A summary of the significant factors and major drivers of the real estate market in Cyprus.
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Overview

The Cypriot economy has experienced positive growth rates in 2016 and the expectations are that this trend will continue in 2017. Fiscal indicators are improving, the yields of the Cyprus Bonds have reduced, while the interest for investments is rebounding.

Services including tourism, financial services, and real estate are considered as the backbone of the Cypriot economy, accounting for nearly 80 percent of GDP. Manufacturing accounts for only 10 percent and agriculture for 2 percent. On the expenditure side, household consumption is the main component of GDP and accounts for 70 percent of its total use, followed by government expenditure (16 percent) and gross fixed capital formation (11 percent). Exports of goods and services account for 55 percent of GDP while imports account for 53 percent.

Confidence in the real estate market seems to be improving. In particular, during the first quarter of 2016 the total property deeds of sale increased by 28% in comparison to the same period of 2015, whereas the interest of foreign investors in the real estate market keeps growing, since over one quarter of these transactions involve overseas residents. This is primarily due to the initiative the Cypriot Government took regarding the Cypriot Citizenship Programme.

During the period January-June 2016, 2,611 building permits were issued compared to 2,495 in the corresponding period of the previous year. The total value of these permits decreased by 4.4% and the total area by 0.6%. The number of dwelling units recorded an increase of 5.2%. Building permits constitute a leading indicator of future activity in the construction sector.

In order to stimulate growth in the economy and, in particular, in the real estate sector, it is important to attract new investment that will finance new projects, as well as existing projects whose development has been postponed as a result of the recession.

The incentives offered to investors in the property market, such as the 50% reduction in transfer fees for all sales and the 100% exemption from future capital gains tax for profits on properties, have stimulated the market. Moreover, the legislation that was adopted in the Autumn of 2015 dealing with the long-standing problem of the inability to issue title deeds in the name of purchasers who have paid the amount due in full to the land developer, has enhanced the credibility of the Cypriot real estate market.

Furthermore, according to a law implemented by the majority of the Cyprus Parliament and published in the Official Gazette, the immovable property tax has been reduced to ¼ of the total tax arising using the current rates, whilst the tax will be fully abolished in 2017.

Currently, dealing with non-performing loans is a top priority for credit institutions. Their efforts will be further facilitated by the legislation regulating the sale of credit facilities, the initiation of the first foreclosure proceedings, as well as the introduction of incentives for acquisition of mortgages in the context of restructurings. As of 31st May 2016, figures acquired from the Central Bank of Cyprus show a positive outlook for Non Performing Loans. Specifically total Nonperforming loans have dropped from €25.387 million on 31st of May 2016 to €24.699 on 30th of June 2016.

Looking at the energy sector, oil & gas majors have submitted applications for the third hydrocarbon licensing round in Cyprus' Exclusive Economic Zone. Specifically, companies and consortia that have submitted applications for the third licensing round for offshore hydrocarbon exploration in blocks 6, 8 and 10 of Cyprus’ EEZ.

Specifically, the consortium Eni Cyprus Limited/Total E&P Cyprus B.V submitted an application for block 6. The Consortium Capricorn Oil (Cairn Energy)/ Delek Drilling/Avner Oil Exploration as well as Eni Cyprus Limited submitted applications for block 8.

For block 10 applications were submitted by the consortium Eni Cyprus Limited/Total E&P Cyprus B.V, the consortium ExxonMobil Exploration and Production Cyprus (offshore) Limited/Qatar Petroleum International Upstream O.P.C as well as Statoil Upsilon Netherlands B.V.

It is also noteworthy that the Casino Licencing process is in its final stages with a shortlist of one contender having been chosen by the government.

The seven-year 3.75% €1 billion bond was priced at the lowest coupon rate achieved by Cyprus for a euro benchmark bond and was realised without support from the European Central Bank’s bond-buying scheme. Bids for Cyprus Republic’s 7-year bond under the EMNT programme reached €2.462.698.000, exceeding
by two and a half times the original target of the
Ministry of Finance, with a yield of 3.80% and a
coupon rate of 3.75%.

Ratings agency Standard & Poor’s upgraded on the 16th of
September its assessment of Cyprus to BB. The
outlook is positive.

S&P expects the Cypriot economy will expand
by about 2.7% this year, surpassing their March
2016 forecast, with annual growth at about 2.5%
in real terms in 2017-2019. It said that Cyprus’
recovery is supported by resilient business services,
tourism, gradually reviving private consumption and
construction. The restructuring in the financial sector
is making progress, but the Agency expects it will be a
few years before the sector contributes to economic
growth.

They think that the sovereign’s budgetary position will
continue improving over the next few years, standing
at close to balance or in surplus, with gradually
decreasing government debt.

S&P said that the positive outlook reflects its view
that they could upgrade Cyprus within the next
12 months if its reduction of currently high levels
of nonperforming loans accelerates, indicating
a convergence of Cyprus’ credit and monetary
conditions, including the monetary transmission
mechanism, with those of the Eurozone.

According to the Fitch Ratings, other developments
that could lead to an upgrade of the sovereign rating
include further stabilisation in the banking sector, a
track record of economic recovery and reduction in
private sector indebtedness, narrowing of the current
account deficit and continued fiscal adjustment.

Finally, the great natural environment of beaches and
mountains, the highly developed infrastructure, the
growing tourism market, the low property tax and the
climate, make Cyprus ideal for property investment.
Added to this, is the benefit of obtaining the Cypriot
citizenship as a result of such or similar investment.
As of 31st of March 2016, Cyprus has successfully completed its Economic Adjustment Programme, three years after its commencement.

Cyprus benefited from the Economic Adjustment Programme, during which it emerged from recession, stabilised its financial sector, and consolidated its public finances. Cyprus’ economy emerged from recession in 2015, with real GDP growth reaching 1.6%. In 2015, nominal spending by households stabilised but declining consumer prices allowed households to consume more in real terms, providing a significant boost to real GDP growth.

The Cypriot banking system in particular has undergone a deep transformation. The ground covered since March 2013 has been significant and the reform measures, which have been executed or are underway, are essential to restoring the Cypriot financial system to viability.

The Cypriot economy has been steadily recovering and economic activity in 2016 has been better than initially projected, whereas fiscal targets have been met with substantial margins. The economy of Cyprus expanded by 2.7% year-on-year in the second quarter of 2016, the same pace as in the previous quarter.

The restoration of the banking system continues and debt restructuring is picking up. However, the percentage of non-performing facilities (“NPFs”) remains high and the pace of lending is subdued, despite the fact that demand for loans is slowly increasing.

**Economic update**

**Fiscal reforms**

Following the progress made over the past year, the European Commission significantly revised its autumn forecasts in relation to the Cyprus economy, which are set out in Table 1 below.

<table>
<thead>
<tr>
<th>Table 1</th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2015</td>
<td>2016</td>
<td>2017</td>
</tr>
<tr>
<td>GDP Growth (%yoy)</td>
<td>-2.5</td>
<td>1.6</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Inflation (% yoy)</td>
<td>-0.3</td>
<td>-1.5</td>
<td>-0.7</td>
<td>1.0</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>16.1</td>
<td>15.1</td>
<td>13.4</td>
<td>12.4</td>
</tr>
<tr>
<td>Public budget balance (% GDP)</td>
<td>-8.9</td>
<td>-1.0</td>
<td>-0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Gross public debt (% GDP)</td>
<td>108.2</td>
<td>108.9</td>
<td>108.9</td>
<td>105.4</td>
</tr>
<tr>
<td>Current account balance (% GDP)</td>
<td>-4.6</td>
<td>-3.5</td>
<td>-4.2</td>
<td>-4.6</td>
</tr>
</tbody>
</table>

Source: European Commission (3 May 2016)

In 2017, growth is projected to strengthen. According to the European Commission, labour market conditions in Cyprus are forecast to improve further while wage growth is expected to remain at moderate levels, as indicated by the recent collective agreement for the hotel industry.

Oil prices are still at low levels and are forecasted to push down on energy prices in 2016, mainly due to base effects. Not including the more volatile components such as energy and unprocessed food, consumer prices are forecasted to marginally drop in 2016.

The European Commission also notes that growth has resumed in Cyprus and will gradually strengthen in parallel to improving labour market conditions. The economy is expected to favor from low energy prices. Service exports, most notably the tourism sector, appears to have resilience to the demanding external environment. The general government balance is also expected to improve, supporting the reduction of debt.

In accordance with the European Commission’s country report, growth has benefited from a slower pace of public spending cuts. Investment growth turned positive, but this was mainly driven by new ship registrations and the positive impact on growth was offset by higher imports. Risks remain positively balanced and despite headwinds from the external environment, export growth is forecast to strengthen.

Real GDP growth is forecasted to remain generally unchanged until the end of 2016 before picking up to 2 per cent in 2017. It is expected that support from dropping consumer prices and the weakening euro is expected to abate. Debt servicing is anticipated to increase, due to increased restructurings of bad loans. This should aid in the reduction of non-performing loans but will also have a negative impact on private consumption.
Investment should benefit from the recent stabilisation of the real estate market and a further normalisation of credit intermediation to businesses. Investment activity should nonetheless remain constrained by the high deleveraging needs of the economy. Furthermore, following the high volume of ship-registrations in 2015 which may be considered as one-off events, investment growth is expected to decelerate in 2016.

HICP inflation is forecasted to return to positive territory in 2017, as the downward pressure from energy prices retreats and demand picks up.

On the positive side, declining consumer prices could benefit consumption and exports on a greater level than expected. On the negative side, the reduction in external demand as well as currency developments concerning the pound sterling may affect export growth more than expected. The moderate developments in labour market conditions and the decrease of non-performing loans in the banking sector may lead to an extended period of tight credit conditions, which would hinder the recovery.

During 2015, the general government primary balance steadily improved. It reached a surplus of 1.8% of GDP, with a general government deficit of 1%. This includes a one-off effect from the 2015 recapitalisation of cooperatives (1% of GDP). Not including the effect of banking recapitalisations, in 2015, the primary balance improved slightly (by 0.2% of GDP to 2.8%), adding to the continued control on public expenditure and inspite of negative factors which were beyond the control of the government, notably new location rules regarding VAT on e-commerce services, lower taxes on interest due to reduced deposit rates and a decrease in dividend income from the Central Bank of Cyprus (CBC). In line with the primary balance, the headline balance also improved by just 0.2% of GDP to 0 per cent.

The general government primary surplus, not including the effect of banking recapitalisation, is expected to fall to 2.2% in 2016 and then rise to 2.4% of GDP in 2017. The decrease in 2016 is mainly due to a drop in revenue as a result of the continued normalisation in the banking sector. Given the projected continued drop in deposit interest rates, taxes on interest are expected to continue to fall.

The reduced need for emergency liquidity assistance is expected to keep reducing CBC dividend income. In 2017, the enhanced general government primary surplus is largely attributed to the improving economic outlook. In 2016, total primary expenditure is expected to remain restricted to the continued freeze of pensions and wages, while in 2017, this expenditure is expected to increase by lower rate than the nominal economic activity mainly due to the revised mechanism of its indexation. In 2016 and 2017, interest expenditure is expected to drop.

The structural balance in 2016 is expected to deteriorate, as it is less backed by the cyclical component, reflected in the output gap. The output gap narrows in 2016 and finally is expected to turn positive within 2017. The headline balance improves by lower rate than the economic cycle.

The debt-to-GDP ratio is forecasted to gradually decline, reaching 105.4 per cent in 2017. This reduction will be in parallel with economic growth and primary surpluses.

Non-performing loans
Significant progress has been made in the financial sector as a result of the recapitalisation and restructuring of credit institutions. However, the key challenge involves dealing with the high level of NPFs, in order to restore the country’s creditworthiness, economic growth and the creation of new jobs.

According to the data publish by the Central Bank of Cyprus, the non-performing facilities (NPFs) of banks in June 2016 reached 49.45% (€24.69 billion) of total facilities (€49.95 billion) compared to 49.74% in May 2016 (€25.39 billion). Banks are concentrating their efforts to speed up the restructuring of NPFs and according to CBC data, agreed restructurings have followed an upward trend. In order to further facilitate the reduction of NPLs and offer to credit institutions the necessary tools in order to effectively address this challenge, the legislature has adopted in November 2015, a law regulating the sale of credit facilities. In particular, this legislation sets out the criteria of eligible purchasers of bank loans and regulates the activities of such purchasers. Moreover, further legislative reform aiming to facilitate loan restructurings dictates that assets acquired by a financial institution in the context of such restructuring will be considered tax neutral transactions and no fees will be attached.

Moreover, the first foreclosures took place within the first half of 2016 which primarily focused on commercial buildings and land plots rather than primary residences. Cyprus’ bank deposits increased in July this year for the fourth consecutive month, shows the data released by the country’s Central Bank. Total deposits in July 2016 recorded a net increase of €269 million, compared with a net increase of €343.4 million in June 2016.

The annual growth rate stood at 5.5%, compared with 5.4% in June 2016. It is the tenth consecutive month that deposits record an increase on a yearly basis. The outstanding amount of deposits reached €47 billion in July 2016.

Deposits increased by €1.13 billion from last March when they reached the lowest level of the past nine years. Last March, deposits fell to €45.73 billion, the lowest level since April 2007, when they stood at €44.52 billion. As Central Bank’s data show, Cyprus residents’ deposits recorded a net increase in July 2016 by €1273 million
to €34,60 billion, whereas deposits of residents of EU Member States increased by €84,9 million to €3,06 billion. Deposits of Third Countries residences increased by €56,8 million to €9,36 billion.

On the other hand loans decreased to their lowest level in seven and a half years. Total loans in July 2016 exhibited a net decrease of €178,9 million, compared with a net decrease of €550,5 million in June 2016.

The annual change rate stood at -11,7%, compared with -12,3% in June 2016. The outstanding amount of loans reached €54,1 billion in July, which is the lowest level since October 2008, when they stood at €53,92 billion.

Cyprus residents’ loans have decreased by approximately €8,66 billion to €45,63 billion, from their highest level of €54,29 billion in March 2013. Domestic household loans fell to €20,71 billion, a decrease of €3,14 billion, from their highest historical level of €23,85 billion in December 2012.

### Economic indicators

#### Interest rates

The effect of the decision of the Central Bank of Cyprus in February 2015 to differentiate the maximum deposit rate by 1% is reflected in the declining trend of interest rates in 2015, which is continuing in 2016.

Interest rates have declined over the recent years, with the average interest rates on mortgages dropping to 3.74% during the first semester of 2016 compared to 4.53% during the first semester of 2015. There has also been a decrease in the average interest rates on corporate loans to 4.62% during the first semester of 2016 compared to 5.41% during the same period in 2015.

However, interest rates in Cyprus are still higher than those in the eurozone. The divergence between the two in relation to housing loans, is seen in Graph 2, which is approximately 150 basis points higher in spite of recent declines. For instance, in June 2016 the average interest rate for housing loans in Cyprus was 3.69%, compared to 2.32% in the eurozone.

![Graph 2: Interest rates on housing loans](image1)

Interest rates on corporate loans are also significantly higher in Cyprus when compared to the eurozone (Graph 3). In particular, the average interest rates for the first semester of 2016 in Cyprus were 4.62% compared to 2.42% in the eurozone.

![Graph 3: Interest rates on corporate loans](image2)

The same applies to depository interest rates in Cyprus; the average depository interest rate in the first semester in Cyprus was 1.53% whilst that of the Eurozone was 0.60% for the same period.
Unemployment

It appears that unemployment in Cyprus reached its peak in 2013, with 48.580 registered unemployed in December 2013. Although a declining trend has been recorded in the last three years, it must be noted that there is a long way to go before reaching the low levels of December 2009, when registered unemployed amounted to 20.261.

In particular, according to data from the Statistical Service of the Republic of Cyprus (CYSTAT) the number of registered at the District Labour Offices on the last day of July 2016, reached 36.112 persons. Based on the seasonally adjusted data that shows the trend of unemployment, the number of registered unemployed for July 2016 decreased to 37.162 persons in comparison to 37.681 in the previous month.

In comparison with July 2015, a decrease of 6.064 persons or 14,4% was recorded which was mainly observed in the sectors of construction (a decrease of 1.312 unemployed persons), trade (a decrease of 827), accommodation and food service activities (a decrease of 714), manufacturing (a decrease of 690), public administration (a decrease of 546), transportation (a decrease of 531) and to newcomers in the labour market (a decrease of 1.069).

Tourism

In 2015 the tourism sector exhibited great growth and a record of tourist arrivals was recorded. In particular, arrivals of tourists in 2015 totalled 2.659.405 compared to 2.441.239 in the 2014, recording an increase of 8,9%. For the period January – June 2016 arrivals of tourists totalled 1.255.240 compared to 1.035.900 in the corresponding period of 2015, recording an increase of 21,2% from the respective 2015 period.

As seen on Table 2 below, the largest increase in the number of tourists that was recorded in 2016 relates to tourists from Russia (45,01%) and UK (13,06%).

<table>
<thead>
<tr>
<th>Country</th>
<th>2016 JAN-JUL</th>
<th>2015 JAN-JUL</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>632.851</td>
<td>557.069</td>
<td>13,60%</td>
</tr>
<tr>
<td>Russia</td>
<td>432.954</td>
<td>298.568</td>
<td>45,01%</td>
</tr>
<tr>
<td>Sweden</td>
<td>61.794</td>
<td>62.404</td>
<td>-0,98%</td>
</tr>
<tr>
<td>Greece</td>
<td>92.096</td>
<td>83.618</td>
<td>10,14%</td>
</tr>
<tr>
<td>Germany</td>
<td>62.414</td>
<td>56.252</td>
<td>10,95%</td>
</tr>
<tr>
<td>Total (All Countries)</td>
<td>1.737.372</td>
<td>1.450.425</td>
<td>19,78%</td>
</tr>
</tbody>
</table>

Source: CYSTAT

The strong growth may also be partially attributed to geopolitical tensions in neighbouring countries. Bookings from British tourists appear strong despite the depreciation of the pound. In 2017, growth should gain further strength.

Tourism revenue has increased steadily year-on-year up to 2013 as exhibited on Graph 5. In 2014 a slight decline of 2,8% was recorded. In 2015, revenue from tourism reached €2.112,1 million, compared to €2.023,4 million in 2014, recording an increase of 4,4%. For the period January – June 2016 revenue from tourism is estimated at €831,2 million compared to €730,9 million in the corresponding period of 2015, recording an increase of 13,7%.

Source: CYSTAT
The Real Estate Sector

Factors affecting the sector

Construction

The latest data regarding the “Indicators of confidence and economic sentiment” published by the European Commission in July 2016 shows that the construction confidence indicator in Cyprus exhibited an improvement from -30.3 in December 2015 to -24.4 in July 2016.

The Cyprus real estate market can be regarded as being split into the major urban centers of Nicosia, the capital, Limassol and Larnaca which are mainly supported by local demand, whereas Paphos and Famagusta are mainly supported by foreign demand.

The market is further segmented in three main sectors, being the residential, retail and office sectors, with the primary emphasis being upon the residential sector as the islands topography and geography appeal largely for residential utilization.

The construction production index witnessed a 2.1% increase in 2015 compared to 2014. The increase is mainly attributed to an 8.1% increase in Q3 2015 and a 20.6% increase in Q4 2015 compared to Q3 2014 and Q4 2014 respectively. This has been in line with higher inflation figures experienced over the same periods. However, Q1 2015 and Q2 2015 exhibited a decrease of 17.6% and 1.5% respectively compared to the relative Q1 2014 and Q2 2014 quarters. Overall the index showed an increase of 2.1% in 2015 compared to 2014. Q1 2016 witnessed an increase of 7.6% in comparison to the respective 2015 quarter.

The cost of construction materials increased from 2007 onwards. This is depicted in the Construction Materials Price Index with an increase from 97.34 to 104.46 from 2009 to 2012, as shown in Graph 6. From 2011 to 2014 the price index remains at approximately the same levels.

The price Index dropped slightly by the end of 2015 by 2.68% to 102.27. The six month average index for 2016 shows a continuation of the declining trend reaching an average figure of 100.78.

Graph 6

Construction Materials Price Index

During 2015 there was a slight decrease in average prices of all basic materials compared to 2014. Most notably metal products and mineral products which dropped by 3.17% and 3.13% respectively. Average prices for the first 6 months of 2016 show a further decrease in all materials except for timber, insulating materials, chemicals and plastics and electromagnetic products which remained roughly at the same levels (Table 3).

<table>
<thead>
<tr>
<th>Construction Materials</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minerals</td>
<td>105.49</td>
<td>109.89</td>
<td>106.81</td>
<td>104.01</td>
</tr>
<tr>
<td>Mineral products</td>
<td>108.10</td>
<td>112.19</td>
<td>108.67</td>
<td>106.47</td>
</tr>
<tr>
<td>Products (timber,</td>
<td>98.78</td>
<td>100.27</td>
<td>98.74</td>
<td>98.76</td>
</tr>
<tr>
<td>insulating materials,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>chemicals and plastics)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Metal products</td>
<td>104.52</td>
<td>101.19</td>
<td>97.98</td>
<td>94.76</td>
</tr>
<tr>
<td>Electromechanical</td>
<td>101.80</td>
<td>100.80</td>
<td>98.50</td>
<td>98.53</td>
</tr>
<tr>
<td>products</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*2016 figures represent 6 month average (Jan-Jun 2016)
Source: CYSTAT
**Building permits**

Total building permits from January-June 2016 amounted to 2,611. This shows an increase of 4.65% from the January-June 2015 equivalent figure. Residential building permit numbers increased by 6.25% whereas nonresidential building permit numbers increased by 0.62% in the relevant period.

Furthermore, civil engineering project permits decreased by 9.62%. Numbers of permits in plot division and road construction projects increased by 6.38% and 15% respectively in the relevant period.

Even though building permits showed a 4.65% increase in numbers, in terms of value and area (m²) their contribution was disproportionately less. This is so as the total area (m²) fell by 0.59% and the total value also fell by 4.37%.

This discrepancy is mainly attributed to non-residential and civil engineering project permits which dropped by 12.09% and 57.30% in area but also 2.63% and 71.08% in value respectively.

Table 4

<table>
<thead>
<tr>
<th>Details of Building Permits in 2016 (January - June)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>Residential Buildings</td>
</tr>
<tr>
<td>Non-Residential</td>
</tr>
<tr>
<td>Civil Engineering Projects</td>
</tr>
<tr>
<td>Division of Plots</td>
</tr>
<tr>
<td>Road Construction</td>
</tr>
<tr>
<td>Total Large Projects</td>
</tr>
<tr>
<td>Small Projects</td>
</tr>
</tbody>
</table>

Note: % in brackets is the annual change from 2015 to 2016

Source: CYSTAT
Building permits show that both values and area (m²) have generally decreased. In relation to values, Famagusta witnessed the biggest decrease by 46,03% in value of total permits granted in January-June 2016, compared to the corresponding period of 2015. A fall in value was also observed in Larnaca and Nicosia with a decrease of 25,90% and 12,12% over the relevant period. However, Paphos and Limassol witnessed increases of 35,78% and 11,17% respectively during the same period. Considering the total areas (m²) for building permits, Famagusta witnessed the biggest decrease by 15,19% over the first four months of 2016, compared to the same period in 2015. Nicosia and Larnaca, also witnessed decreases of 8,77% and 3,31%, whereas Paphos and Limassol observed increases of 15,82% and 4,78% respectively.

Deeds of sale

In relation to deeds of sale, the 2015 volume of transactions accumulated to 4,952, a 77% decrease in comparison to 2007, when the economy and especially the real estate sector, were thriving and transaction volumes reached a total of 21,245. However, a 9,4% increase was exhibited in comparison to the 2014 total figure. During the first two quarters of 2016 the volume of transactions amounted to 3,012. This was an impressive 28% increase in comparison to the first two quarters of 2015.

According to data of the Department of Land and Surveys, Limassol has had the highest number of transactions in Cyprus in the first two quarters of 2016 representing 33,23% (1,001 transactions) of the total transactions (Graph 7).

Paphos, Larnaca and Nicosia follow second, third and fourth with 23,14%, 21,81% and 15,74% of the total number of transactions in the first two quarters of 2016 respectively.

Famagusta, being strongly correlated to seasonal demand, especially for holiday homes, which are considered to be luxury purchases, specifically after the bail in period, has exhibited the lowest number of transactions at 6,08% (183 transactions) of the total number of transactions in the first two quarters of 2016.

Of the total volume of transactions in the first two quarters of 2016 it is noteworthy that 22,7% (685) relate to sales to foreign buyers. This is a 9,39% increase from last year’s comparative figure and this can be attributed to the fact that Cyprus has attracted foreign investors via the scheme for naturalisation of investors in Cyprus by exception.

The largest proportion of foreign sales of deeds is exhibited in Limassol reaching 32,1% of the total foreign sales in the first two quarters of 2016, followed by Paphos 30,5%, Larnaca 21,8%, Nicosia 8,8% and finally Famagusta with 6,9%.

It must be noted that foreign interest is primarily focused on the residential sector in prime locations with close proximity to the beach.

Property Price Indices

The Royal Institute of Chartered Surveyors (‘RICS’) Cyprus Property Price Index is published on a quarterly basis and focuses on both residential and non-residential property (including retail and offices) and also tracks trends on rental rates.

The information provided by RICS is based on the average price and rent of the sub-districts monitored per urban centre per sector.

The yearly average comparison for 2015 and 2014 indicates that prices have dropped in all types of property in the industry.
A. Residential Property
Apartment prices and rents according to RICS are based on 85 m², two-bedroom apartments of medium quality.

i) Apartments
Sales Prices

The average price for an apartment in Cyprus in 2015 was €100,659, whilst in 2014 it was €103,104. This corresponds to a 2.37% fall in prices (Graph 8). Q1 2016 exhibited an increase in prices of 0.47% reaching a value of €101,130 in apartment sale prices compared to the 2015 yearly average.

Graph 8

Rental Rates
Average monthly rates for 2015 for all apartments in Cyprus have dropped 2.07% from €331 in 2014 to €324. However a 4.87% increase to €340 was witnessed in Q1 2016 compared to the 2015 yearly average. The biggest increase was observed in Famagusta where there was a 10% rise in rental prices in Q1 2016 vs Q4 2015. This was followed by 8.73% rise in Larnaca and a 2.90% rise in Paphos. The remaining cities have shown less than 2% average positive fluctuations.

Graph 9

Source: RICS

ii) Houses

Housing prices according to RICS Index relate to semidetached, three-bedroom houses (250m²) of medium quality with garden.

Sales prices
The average price for a house in Cyprus in 2015 was €327,027, whilst in 2014 it was €332,848. This corresponds to a 1.75% fall in prices (Graph 10). Q1 2016
exhibited an increase in prices of 1,08% reaching a value of €330.557 in house sale prices compared to the 2015 yearly average.

Graph 10

Rental rates
Average monthly rates for 2015 for all houses in Cyprus have dropped from €538 in 2014 by 0,93% to €533. An increase of 2,91% was however witnessed over Q1 2016 compared to the 2015 yearly average reaching a value of €548. The biggest increase was observed in Famagusta where there was a 6,25% increase in Q1 2016 compared to the 2015 yearly average. Paphos followed second with a 4,23% increase whereas Limassol came in third with a 1,54% increase. Larnaca and Nicosia were the only two districts which witnessed a drop in rates with a 1,59% and 0,58% respectively (Graph 11).

Graph 11

Source: RICS

B. Retail Property
The outline of a retail property used by RICS is a highstreet shop consisting of 100$m^2$ ground floor and 50$m^2$ mezzanine.
Sales prices
The average price for retail properties in Cyprus in 2015 was €349,546, whilst in 2014 it was €367,939. This corresponds to a 5% drop (Graph 12). Q1 2016 exhibited a drop of 0.85% in retail sale prices reaching a value of €346,564 compared to the 2015 yearly average.

Graph 12

Rental rates
Average monthly rental rates for 2015 for retail properties in Cyprus have dropped by 5.55% from €1,614 in 2014 to €1,524. Further decrease in rates was witnessed over Q1 2016 where a drop of 7.43% to €1,411 was witnessed in comparison to the 2015 average yearly rate. It must be noted that this decrease is primarily attributed to Larnaca’s retail rates where a 33.33% drop was witnessed. Limassol also witnessed a much less impactful drop of 1.07% whereas the remaining districts of Paphos and Famagusta witnessed an increase of 2.08% and 2.63% respectively. Nicosia’s rates have remained unchanged in Q1 2016 compared to the Q3 2015 and Q4.

Graph 13
C. Offices
An average office used by RICS in the preparation of its Index is a Grade A one with city centre location comprising 200m².

Sales prices
The average price for office properties in Cyprus in 2015 was €344,134, whilst in 2014 it was €355,211. This corresponds to a 3,12% drop. Q1 2016 exhibited an increase of 1,67% in office sale prices compared to the 2015 yearly average reaching a value of €349,887.

Graph 14

Rental rates
Average monthly rental rates for 2015 for office properties in Cyprus have dropped by 1,88% from €1,292 in 2014 to €1,268. This decrease was largely offset in the Q1 2016 where an increase of 1,81% to €1,291 was witnessed. Increase in rates was witnessed in Paphos and Limassol with 2,89% and 0,77% respectively whereas the remaining districts remained constant over the last three quarters. (Graph 15).

Graph 15

Source: RICS
Real Estate Market
Overseas Comparisons

Prices per Square Metre
The majority of European countries are below the €5,000 per square metre mark. Cyprus has an average price of €1,790 per square metre and currently ranks 31st amongst the counties situated in the European continent. Not surprisingly Monaco ranks 1st with an average price of €44,522 per square metre, followed by the UK and France with €25,575 and €13,639 per square metre respectively (Graph 16).

Graph 16

Average Monthly Rental Rates
The basis for this comparison is a 120 m² residential property. The majority of the European countries are below €2,000 per month rate. Cyprus ranks 33rd with an average monthly rental rate of €757 and is therefore considered as one of the cheapest counties in respect of rent across Europe. Naturally UK ranks 1st with an average monthly rental rate of €8,213 followed by France and Russia with €3,938 and €3,820 respectively. (Graph 17).

Graph 17

Rental Yields
The “yield” of a property depicts the annual return of the property to the investor/owner. It is calculated by expressing a year’s rental income as a percentage of how much the property cost. European counties average rental yield is at 4.91%. Cyprus is close to this average with a yield of 4.23%. Moldova ranks 1st with 10% followed by Ukraine and Romania with 9.09% and 7.76% respectively (Graph 18).

Graph 18

Source: www.globalpropertyguide.com
Cyprus Citizenship

The Cypriot Government through the Ministry of Interior, has approved on 13th September 2016 the revised criteria for granting the Cypriot Citizenship by investment, in an effort to further promote foreign direct investments in Cyprus.

Revised changes include:

• The applicant must have made an investment of €2,0 million (excluding VAT) in any qualifying investment category or a combination as described below (previously it was €5,0 million if applied individually or €2,5 million if applied through a collective investment scheme).

• The investment in government bonds of the Republic of Cyprus is now restricted to €500,000.

• The applicant must be the holder of a residency permit in Cyprus to qualify for receiving the Cyprus Citizenship. For this purpose, an application for a residency permit should be submitted to the Authorities, which will be issued simultaneously with the filing of the Citizenship application.

• The investor’s parents are entitled to apply for Cyprus citizenship by exception, provided that they are owners of a permanent residence of at least €500,000 excluding VAT. For this purpose, the investor and his/her parents may acquire one residential property of a total value of at least €1,0 million, excluding VAT (€500,000 being allocated to the investor and the remaining €500,000 being allocated to the parents of the investor).

Criteria for granting Cypriot Citizenship by exception

1. Real estate and land developing
The applicant should have a direct investment in Cyprus of at least €2,0 million for the acquisition or development of real estate projects (residential, commercial, tourism or other infrastructure). It shall be noted that investment in land under development is included in this criterion, provided that an investment plan for the development of the purchased land will be included in the application.

2. Purchase or creation or participation in Cypriot businesses or companies
The applicant must have made an investment of at least €2,0 million in the purchase, creation, or participation in businesses or companies, that are based and operating in Cyprus. These businesses or companies should evidently have a tangible presence and substantial activity in Cyprus and employ at least five (5) Cypriot or EU citizens who have been legally residing in Cyprus for a continuous period of at least 5 years.

3. Investment in alternative investment funds (AIFs), financial assets of Cypriot businesses or organisations which are licensed by the Cyprus Stock Exchange Commission
The applicant must have purchased financial assets of at least €2,0 million (units in AIFs, bonds, debentures, other securities, etc.) registered and issued in the Republic of Cyprus, in companies or organisations with substantial economic activity in Cyprus which are regulated by the Cyprus Stock Exchange Commission.

4. Combination of the aforementioned criteria
The applicant may choose to have a combination of any of the above criteria amounting to at least €2,0 million.

In the context of this criterion (i.e. combination of investments), the applicant may also purchase governmental bonds of the Republic of Cyprus of a maximum amount of €500,000.

Other Conditions
It is noted that in addition to satisfying any one of the above criteria, the applicant must:

1) Have a clean criminal record; and
2) Acquire a permanent residence in Cyprus valued at least €500,000 excluding VAT. (This condition does not apply if the investment is in residential property).
In a nutshell: Competitive advantages of the Cyprus Citizenship:

- Investments in a variety of sectors of the Cyprus economy
- Combination of investments is available
- No donation to the Cypriot Government is required
- The investments may be realized after 3 years have elapsed
- The amount of investment required is reasonable (as low as €2 million)
- Once the application is approved it has immediate effect.

**Immigration permits**

The Ministry of the Interior released a more efficient procedure for granting an immigration permit to third country nationals that intend to take up permanent residency in Cyprus, provided that they fulfil certain criteria.

The application form must be accompanied by a title deed or a contract of sale that has already been submitted to the Department of Land and Survey, for the acquisition of a house, apartment or any other building situated in Cyprus, of a minimum market value of €300,000 (plus VAT). Further, the applicant must submit proof of payment for at least €200,000 (plus VAT) in respect of the above mentioned property.

Immigration Permit can be granted to the applicant’s wife and children as long as the children are under the age of 18. Provided that the applicant’s unmarried children between the ages of 18 and 25 are students abroad with a remaining study period of at least 6 months from the application submission date and are financially dependent on the applicant. Immigration Permit can also be granted to the applicant’s and/or his spouse’s parents.

**Transfer of immovable property**

Fees on transfer of immovable property are imposed by the Department of Land and Survey in order to transfer the ownership of the property to the purchaser. The fees are payable upon transfer of ownership. The purchaser is responsible for the payment of transfer fees, except if other arrangements are made between the purchaser and the vendor. The rates used for the calculation of fees on transfer of immovable property are shown in Table 5.

Table 5

<table>
<thead>
<tr>
<th>Immovable Property Value</th>
<th>Rates on Transfer fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to €85,000</td>
<td>3%</td>
</tr>
<tr>
<td>€85,001 - €170,000</td>
<td>5%</td>
</tr>
<tr>
<td>€170,001 and over</td>
<td>8%</td>
</tr>
</tbody>
</table>

No transfer fees are imposed for the transfer of property that is subject to VAT.

Where transfer fees are imposed, they are reduced by 50% in the case that the transfer relates to land or buildings that are:

i) Sold for the first time from the date of issue of the planning permission or building permit; and

ii) The date of the conclusion of the sale agreement and the date submitted for the first time to the District Land Registry both fall during the period starting from 2 December 2011 through 31 December 2016, inclusive.

Following the reforms of the tax regime in 2015 and 2016 further reductions of transfer fees on real estate transactions were introduced. In particular:

i) a 50% exemption from transfer fees will apply to all transfer applications;

ii) the transfer fees payable on immovable property from parent to child have been abolished;

iii) the fee payable in cases of exchange of immovable property of equal value is abolished;

iv) in cases of family companies, the refunding of fees on property transfer after the period of five years will be abolished. As a result the right for reduced fees from a family company to a shareholder thereof is abolished.

Finally, according to existing law, no transfer fees are imposed on the transfer of property that is subject to VAT.

**Property taxes**

Property tax is imposed on all types of immovable property in Cyprus. The tax is estimated using the tax rates multiplied by the value of the property (based on market values as at 1 January 1980, until 2015) for each proprietor. Proprietor is defined as a person who is entitled to be registered as the owner of the immovable property, whether s/he is registered as such or not. According to the law, immovable property includes land, buildings built on land, trees planted or grown on land, privileges, rights of use, any rights and benefits relating to land or are considered to be related to land or buildings or any type of works, wells, manholes, drill wells, etc.
**Immovable property tax rates**

According to a law proposal voted by the majority of the Cyprus Parliament and published in the Official Gazette in July 2016, the immovable property tax of 2016 is reduced to 25% of the total tax arising using the current rates, whilst it will be fully abolished in 2017. The tax will continue to be calculated on the total value of the immovable property owned by each owner on 1st January using the 1980 prices.

Table 6

<table>
<thead>
<tr>
<th>Value of Property (€) - 1.1.1980</th>
<th>Tax Rate (‰)</th>
</tr>
</thead>
<tbody>
<tr>
<td>From € 0 Until € 40.000</td>
<td>6‰</td>
</tr>
<tr>
<td>From € 40.001 Until € 120.000</td>
<td>8‰</td>
</tr>
<tr>
<td>From € 120.001 Until € 170.000</td>
<td>9‰</td>
</tr>
<tr>
<td>From € 170.001 Until € 300.000</td>
<td>11‰</td>
</tr>
<tr>
<td>From € 300.001 Until € 500.000</td>
<td>13‰</td>
</tr>
<tr>
<td>From € 500.001 Until € 800.000</td>
<td>15‰</td>
</tr>
<tr>
<td>From € 800.001 Until € 3.000.000</td>
<td>17‰</td>
</tr>
<tr>
<td>From € 3.000.001</td>
<td>19‰</td>
</tr>
</tbody>
</table>

In accordance with the law amendment, the 25% will apply if the tax is paid by 31st October 2016. If the payment is made between 1st November 2016 and 31st December 2016, the tax for 2016 will be 27.50% of the total tax arising. In case of payment beyond 31st December 2016, an additional tax of 10% will be imposed, which will increase the percentage to 30.25%. Furthermore, it is provided that tax up to €10 is not payable.

It is noted that in 2015 a 17.5% discount was allowed in the case of a payment that was made on time and 20% if the payment was performed electronically or through financial institutions.

The immovable property tax is abolished in 2017 for all the above situations.

**Municipal tax**

Proprietors also incur municipal tax on immovable property (Town Rate). This is an annual tax which is levied as a result of property ownership within the limits / boundaries of each municipality, with certain exceptions included in the legislation.

However, as abovementioned, it is expected that a unified tax rate will be implemented next autumn and following its adoption the municipal tax will be abolished.

**Proprietor’s obligations**

In cases where a property is subdivided, it is considered to be owned by its proprietors according to their respective physical shares therein.

In case an immovable property has been developed and sold but the corresponding title deed has not yet been issued, or issued but the transfer of ownership to the new proprietor has not yet been effected, the existing owner may submit to the Tax Commissioner on or by 31 March of each year, a statement listing such properties for which a sales contract was in place as at 1 January of the respective year.

One needs to submit such a statement during the following year only if changes relating to the previously submitted statement have occurred.

Where the existing owner completes and submits the abovementioned form within the prescribed due date, the payment obligation of the immovable property tax with respect to such properties will be transferred to the respective purchaser, assignee or beneficiary and the Tax Commissioner should issue the relevant immovable property tax assessment in the name of the purchaser, assignee or beneficiary.

Where an existing owner fails to submit the required form mentioned above prior to the deadline, he/she remains liable to pay the immovable property tax.

The above provisions of the Law shall not apply in cases where the issue of the title deed was wilfully delayed by the existing owner or in cases where the existing owner is a legal person under liquidation.

**Capital Gains Tax**

Capital gains tax of 20% is charged on gains upon sale of immovable property located in Cyprus, which is incurred during the year in which the property is disposed of. Depending on the type of property being disposed of, lifetime exemptions applicable to individuals for gains from the sale of immovable property are as follows:

(a) Disposal of property: up to €17086;
(b) Disposal of agricultural land: up to €25.629;
(c) Disposal of permanent residence: up to €85.430.
A full exemption from capital gains tax will be granted for the sale of immovable property consisting of land, or land with a building or buildings, which will be acquired from an independent party, at market value, from 16 July 2015 until 31 December 2016. That is, regardless of when the property will be sold, in essence it is sufficient that it has been bought up until 31 December 2016 and no capital gains tax will be payable. The exemption applies to immovable property that was acquired by purchase or by purchase agreement but not to immovable property that was acquired by a donation/gift or by way of an exchange.

**VAT rates**

In general, VAT is imposed on the supply of goods and services in Cyprus, as well as on the acquisition of goods and services from suppliers established outside Cyprus. The current standard VAT rate is 19%.

As per the Cyprus VAT Act, the acquisition of land plots is exempt from VAT. However, the acquisition of buildings and residential properties is subject to 19% VAT. Nonetheless, the VAT rate on the acquisition of residential properties can be reduced to 5% provided that the following conditions are collectively met:

- **Condition regarding the use**
  The qualifying residential property is used or is intended to be used by the beneficiary as his/her main and permanent place of residence.

- **Condition regarding the process**
  The beneficiary must submit a declaration the Cyprus VAT authorities for certification.

- **Conditions regarding the rightful person**
  For an applicant to be considered a beneficiary, the following requirements must be met:
  - Be a physical person.
  - At the time of submission of the declaration (on a form specially designed for this purpose), be 18 years of age or above.
  - Be a citizen of the Republic of Cyprus or of any other Member State and be a permanent resident in the Republic of Cyprus.

- **Extension of the reduced VAT rate to citizens from third countries**
  With effect from 8th June 2012, the reduced VAT rate of 5% may also be applied on the supply or construction of residential properties to citizens of third countries (e.g. Russian Federation, USA, China, etc.) if the said residences will be used by the applicant as his/her principal and permanent place of residence whilst in the Republic.

- **Conditions regarding the property**
  - The application for the planning permission or building permit must have been submitted after the 1st May 2004.
  - It must be intended for the property to be used after its purchase or construction as the permanent and main place of residence.
  - The total area of the property should not exceed 363 m2.
  - In the cases of families with more than 3 children, the area is increased by 15 m2 for every child after the third child.
  - The 5% reduced VAT rate is applied only on the first 200 m2.

- **Basic requirements for the application of 5% VAT to non-EU citizens**
  - The property must be used as the main and permanent place of residence in the Republic.
  - There is no time limit for non-European citizens to stay in the Republic. Thus, the reduced VAT rate of 5% may be applied even if the non-European buyer has not completed 183 days of residency in the Republic, so as to be considered tax resident in the Republic.
  - The reduced rate of 5% cannot be applied if the property is used for investment or leasing purposes or to exercise any other economic activity.

Moreover, as of 4th December 2015 the reduced rate of 5% applies for renovations and repairs of all private dwellings, for which at least three years have passed from the first use, including those that are not used as a principal and permanent place of residence.

Note that until 3rd December 2015 the reduced rate covered only houses that were used as “principal and permanent place of residence.”

By deleting from the definition of residence, in paragraph 11, the phrase “principal and permanent,” the reduced rate of 5% covers holiday houses as well.

The reduced VAT rate of 5% is relevant to work performed by plumbers, electricians, carpenters, house painters and construction workers, provided that the value of the materials does not exceed fifty percent (50%) of the total value of the renovations or repairs. It is clarified that the definition of residence covers multiple property buildings (apartment buildings).
It is noted that in order for the above work to fall within the reduced rate, they should be carried out within the scope of renovation or repair of private residence.

**Stamp duty**

Stamp duty is a tax which is charged on certain types of instruments which deal with Cyprus situated immovable property, irrespective of whether executed in Cyprus or outside Cyprus. As from 1st March 2013, the stamp duty levied is 0% for amounts up to €5,000, 0.15% for amounts between €5,000 and €170,000, and 0.2% for amounts over €170,000, up to a maximum stamp duty of €20,000.

**Amendments of tax legislation**

According to these amendments any benefit, surplus or profit which may arise under a restructuring is exempt from income and corporation tax (i.e. in case where the borrower’s main activities are construction or land development). On subsequent disposal of an asset which was acquired in the context of restructuring, the base cost is deemed to be the restructuring price, reduced by any amount refunded to the borrower.

A similar amendment has been made in the Capital Gains Tax legislation so that any restructurings with borrowers, whose activity does not include property trading, is also tax neutral.

Additionally, any Special Contribution for Defence for deemed dividend distribution on accounting profit which arises under a restructuring is not payable. This is, in case where the restructuring price is higher than the original cost, any deemed profit is not subject to deemed dividend distribution. It is reminded that Defence Law only applies to Cyprus tax residents.

Finally, any immovable property repossession by the financial institutions during a loan restructuring is neither subject to transfer fees nor stamp duty.

Abolition of fees and stamp duty in certain cases for loan transfer.

The law of the Department of Land and Surveys (Fees and Charges) has been amended in order to provide that no fee shall be imposed on the amount of the initial loan facility contract in certain instances when a mortgage is cancelled and a new mortgage is created, namely:

- Where a mortgage on an immovable property is cancelled and on the same day a new mortgage is created on the same property for the same purpose, regardless of whether it is in favour of the same or any other mortgagee.
- Where a mortgage on an immovable property is cancelled and on the same day a new mortgage is created on the same property for the same purpose in favour of the same mortgagee and the amount of the new mortgage, excluding any interest, is less or equal to the amount of the mortgage that has been cancelled.
- In the case of transfer of a mortgage (including transfer from parent to child) for any amount that remains unpaid on the date of the transfer.

Moreover, the Stamp Duty Law has been amended so that no stamp duty is payable in cases where the mortgage on an immovable property is cancelled and a new mortgage is created on the same property for the same purpose on the same day, regardless of whether it is in favour of the same or any other mortgage.

**Introducing the Non-Domicile Principle**

The current Special Contribution for Defence (SCD) provisions will exclude from SCD, dividends, interest and rents (as well as from deemed dividend distribution provisions), of individuals who are Cyprus tax residents but are not domiciled in Cyprus (as defined in the SCD Law) irrespective of the origin of the relevant income (i.e. from sources within Cyprus or abroad).

The new provisions define domicile in accordance with the rules of the Wills and Succession Law under which two main kinds of domicile are identified:

- A domicile of origin (i.e. the domicile received by him at his birth); and,
- A domicile of choice (i.e. the domicile acquired by him by establishing a home with the intention of a permanent or indefinite residence).

A person who has his domicile of origin in Cyprus will be treated as “domiciled in Cyprus” for SCD purposes with the exception of:

- An individual who has obtained and maintained a domicile of choice outside Cyprus under the provisions of the Wills and Succession Law, provided that this individual was not a Cyprus tax resident for a period of at least 20 consecutive years prior to the tax year in question; or
- An individual who was not a Cyprus tax resident for a period of at least 20 consecutive years immediately prior to the entry into force of the introduced provisions (i.e. prior to 6 July 2015).
An individual who is resident in Cyprus for a period of at least 17 years out of the last 20 years prior to the tax year in question shall be deemed as domiciled in Cyprus for SCD purposes regardless of whether or not he has his domicile of origin in Cyprus.

The above provisions will result in the complete exemption from SCD of a Cyprus tax resident individual, who, in adopting the rules above is not a domicile of Cyprus for SCD purposes.

However, the exemption from SCD will not apply in the event of any assets that may give rise to SCD have been transferred from an individual domiciled in Cyprus to an individual not domiciled in Cyprus where one of the main reasons for the transfer was to benefit from the exemption. In such a case, SCD will be imposed on the income derived from such assets and may be collected either from the transferor or the transferee accordingly.

**Notional Interest Deduction**

In an attempt to reduce excessive debt financing and encourage the investing of equity in corporate structures (hence reducing the overall debt exposure and deleveraging the economy), the new amendments provide for a deduction on new equity by way of a Notional Interest Deduction (NID) as of 1st January 2015. The NID will be calculated on the basis of a reference interest rate on new equity held by the company and used in the business.

**Property foreclosure legislation**

A new procedure has been introduced to enable the enforcement of mortgages as security rights against debtors through foreclosure. The purpose of the amendment was to minimize the involvement of the Lands Office in such a manner that the procedure is driven by the secured creditors instead, in an attempt to expedite property foreclosures, protect creditors’ rights and offer an alternative more efficient approach to security realization, thus increasing the credibility of Cyprus in an area which cause considerable concern in the past.

One of the most prominent features of the new procedure, is the imposition of strict deadlines for adherence in an attempt to reduce the time of completion of the process, without at the same time jeopardizing the debtor’s rights to be heard. In particular, the secured creditor may initiate foreclosure proceedings once the loan is terminated and the repayments/instalments are overdue for a period exceeding 120 days. After the relevant notices have been served and
Insolvency framework
The adoption of the insolvency framework has modernised the insolvency legal regime of Cyprus, through the introduction of five pieces of legislation, including two new and three amending laws. In particular:

1. Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Order) Law of 2015
This Law provides for the establishment and operation of two new mechanisms in relation to natural persons. The first mechanism provides for the promotion and agreement of PIA with the assistance and coordination of an insolvency practitioner appointed for this purpose of Personal Insolvency Arrangement, in order to facilitate the restructuring of debt of natural persons, so as to ensure the repayment of creditors and, where possible, protect the primary residence. Under strict eligibility criteria and if the Repayment Scheme is not accepted by creditors, then the law allows for its enforcement on the creditors by the court in order to safeguard the primary residence For the purpose of negotiating the terms to a PIA the law allows for a moratorium period i.e. a period of protection over which the debtor is considered to be under the protection of the court and no legal proceedings may commence or continue against the debtor including any proceedings which may be relevant to an enforcement of a court order against the debtors’.

2. The Bankruptcy (Amending) Law of 2015
The main amendment introduced by the Bankruptcy (Amending) law, is the introduction of a mechanism whereby the bankrupt is discharged from certain debts 3 years after the declaration of bankruptcy and provided that he has acted in good faith and cooperated with the Official Receiver or the Bankruptcy Administrator for the collection and realisation of the bankruptcy estate. Moreover, the bankruptcy procedure is now simpler, as the old two-stage procedure here by the Official receiver becomes the legal owner of all assets, without further court involvement.

3. Companies (Amending) Law of 2015, regarding winding up
The aim of this law is the modernisation of the winding up legislation. One of the main amendments relates to the decision-making during creditors’ meetings. The law introduced decision-making by a majority of value, whereas under the old system a majority in number and in value was necessary, which often resulted to delays. Moreover, liquidators will now be Insolvency Practitioners, licensed under the new law and also their powers are enhanced, for instance to include the power to sell charged assets.

4. Companies (Amending) Law (No. 2) of 2015, regarding a appointment of an examiner
This amendment introduces a restructuring procedure for viable companies which have run into financial difficulties. In particular, the law provides for the appointment of an examiner to a company by the court, when the company has a reasonable prospect of survival as a going concern. In essence, it provides an opportunity for companies that are insolvent to explore all options available to them without the threat of any legal proceedings to be initiated against the company, including the appointment of a receiver or the filing for a winding-up order for the period which the company is placed under the protection of the court pending the preparation of the Examiners’ proposals for a scheme of arrangement and its approval by a class of creditors.

5. Insolvency Practitioners Law and Insolvency Practitioners Regulations of 2015
This law and regulations provide for the authorisation, licensing and regulation of the profession of Insolvency Practitioners. These set out the minimum qualification criteria, as well as the duties of Insolvency Practitioners.
The Sale of Credit Facilities and related matters Law

In November 2015, the House of Representatives adopted legislation on the sale of credit. Under the law, any person with the intention to establish a credit acquiring company must obtain the prior approval of the CBC. It is also noted that for all sales of loans irrespective of the outstanding loan amount, in the case of a loan sale borrowers maintain all rights provided by existing legislation and CBC’s directives, including the code of conduct for arrears management and insolvency framework.

The scope of the law covers credit facilities granted to:

i. Natural persons who received loans from licensed credit institutions with a total loan balance at the time of acquisition of the loan not exceeding €1,000,000;

ii. Very small and small businesses that received loans from the licensed credit institutions with a total loan balance (including the loans granted to the connected persons, “Group of Companies”) of up to €1,000,000.

iii. There are exempted credit facilities from the scope of the law and these include those that are granted by licensed credit institutions, including their branches, to a natural person who is not a Cypriot resident or to a legal person which is not registered in the Republic of Cyprus; or relate with operations and/or investments outside the Republic of Cyprus; or have included as primary security, mortgage and/or charge on immovable property which is located outside the Republic of Cyprus; or are governed by the Law of another country.

According to the law, the legal entities that are allowed to acquire credit facilities are:

i. A credit acquiring-company including an asset management company, either with private or public funds, in accordance with the European law on state aid and taking into account the sustainability of the public debt, which is incorporated in Cyprus and is granted prior authorization by the CBC pursuant to the provisions of the law.

ii. An authorized credit institution in Cyprus.

iii. A credit institution authorized and supervised by the competent authority in another EU member state that has the right to provide services or to establish branches in the Republic of Cyprus;

iv. A financial institution that is a subsidiary of a credit institution registered in an EU member state and which has the right to provide services or establish a branch in the Republic of Cyprus.

Authorisation for the operation of a credit acquiring company will only be granted to legal persons that have been incorporated in the Republic of Cyprus, provided that the CBC is satisfied, inter alia, that: these legal persons are in a position to fully comply with the provisions of the Law; they are able to maintain at all times a minimum paid up share capital of at least one hundred thousand euros (€100,000); their shareholders and directors meet the criteria of fitness and probity; they have an organisational structure that enables them to provide services in accordance with the provisions of the Law; and their planned operations do not raise concerns regarding financial stability in the Republic of Cyprus.

In order to establish a credit acquiring company in Cyprus, a legal person may submit to the CBC an application with the accompanying documents specified in the Law and in the relevant Directive. The Directive regulates, inter alia, the procedures for granting an authorisation by virtue of the provisions of the Law, the criteria for the fitness and probity of shareholders, directors and key function holders, the internal organisation and governance of the CAC and the outsourcing of operational functions to third parties.

On grounds of national interest the CBC may (i) deny legal persons the granting of the authorization regarding the acquisition of credit facilities in the Republic, or (ii) not permit the acquirement or increase of a special interest in a credit acquiring-company, and (iii) not permit the appointment of a director at a governing body of a credit acquiring-company.

Before the total or partial sale of the credit facilities, the credit or financial institution must notify its intention to sell or dispose of all or part of its portfolio, giving the right to the borrowers and to their guarantors, if they wish so, within a time period of forty five (45) days, to submit a proposal for the acquisition of the credit facility which is under sale. Alternatively, the credit or financial institutions may invite the borrower involved and its guarantors, within a period of forty-five (45) days, to submit a proposal for the acquisition of the credit facility which is under sale with a letter to the borrower and its guarantors. The borrower is not required to submit a proposal for the acquisition of the credit facility which is under sale; if within the period of forty five (45) days the proposal is not submitted, then it shall be presumed that
the borrower does not wish to submit a proposal. Any credit facility transferred by a credit institution, financial institution or a credit acquiring-company (hereinafter referred to as “the transferor”) to any acquirers, is considered to be transferred to the acquirer at the time of transfer, and all rights and obligations arising from the credit facility contract of the account which is in this way transferred, are transferred automatically and bind the acquirer and the borrower. The acquirer of credit facilities substitutes the transferor in respect of all the rights relating to the collateral which are attached to the credit facility agreement and which are held for securing repayment of the credit facility and for the same purpose, the collateral is transferred to the acquirer. The acquirer of credit facilities has the same rights, the same priority rankings and is subject to the same obligations relating to the collateral held for securing repayment attached to the credit facility agreements that the transferor had.

Finally, each credit institution, financial institution or credit acquiring-company has an obligation to inform the borrower within a maximum of five working days from the date of the acquisition, that the credit facility agreement and the related collaterals have been transferred to another person. Every credit acquiring-company provides to the borrower all relevant information-contact details of the persons responsible for handling credit facilities that have been transferred as well as the new.
KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We have more than 174,000 professionals worldwide working together to deliver value in 155 countries.

KPMG’s dedicated practice in Cyprus was set up more than a decade ago with the aim to advise clients on a diversity of issues relating to the real estate, hospitality, leisure and tourism industries. Our global coverage, the network and international experience of our team, combined with the ability to draw upon local know-how within the KPMG international network, give us unparalleled strength in advising in the real estate, leisure and tourism fields. KPMG clients range from international hotel chains to independent hoteliers; from individual hotel investors to international private equity houses investing in hotels and resorts; from financial institutions to real estate developers.
How can KPMG help?

KPMG operates through fully integrated teams that include professionals across our Audit, Tax and Advisory practices who combine a wide range of skills and experience tailored to meet the individual needs of our clients. We believe in bringing our clients to the centre of our activity and positioning ourselves at the heart of their business. This enables us to fulfil our role of providing advice based on a thorough understanding of their objectives.

Particularly KPMG can assist you through a number of projects, including the following:

- Market and financial feasibility studies – strategic market assessment and comprehensive financial analysis to assess potential investment returns for different projects in different target markets;
- Project conceptualization and investment planning – development of realistic and implementable concepts with short, medium and long term investment planning;
- Project Management and Business plans – strategic direction for the realization and delivery of project concepts, from financing to staffing and marketing and sales;
- Business performance improvement – assessing existing facilities and providing approaches for cost savings whilst simultaneously enhancing market opportunities;
- Valuation services – preparation of asset and business valuations for financing assessment;
- Deal structuring – advice as to the efficient legal and tax structuring of a transaction;
- Investor search – preparation of the information memorandum for the investment opportunity, as well as approach and selection of interested investors and assistance in the transactions process.

- Immigration services – for both EU and third country nationals, including applications for immigration permits relating to EU nationals registration certificate and residence card, as well as third country nationals immigration/residence permit, family reunification and Cyprus citizenship.
- Tax services – advice, including in relation to transfer of immovable property and property taxes.
- Corporate recoveries.
  (a) Solvency assessments and Independent business reviews.
  (b) Lender and borrower assistance to corporate entities both at an early stage as well as at a crisis stage and acting as facilitators in negotiations.
  (c) Restructuring of assets, loans or operations, identifying and addressing of critical issues and seizing opportunities presented by current economic conditions.
  (d) Acting as facilitators and assisting with the implementation of solvent reconstructions and schemes of arrangements.
  (e) Undertaking formal appointments to carry out compulsory and voluntary liquidations, examinerships, receiverships both in insolvency and in group reduction or restructuring scenarios.
- Examinerships - provide assistance to companies by restructuring their loans and liabilities based on a feasible restructuring plan to be approved by the creditors and provide protection to the company on possible liquidation.
- Restructuring - assist the companies to restructure rapidly asset, loans or operations and get their business back on track, identifying and addressing critical issues and seizing opportunities presented by current economic conditions.
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