

CYPRUS PROPERTY MARKET
1st SEMESTER 2010

CYPRUS IN GENERAL

Since the early 70s, Cyprus has established and maintained excellent relations with the European Union. The Republic of Cyprus was among the first countries, which signed an Association Agreement with the European Economic Community.

In 1971 the government of Cyprus entered into negotiations with the Community which led to the signing on December 19th, 1972 of an Association Agreement between the two parties. The final goal of the Agreement was the establishment, in two stages and within a period of ten years, of a Customs Union between Cyprus and the EEC. The Agreement came into force on June 1st, 1973.

In accordance with the provisions of this Protocol, the Customs Union between Cyprus and the EU was completed in the year 2004. Before that period of time the parties to the agreement were required to eliminate all tariffs and quantitative restrictions on all manufactured goods and on a number of agricultural products (mainly potatoes, citrus fruit, other fruit and vegetables and wine). In parallel, Cyprus adopted the Common Customs Tariff (CCT) of the Union. In 2004, Cyprus became a full member of the European Union and in January 2008 a member of Eurozone.

CYPRUS CHARACTERISTICS

Cyprus today is firmly established as a reputable international business centre. The offshore and shipping companies established and operating from Cyprus run into thousands. Many hundreds of these have fully fledged offices on the island.

The Cyprus Economy is based on the free market system where the private sector is the base of all economic activities. The role of the government is to create a good healthy business environment. The Cyprus Economy has been transformed from a basic agricultural, under-developed, into an economy with an open free market, a European standard of living, a growing export-orientated light industrial sector, a modernised agricultural sector and an internationally important tourist centre.

The high external demand for Cypriot goods and services along with the development of Cyprus into a commercial, financial and maritime centre and the performance of the economy has been such that it has combined high real growth with low inflation and low unemployment. Despite the obvious difficulties by the Turkish invasion, the government together with the private sector, made possible the economic recovery of the island. The quality of life is better than that reflected by the per capita income alone if one takes into consideration the excellent housing conditions, the pollution-free environment and the low crime rate.

Cyprus is situated in the north-eastern corner of the Mediterranean basin, close to the busy trade routes linking Western Europe with the Arab World and the Far East. It covers an area of about 9,251-sq. km. (3,570 sq. miles), making it the third largest island in the Mediterranean after Sicily and Sardinia.

The capital of the island, Nicosia, with a population of people 275,000 approximately, is the main administrative and business centre and is situated to the east of the geographical centre of

the island. Limassol, the second largest city with a population of 200,000 people, is situated on the southwest part and is an important seaport, industrial and tourist centre. Larnaca, with a population of 125,000 people, is situated in the south part and is the location of the main international airport with rapidly expanding tourist industry as well as the International Free Trade Zone area. Finally, Paphos, with a population of 100,000 people, is on the West Coast with a strong tourist industry, and the location of the second airport in Cyprus.

In addition to the above main cities, there are the cities of Famagusta and Kyrenia in the east and northern parts of the island respectively, which are currently under the control of the Turkish occupation forces. Part of Nicosia is also under Turkish military control.

Cyprus is an independent, sovereign Republic with a presidential system of government. Under the 1960 Constitution the executive power is ensured by the president of the Republic, elected by universal suffrage for a five-year term of office. The president ensures the executive power through a Council of Ministers appointed by him. The Ministers may be chosen from outside of the House of the Representatives. Each Minister is the Head of his Ministry and exercises executive power on all the subjects falling within the domain of his Ministry.

As a full member of the European Union, Cyprus is successfully meeting the challenge of being part of the enlarged European family. The table below shows the macroeconomic performance indices for the years 2007 to 2009.

Έτος	Τρίμηνο	Ακαθάριστο Εγχώριο Προϊόν (ΑΕΠ)		ΑΕΠ διορθωμένο ως προς τις εποχικές διακυμάνσεις και τις εργάσιμες μέρες		
		(€εκ.)	σύγκριση με το αντίστοιχο τρίμηνο του προηγούμενου έτους (Ποσοστιαία αλλαγή)	(€εκ.)	σύγκριση με το προηγούμενο τρίμηνο (Ποσοστιαία αλλαγή)	σύγκριση με το αντίστοιχο τρίμηνο του προηγούμενου έτους (Ποσοστιαία αλλαγή)
2007	1 ^ο	3.414,9	5,2	3.619,9	1,8	5,2
	2 ^ο	3.801,6	4,8	3.662,4	1,2	4,8
	3 ^ο	3.776,8	5,1	3.708,8	1,3	5,1
	4 ^ο	3.743,5	5,5	3.745,8	1,0	5,4
2008	1 ^ο	3.581,0	4,9	3.784,9	1,0	4,6
	2 ^ο	3.959,2	4,1	3.822,2	1,0	4,4
	3 ^ο	3.902,1	3,3	3.833,1	0,3	3,4
	4 ^ο	3.827,6	2,2	3.829,9	-0,1	2,2
2009	1 ^ο	3.603,2	0,6	3.798,8	-0,8	0,4
	2 ^ο	3.894,8	-1,6	3.759,2	-1,0	-1,6
	3 ^ο	3.797,5	-2,7	3.730,6	-0,8	-2,7
	4 ^ο	3.708,5	-3,1	3.715,4	-0,4	-3,0
2010	1 ^ο	3.516,4	-2,4	3.709,7	-0,2	-2,3

Source: Statistical Service of the Republic of Cyprus

According to the Flash Estimate compiled by the Statistical Service, the GDP growth rate in real terms during the third quarter of 2009 is negative and estimated at -2,9% over the corresponding quarter of 2008. Based on seasonally and working day adjusted data, GDP growth rate in real terms is estimated at -2.7%. The contraction of the economy during the third quarter of 2009 is mainly attributed to the very negative growth rates observed in Construction and Hotels and Restaurants as well as the negative performance of Manufacturing, Trade and Transport activities. The Financial Intermediation activities as well as the broad Services sector continue to record positive growth rates but at a decelerating rate.

CYPRUS PROPERTY MARKET

The construction industry is one of the most important industries in Cyprus as it provides employment to 17% of the Cypriot population. Before 1974, the construction industry focused on the development of tourist industry. After the Turkish Invasion and the 200,000 refugees, the construction industry focused on the development of refugee housing, private tourist developments and public works. The 'Economic Blossom' created after the invasion, was based to the construction industry. Today the construction industry is divided into two categories: the tourist and housing developments and the public works like highways, dams, schools etc.

The property market function is based on demand and supply. Every property is unique and has its own characteristics that have an impact on the price and interest.

The key to a successful investment is the location of the property. The rate of interest varies from one location to another. Taking this fact under consideration, when the possible investor-buyer is going to invest on a property he has to examine its characteristics in order to cover all of his needs as well as the short-term and long-term perspectives.

The basic short-term factors that influence the development of an area are:

- The nature and structure of the area, that affects its attractiveness and the quality of services that are provided.
- The existence of retail properties.
- The ascent of the quality of life, that results to the increase of demand for luxurious residential property. This results to the creation of new areas and has an impact to the formation of new retail areas.
- The planning structure, the government regulations and the reforming of underdeveloped areas.

In general, the Cyprus retail market is considered as being one of the most popular types of investment that produces income.

COMMERCIAL MARKET

Within the commercial property market of Nicosia there is significant demand, which is balanced by the available supply. Therefore, vacancy rate is very low, estimated at 5% to 8%. Within the commercial property market of Nicosia, due to the above factors, there is high demand, which in most cases is satisfied by existing supply.

We need to note the significant development of new sub markets, such as Strovolos. Supply is expected to be steady throughout next year. Investment yields are in the range of 5.5% - 6.5% (Gross), while average rental prices have decreased by 15% since 2000. Current rental levels are considered sustainable. The evolution of the prices of the commercial market, from 2003 until 2010, is presented in the following tables:

Commercial Market – Offices

Location	2003 Capital Values per m ² €	2004-2007 Capital Values per m ² €	2008-2009 Capital Values per m ² €	2010 Capital Values per m ² €
Nicosia	1500- 1700	1600-1900	1800-2500	1800-2500
Limassol	1300-1800	1400-1900	1500-2600	1500-2600
Paphos	1000-1200	1100-1400	1500-2100	1500-2100
Larnaca	1100-1300	1200-1400	1500-2300	1500-2300

Source: Danos, in alliance with BNP Paribas Real Estate

Commercial Market – Offices

Location	2003 Rental Values per m ² €	2004-2007 Rental Values per m ² €	2008-2009 Rental Values per m ² €	2010 Rental Values per m ² €
Nicosia	8-10	9-11	9-14	9-14
Limassol	7-11	8-11	9-15	9-15
Paphos	6-9	7-9	8-12	8-12
Larnaca	6-9	7-9	8-11	8-11

Source: Danos, in alliance with BNP Paribas Real Estate

RETAIL MARKET

In the broader area of Nicosia, investment yields for shops and offices fluctuate between 5.5% and 6%. Market values for shops that are located outside Nicosia centre appear to be lower, but in many areas can be as high as the ones in the centre.

Another significant development that is expected to positively affect the retail market is the rapid rise in consumer spending. Furthermore, the market has now seen the entrance of significant brand names, such as Zara, Mango, Max Mara, Gucci, Tommy Hilfiger, Hugo Boss, Luis Vuitton, as well as a continuing influx of Greek retailers.

Retail development is concentrated in the 4 main cities (Nicosia, Limassol, Larnaca, Paphos). Retailing in Nicosia center remains strong, but traffic congestion and parking problems remain the basic government challenges. Demand of decentralized retailing formats remains strong and increasingly grows.

The following tables present a general view of the Nicosia retail property market:

Shops-Market Values

Street	Market Value per m ² (€)
Ledra	5,000.00
Arch. Makarios III (2 nd part)	7,500.00
Stasikratous	5,000.00
Evagorou	3,600.00
Kennedy	3,500.00

Source: Danos, in alliance with BNP Paribas Real Estate

Shops-Rental Values

Street	Rental Value per m ² per month (€)
Ledra	35.00
Arch. Makarios III (2 nd part)	50.00
Stasikratous	35.00
Themistocles Dervis	15.00
Kennedy	20.00

Source: Danos, in alliance with BNP Paribas Real Estate

RESIDENTIAL MARKET

Even though there has been a significant residential construction, demand for residences remains strong. Nicosia has witnessed an increase in various organized residential sites in and out of the centre. Prices seem to have eventually stabilized at high levels, in Nicosia, following a trend of rapid increases. Cyprus is expected to attract more and more European population, thanks to its beneficial location, long summer period and recent increase of elderly pension holders (European population 2010-2020: total of 85 million over the age of 65).

The evolution of the prices of the residential market, from 2003 until 2008, is presented in the following tables:

Residential Market – Detached Houses

Location	2003 Capital Values per m ² Cy£	2004-2007 Capital Values per m ² Cy£	2008-2009 Capital Values per m ² Cy£	2010 Capital Values per m ² Cy£
Nicosia	550-900	700-1500	700-1700 (1,150 – 2,800 €)	700-1700 (1,150 – 2,800 €)
Limassol	500-850	650-1200	650-1500 (1,000 – 2,500 €)	650-1500 (1,000 – 2,500 €)
Paphos	500-900	700-2500	700-2700 (1,150 – 4,400 €)	700-2700 (1,150 – 4,400 €)
Larnaca	400-750	600-1000	600-1500 (1,000 – 2,500 €)	600-1500 (1,000 – 2,500 €)

Residential Market – Building Plots

Location	2003 Capital Values per m ² Cy£	2004-2007 Capital Values per m ² Cy£	2008-2009 Capital Values per m ² Cy£	2010 Capital Values per m ² Cy£
Nicosia	85-300	110-500	110-550 (180 – 900 €)	110-550 (180 – 900 €)
Limassol	75-250	95-350	95-400 (155 – 655 €)	95-400 (155 – 655 €)
Paphos	65-200	85-320	85-350 (140 – 570 €)	85-350 (140 – 570 €)
Larnaca	60-200	90-300	90-310 (150 – 930 €)	90-310 (150 – 930 €)

Residential - Flats

Location	2003 Capital Values per m ² Cy£	2004-2007 Capital Values per m ² Cy£	2008-2009 Capital Values per m ² Cy£	2010 Capital Values per m ² Cy£
Nicosia	500-750	700-1200	700-1500 (1,150 – 2,500 €)	700-1500 (1,000 – 2,500 €)
Limassol	450-800	650-2500	650-2500 (1,000 - 4,000 €)	650-2500 (1,000 - 4,000 €)
Paphos	400-800	700-3200	700-3200 (1,150 – 5,200 €)	700-3200 (1,150 – 5,200 €)
Larnaca	400-750	550-2000	550-2000 (900 – 3,300 €)	550-2000 (900 – 3,300 €)

Source: Danos, in alliance with BNP Paribas Real Estate

SHOPPING CENTRES

We need to note that there has been a rapid growth and modernization of the retail market, especially concerning shopping centers and hypermarket concepts. The opening of Shacolas Park, as well as Egomi Mall, has shown the strong potential of the market. Until then only a few shopping centres were available, and these were limited to the 'shopping galleries' concept, namely 'Orphanides' centres.

The Mall of Cyprus, the first shopping center in Cyprus with international specifications where the customer can combine shopping with leisure, opened in 27 September 2007. The Mall of Cyprus is part of Shacolas Emporium Park which also includes the first IKEA of Cyprus which is fully operational since the 6th of September 2007. Since April 2008 two more retail boxes have been developed. The two-level retail and leisure shopping mall (ground and first floor) is designed to European standards and offers a total retail space of 26,859 sq m. The park benefits from several important anchors and retailers like: Ermes Department Stores (Debenhams, Next, Oviessa, Cortefield), the Multiplex Cinema Operation K-Cineplex, a Carrefour hypermarket (the 6th in Cyprus), the first Public store of Cyprus of 2,000 sq m area, the first Intersport athletic retail store of Cyprus of 1,000 sq m area and Zara stores.

This sector was upgraded even more with the opening of the new Madisons Mall just before the end of 2009. It is situated next to the mall of Cyprus in the former Cyprus Sock Exchange Building. It offers a variety of retail shops together with leisure. A possible collaboration between Madisons Mall and Mall of Cyprus is expected to be announced soon.

On top of that, K. ATHIENITIS CONTRACTORS DEVELOPERS PUBLIC LTD is also planning to erect an Organized Compound Trade Centre having its own internal road network on a plot with a surface area of 61.261sq.m. The mall will be developed on the western outskirts of Nicosia, in the parish of Archangelos/ Anthoupoli. It will consist of approximately 20.000sq.m of internal leasable area.

The logistics market yields are considered very favourable and demand is strong near major arteries, such as the National Highway.

LOGISTICS & INDUSTRIAL MARKET

Rental values range from 1.7 to 3.4 €/sq m/month for new warehouse space in Dhali, whereas the asking values of land intended for industrial use are around 120 – 170 €/sq m.

**INVESTMENT MARKET
(Key players)**

Local:

Iakovou Brothers, Marfin, J&P Development, Shacolas Group, Lanitis Group, etc

International:

Eurobank, Piraeus Bank, Societe Generale, Alpha Bank, BNP Paribas, RREEF

Retail Expanding:

Dixons, Intersport, Accessorize, Louis Vuitton, Longchamp, Douglas, Starbucks, IKEA, Carrefour, Ilektroniki Athinon, Nautica, Timberland, Diesel, Sprider, Hondos, Goody's, Flocafe, Prenatal, Debenhams, Sephora, Mc Donald's, Pizza Hut, Haagen Dazs, Zara, Gucci, Max Mara, Tommy Hilfiger, Fendi, BSB, Nine West, Tous, Glou, etc

Investors:

AHK Pension Fund, DIMITRA, EUROLIFE, etc

BUSINESS NEWS

- A business deal is taking place between Mall of Cyprus and the new Madisons Mall. The cooperation between the two sides in terms of parking space and event organization is expected to be officially announced within the next two months. This will increase their visit rates since the different nature of each mall seems to complete each other.
- Another business cooperation is expected to be announced this month (February). This will involve two key players in the property sector, Cyfast and Quality Group, with a 50% share each in the creation of residential property company that will develop affordable houses in Latsia area.
- With the beginning of 2010, the RICS and the Central Bank have succeeded in the development of their own property index that will improve the Cyprus Property Market in terms of transparency, reliability and certainty.
- Eurobank EFG Cyprus Ltd announced the operation of two new branches in Limassol and Larnaca.
- Alpha Bank added two more branches during August in Cyprus (in Pegeia and Kokkinotrimithia), increasing the total number of under operation branches to 36. Alpha Bank plans to operate a total of 50 branches by the end of 2010.
- As stated above, K. ATHIENITIS CONTRACTORS DEVELOPERS PUBLIC LTD is planning to erect an Organized Compound Trade Centre on the western outskirts of Nicosia.

ECONOMIC RECESSION

Today, the real estate markets in many European countries keep falling since the mid 2008. The process has begun prior to the financial crisis on both sides of the Atlantic due to accumulation of bad mortgage loans. The crisis itself may aggravate the situation, especially in some very exposed countries where household debts are unusually high. This negative trend comes in bad time for many European economies. Without major external factor for growth, the recent real estate cooling may create a vicious circle of economic problems and put an end to the brief recovery. However, the US Home Market Statistics indicate for the first time in three years tendency for recovery for new homes

Europe is on the verge of real estate market corrections, a term that some prefer over stagnation, recession, or depression. No matter which term we use, the reality that stands behind it is that after some years of unprecedented growth in many residential and commercial markets, the time has come to make a pause before the properties become again sufficiently affordable for the buyers.

The main reasons for the freezing of the property market are the following:

- a) Psychological factors resulting from the global economic recession
- b) Potential customers are in expectancy of the prices to fall following the downfall of the other markets
- c) Difficulties in receiving loans

The Cyprus property market is in recession since the mid 2008 with sales down 40% approximately and the second homes and holiday homes sector hardest hit. A lack of property investment from the UK is regarded as one reason for the fall, especially in around Paphos, one of the most popular areas for foreign property investors. The decline in property sales affected the island's revenue as it means a reduction in Capital Gains Tax. The downturn in the market affected public revenues. The income from capital gains tax had fallen by 18% in 2008. This has been expected due to the dependence of the property market on the British market which was experiencing an economic crisis due to the drop in the value of Sterling.

As well as lack of foreign investors the property market is also suffering today from more lending restrictions. Banks, which already screen property investors, developers and non – Cypriots who want to borrow, have raised the level of collateral required and changes payment terms. The lenders are also taking risk into account and the popular coastal resorts are regarded as more of a risk at present as that is where the steepest price falls are being found. Location and whether or not a property is in a tourist area are now taken into account.

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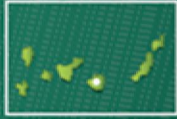
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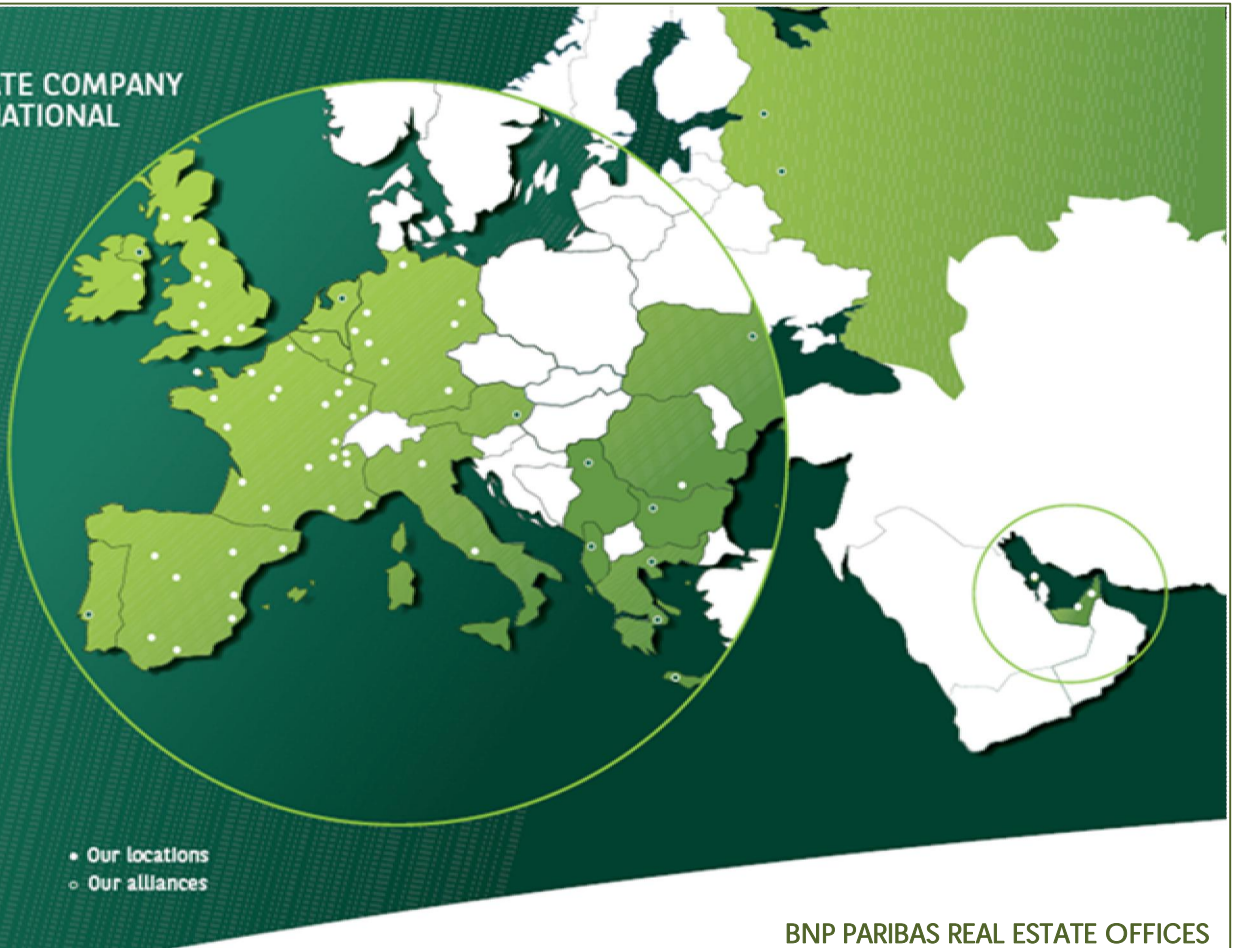
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Cyprus



- Our locations
- Our alliances



BNP PARIBAS REAL ESTATE OFFICES

GREECE

Athens

1 Eratosthenous Street &
Vas. Konstantinou Avenue, 116 35
Tel.: +30 210 7 567 567
Fax: +30 210 7 567 267
info@danos.gr

Thessaloniki

3 Ionos Dragoumi Street, 546 25
Tel.: +30 2310 244962
Fax: +30 2310 224781
info.thes@danos.gr

Crete

3, Iroon Polytechniou
731 33, Chania
Tel. :+30 – 28210 50900
Fax: +30 – 28210 59700
info.crete@danos-melakis.gr
www.danos.gr

CYPRUS

Nicosia

35 I. Hatzilosif Avenue, 2027
Strovolos
Tel.: +357 22317031
Fax: +357 22317011
danosa@spidernet.com.cy

Limassol

69 Gladstonos Street, 3040
Acropolis Centre, Shop 10
Tel.: +357 25343934
Fax: +357 25343933
danosa@cytanet.com.cy
www.danos.com.cy

ALBANIA

Tirana

Blvd. Deshmoret e Kombit
Twin Towers, Building 2
Tel.: +355 4 22 80 488
Fax: +355 4 22 80 192
info@danos.al
www.danos.al

BULGARIA

Sofia

Blvd. Hristo Botev 28
Tel.: +359 2 953 23 14
Fax: +359 2 953 23 99
info@danos.bg
www.danos.bg

SERBIA

Belgrade

6 Vladimira Popovića Street
Office A102, 11000
Tel.: +381 11 2600 603
Fax: +381 11 2601 571
office@danos.rs
www.danos.rs

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