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A Synopsis of the Real Estate Market and Process in Cyprus

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Introduction

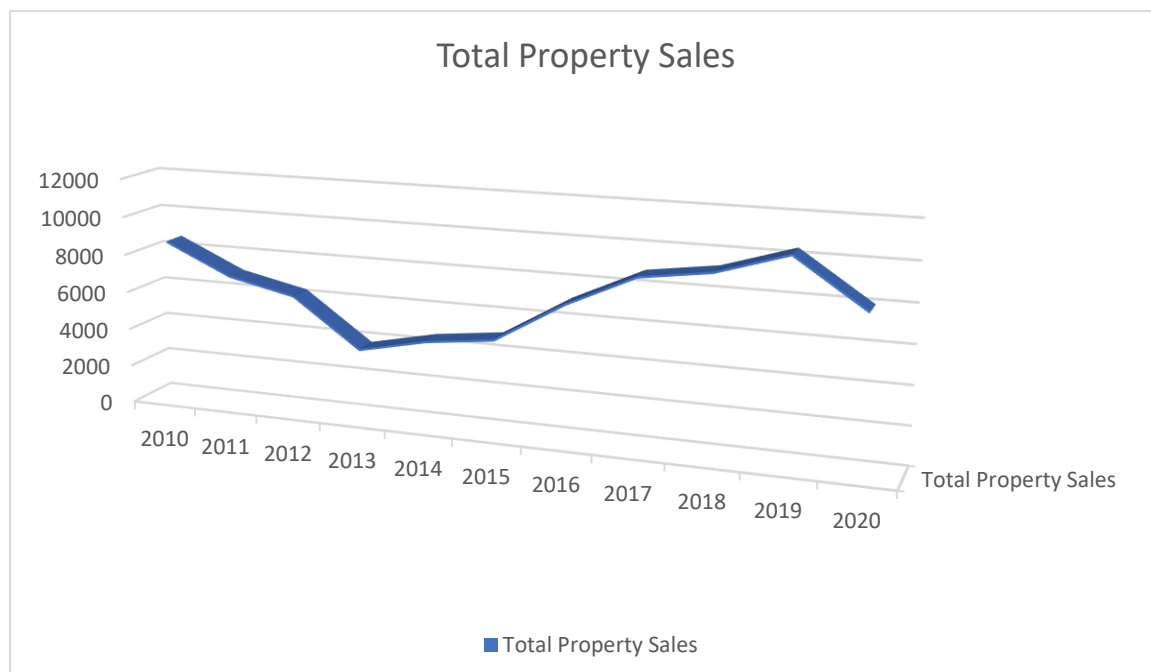
Being located at the heart of the Mediterranean Sea, blessed with unparalleled natural beauty and endless sunshine throughout the year, Cyprus has been renowned as an ideal location for building not only a holiday residence but a home for your family as well.

The country has been a member of the European Union since 2004 and is established as a respected hub for doing business mainly due to its advantageous tax system, investment incentives and services-offering oriented culture. When this is topped with a growing real estate sector that offers prestigious opportunities and a well-structured framework for property services, there is no doubt as to why Cyprus is considered as an attractive real estate market by people across the globe.

The Real Estate Market Evolution

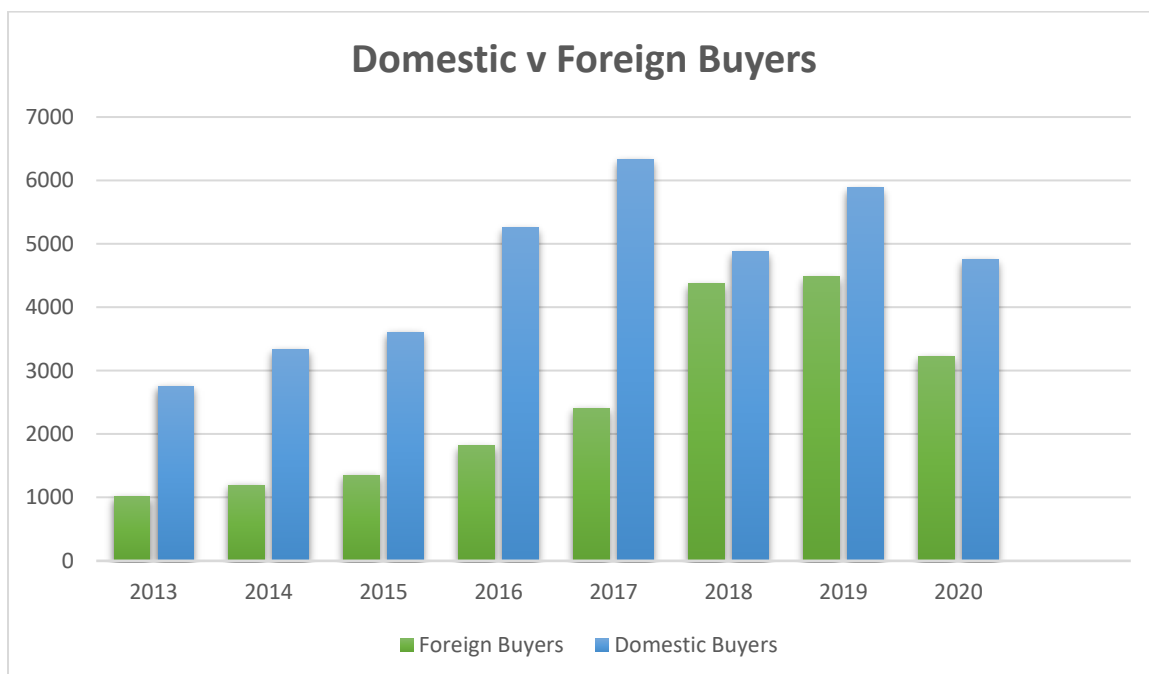
Even though the market has seen a slight decrease in the volume of property sales and values during the past year due to the termination of the Cyprus Investment Program and the effects of Covid-19, real estate is still regarded one of the main pillars of Cyprus's economy. According to the Department of Lands and Surveys (the "DLS"), the country has seen a stable increase of contracts of sales since 2013 which, as previously stated, was followed with a decline during the year 2020.

In particular, Limassol is the city holding the majority of property sales with both locals and foreigners investing in the city's high-end properties. In 2019, a year during which real estate peaked, Limassol alone held 33.9% of the total sales in the country. The city's success is highly influenced by the effects of the Cyprus Investment Program which attracted high net-worth individuals to this coastal city. The sudden termination, however, of the Cyprus Investment Program is expected to affect the superiority of Limassol over other cities and the performance of the real estate sector as a whole.



The accession of Cyprus to the EU meant the termination of any prior restrictions in buying real estate in Cyprus by EU citizens. Accordingly, EU citizens can purchase property in Cyprus freely. In contrast, non-EU citizens must obtain permission from the country's Council of Ministers following the execution of the sale agreement through the submission of a written application. It should be noted that such applications are usually approved, however, it may take a while to process.

In any case, Cyprus has attracted a large pool of foreign investors over the years. Between 2013 and 2019, the island has witnessed an increase of 340.6% to the total number of buyers from abroad. While domestic capital has traditionally been the backbone of the real estate sector, since 2018 things have changed with the total number of foreign and domestic buyers being more evenly split. For example, in 2020 over the total number of sales in real estate 40.4% were by foreign buyers and 59.6% by locals.



How are Property Prices Affected

Based on data from both the Central Bank of Cyprus and the Royal Institution of Chartered Surveyors (RICS) in Cyprus, residential property prices have been declining during the period between 2010 to 2016. However, since then the prices have been steadily rising. Specifically, there has been an increase of 12.3% in apartment prices and 3.8% in house prices between 2016 and 2019.

According to RICS, the market capital value of apartments increased by 0.1% on an annual basis while for houses, market value decreased by -0.1%. In contrast, rental values increased by 0.5% and 0.8% for apartments and houses respectively on an annual basis.

Common Steps in Real Estate Acquisitions

Even though the full extent of the pandemic and CIP's termination effects remain to be seen, it is undoubtable that the island is still high on the apex of real estate investment destinations. This is further supported by the streamlined and straightforward framework governing real estate acquisitions in Cyprus.

Due Diligence

Typically, the first step in property acquisitions is the carrying of a due diligence exercise in order to, inter alia, verify the information provided by the seller, determine whether the property is burdened by any encumbrances and ensure that all necessary licenses and/or permissions are in place.

Waivers

It is not unusual for properties to be burdened by a mortgage registered in favour of a banking institution. If this is the case, the said banking institution will be requested to waive the rights created in its favour by the registration of the mortgage on the property. Such waivers carry certain conditions which the seller and buyer will need to satisfy.

Sale Contract

Following the performance of the relevant due diligence and searches, the parties, as a best practice, will enter into a Sale Agreement which shall stipulate the terms and conditions of the transaction. It is important to note that on the 2nd of April, 2021, the House of Representatives announced a new amendment regarding contracts of sale for real estate which states that only registered lawyers should draft sale agreements of real estate or other documents relating to property transactions.

Permits and Final Approvals

If the relevant property is regarding real estate that shall be constructed, then before the commencement of construction, a Town Planning Permit and a Building Permit must be obtained from the relevant authorities. Permits must also be obtained with regards to any proposed changes to the project which affect the planning of the construction.

The relevant authorities will inspect the development following its completion to verify compliance with the terms of the Permits and, if satisfied, will then issue a Final Approval for the development.

Filings with the DLS

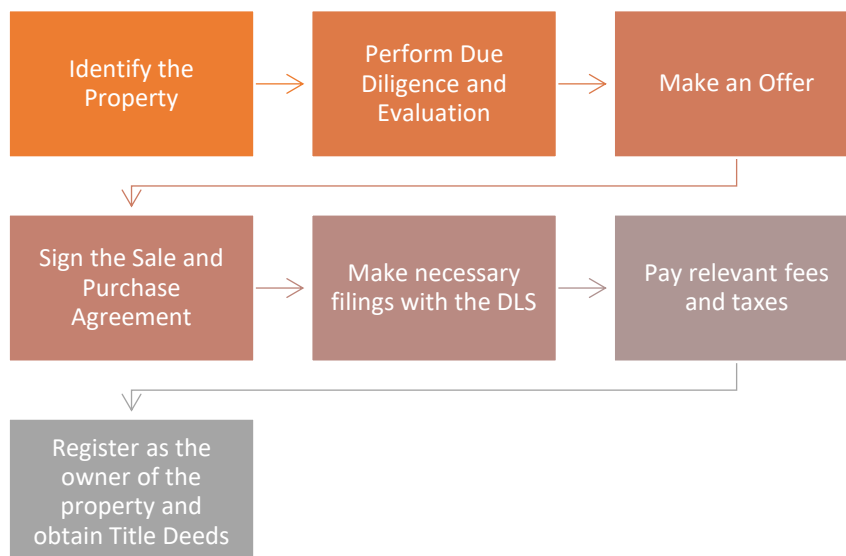
The buyer has the right to file the executed Sale Agreement with the District Lands and Surveys Office (the "DLS") within six months from execution. In practice this is done to officially

register the property as having been purchased by the buyer and to ensure that the seller is blocked from disposing the property to any third party. It also gives priority to the rights of the buyer under the sale agreement over other encumbrances which may be filed with the DLS.

Title Transfer

After the relevant filings with the DLS, the title deed of the property can be transferred to the name of the buyer, following which, he will appear as the new registered owner of the property. The transfer of ownership is effected by a simple registration with the DLS. The prescribed application form N270 should be completed for submission together with:

- ✓ The registration certificate (title deed) of the property.
- ✓ Copy of the Council of Ministers' permission to acquire the said property (if applicable).
- ✓ Written confirmation from the Central Bank of Cyprus that purchase is done by foreign funds(if applicable).
- ✓ Evidence of payment of all property taxes to date (these taxes may include sundry municipal/local authorities taxes and sewage tax).
- ✓ The contract of sale duly stamped.



Main Tax Considerations

Transfer Fees

The buyer may also be required to pay transfer fees in order for the DLS to complete the transfer of ownership. Payment is due when the transfer of the Title Deed in the name of the buyer takes place. The fees are calculated based on the market value of the property at the date of the purchase, as below:

Value of Property	Transfer Fees Rate (%)	Accumulated Fees (€)
0 - €85.000	3%	€2.550
€85.000 - €170.000	5%	€4.250
Over €170.000	8%	Depends on exact amount

It is important to note that if the property is in joint names, then the purchase value is divided into two parts which results in reduced Transfer Fees.

Transfer Fees will not be payable for properties which are subject to VAT and Transfer Fees are reduced by 50% for those who do not pay VAT on their purchase.

Further to the above, certain transfers bear fixed transfer fees which are calculated as follows:

- from parents to children: n/a
- between spouses: 0,1%
- between third degree relatives: 0,1%
- to trustees: €50
- Mortgage registration fees are 1% of the current market value.

Value Added Tax (VAT)

The current VAT rate in Cyprus is 19%, however, pursuant to Law on Value Added Tax of 2000, the buyer may pay only 5% VAT if several criteria are satisfied:

- ✓ The buyer must be an individual (not a company) who has completed their 18th year of age on the date of applying for the reduced rate;
- ✓ The buyer must acquire the property for use as their principal and permanent place of residence in Cyprus;
- ✓ The application for a planning permit (or a building permit where no planning permission is required) must be submitted to the competent authority after 01/05/2004;
- ✓ The application must be submitted before the applicants have moved in the dwelling;
- ✓ If the beneficiary has received a grant under the Special Grant (Purchase or building of a Home) Law, he or she is not entitled to apply for a reduced VAT rate before the expiration of 10 years from the time he/she received the sponsorship, unless he/she attaches a certificate from the Grant Agency that he/she has reimbursed the grant or part there of it, accordingly;
- ✓ The reduce rate 5% applies only the first 200 m2 of residential property, according to the architectural plans, approved by the official authorities in the Republic of Cyprus. For the remaining area, the buyer will have to pay the standard rate – 19%.

Stamp Duty

The buyer is liable for the payment of Stamp Duty within 30 days from the signing and depositing the Contract of Sale with the DLS. The Stamp Duty is calculated on the purchase price of the property at the following rates:

First €5,000	€0.00
€5,001 to €170,000	0.15%
over €170,001	0.20% with a cap at €20.000
Contracts without fixed sum	EUR 35.00

Other Taxes

Property owners are subject to additional tax considerations, including local authority charges for refuse collections, street lighting, sewerage etc., annual municipality taxes or potential capital gains or inheritance taxes.

Conclusion

Despite the recent down drop of the real estate market, which is understandable given the situation globally, Cyprus is still regarded as a competitive international business centre with a favourable taxation system, great weather, high quality of life, access to double taxation treaties and the European Union market. Most importantly, the island offers an array of attractive real estate opportunities which have established Cyprus as a desirable destination for investors.

The foregoing should not be read or construed or relied upon as legal advice in any specific or individual circumstance.

In the event of any query or need for clarification please contact the undersigned.

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