

# **Antonis Loizou & Associates**



The status of the Cyprus real estate market

# 1.0 Antonis Loizou & Associates – Services & Coverage

## Profile

- Antonis Loizou & Associates was established in 1980.
- The company is currently the largest and most comprehensive professional firm of Chartered Surveyors in Cyprus and the eastern Mediterranean.
- 63 members of staff, including: Chartered Surveyors, Agents, Urban Planners, Architects, and Civil Engineers.
- Services:
  - Valuations
  - Agency
  - Development feasibility studies
  - Project management
  - Structural surveys
  - Planning & Environmental impact studies (through ALA Planning)

## Coverage



Moscow

Bucharest

Nicosia  
Lemesos  
Larnaca  
Protaras

Paphos  
Platres

A dynamic professional firm expanding into South-eastern Europe



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## 2.0 Antonis Loizou & Associates – Track Record

- Project managers for 8 hotels, 3 office blocks, 1.000 apartments, 2 industrial estates and 800 building plots.
- Consultancy services for five shopping centres (and manages two post completion), one industrial estate (Nicosia Municipal), two HQ buildings for Barclays and Piraeus Bank (Arab Bank), and two hypermarkets.
- Carried out a number of town planning projects on behalf of the Cyprus Government and local municipalities.
- Carries out in excess of 10,000 valuations per annum (across all real estate sectors).
- Publishes 60 articles per annum in the Financial press; issues information booklets, and members of staff give lectures to selected groups and institutions.
- Its annual real estate index is the only one published with the support of major financial institutions and is provided with historic analysis.

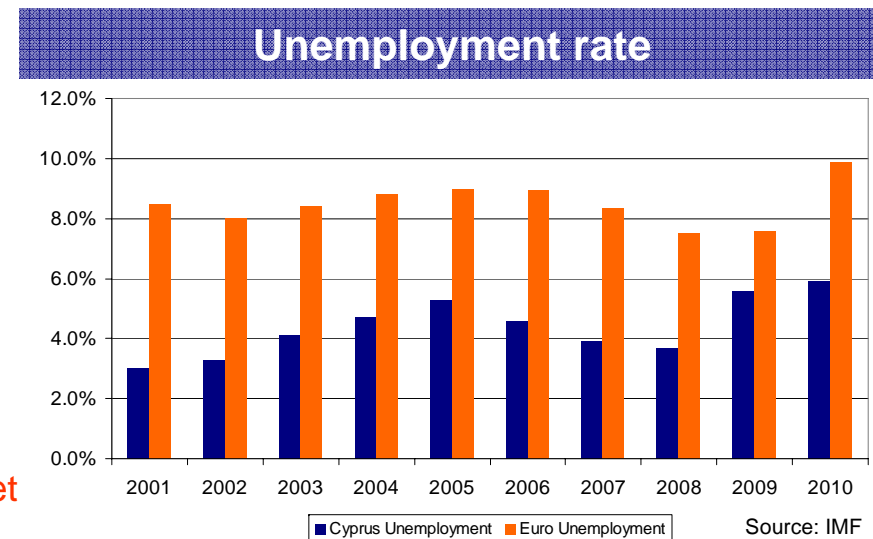
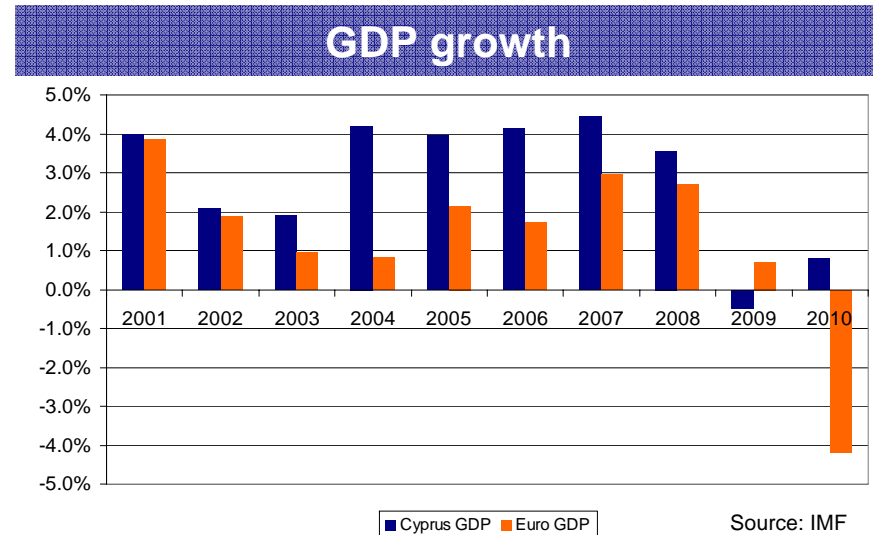


Diversity of expertise and strength of service lines makes us your ideal partner

## 3.0 Economic snapshot - Cyprus and the Euro area

- The local economy has a delayed reaction to the workings of the European economy of 6 to 9 months, and is now feeling the brunt of the downturn.
- The public, local businesses, and the government took few, if any, measures to mediate the effect of the downturn and will thus suffer more as they are caught between high fixed costs, falling demand, and perennial cash flow problems.
- Budget deficit projected to be 3.0-3.5% in 2009, and 5.0-6.0% in 2010/2011.
- Compared to the Euro area, Cyprus is in a good position but decisive restructuring and modernisation is needed.

Increased lending to companies on the back of high asset values will strain the cash flow position of companies

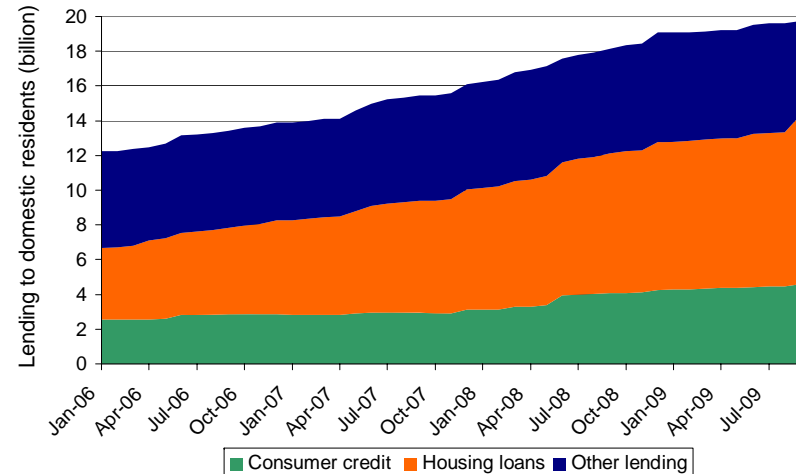


## 4.0 Economic snapshot - Debt and interest costs

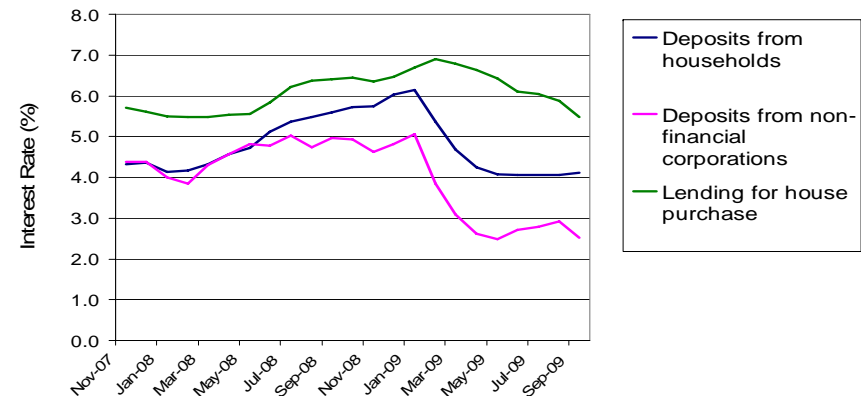
- Since January 2006 outstanding household debt increased by more than 60%; housing loans increased by 114% and consumer credit by 75%.
- Increased lending led to a boom in the consumer sector (cars, furniture, holidays, etc) and in the housing sector (construction volume and increased prices).
- Note the circular sent out by the Central Bank regarding restructuring loans under the Basel II accord. NPLs will surge as soon as this circular goes into effect.
- High interest rates are due to the lack of alternative sources of funding for banks.
- Note however the proposed changes in the law to allow “securitisation” - (1) Title deeds, (2) Transfer of loans/mortgages, (3) Possession after default.

High debt levels and interest rates are leading to adverse economic pressure

### Outstanding debt from households



### Cost of debt

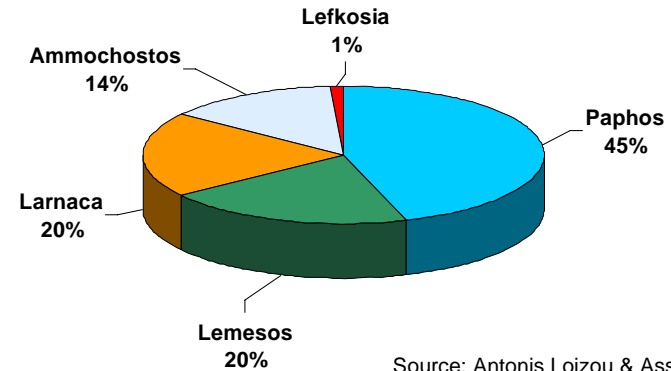


Source: Cyprus Central Bank

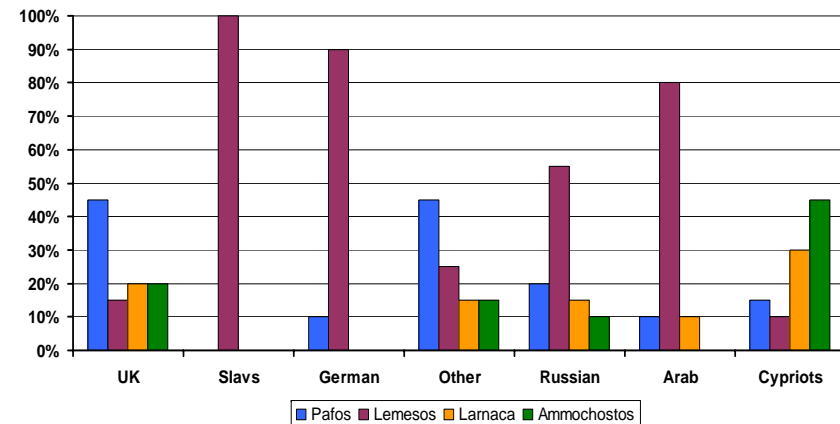
## 5.0 RE snapshot - Overseas buyers

- In 2008, in terms of foreign currency overseas buyers contributed €1.2bn, tourism €3.4bn, and overseas companies €850mil.
- Overseas buyers acquire flats or houses for own occupation. Locals focus more on agricultural land and residential plots.
- Separation between the Lefkosia market and that of the costal cities.
- Overseas buyers constitute 40-50% of total transaction volume but on only 20% in terms of value .
- Overseas buyers peaked at 53% in 2007 and is now 23% of total transaction volume. This has resulted in a decrease in the government's income of 40% or 3.5% of GDP; a reduction likely to be permanent even if/when the economy recovers.

### Concentration of overseas buyers



### Concentration by nationality

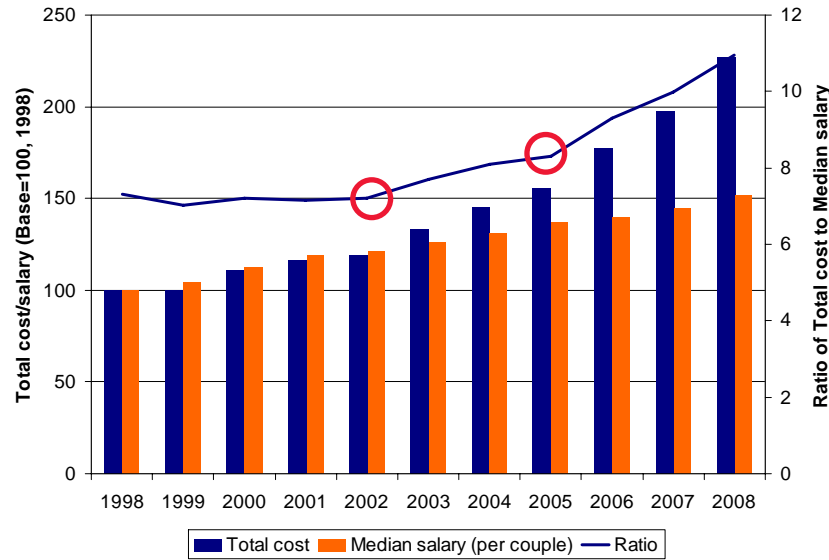


As overseas buyers continue to be plagued by problems in their home economies, the local submarkets where they tend to acquire properties will continue to suffer

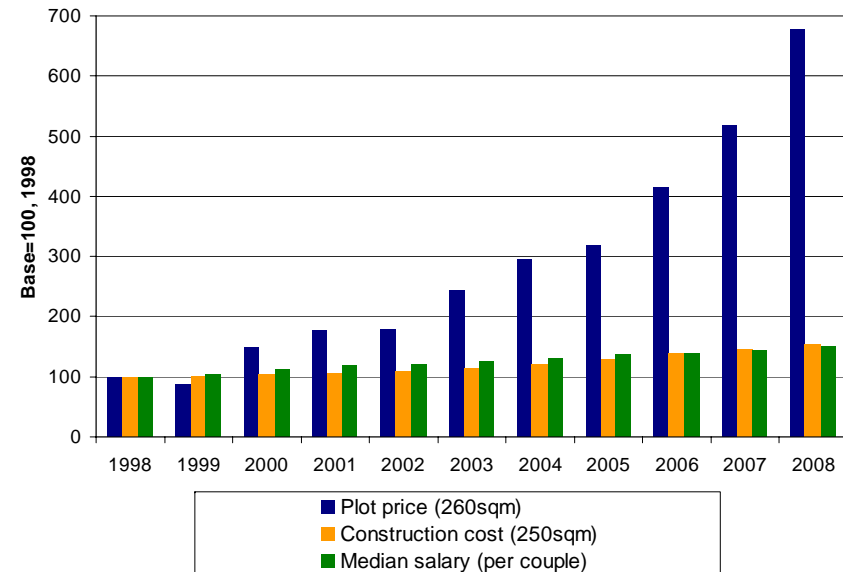


# 6.0 RE snapshot - Affordability of housing for locals

**Total housing cost & Ratio to income**



**The drivers behind the increase in price**



Source: Antonis Loizou & Associates

Ratio of Total cost: Salary

(98-02): **7,0**. (03-05): **8,3**. (06-08): **10,9**.

Median salary +52%

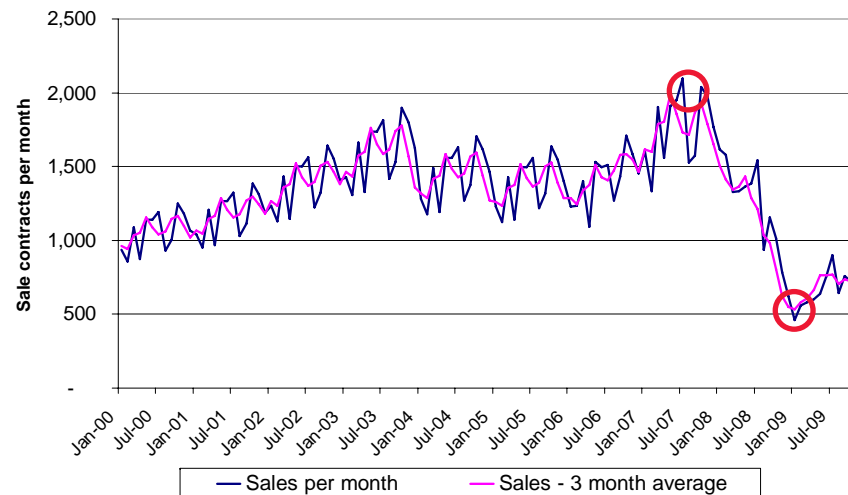
Construction cost +54%

Land cost +576%

Over the last three years the affordability of housing has decreased as the deviation between income and land prices has widened

## 7.0 RE snapshot - The impact is now obvious.....

### Transaction volume (2000-2009)



Source: Cyprus Land Registry

### Key observations

- Transaction volume is below half that of the past eight years.
- We expect the year to end with 7,900 transactions, 46% down on the year.
- Transactions are limited to locals buying for own use and to some overseas buyers. There are very few transactions of development land, agricultural land, and of secondary property.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales per annum	12,664	14,056	16,659	19,285	17,331	16,591	16,953	21,245	14,667	7,900
Change year on year		11%	19%	16%	-10%	-4%	2%	25%	-31%	-46%
2009 difference	-38%	-44%	-53%	-59%	-54%	-52%	-53%	-63%	-46%	N/A

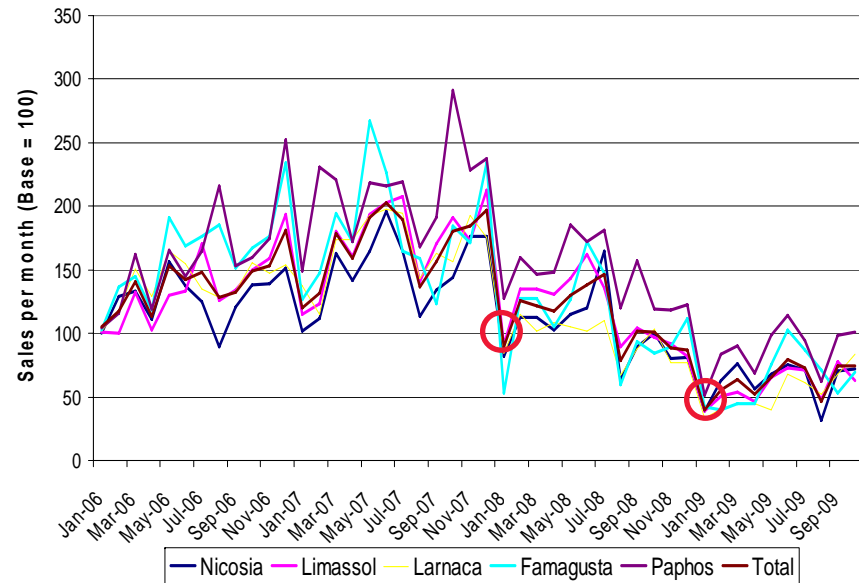
The three month average is rising, indicating that possibly the worst is behind us



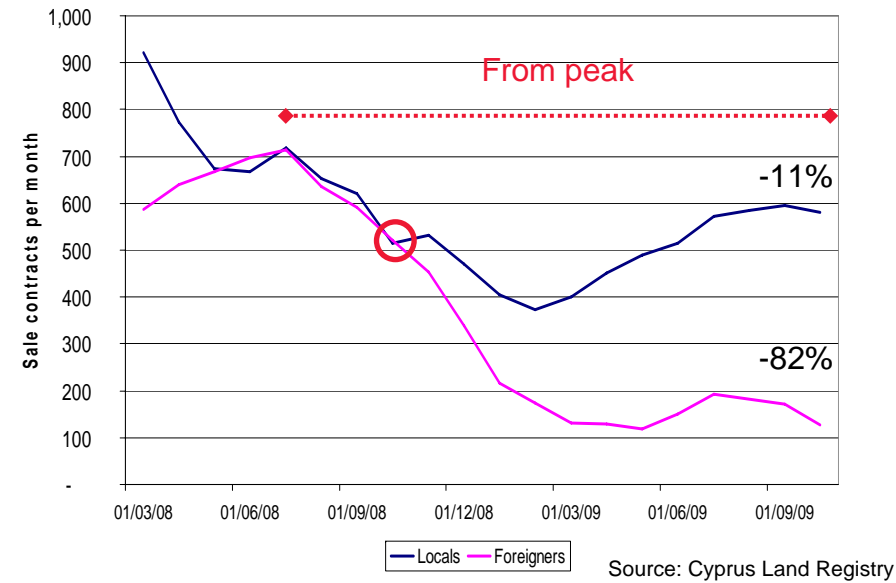
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# 8.0 RE snapshot - ....and across all districts

**Transactions by district (2006-2009)**



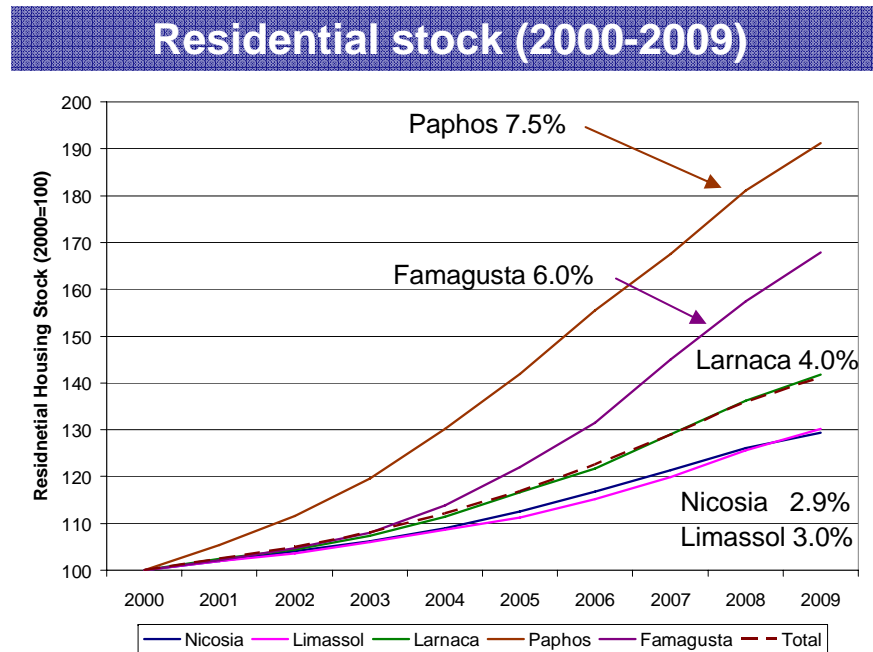
**Transaction breakdown locals/ overseas**



Transaction volume Year-on-Year (3 month average)					
Nicosia	Limassol	Larnaca	Famagusta	Paphos	Total
-31%	-35%	-21%	-18%	-34%	-31%

- All districts appear to be equally affected in terms of transaction volume.
- Local buyers are taking advantage of selective opportunities whilst overseas buyers continue to flee due to the exchange rate, cost of living, and title deed problems.

## 9.0 RE snapshot - Oversupplied markets



Source: Cyprus Electricity Authority

- Pricing has been more severely affected in the cities where stock increased at a faster rate, namely Paphos and Famagusta.
- Decrease in prices in low quality & mass production stock, and in land with limited immediate development prospects.
- There has been a small increase in transaction volume in the coastal cities, where pricing has adjusted more quickly namely due to low selling prices by overseas owners.

# 10.0 Conclusion, predictions, and further thoughts

## Conclusion

- The government is pushing through four bills making the issuance of title deeds simpler. The aim is to raise money but there are concerns about the operation and processes outlined in the bill, and whether owners will actually want to get their title.
- Large scale projects have been slow to implement, e.g. marinas, golf courses, etc. This is stemming additional supply, helping the market to recover, but the government wants to push them forward.
- Banks, COOPs, valuers, etc are now restructuring their operations. Greater decisive action and coordination is needed by all.

## Predictions

- Prices in secondary locations/land are likely to fall further, and will take long to recover.
- Finance houses and companies will come under additional pressure due to the increase in non-performing loans.

## Other thoughts

- The public's confidence towards Banks and spending in general has been dented.
- The inefficiencies of the public sector have been revealed, and the country risks worsening its image abroad.
- The easy profits of the past are gone, but the mentalities of developers, banks, and some investors seem to remain unaffected.

The parameters of the real estate market have shifted, but participants refuse to acknowledge it