

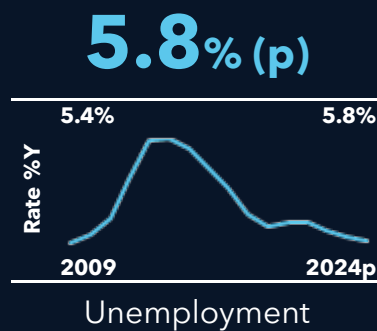
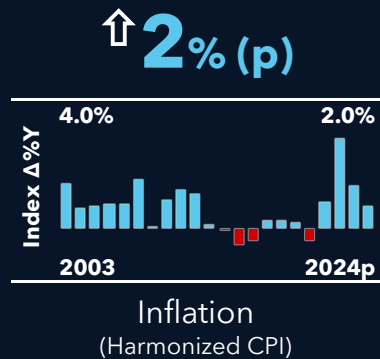
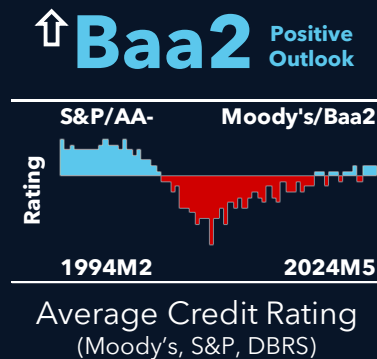
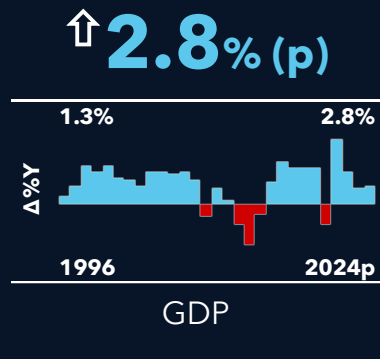
Housing Trends

Cyprus | June 2024



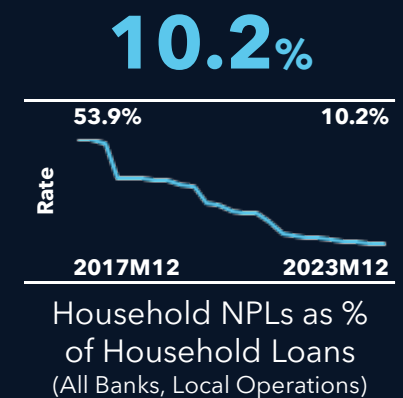
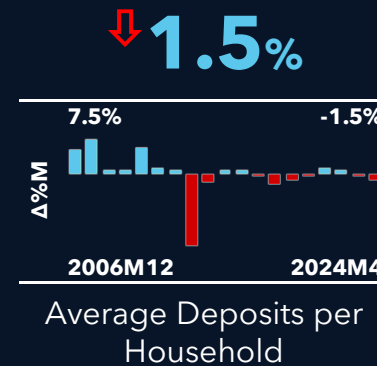
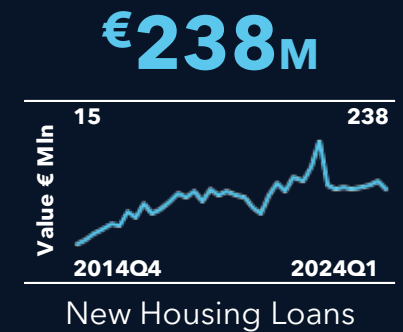
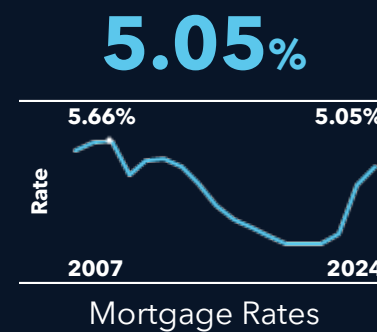
Economy

Overall, the outlook for the Cypriot economy appears positive with signs of recovery and growth. The recent upgrade in credit rating by Moody's, from Baa2 stable to Baa2 positive outlook, reflects increased confidence in the country's financial stability thus maintaining its investment grade. The projected GDP growth and the declining unemployment rate indicate a strengthening economy, while the retreating inflation is anticipated to affect and reduce the borrowing interest rates.



Financing

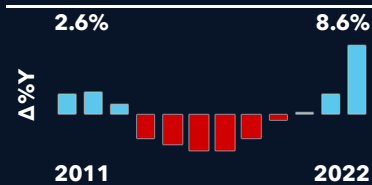
Effective 12/06/2024, the key ECB interest rates have been reduced by 25 basis points. The annual average interest rate for house purchase has reached its highest level since 2020, now standing at 5.05% (latest 4.75% 2024M3). Despite average household deposits remaining relatively stable over the past five years, the demand for new housing loans remains high, averaging 250 million quarterly over the last 2 years. Additionally, the percentage of NPLs concerning households has significantly decreased from 53.9% in 2017M12 to 10.2% in 2023M12.



Housing

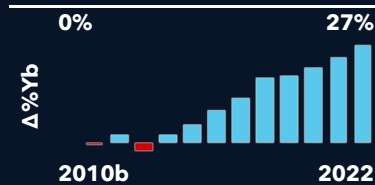
The latest median monthly gross earnings in 2022 increased by 8.6% compared to the previous year. However, the real (adjusted for inflation) difference between mean-median earnings has been consistently widening since 2010, suggesting an increase in income disparity possibly driven by high earners, leading to a more asymmetric distribution. Additionally, rent prices overall have been increased by 23% since 2017, with the number of renters growing by 4.5% over the past 15 years, indicating a rising demand for rental housing.

↑ **8.6%**



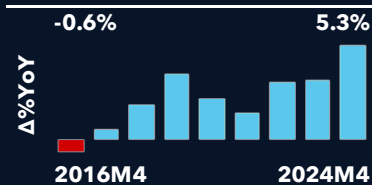
Median Gross Earnings

↑ **27%**



Real Difference of Mean-Median Earnings

↑ **5.3%**



Rent Prices

↑ **4.5%**

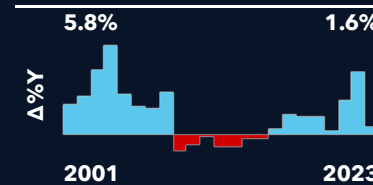


Tenure by Tenancy

Construction

Based on Construction Output Prices Index, cost has increased for 8 consecutive years, with the largest jump in 2022 (11.8%) and a smaller rise in 2023 (1.6%). The average construction cost per m² for dwellings reached €1337 in 2023. While construction production showed robust growth from 2015 to 2019, it has since slowed down. Also, there is a strong correlation between the construction workforce and new supply. Despite increase in permits, the workforce decreased by 7.1% from 2022 to 2023, potentially impacting labor costs and production output.

↑ **1.6%**



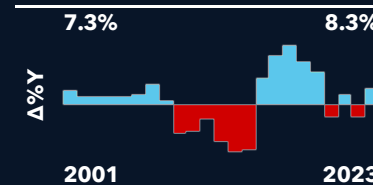
Construction Output Prices (Buildings)

€ **1337/m²**



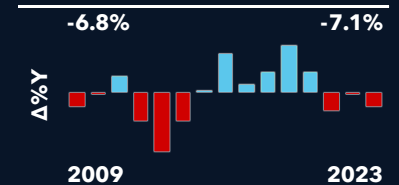
Average Construction Cost/m² (Weighted)

↑ **8.3%**



Production in Construction (Buildings)

↓ **7.1%**

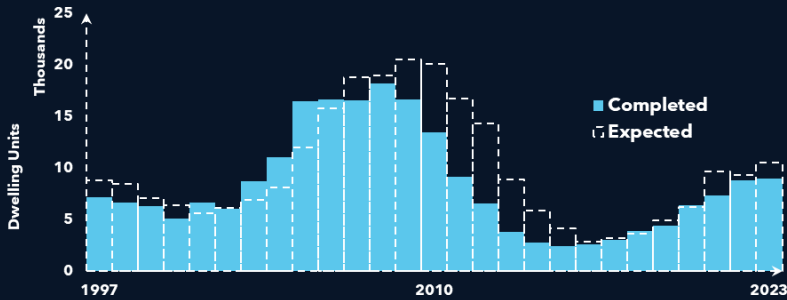


Construction Workforce (Persons)

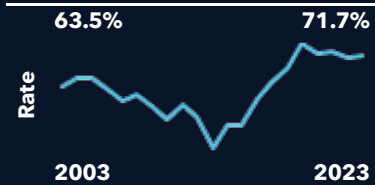
Supply

Based on granted permits and given a time lag of 2-3 years from issuing to completion, it's estimated that by 2023, completed units could exceed those completed in the past 15 years by 30,000-40,000. In the long-run, delays or postponements in several projects are impacting the housing market. Also, since 2019 there's been a shift towards apartments over houses based on permits, reflecting more affordable options. Urban areas have been the primary focus for new dwelling development since 2016, surpassing rural areas, signaling broader economic growth.

Completed & Expected to be Completed Dwellings

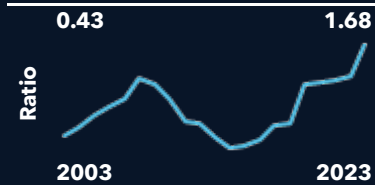


71.7%



Dwellings in Urban Areas (Permits)

1.68 🏢/🏠

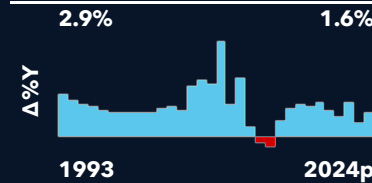


Ratio Apartments to Houses (Permits)

Demand

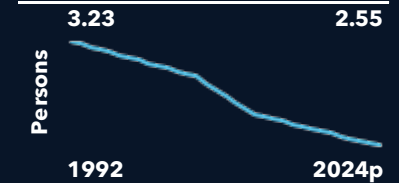
On the demand side, the number of households is increasing by an average of 2% annually, that is around 6000 households per year. Following a decline in 2013-2014 due to emigration amidst crisis, Cyprus's population is now growing primarily due to immigration, which suggests increased demand for rental housing. Additionally, the average household size is steadily decreasing year over year, indicating a need for more and smaller housing units. Consequently, the older stock of larger units may be now harder to liquidate.

↑ **1.6% (p)**



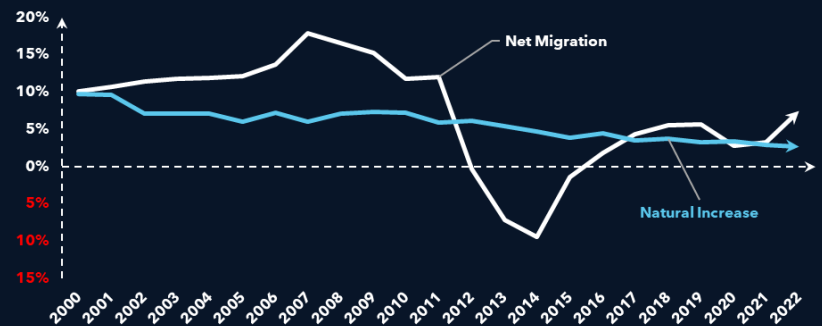
Households

2.55 👤 (p)



Average Household Size

Population Net Migration & Natural Increase (ΣΔ%Y)



Supply & Demand

During 2002-2009, dwelling stock in Cyprus grew exponentially, reaching an annual growth rate (CAGR) of 4.2%, outpacing household growth at 3.1%, which potentially contributed to the housing bubble of 2008-2009. Since then, both dwelling stock and household growth rates have been declining and are now moving marginally at 2.3% and 2.1%, respectively.

Consequently, prices declined until 2016 where the gap between supply and demand narrowed, and since then, prices have been rising. However, the data indicate that supply and demand are driven not only by household formation but also significantly by the market for secondary or investment properties.

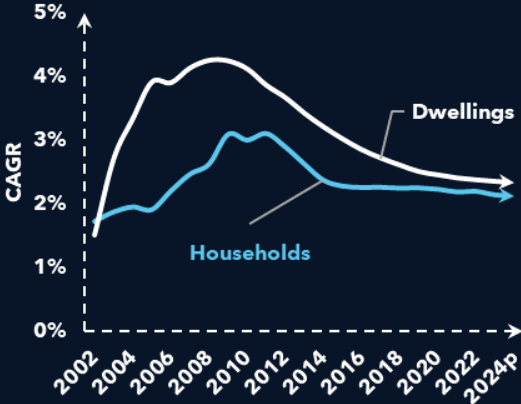
Census data and estimates show that the dwellings which are not used as usual residences, that is dwellings reserved for seasonal or secondary use or touristic use or vacant, have increased by approximately 65,000 units over two decades, now comprising 27% (134,000) of the total stock.

Statistically, around 10-15% of tourists each year stay in non-organized or other type of accommodation, which excludes lodging options of the formal hospitality industry, such as hotels, resorts, organized apartment complexes or secondary residence, or relatives' places.

From 2017 onwards, there is a significant increase in tourist arrivals which is considerably above the average level of the previous years. Excluding the pandemic period (2020-2021), the total tourists choosing to stay in establishments other than hotels, resorts, etc. estimated that have been doubled.

This additional demand for non-organized accommodation likely led more owners to convert secondary or not regularly used dwellings into short-term rentals. Hence, this trend puts pressure on the local housing market by reducing the availability of properties for long-term rentals or sale, especially in areas with high tourism activity.

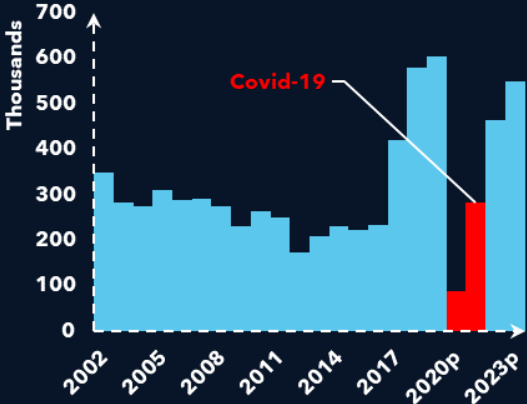
Households-Dwellings Growth Rates (Base Y2001)



Dwellings Not Used as Usual Residence



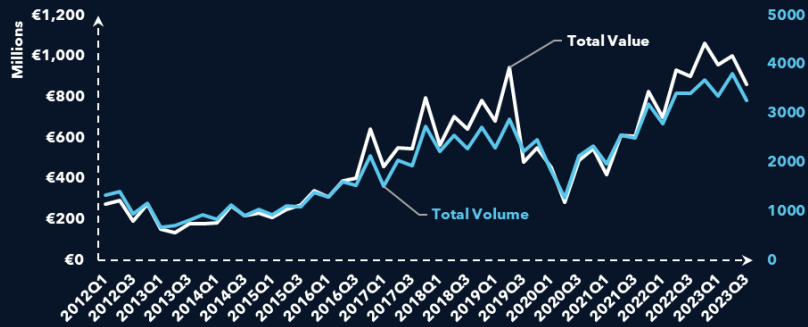
Tourist Arrivals by Accommodation Type - Other Accommodation



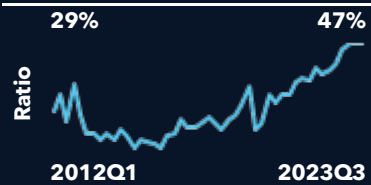
Sales

After a downturn in 2012-2013 succeeding the financial crisis, the market began a recovery phase from 2014 to 2019, gaining significant momentum after 2016. Despite a temporary setback in 2020 due to the COVID-19 pandemic, robust recovery followed from 2021 to 2023, driven by pent-up demand. The market shifts towards new-built properties, especially in the post-pandemic period, reflecting an uptick in new development activities. Foreign buyers' interest surged particularly after 2019, contributing to the growth of the market.

Dwellings Total Value & Volume

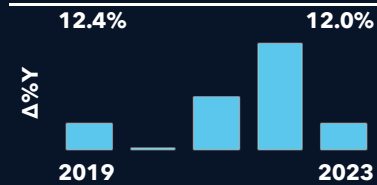


47%



Ratio of New-Built to Total Sales (Dwellings)

↑ 12%



Foreign Buyers (Properties)

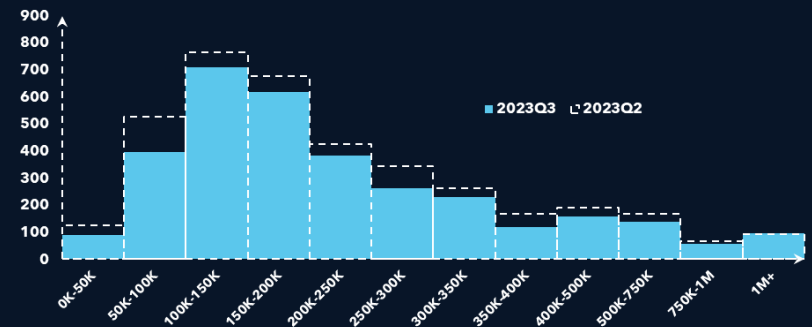
Prices

Price trends indicate an overall and consistent growth in the housing sector starting from 2016. However, NPPI indicates a stabilization of house prices probably attributed to reduced demand compared to apartments, leading to price adjustments downwards. This trend indicates a likely market correction, marked by reduced volatility in prices of the luxury market and stabilization or increase in lower-end house prices. The housing market is shifting towards apartments due to affordability factors or lifestyle changes, as also supported by building permits data.

Neapolis Property Price Index (Cyprus)



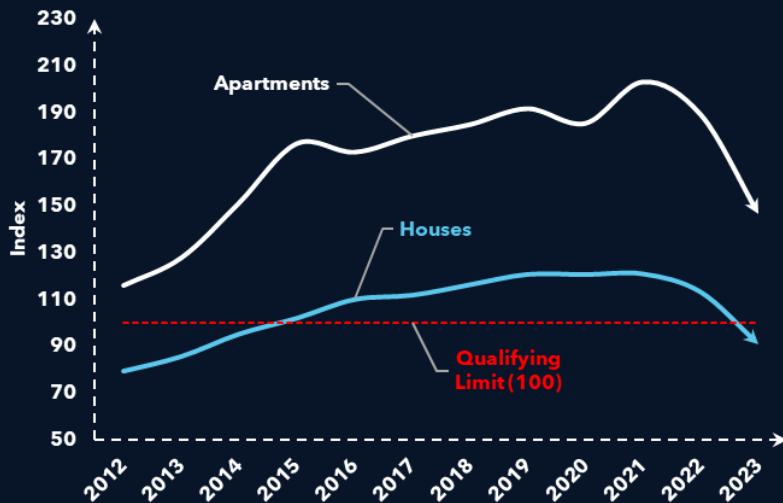
Dwelling Sales in Price Bands 2023Q2/2023Q3



Housing Affordability Index

The Housing Affordability Index, produced by SAV, aims to capture a general trend in the affordable housing market. The index measures the ability of a typical family to purchase a standard 3-bedroom dwelling in residential areas (only), considering both new and resale single-family houses as well as apartments. It factors in the median dwelling price, median family disposable income, and mortgage payments based on average interest rates during the corresponding periods.

The index shows that apartments are significantly more affordable than houses. After a period of improving affordability from 2015 to 2021 fueled by descending interest rates, the index records a decline during 2022-2023. A significant observation is the decreasing affordability of single-family houses, falling below the qualifying limit. Additionally, apartments have also experienced a decline in affordability, although they remain above the qualifying threshold.



Methodological Notes

All analysis presented in this report was conducted by S.A.Valuer. Various interpretations of factors affecting the real estate market are feasible. Therefore, the interpretations provided in this report reflect only the author's perception.

Some data series in the report may not be up-to-date due to unavailability from the source. Projections (p) on GDP, inflation, and unemployment are sourced from the CBC. Other projections made for this report were produced using the linear regression method.

[Pg.6] Sales total volume and value estimates are derived from a combined database of Transfers and Contracts of Sale. The database was enriched and cleaned to present all open market transactions recorded at the Land Registry concerning only dwellings (houses and apartments). The enrichment was achieved through the cooperation of S.A.Valuer and the Real Geo-Solutions Ltd team, with the cleaning of the database carried out by S.A.Valuer.

[Pg.7] The methodology applied for the Housing Affordability Index is based on the corresponding index of the National Association of Realtors (USA), adjusted accordingly to fit Cyprus market parameters.

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