

CYPRUS PROPERTY MARKET

1st. SEMESTER 2016



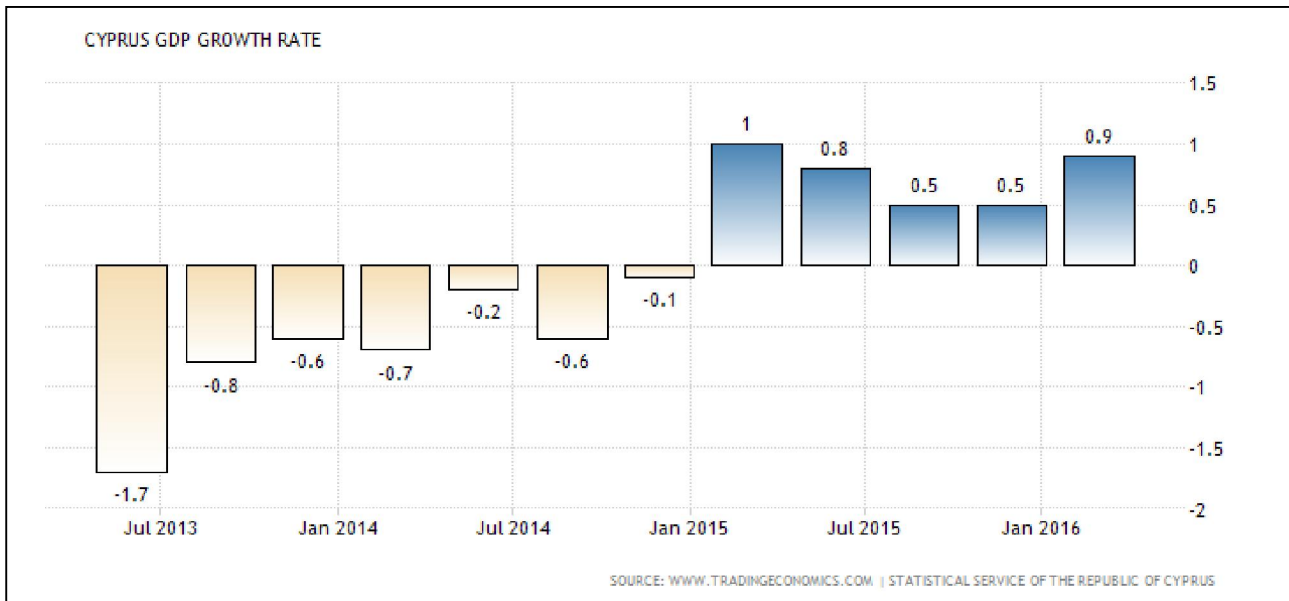
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1. Economic outlook and Real Estate Sector

During the 1st semester 2016, Cyprus's economy showed signs of stability, with the economy's performance being better than expected and tourism mildly outperforming forecasts. The Gross Domestic Product (GDP) in Cyprus expanded 0.90 percent in the first quarter of 2016 over the previous quarter. Cyprus it's appear to overcome the historical negative indication of -2.30% and lead to an era of stability and recovery.

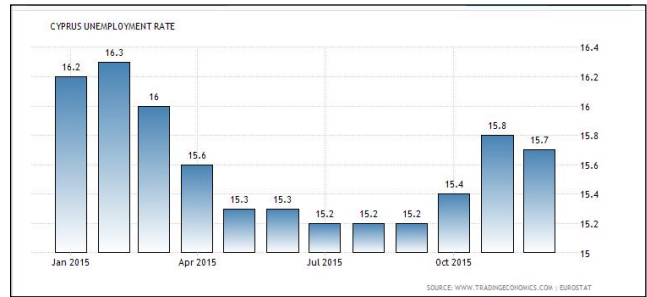


- The Cyprus economy appears to be emerging from the recession it has been in since the 2012 local financial crisis.
- GDP is expected to continue increasing at a higher rate (1.4% in 2016 and 2% in 2017 according to the IMF), but has some way to go to return to pre-crisis levels: GDP is currently 10% lower than in 2008 and it is expected to take until after 2020 to make up this difference (in contrast to the wider Eurozone which already returned to 2008 GDP levels in 2015).
- Property sales and prices are usually correlated with GDP. Considering that GDP showed marginal growth in 2015 and is expected to gradually increase going forward, it could indicate that the decline in the real estate market might start to slow and eventually return to positive growth.
- The Government has taken significant steps in stimulating the industry, such as the promotion of large-scale developments. It is believed that the real estate market will follow track on projected economic growth starting in 2016.

Unemployment Rate

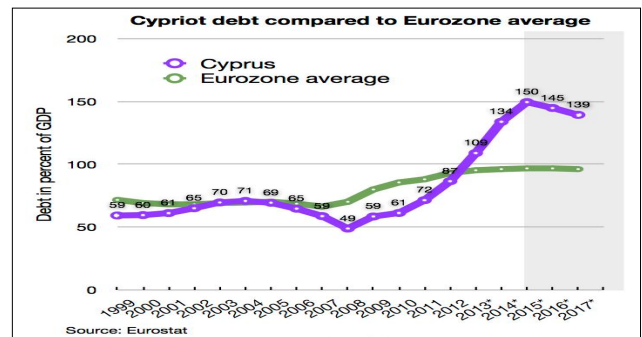
Despite the fact that the unemployment rate has been decreased comparing previous year is still very high.

Signs of stabilization are expected in the next few years based on International Monetary Fund (IMF).



Banking Sector

Recapitalizing the Cypriot Credit Institutions but also minimizing their operating costs and restructuring their loans is considered as a main factor that will restore the stability of the financial sector, boost investor confidence and enhance economic recovery.



2. Investment Activity

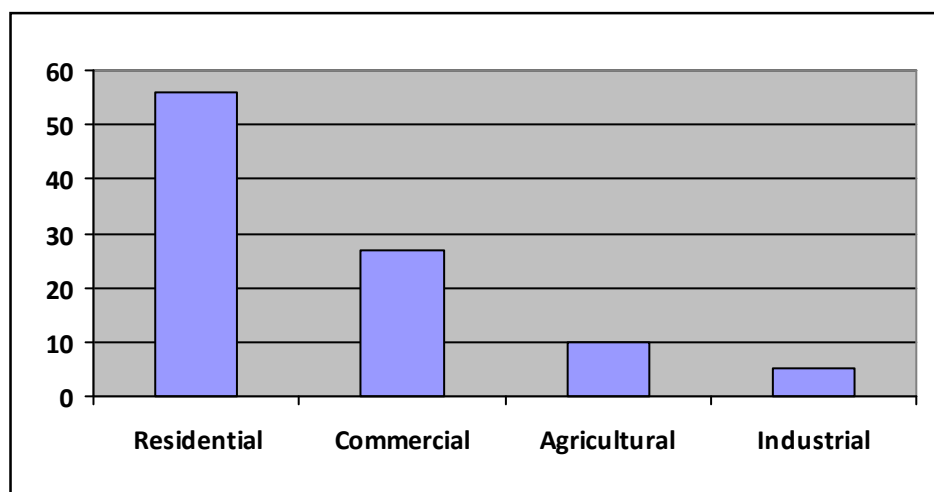
Cyprus has long been a desirable location for investors, expats, retirees and those looking for a second home in the sun. Due to the current economic climate, property buyers can find exceptional residential and commercial properties at attractive prices.

Apart from the expected economic recovery, the recent legislative tax breaks, such as the reduction of transfer fees by 50% and exemption from capital gains tax on property to be sold by the end of 2016, and the continuation of incentives for acquisition of permanent residence or citizenship by foreigners, is expected to give further impetus to the demand for properties from both foreigners and locals.

Also forthcoming legislative measures for the acquisition of property titles from buyers who have repaid the vendor but not get title even on loans charged to the piece of land which became the development, should also have a positive effect on demand for property as they correct a significant market failure.

Property Investment in Cyprus by Sector

The Cyprus real estate market has historically been divided into the major urban centers of Nicosia, Limassol and Larnaca primarily driven by local demand and the seaside resort areas of Paphos and Famagusta mostly driven by foreign demand. Traditionally, 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. However, as a compensatory module presents the trend of development companies in recent years in the construction of office facilities intended mainly to the multinational companies which the island attracts.

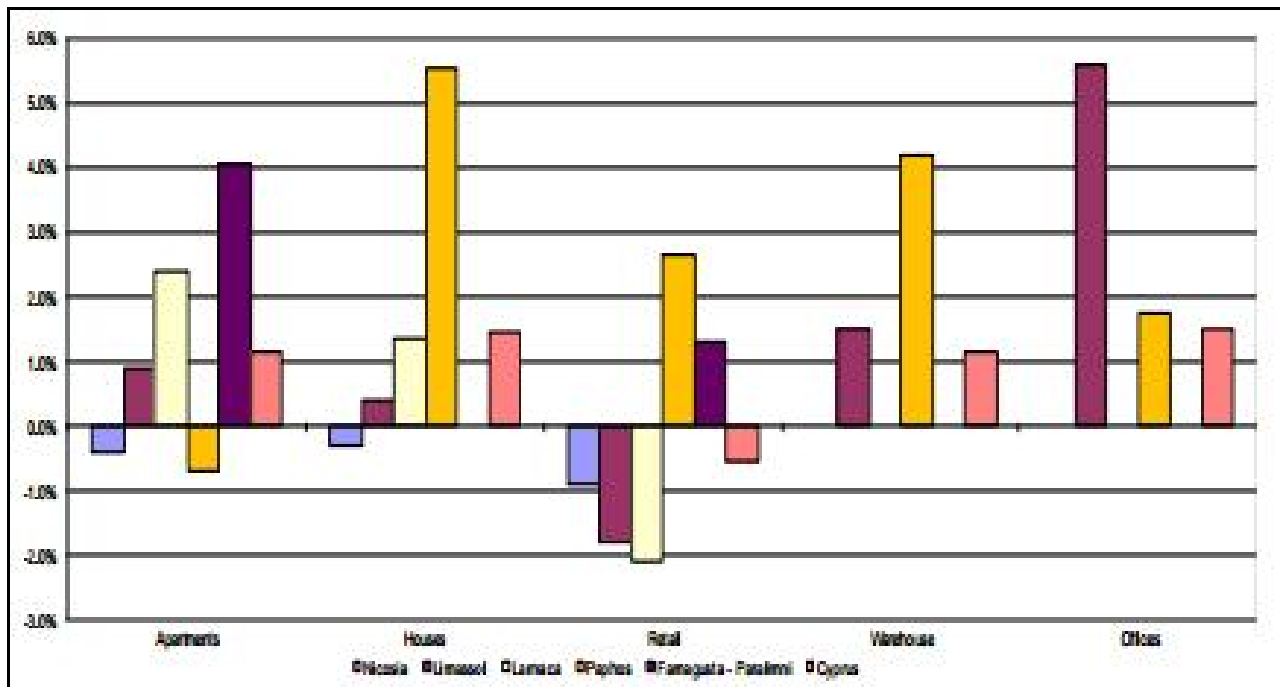


3. Residential Market

During the 1st semester of 2016, the prices of residential properties appear to recover at an average of 1.5% and 1.2% for houses and flats respectively. The biggest increased on value appear to be to the city of Ammochostos (4.1% for flats) and Paphos (5.6% for houses).

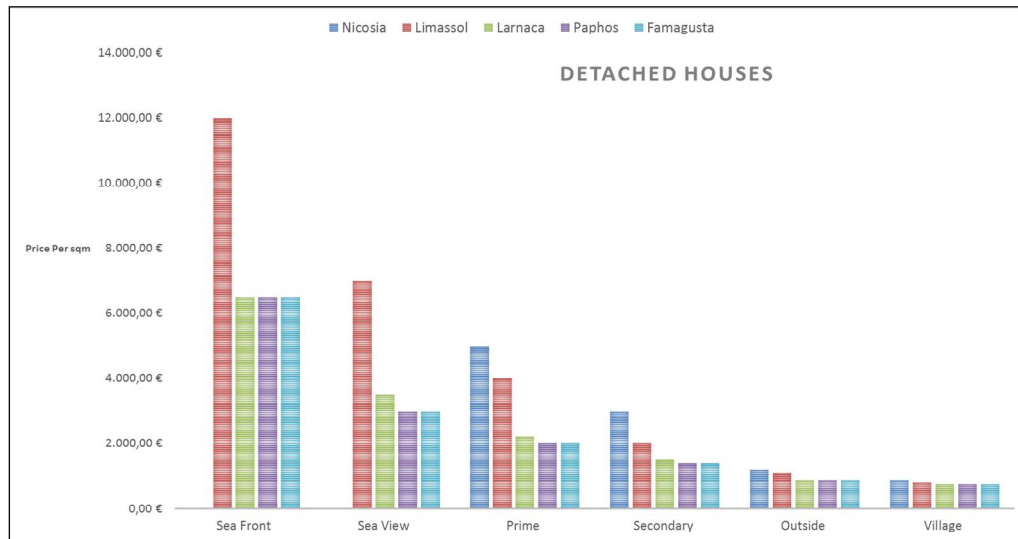
The demand for residential houses has been rising during the 1st semester of 2016. In general this rising of the market, it's a result of the recovery of trust that from the international rating agencies who conduct to upgrading the Cyprus's banking system.

Although, the transactions for residential properties kept low again during the 1st semester of 2016, the quantity of deals was higher than the respectively period of 2015. Positive factor on this event was the stable reduce of unemployment in Cyprus from the historical high 17% to the 13% today. However, potential byers continue to struggle to reach funds from banks in order to purchase properties and this is what keeps the market in general low frequencies.



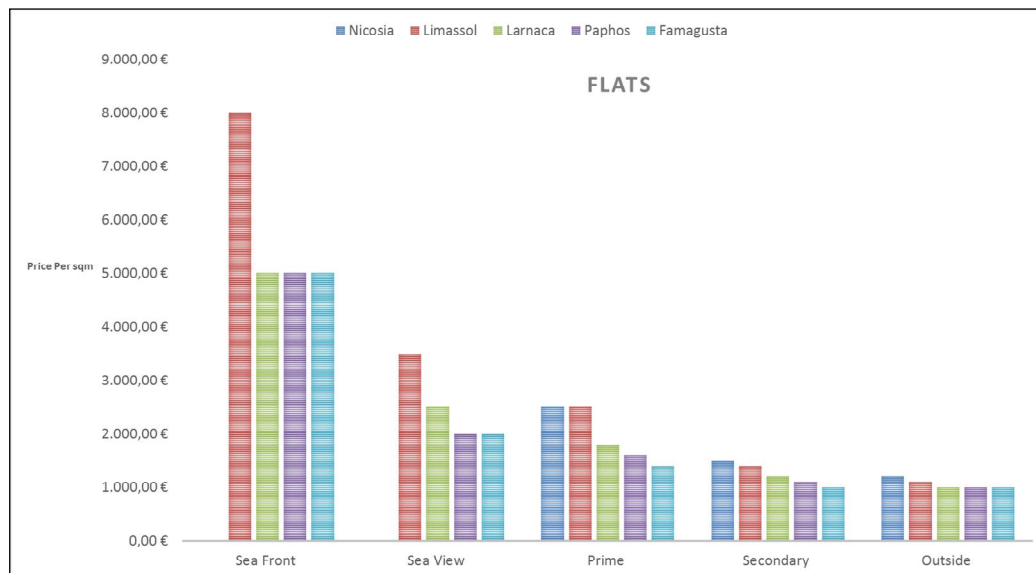
Residential Prices

Characteristics: Detached Houses with high quality of materials and up to 5 years old



Source: Danos an Alliance Member of BNP Paribas Real Estate

Characteristics: Flats with high quality of materials and up to 5 years old



Source: Danos an Alliance Member of BNP Paribas Real Estate

4. Retail Market

Retail development concentrates in the 4 main cities (Nicosia, Limassol, Larnaca, Paphos). However, the economic crisis as well as the tendency of consumers towards Malls or Department stores have negatively affected the City Centres. Consumers are now attracted by the more convenient conditions to do their shopping combined with entertainment and fun. The convenience of easy parking, accessible to all climatic conditions, makes a visit to a single spot where one finds shopping entertainment and eating out under one roof make malls the ideal place suitable for all ages. Consequently, the above resulted in a slight decrease in market values on average throughout Cyprus at 0.5%. However, Ledras and Makariou (also Stasikratous) in Nicosia and Anexartisias in Limassol are attracting more and more retailers.

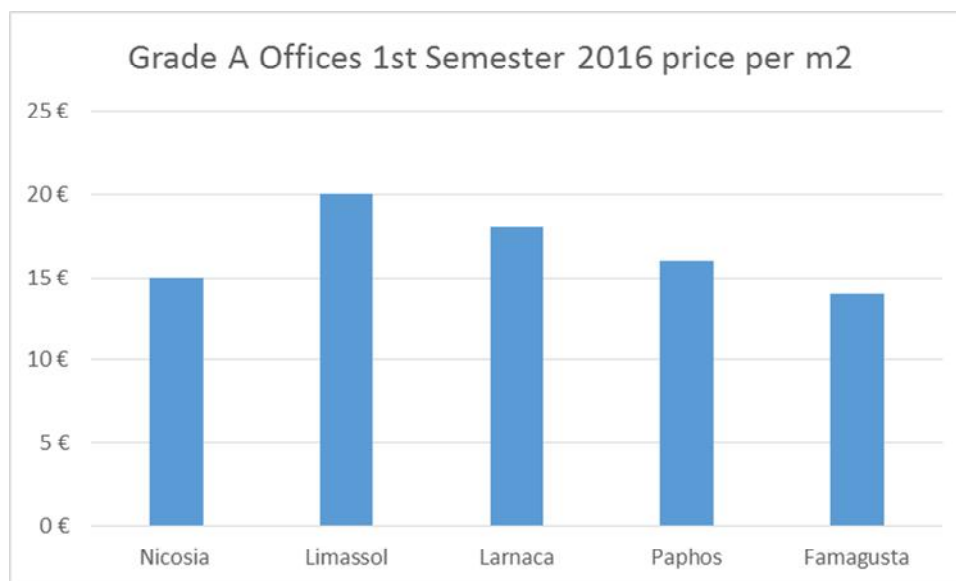
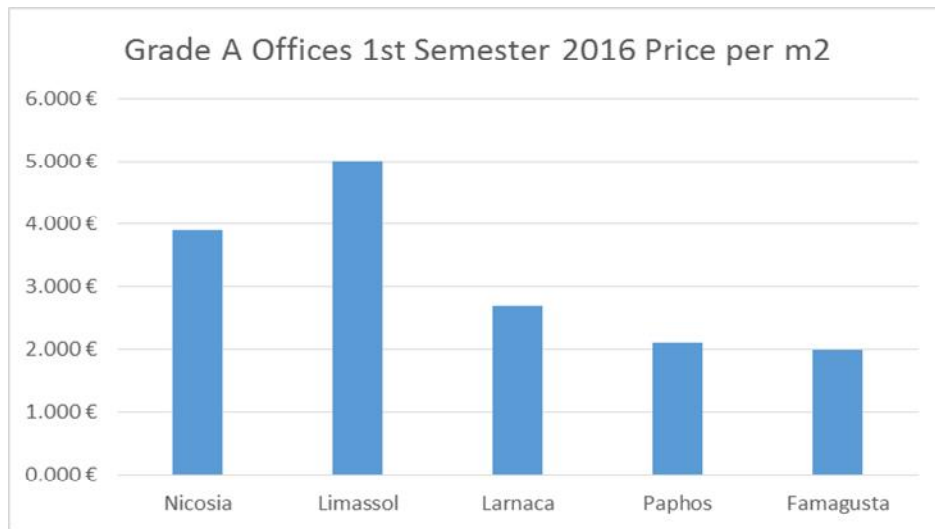
Shops-Rental Values

Street	Rental Value per m ² per month (€)
Arch. Makarios III	20-25
Stasikratous	20-25
Ledras	30-35

Source: Danos, in alliance with BNP Paribas Real Estate

5. Office Market

During the first half of 2016, the office market in Cyprus demonstrates upward trend compared to the previous six months. The office market and industrial installations projected to reach high levels during 2016 as well as the years to come. The purchase of offices and industrial properties has been risen to 1.5% and 1.2% respectively. The office market unexpectedly is performing relatively well focusing in the cities of Nicosia and Limassol. Demand is mainly for Grade A office in prime location. Foreign investment has shown interest for income producing assets with rate of return between 5, 5 – 7%.



Based on the Market Research that conducted by Danos the seafront offices in Limassol range between € 8,000 and 10,000 m² and rental values range between € 25 and € 30 per m².

Rental income is subject to both income tax and Special Defense Contribution (SDC). For income tax purposes it is assessed under corporate or individual rates depending on the status of the recipient. For SDC, the rate of SDC on rents is 3%. It is imposed on the gross rental income reduced by 25%. From 1 July 2011, the tenant (except for individuals), is obliged to withhold and lodge with the tax authorities, the SDC on the amount of the rent payable. The SDC contribution is not deductible for corporation tax purposes.

6. Industrial Market

The logistics market has been affected of the current economic situation, during the 1st semester of 2016 limited transactions have been performed. The industrial and logistics market is under investigation by companies related to energy strategy.

7. Property News

- The government is in the process of evaluating the Casino Resort applications and is expected that soon they will proceed with the final proposal. Three candidates and two cities (Limassol and Larnaca) have been selected for the final phase. The companies concerned are:
 1. The consortium of Melco
 2. Bloomberry Resorts Corporation
 3. Naga Corp.
- Readjustment of Tax Rate is expected after the adjustment of Property Prices from 1980 prices to 2013 values by the Land Registry.
- Reduction of property transfer tax by 50%.
- Exemption from capital gains tax on property to be sold by the end of 2016
- In the process of finalizing town planning and regulations which will determine the development potential within the British Bases.

- Makronisos Marina in Ayia Napa is progressing with Naguib Sawiris being the main investor. Additionally, after two years of negotiations the Cypriot Authority and the Zenon Consortium Company have reached an agreement to upgrade the Larnaca's port and to develop the new Marina for a total construction costs for € 700 million.
- The Oval building in Limassol will be the tallest commercial building in Cyprus at 16 floors with two basements. The Oval building will be completed by the end of 2016 and currently 50% of the building is sold/reserved.
- Kermia Hotels Ltd and adjacent land in Agia Napa was sold to Atlantica Group Shareholders for 26.5 mil.€

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