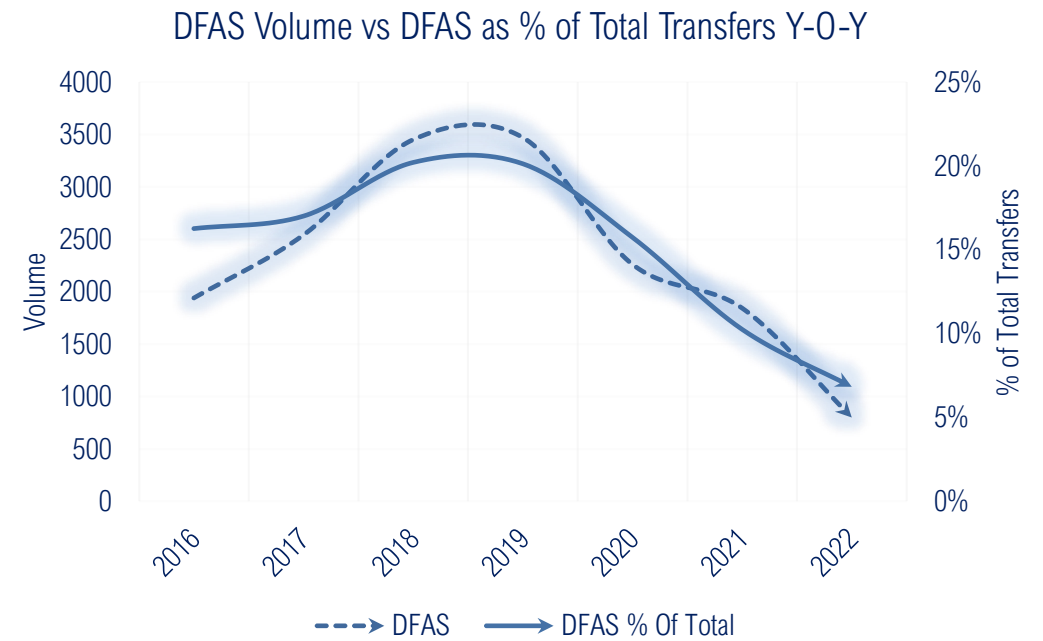
<h1 style="font-size: 48px; margin: 0;">4</h1> <p style="font-weight: bold; margin: 0;">Billion €</p> <p style="font-size: 12px; margin: 0;">Total Declared Amount of DFAS Transfers.</p>	<h1 style="font-size: 48px; margin: 0;">16+</h1> <p style="font-weight: bold; margin: 0;">Thousand</p> <p style="font-size: 12px; margin: 0;">The total recorded volume of DFAS transactions.</p>	<h1 style="font-size: 48px; margin: 0;">15.5</h1> <p style="font-weight: bold; margin: 0;">%</p> <p style="font-size: 12px; margin: 0;">As percentage of the total transfers volume recorded at DLS.</p>	<h1 style="font-size: 48px; margin: 0;">20.3</h1> <p style="font-weight: bold; margin: 0;">%</p> <p style="font-size: 12px; margin: 0;">As percentage of the total Declared Amount recorded at DLS.</p>
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Volume Statistics

The peak of DFAS transfers occurs within the period 2018-2019 (see Graph 2) with around 3450 recorded properties per year. Since then, the volume is steadily in decline, reaching its lowest point in 2022 with 795 up until the end of July, which by December is expected not to exceed the levels of previous year (1831 properties). At the same time, considering DFAS as percentage of total transfers in volume, it is observed a parallel trend with the volume of DFAS transfers.

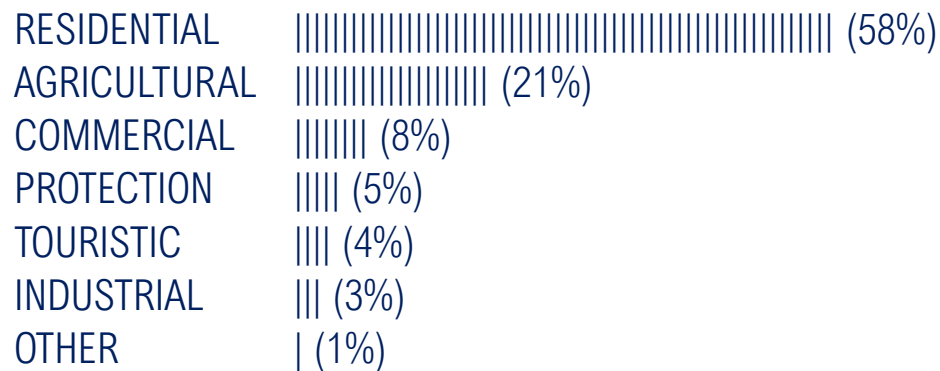
Most DFAS are concerning land (see Graph 4) in a percentage of approximately 63%, comprising of plots and fields including all planning zones. The second largest category concerns dwellings, that is residential units of houses and apartments at 25.5%. The rest transactions refer to commercial properties, that is offices, shops, buildings at around 7% and 4% of other properties.

Observing DFAS transfers when grouped by planning zones (see Graph 3), most transactions are concerning properties falling under residential zones, consisting around 58% of total, followed by 21% in agricultural zones, then 8% in commercial zones, etc.



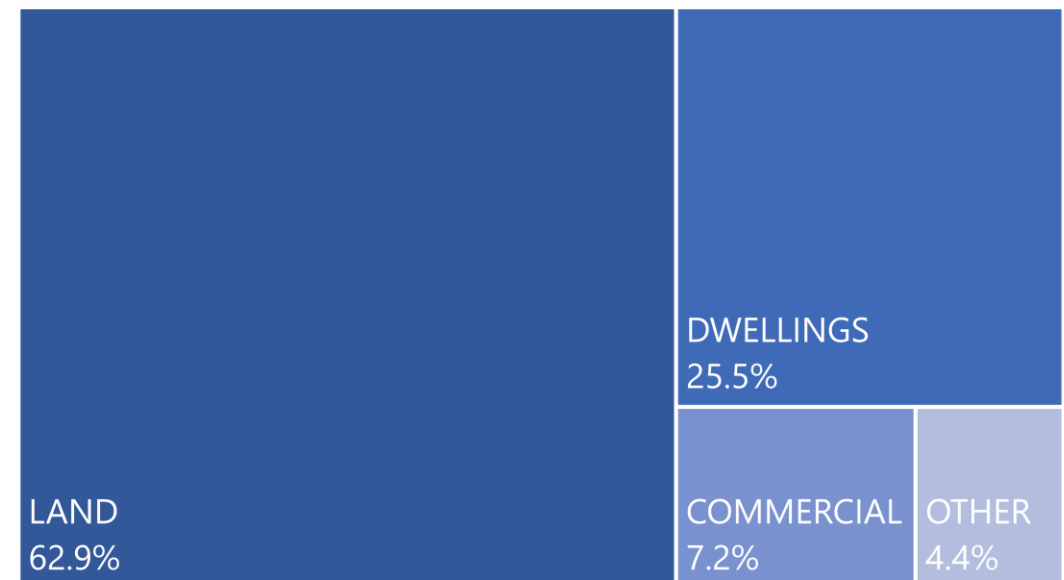
Graph 2 | Source: DLS | Analysis: SA

DFAS By Planning Zone Group (Use) in Volume %



Graph 3 | Source: DLS | Analysis: SA

DFAS by Property Group in Volume %

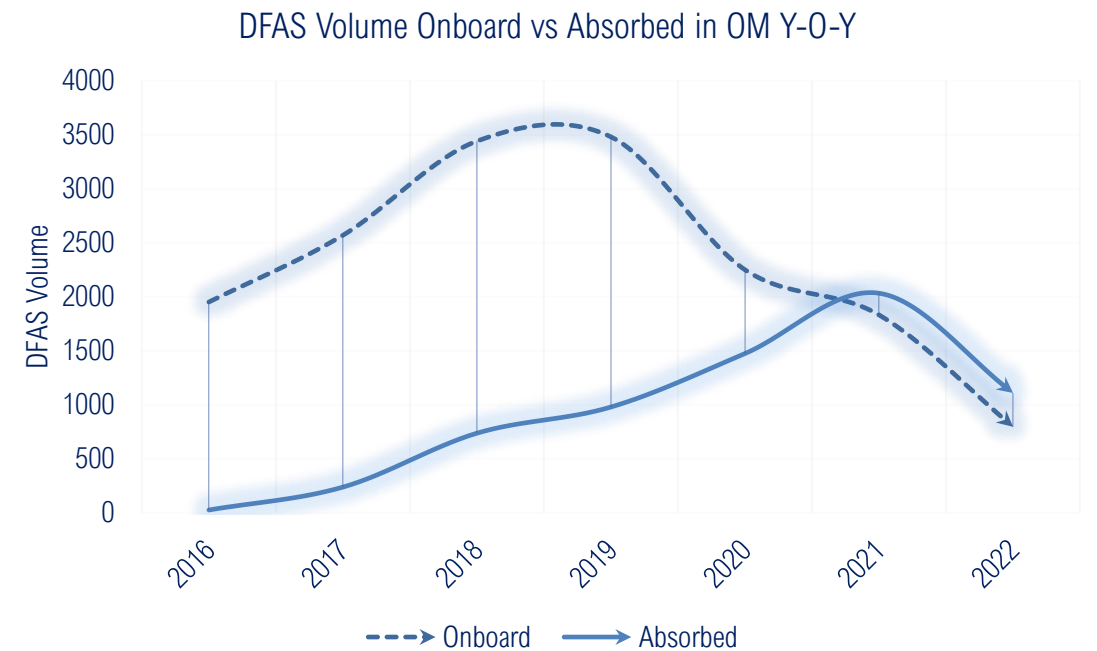


Graph 4 | Source: DLS | Analysis: SA

Absorption Statistics

The analysis is deepening to the level of absorption of DFAS properties after onboarding and then repositioning by financial institutions or asset management companies to the Open market. The volume of onboarded and absorbed DFAS had a wide dispersion from 2016 until 2019 (See Graph 5) and a parallel relation in 2021-2022, when onboarding descended. Onboardings of properties by banks have reached their peak in 2018-2019 with approximately 3450 properties per year. However, the peak of absorption occurred in 2021 with around 2000 properties sold in the Open Market.

Hence, it is concluded that 40% of all onboarded DFAS have been absorbed when repositioned in the OM. Furthermore, this absorption rate stands for the 7% of all OM transactions within the same period. Even further, the average absorption time of a repositioned DFAS in OM is estimated to be approximately 22 months. While the rest of the stock remains unliquidated for 38 months on average.



Graph 5 | Source: DLS | Analysis: SA

40

%

Absorbed (sold) when repositioned to the Open Market.

7

%

As percentage of the total Open Market transfers when sold after repositioning.

22

Months

Average Absorption Time after repositioning to the Open Market of sold properties.

38

Months

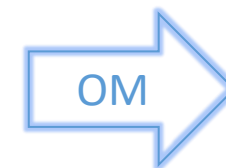
Average Possession Time after onboarding of the remaining unsold properties.

The average and median Declared Price of a DFAS property in absolute amounts at onboard date, is estimated at €246 and €85 thousand, respectively. Furthermore, the average and median Declared Price (sold price) after repositioning DFAS to the OM stands at €163 and €85 thousand, respectively. Considering the wide deviation between onboard value and sold price, is an indication that lower valued properties occurred from DFAS and repositioned to the OM are liquidated easier than those with higher values.

246

Thousand €

Average Declared Price per property at onboard date.



163

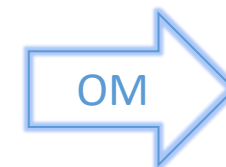
Thousand €

Average Price sold per property after repositioning to the Open Market.

85

Thousand €

Median Declared Price per property at onboard date.



85

Thousand €

Median Declared Price per property after repositioning to the Open Market.

Main Findings

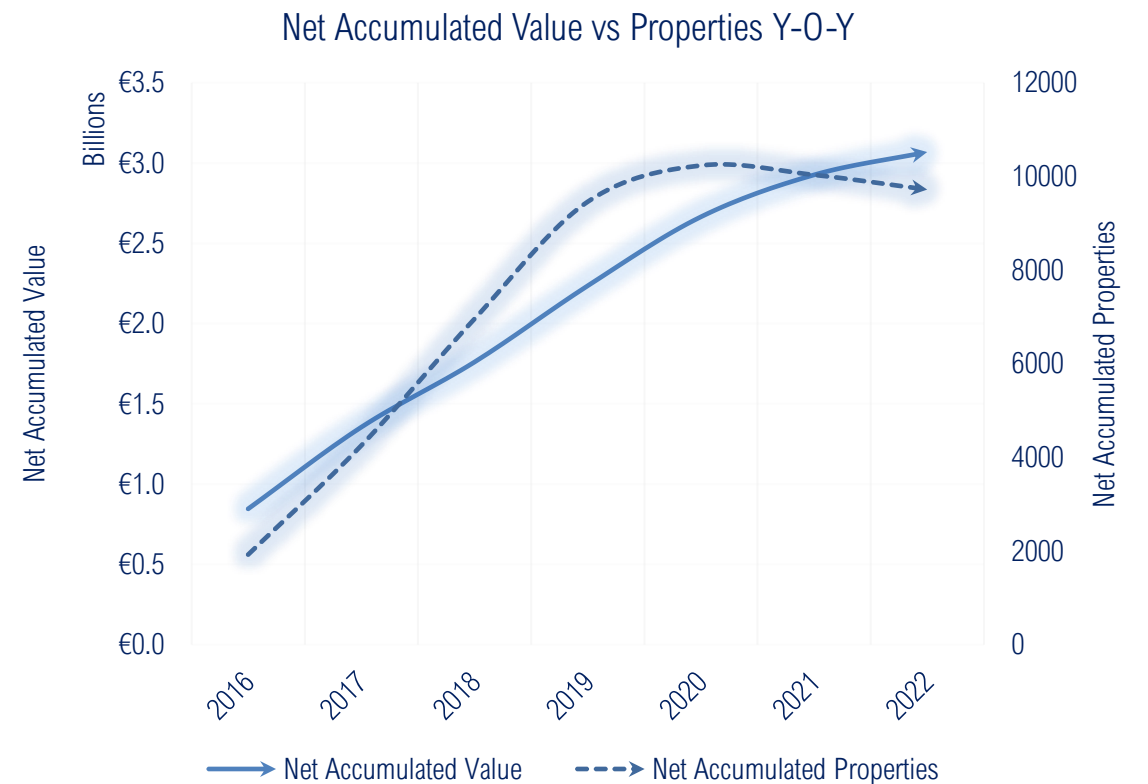
The Graph 6 indicates the trend of net accumulated total value versus the net accumulated total properties. “Net”, corresponds to the sum of properties or values of onboarded DFAS minus the absorbed. “Accumulated”, corresponds to the aggregate of properties or values year over year.

Consequently, the total Declared Amount of the onboarded DFAS properties, aggregates at approximately 4 billion euros from 2016 up to date. The total achieved amount of the DFAS after repositioned to the OM for sale stands at 1 billion euros, while the remaining not liquidated value of properties accounts for 3 billion euros. Similarly, from the total 16300 thousand onboarded DFAS, there have been absorbed by the OM around 6600 of them, leaving approximately 9700 unliquidated properties.

Even though 40% of the total onboarded DFAS properties by financial institutions (or asset management companies, investors, etc.) have been liquidated (absorbed by the market, sold), the remaining value of the unliquidated assets in possession, based on Declared Amounts corresponds approximately at 77% of the total initial Declared Amount.

Although it must be clarified that Declared Amounts at DLS concerning DFAS transfers are a product of estimations and do not equal actual achieved prices in the OM. Given that the Declared Prices of DFAS are purely estimations, it is expected that the actual selling price, and consequently the total achieved amount would deviate from what has been declared at DLS at the date of swap.

Based on the above it seems that there is a significant demand for DFAS properties when repositioned to the OM. However, there is a strong indication that low valued assets is easier marketable, but it is ambiguous if-and-when the higher valued assets, regardless of property type, will be liquidated. Furthermore, absorption time depends on time needed by asset management companies to reposition properties to the OM, as might require additional procedures for legal issues, encumbrances, prohibitions, leasehold issues, due diligence, valuation, marketing, etc.



Graph 6 | Source: DLS | Analysis: SA

Sources & Methodology

The outcome of this report derives from the processing of 173+ thousand records of data from the Department of Land and Surveys of Cyprus (DLS), available only to registered property valuers. The entire database includes all Pancyprian Transfers and Contracts of sale as these were recorded at local DLS offices from Jan/2012-Jul/2022. However, the current report provides a segmented analysis of DFAS from Transfers only, considering the period from 2016 up to July/2022, as DFAS are starting showing up from 2015 and significantly accumulating from 2016 onwards. The data went through the process of cleansing, transforming and statistical analysis with various automated methods. Due to the nature of the DLS database, it is estimated an error/deviation of less than 1%. It is noted that the analysis can be break down even further. All values in euro amounts are referring to nominal prices.

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The author/analyst has over 12 years of experience with big databases and data analytics. Through real estate he has involved with pricings of big NPL portfolios, research on Automated Valuation Models (AVM), Market Analysis, Appraisals, RE consultation, RE sales, etc. Stelios is a member of ETEK and holds a BSc in Real Estate Valuation and Development.