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# π The Effect of China's Limit on Outflows in Cyprus Real Estate Market

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# **The Effect of China's Limit on Capital Outflows in Cyprus Real Estate Market**

University of Neapolis, Paphos

Masters in Real Estate



DISSERTATION

PANIKOS FTOCHOS

Paphos, September 2020

*I want to dedicate this dissertation to my wife for the support and understanding she shows since the beginning of my Masters degree.*

*I am very grateful and thankful to my professor Dr. Petros Sivitanides for his support and guidance from the beginning to the end of this dissertation.*

# Contents

Introduction.....	7
ABSTRACT .....	9
LITERATURE REVIEW .....	10
<b>Summary of Findings</b> .....	21
METHODOLOGY.....	22
Chapter 1: Theoretical concept of Capital controls.....	23
<b>1.1 Introduction</b> .....	23
<b>1.2 The target of capital Control Policy</b> .....	23
<b>1.3 The history of Capital Controls</b> .....	24
<b>1.4 Capital flow control measures</b> .....	25
<b>1.5 Diversification of Capital Controls</b> .....	25
<b>1.6 Capital Controls From China’s point of view</b> .....	27
<b>1.7 Advantages of Capital Controls</b> .....	31
<b>1.8 Disadvantages of Capital Controls</b> .....	31
<b>1.9 Recap</b> .....	32
Chapter 2: Real Estate Sector in the Economy of Cyprus.....	32
<b>2.1 PANCYPRIAN STATISTICAL DATA FOR TRANSFER OF SALES AND CONTRACT OF SALES TO FOREIGN BUYERS</b> .....	36
<b>2.2 Cyprus Investment Program</b> .....	39
<b>2.3 Post and Pre CIP Analysis of Real Estate Market of Cyprus</b> .....	41
2.4 Cyprus revenues since Citizenship Program (CIP) .....	42
<b>2.5 Covid-19 impact in Cyprus economy and Real Estate Market</b> .....	44
Chapter 3: Survey Data Analysis.....	46
Chapter 4: Conclusions and Recommendations.....	66

Appendices ..... 68

**List of Figures** ..... 68

**List of Tables** ..... 69

Referencing..... 70

## Introduction

Cyprus is on the way of a new economic era. After the economic crisis period 2009-2015, the country has recorded promising data on Gross Domestic Product (GDP) and Inflation growth. Public debt since 2017 has dropped below 100% (97.5%) and in 2018 International rating agencies like Standard & Poor's and Fitch have recently rated Cyprus as capable to be back in the investment category. Central Bank of Cyprus (CBC) was also rated from steady long term prospective to positive, by Fitch. The same year, a positive rating was also been evaluated by Moody's, however they put Cyprus one step below the investment category. Recently, on September 2019, Moody's has set Cyprus rating to Ba2 category that means is judged to be speculative and is subject to credit risk but the outlook of this is positive, they add.

Inflow and outflow capital controls are set by the government or the central bank of a country. The reasons of doing that vary but mostly we are going to see how these measures impact in real estate sector. Basically, such measures give the ability to governments to control the economy and manage risks like excessive fund out of the country. For example, locals buy property abroad or foreign people buy domestic property, excessively. These measures may have negative effects on equities, bonds and foreign exchange trades. In order to outcome the economic crisis, the Ministry of finance and CBC made a lot of modifications on the management of economics and the parliament has put a lot of effort in order to re-attract foreign investors. As a fact, currently Cyprus's economy depends on a huge percentage in Foreign Direct Investment (FDI). The progressive rating along with the crisis recovery has a lot to do with foreign capital inflows, especially from China and Russia. Both are highly benefitted from the Cypriot citizenship so they invest or buy properties in order to gain the advantages offered.

On the other hand, many questions need to be answered under the circumstance of Chinese government setting a limit on capital outflows. Cyprus



citizenship not only benefits the Chinese but also Cyprus economy. Undoubtedly, this financial measure forced the economy of Cyprus to start moving upwards again. Construction sector was recovered as all kind of building projects are in demand. Local people could find jobs again, unemployment was reduced and by receiving salaries they could build, shop, rent or buy accommodation.

As a fact, Cyprus is being accused as a state of entanglement, fraud and money laundering. Since 2013 the government of Mr. Anastasiades (ΔΗΣΥ) has published over 5000 passports with 0% of rejection. This has urged opposition party (Progressive Party of Working People, AKEL), along with unshakable evidence, to put pressure on the ruling party when investigating future applicants. Adding this, the prevailing impression of Europeans, perhaps with substantiated evidence, is that most passports were issued through a well-established network with a mixture of political entanglement and selfish economic interests. Another crumple of this topic is whether an applicant is coming from trouble regions or encounter visa restrictions. An additional passport with significantly less restrictions allows easier movement and opportunities for business (Williams and Hosein, 2019).

Despite their attractiveness, Visa and passport schemes were set to a limited number. However, this number has long ago been over exceeded due the economic advantages exchanged. This policy is one of the major reasons that reconstructed real estate market in Cyprus.

## **ABSTRACT**

This dissertation mainly investigates the effects and risks that theoretically can arise in Cyprus' real estate market due to China's Capital Control Policy. To achieve this we have compared construction and real estate activity in Cyprus by Foreign Buyers and investors based on a 10 year period. Initially, we have collected RE transaction data based on foreign people. These data were collected from the Statistical Service of Cyprus to see if there is any possible change in Chinese capital inflow before and after the Chinese capital restrictions. Also, we have contacted real estate professionals along with China's and Russia's Embassy in Cyprus in order to collect information about foreign buyers and how many of them have Cyprus Citizenship, a major "KEY" in real estate development. More, a questionnaire was sent to Real estate professionals for further information.

Some of our findings show that Real estate sector is a pillar of Cyprus economy and a big percentage of cash-flow comes from abroad. Even though, Chinese Capital Controls have not affected Cyprus real estate (RE) industry that much. Chinese people can outflow their money with different ways out of China. Even more, China is not our biggest RE foreign investor so Cyprus is not facing a high level risk in this industry. Unfortunately, the exact number of Chinese Buyers was not accessible but we strongly believe that our assumptions along with our indisputable questionnaire data have resulted to the most accurate conclusions for this topic.

## LITERATURE REVIEW

For the purpose of this dissertation, we had to collect data from previous case studies. These studies will help us identify major economic impacts of similar situations in the past but also find missing information and try to answer them. Data collected are based on similar situations from different countries from the European Union (EU) and non EU. Adding to this, the approach of collecting data will help us to fully understand the subject we are about to examine in terms of legality and validity. More, we are going to examine other researchers' conclusions and recommendations and decide whether we agree or disagree. Also, by analyzing our own findings we will be able to draw our own opinion and conclusion according to their results.

To begin with, Solomou Georgia (2017) a former student at Piraeus University, has examined the capital control impact on the economy of different countries in Europe and outside EU. Case studies of countries that applied capital controls are explained of how they were used and the outcomes they received. The author includes both advantages and disadvantages. Countries which entered rescue programs seem to be more benefited from such controls but negatively affected as well. Solomou Georgia considers in her research some Cyprus economic facts according outflow restrictions and how they were used in order to help the country overcome the recent crisis period. The writer refers to the Cyprus outflow restrictions in order to show the importance of such measures and the benefits they succeed, on the long term, in terrible economic periods of a country. She describes step by step the reasons why to apply them and their significant results. The most important role of this research is to help us understand how such capital measures work, where they apply and what the outcome is. Georgia puts in excel social economic factors for 10 years of 20 countries and she finds results of lower, average, mean prices and standard deviation of these variables in foreign investments under outflow boundaries. She concludes that outflow restrictions could support a weak economic system but also could negatively pressurize the

investment sector of a country. Finally, she wants us to be warned in case of such measures so our actions in investments will not result to an economic disaster.

Li Sheng (2012) develops a series of new models in order to emphasize the tradeoff between instability and growth for countries that use free international cash flow. This author analyses how a rational country makes an optimal tradeoff between economic growth and financial volatility and examines how countries interact strategically with each other in case of expected financial risk and why they need to choose their capital account regime according to the Nash equilibrium. The Nash Equilibrium is a decision-making theorem within game theory that states a player can achieve the desired outcome by not deviating from their initial strategy. In the Nash equilibrium, each player's strategy is optimal when considering the decisions of other players. The author also examines whether capital controls or free mobility market is a more effective approach to achieve economic growth. Even more, he refers to how short term capital flows can affect the economy by developing externalities and explains that capital controls require a stable long term environment that is not controlled by speculative volatility. The conclusions here are that free cash flow mobility may result to financial risks in contrast to capital controls which theoretically can balance the distance of private equilibrium. The author concludes that managed cash flows and capital restrictions are preferred than free capital mobility.

Karita Kan (2017) explains the investing relationship between China and Hong Kong. The author explains the desire for both countries to cooperate so they could be benefited in geopolitical, economic and cultural fields through real estate due to mutually beneficial relationship on economic development and inbound FDI. The approach was based on local policies of land finance, trade agreements and other property rights which enhanced the real estate sector between the two. Karita highlights the importance combining geopolitical, economic and cultural perspectives in the study of foreign real estate investment and housing studies. The conclusion in such

case is a good example of perspective in the study of foreign real estate investment and housing.

Rogers and Koh (2017) have examined the geopolitics of foreign real estate and explained the different types of independent investors that seek residential property in other countries. As they stated, a new residential apartment in a middle-class suburb in Sydney is different from an 'ultra-expensive condominium' in New York's rebranded 'Billionaire's Row'. What they try to explain is that not every investor group is always teased by what a country is offering in real estate properties. This article helps us to understand the personal motivations of international investors and in our case studies more questions emerge like what if Cyprus government should work other "visa schemes" appropriate to different investors. Furthermore, the article helps us to draw suggestions in order to be prepared when one of the major sources of finance of our country will not exist. Adding to this, the writers explain the risks taken not only from the foreign investor but also the host country. The intensions of each group are not always the expected ones. For example, imagine any investor entering a new market or culture knowing nothing more but a real estate agent who told him to and in parallel the host country is under geo-politic changes. This could not always mean prospective!

According to Chi, Zhi, Rui and Yanping 2017, capital inflows in developed and emerging countries accompany a real exchange rate appreciation that undermines the competitiveness of the tradable sector. Also, they can trigger asset bubbles and amplify financial fragility and more they tend to lead to an overheated economy, generating inflationary pressures. The authors verify their results (p.861) from previous studies. In 2003, China's real estate market attracted a significant amount of international capital by international individuals or institutions. This led to higher Housing Prices from 2003 to 2004 and the RMB was expected to increase against U.S Dollar. Due to this, more International Cash Flows (ICF) were invested into the Chinese housing market. The authors sum up agreeing that ICF in China had led to an increase of housing prices in contrast to the rise in housing wealth which mostly generated by the bubble led to

higher consumption which in turn led to an increase in borrowing from abroad and a substantial international capital inflow to the country.

There is a big reaction from other researchers whether the foreign capital inflows play a role on increasing the prices on housing in emerging economies (Sousa2007; Kim and Yang2011;Tillmann2013) or even are associated with higher housing prices and that affects a country's level of income (Jansen2003; Kim and Yang2009; Olaberría2011; Ferrero2015). The authors conclude that when the yield of the housing market is lower than that of the other markets, ICF in the host country flows into the other markets, further generating a herding effect to induce outflows of capital from the housing market. Although the relationship between ICF and HP in China is not stable over time and even exhibits short-run deviations from the positive link, it actually aligns with the fact that high HP can produce boom-bust cycles.

Galanos and Poufinas (2018) studied the policy applied for attracting foreign direct investments and the impact of such policy on countries that were affected by the crisis. The authors explain how each one of these countries performed under these policies and why some have managed to exit the crisis in contrast with others still being under the adjustment programs. As they state, the only tools for restarting the economy were the improvements and competitiveness and the increase in foreign direct investment (p.226). Unlike other EU countries, the authors state that due to Greece's lack of competitiveness compared to her peers other enhancements must be made but still its deficit results are estimated to be overall negative.

Linda k. and Ineta G. have analyzed developing tendencies in Latvia due to foreign real investments in the country by going through different scientific and practical aspects in order to define their impact on the economy of the country. To achieve this, the authors have used statistical analysis, comparative and logically constructive methods. Some major aspects that interrelate with investment flows and real estate market that the authors stated are:

- Investment relationship with the real estate development process

When two or more countries have FDI capital flowing in their banking system they become financially fragile. The reason that mostly affects the host country is that it develops a unilateral based economy. The lack of diversification and no other major sources of cash flows can damage the banking system in periods where economy is emerging. In real estate industry, a construction project can be financed by foreign and domestic capital. In a project's feasibility study every aspect of construction process is analyzed in order to reach the completion point. Financing, leasing or sales management are some of these aspects that are accurately adjusted in the feasibility study. Projects that are fully financed by foreign capital do not predict monetary policies. These restrictions come without warning and investors can face big losses due to incompleteness of their investments.

- Dominant role of the real estate in business and its expansion

International real estate business like Real Estate Investment Trust (REIT) is depending on foreign capital move, in and out of a country. Any capital control limitation will reduce the foreign investors' interest and will cause negative return for the investors already in. Also, emerging economies based on real estate developments by FDI will suffer from limited cash flow leading the construction industry to collapse and the unemployment to reach high levels. Adding, the unemployed people will financially drain out the State Funds and debts from citizens who have loans will become unsustainable. Investment volumes in the country also affect the interest rates and capitalization rates. Changes in monetary policy affect the conditional mean of the short-term interest rate which in turn affects macroeconomic variables such as output, employment, and inflation (Gust and Salido, 2014).

- Crucial role of land in agricultural production and construction

Some introductory foreign investments combine a variety of considerations in order to reach the final product. These are infrastructure, real estate, machinery, know-how and technology. The reason is for them to establish their own space of productivity based on their requirements. Also, agricultural investments enter a foreign market when a specific product thrives in this climate, soil and environment or the cost of production is lower than the place of origin. These investments will not only be benefitted but also they will benefit the local real estate market. More, they will introduce new technology and other technological aspects in each industry.

- Significance of investments in the construction industry

Again, capital flow is very important in the construction and the real estate industry either from foreign or domestic funding. In order to keep these sectors operational we need to have demand from buyers and investors. Demand on Land, plots, offices, industrial, accommodation and other real estate assets will increase the construction activity which is a pillar of the economy in a country like Cyprus.

- Impact of the state economic policy on the investment flow and real estate markets.

There is a downside to lifting the restrictions; it may be attributable to the perverse effect of the controls themselves. Liberalization can make life more difficult for companies that enjoyed preferential treatment under the old protectionist schemes or for companies that already had found various ways to evade the controls. But liberalization appears to be a clear win for small companies. For example, publicly listed domestic firms become eligible for foreign ownership, their stock prices improve dramatically. She also cites evidence that lifting capital controls makes it much easier for small firms to get the investment they need to expand their operations. "This impact of capital controls on small firms can be particularly important for some emerging markets in which small and new firms are often important sources of job creation and economic growth.



The authors explain how host countries with higher or lower FDI levels can be benefited or not. There are many advantages and disadvantages whether they are applied for a long term or a short period of time. Long term investor experience is using short term returns in order to be captured. The authors also state that factors affecting the demand must also be analyzed in order to estimate the investment flow. In their study they have analyzed the following factors:

- Increase or decrease in the income of the household and their needs

Taking into account the fact that the investments in real estate market and construction industry are of great importance, they also affecting a national economy development. In consequence of the development of the construction industry, the new working places are being created, so it is advisable to take measures in order to increase the investments in the construction industry and to develop this industry and the economy in general.

- State monetary and fiscal police

Fiscal policy should take into account a number of potential problems, analyze them from different perspectives as well as review the specifics of the investment decision making. Business representatives should regularly follow the development trends of the macroeconomic indicators, including the consumer confidence index as well as the confidence indexes in the industries, in which they are operating. In the further researches, the fiscal policy regulation shall be analyzed in more details and more countries shall be involved.

- Demographic changes

FDI can create demographic changes when not allocated correctly. When investing only into a specific sector the economy becomes unbalanced. The reason is

because people and technology can only benefited from that sector leaving others apart. Work places are limited even if a sector is expanding and the trend of getting a piece in there will lead to a social status categories. People need the opportunity to mix in every different sector so everybody will be productive and able to receive wages. Income will then give them the opportunity to buy/invest and then real estate market along with other industries will flourish.

- Regional laws and regulations

Very important part of demand is policy making. The authors stated that the economic policy regulation should also take into account the needs of the society, which would at the same time contribute to the development of the total construction industry and the real estate market

The authors conclude that real estate market has to be promoted because it can minimize a lot of socio economic issues. Also, they state that the higher FDI was put in real estate by the time of their research and finally business representatives must follow macroeconomic indicators and development trends that rise from them.

Masron T. A. and Kepili E. I., 2016, have studied how foreign capital could or not elevate a host country's affordability. The authors have used a fixed effect model using 30 emerging markets in the past decade and complemented by two stage square method and their result was that foreign investment in real estate (FIRE) is very often to affect host country's affordability. Major suggestion from these authors is for host countries with emerging real estate markets to be more caution when dealing with foreign capital in the real estate so they will avoid boom or burst periods. Principal role for policy makers is to maintain housing affordability levels in case of price bubble. Agnello and Schuknecht (2009) have identified that many countries with developed economy have housing price burst as a result. Affordability's dimensions are house prices, household income and interest rates of mortgages. Reasonable housing price is a key point for emerging economies to sustain affordability levels.

Lamport et al (2017) examined changes on land prices in Mauritius. In 2002 the Mauritian government opened the market to foreign buyers under the Integrated Resort Scheme (IRS) and Real Estate Scheme (RES). These restricted schemes permitted buyers to become Mauritian residents once they purchased a luxury property in specific areas on the island. These schemes have doubled the amount of FDI in real estate in Mauritius in just one year. In order to investigate the impact on Mauritian land due to the increased FDI the authors used pooled and panel regression approaches for the period 2006-2013, using IRS and RES constructions. The results show that increase in land prices may occur due to a variety of variable, region for example. The change in regions that RIS and RES were developed was between 4% and 22%.

Uncontainable not to refer to, is what is going on nowadays. From a different site of view, FDI cash-flows can be very sensitive and unpredicted. Undoubtedly, the whole world is being tested from the new disease called Covid-19. Due to this, many global exchanges like transportation, tourism and investments were forced to stop. People postponed any scheduled businesses and health is set as their major priority. Even when in world's financial Crisis period in 2008 people could spend money on secondary goods, in contrast to this era, where we have witnessed empty stores, roads, no tourism, airplanes or even people walking. The lockdown set by some governments was the total freeze for many countries. Cyprus, as a country mostly being economically supported from tourism has come to a new financial crisis, larger than the last one. Many people have remained unemployed due to the non operation of the touristic assets and others lost more than 80% of their annual income due to the pandemic of this disease. According to Jaworek, Karaszewski and Kuczmarksa 2020, (p.282) from their results using Polish investors abroad, they pointed that "The heaviest cuts in expected earnings were reported for the following sectors: Automobiles & Auto Parts — 44%; Airlines — 42%; Hotels, Restaurants & Leisure — 21%."

Liene E. Evele, in 2019, has written a LAW dissertation of Law school of UCLan Cyprus on how positive or negative could be the Cyprus Investment Program with third-

country nationals. The author makes an empirical research in order to identify whether the Third Country Nationals (TCN) are actually receiving Cyprus's Citizenship for business reasons or they are only benefitted with personal interests. As Liene states, *"The Cyprus Investment Program has become even more attractive by offering Non-Dom tax status in addition to other attractive tax advantages that enable the avoidance of defense tax for those who were not living in Cyprus for at least 17 years during the last two decades."* However, some rights like diplomatic protection can be at risk and individuals with liabilities to more than one country must acknowledge the difficulty when in need to be protected. Conclusions here are that many applicants truly apply for Cyprus Citizenships because they are rich and they seek a better quality life for them and their families. On the other hand, others apply simply because of the investment fraud flexibility and unless they don't want their Citizenship to be revoked, every TCN must undergo the same treatment as other Cypriots.

Fotis Demetrios, in 2017, has presented his dissertation thesis on "Direct Foreign Investments in Cyprus" (DFIC). The author has analyzed a vast collection of data that are related with DFIC like forms and types of DFIC, factors that affect them and their motives. The author has examined a five year period, 2011-2015, in order to illustrate in diagrams the impact of DFIC. In many results Demetrios has pointed that one of the principal sectors of foreign investments is Real Estate activities and one of the major investors in this area is Asian countries. Very remarkable point is that real estate activities FDI in Cyprus was negative in 2013 with -0,01 Billions in contrast to 2012 where a remarkable increase of total 1.769 billion was succeeded (pp.56-58). This decrease was a result of the global financial crisis at that time. Also, the author compares pre crisis statistical data of DFIC and as we can notice the UK was the principal investor until 2009. According to this, the UK was always a major player for Cyprus's economy. Nowadays, due to the BREXIT and the depreciation of British Pound the Britons have no longer been so much attracted to the island. In our thesis we will try to answer the question whether British people still demand real estate properties in

Cyprus or if they are selling them. From the author's conclusion we see that China was not a big investor in Cyprus real estate market in the beginning of this decade. Even more, another huge investor, the UK, is unsure whether is staying or not. Another question is to define whether Cyprus real estate market is now depending on Just Chinese people whom might be unable to outflow their money or could it survive by just domestic demand.

A very important thesis was developed from Michael A., N. and Thucidides G. the authors have examined 'The Impact of foreign demand on Cyprus house prices'. the authors have examined a series of possible factors that affect house prices in Cyprus but main attention was given on the impact and repercussions of inflows in the RE market. From the very beginning the authors explain what drivers affect each country's real estate demand and supply. This drivers are the economic model of each country, the efficiency and healthiness of its banking system, the size of the real estate sector in relation to whole economy and the ease with which capital moves in and out of the country (Bernanke and Gertler, 2001, NHPAU, 2008, Balke and Keil, 2017 and Geng, 2018). Once again this dissertation agrees with above evidence that FDI can produce real estate bubbles as they are related with increased property prices, from Chi, Zhi, Rui and Yanping (2017). Also the authors state, "it appears that the only way for the domestic sector to protect itself against such surges of capital flows and retrenchments of house prices would be nothing more than to impose restrictions on real estate investments, such as the requirement to live in the country both before and after the purchase, strict due diligence check on the source of the investment, and caps on the number of foreign transactions' (p.66).

Economic theory predicts that capital should flow towards countries and firms where it commands the highest returns. China is one of the top capital exporters with 4 trillion dollars by the end of 1<sup>st</sup> quarter of 2014, (Song et al 2014).

Guest A. and Rohde N. (2017) have modeled the effects of FDI in real estate on housing prices in Australia. The writers, over a series of panel data models have found that “increases in investment are significant predictors of rises in the Australian Bureau of Statistics’ Residential Property Price Index”. Their research (The Contribution of Foreign Real Estate to Housing Price Growth in Australian Capital Cities) was based on an 11 year series from 2004 to 2014 for the two biggest cities, Sydney and Melbourne. That time, housing prices were booming at an average of 64% increase in both cities and the negative housing affordability led to Parliamentary Investigation. Due to no accurate data on foreign investment in Australia residential real estate, nobody was really knew the size of foreign investment put on them. Commonwealth of Australia, (2014) suggested stricter audit and enforcement processes at the Foreign Investment Review Board along with stronger fines for transgressions of the value of the property purchased.

### **Summary of Findings**

As we understand, international capital flows play a tremendous role in economics for both, host countries and outflow countries. The results may be positive but sometimes negative if not managed wisely. Any limit and restrictions are set by the government along with the agreement of central bank of each country for many reasons. In order to measure the scale of their impact (in long term or short term economics) in a host country we need to collect different data and examine how they will affect the economic progress in an emerged or an emerging economy. More, FDI can lead to economy and demographic changes. Policy makers must consider the impact on social status and quality of living for all the people in the country. From our literature review we acknowledged that FDI can create job places and introduce new technological features in the host industry. However, the opportunities that arise can lead to socioeconomic changes and future political issues. Another question is what happens when this stops. The continuous flow of foreign capital can help the economic

development of a country but non diversified financial sources can lead to economic disaster.

## **METHODOLOGY**

To deliver our dissertation, methodology from previous case studies in similar topics is to be examined in order to help us focus on the areas and variables that need to be identified. The very first point is to find as much recorded data based on real estate development, construction, transaction, housing, economy and socioeconomic data for at least 10 years to present. These data are going to be compared with the post and pre Cyprus Investment Program (CIP) which is very popular in attracting Chinese real estate buyers and investors.

Our aim is to specify whether there is any impact of China's outflow capital control in Cyprus Real Estate Market.

Our second target is to define whether real estate sector in Cyprus is at any risk due to any lack of foreign cash flow sourcing from china.

This study will also include a questionnaire for collecting important data based on Chinese inflow in real estate industry. Real estate agents are the principal source of collecting data for this thesis. Professionals like them can track the progress of real estate market in Cyprus and where it is mostly originated. The department of land and Surveys is one of the most appropriate places to collect information from, too. Transaction history about real estate property bought from Chinese owners, what type of property they prefer and what purchase ratio there is between them and other foreign buyers are some major data to be collected. Furthermore, we are also going to approach land developing firms. Information about who they built for, what size and quality will provide us with comparable criteria, if any, between Chinese and Cyprus citizens. Even more, we need to find out if the land developing industry and real estate agencies co-operate with real estate agents in China for tracking Chinese buyers or if they are just attracted because of other personal advantages. Adding to this, we are going to find out what was the demand in developing companies and profits from the

Chinese and where it leads. Moreover, we need to understand if there is a bubble on real estate market due to Chinese Direct Investments in Cyprus and if banking system is depending on them. Finally, we are going to search for answers whether Chinese buyers are still able to apply for Cyprus citizenship/visa or if this program is going to end soon.

All in all, we understand that Chinese real estate buyers/investor play a basic role in Cyprus real estate market but in this thesis we are going to investigate if any loss of Chinese inflow will change the progress of real estate market. Our research and questionnaire results will be presented in tables and diagrams. The questionnaire will also be printed and handed in with this thesis.

## **Chapter 1: Theoretical concept of Capital controls**

### **1.1 Introduction**

Capital controls are set from the government or Central Bank of a country. The reason is to adjust cash-flow in and out of the country's national accounts. Such policy can reduce the ability of people to acquire foreign assets and foreign people to acquire domestic assets. In the last 3 decades many economists have prepared studies on such policies in order to find out the outcomes of capital movement between countries and their economies. Many examples were discussed in our literature review. This part of our dissertation will help us understand the theory behind capital controls and we are going give some historical example of how they were enforced in some countries and their outcome.

### **1.2 The target of capital Control Policy**

Due to multiple potential effects of free capital flow, control over their movement is the solution of many. Control policy could either apply on inflows or outflows individually, in order to address different faults in each category. Many countries have enforced such measures in advance of an upcoming risk but there are many who had to adjust their outflow activities in order to overcome economic failures of their management.



Usually, Inflow capital control applies in order to:

- Correct the balance of payment surplus
- Prevent any volatile inputs
- Prevent economic destabilization
- Prevent real revaluation
- Restrict the excess possession of domestic capital from foreign ownership

Parallel, outflow capital control applies in order to:

- Generate Revenue
- Repress finance
- Correct the payments balance
- Preserve savings for domestic use

### **1.3 The history of Capital Controls**

According to Bretton Woods system, capital controls were an integral part. The system aimed at building financial stability after World War II (WWII) until the early 1970. The freedom of capital movement was very beneficial from every point of view between political parties. The Asian financial crisis in 1997 had been the first challenge for capital controls to be addressed as financial crisis measures. In 2008, at the beginning of the global financial crisis, International Monetary Fund (IMF) approved capital controls as crisis response mechanism.

Today, institutions accept audits as policy measure. United Nations Bank, World Bank and the Asian Bank support that capital controls as sufficient method for regulation, however there are some insecurities on how long their effectiveness will hold.

## **1.4 Capital flow control measures**

Restrictions may apply for specific sectors or economy generally. They can apply for all cash-flows or they can diversify into specific type and the duration of it like mortgages, long or short term investments, equity and more.

Capital restrictions concern asset categories like shares, bonds, foreign exchange transactions and the amount of exports and custom duties on imported products. So, their enforcement could truly affect the financial activities of a country.

## **1.5 Diversification of Capital Controls**

Every capital control has changes upon different circumstances and their level of success varies. Good examples of capital control diversification are the cases of Latin America, Iceland, Greece and Cyprus, which we are going to examine.

### **The case of L. America**

Since 90's, countries like Brazil, Chile, Colombia and Peru used to enforce inflow capital controls with an unpaid obligation to keep minimum reserves. In 1992, Brazil put tax on stock market's foreign capital and investments from foreign investors in the country. Following to this, after the economic recession period, the Brazilian government diversified their capital control policy many times in order to combat the appreciation of their currency in the national market. Stock market exchanges by foreigners, shares, bonds, loans and also individual debtors were taxed from 1,5% to 6%.

Chile, in 1991, introduced controls on capital inflows. This policy was designed without remuneration of mandatory minimum reserves but substantially this was a tax or a loan to the Central Bank of Chile. Anyone borrowing money from abroad should deposit percentage of the amount to the bank in an interest free account. At the beginning, the deposits were stable for 90 days and later for a whole year. During that decade the percentage of loans was set at 30% and gradually it was abolished.

In Columbia, like Chile, capital restrictions were enforced as imputed tax on foreign financing. In a similar way, here, capital controls took the form of a variable minimum reserve requirement on foreign loans, other than trade credits, received from the private sector. Initially, this obligation was set at 47% for loans with duration shorter than 18 months. Reserve requirements became stricter (according the loan duration) due to the large inflow in that time and the percentage of required minimum reserves was inversely proportional to the maturity of the loan. Thirty day loans are subject to a flexible minimum reserve requirement which makes them almost prohibitive, while five year loans had to meet 42.8 percent of deposits. Years later, 2002, another control policy was enforced. Foreigners investing in the country must keep their capital at least one year in the country.

### **The case of Iceland**

The government and the Central Bank of Iceland have formulated a monetary and economic policy in order to achieve stability between exchange rate and economic issues. In October of 2008, they enforced capital control in order to avoid a mass capital outflow from foreign investors after the collapse of the financial sector in the country. Some measures they enforced are:

- Prohibition on investment in mobile financial instruments, securities, investment funds, money market denominated in foreign currency
- Prohibition on the issue and sale of financial instruments where settlement takes place in a currency other than the issuing currency, if the Icelandic Krona is one of the settlement currencies
- Restrictions on the amount of borrowing per year (up to 10M kr.)
- Obligation to submit the foreign currency to a financial institution within two weeks from the moment of acquisition

- Restrictions on withdraws from accounts in foreign currency in Iceland or purchase of foreign currency from financial institution to Iceland
- Restriction on the export of foreign currency in cash up to 500k kr. per individual per month

### **The case of Cyprus**

In March, 2013, Cyprus became the first country in the European Union that enforced capital controls with withdraw and outflow limitation. Cyprus importers could only pay for their goods after demonstrating supporting documents. Credit cards could be used from abroad up to 5000eu withdraws per month and travelers could carry up to 3000eu in cash per person. In Cyprus, every depositor could withdraw up to 300eu per day and every legal person who lives in the republic of Cyprus should transfer any money earned from exports or by selling assets to the country within 2 weeks from the transaction date.

### **The case of Greece**

In 2015, Greece had been the 2<sup>nd</sup> country in the EU that needed to apply capital controls in order to avoid an uncontrolled capital outflow. Withdraw limits was set to 60eu per day per person and travelers could only transfer up to 2000eu cash. New bank accounts were prohibited unless upon exceptions and students could only receive for tuition and living up to 5000eu every three months.

### **1.6 Capital Controls From China's point of view**

From the very beginning, in 2015, People's Bank of China (PBOC) abruptly devaluated china's (Chinese Yuan, CNY) currency against U.S Dollar, after a months of selling reserves to maintain its rate. In 2016, CNY-USD rate fell over than 6% due to the rising USD Federal Reserves. Economists expected a higher raise from Federal Bank in USD Interest rate that would result to a draining USD Reserves from China. The BOPC should either eliminate the exchange rate difference or devalue CNY more, or it

should tighten capital controls. In the same year, Chinese government imposed a series of capital controls to prevent capital outflow. The measures prohibited investment in foreign companies and real estate.

China's capital outflow controls since 2015, have impact on outbound investments, offshore loans, outbound payments by individuals and corporates (up to Rmb200,000) and Real Estate. Being one of the principal investors in Cyprus property assets, mostly luxury houses, Chinese capital restrictions may have a direct impact on the real estate market of Cyprus and its economy overall.

Recently, May 2019, China's government outflow control has gone to the "extreme", as a former Chinese central bank adviser said. The allowance of each individual Chinese is now reduced to 50,000 dollars for foreign exchanges per year. Adding to this, Yu Yongding, a senior research fellow at the Chinese Academy of Social Sciences and former People's Bank of China Adviser is adding that China is tightening controls of personal purchases even below that amount.

Chinese capital controls had positive results as in early 2017 the CNY's exchange rate was strengthened. However, this was not enough for china to maintain fully independent monetary policy. Domestic interest rates were raise by BOPC in March of 2017 following the Federal Reserve's policy to raise Funds rate. (American Express, 2020)

Today, Chinese capital control measures are still bind. However, Hong Kong has not enforced any. The Hong Kong Monetary authority (HKMA) claims that "has the capability, resources and determination to safeguard Hong Kong's monetary and financial stability". Also, as they state "the financial system of Hong Kong is robust and resilient. We are well-positioned to withstand shocks". Nevertheless, opinions differ as Wang Tao said, "the exchange rate of the Hong Kong dollar against the USD should not be significantly challenged" (Global Times, 2020).

Figure 1.1: Reasons of China's Capital Limit



Source: FIDUCIA, Management Consultants. (2018)

Figure 1.1 is a drawing from FIDUCIA. The drawing is a simplified and a more quick method in order to help the reader to better understand what Chinese Government is fighting to avoid and how these actions will affect the foreign companies.

### Measures Affecting Chinese Investors

The Financial Times and the Wall Street Journal have both reported seeing documents drafted by China's cabinet calling for restrictions on large foreign acquisitions and overseas property investments. If implemented, the new rules would:

- require government approval for foreign acquisitions valued above \$10bn
- require government approval for foreign acquisitions above \$1bn if they are outside of the acquirer's core business
- halt foreign real estate purchases above \$1bn by state-owned enterprises

These measures have not been officially announced, but the government has stated its intention to crack down on “fake” transactions being used to disguise capital flight.

### **Measures Affecting Foreign Companies**

The State Administration of Foreign Exchange (SAFE) has informed 20 foreign and domestic banks of a new “window guidance” on outbound transfers. Under the new rule, SAFE approval will be required for all outbound remittances exceeding \$5m, down from a previous limit of \$50m. This measure will affect foreign companies trying to:

- repatriate profits
- pay dividends
- repay loans
- remit proceeds from assets sold in China

Companies are not only worried about the restrictions themselves, but about the ambiguity surrounding them. Requirements and process times are uncertain and, according to the EU Chamber, rules seem to differ from city to city.

“The unpublished window guidance on the control of capital outflow is disruptive to EU companies’ regular business operations,” said Joerg Wuttke, head of the EU Chamber of Commerce in Beijing, adding that several companies have reported difficulties making dividend payments.

## **1.7 Advantages of Capital Controls**

Capital controls can achieve multiple targets and in some cases their application results to the success of intended purpose. They provide the ability to support a weak financial system and they can be part of an optimal long-term precautionary policy that reduces the risk of finance crises while achieving macroeconomic and financial stability. Many economists like Paolo Giordani, Michele Ruta, Hans Weisfeld, Ling Zhu (2014), believe that inflow restrictions can help countries to limit huge and unstable capital inflow and to face any negative effects caused by them. According to Magud, Reinhart and Rogoff (2011), inflow capital controls seem to lead to a more independent monetary policy. Also, they can change the composition and reduce the pressure on the real exchange rate. Klein (2012), after discriminating short and long term capital controls, found out that some may affect GDP and other financial variables. Andreasen, Schnindler and Valenzuela (2015), after examining spreads of corporate bonds found out that restriction on capital inflows produces a significant financial increase in them.

Parallel, it has been identified that outflow restrictions seem to also have positive results. Small, emerging economies are significantly sensitive in huge capital outflow from domestic markets. It is widely accepted that outflow restrictions are precautionary measures for avoiding an economic crisis. Their application can prevent the mass escape of capital and lower the risk for domestic Banks to collide in cases this is not achieved.

## **1.8 Disadvantages of Capital Controls**

Many people believe that capital controls must remain as the final option due to the negative impacts that rise from their use. One of their most usual impacts is the inability of making free international capital flows. This is negative for both, domestic investors and investments due to the inability to diversify their portfolio by investing in other countries and theoretically to achieve better returns. More, businesses are not benefited from lower lending rates in international markets. According to this, Alfaro, Chari and Kanczuk (2014) support the significant decrease on small exporting



businesses. Moreover, other benefits like technology, know-how and more can be affected.

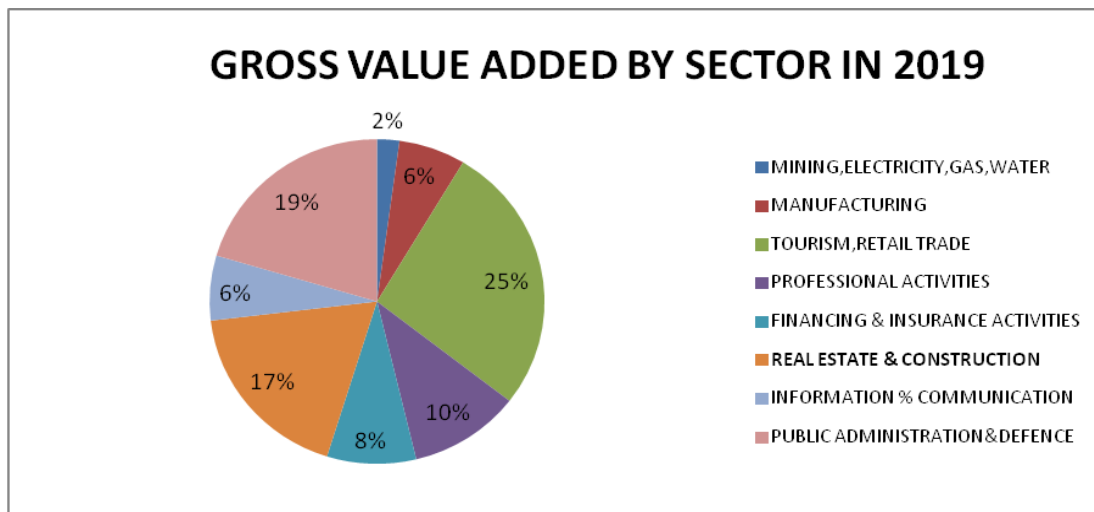
### 1.9 Recap

Capital controls are enforced in order to prevent a financial crisis or as a preventative measure. Every country can impose such measures for different issues and differently designed in each one. Today, these measures are accepted as political policies, despite some negativity, due to their effectiveness. As we have seen, capital controls have both advantages and disadvantages.

## Chapter 2: Real Estate Sector in the Economy of Cyprus

In this section we are going through statistical collected data of property prices, transactions and socioeconomics in Cyprus in order to identify the impact of CIP's FDI in Cyprus Real Estate market. A series of data is collected to help us track the route of real estate in the last years and how this industry affects the country's economy. At first, I would like to unfold the economic combination in order to find the key players in this formation. Let's see how Cyprus economy is divided.

Figure 2.1: Key Pillars of the economy

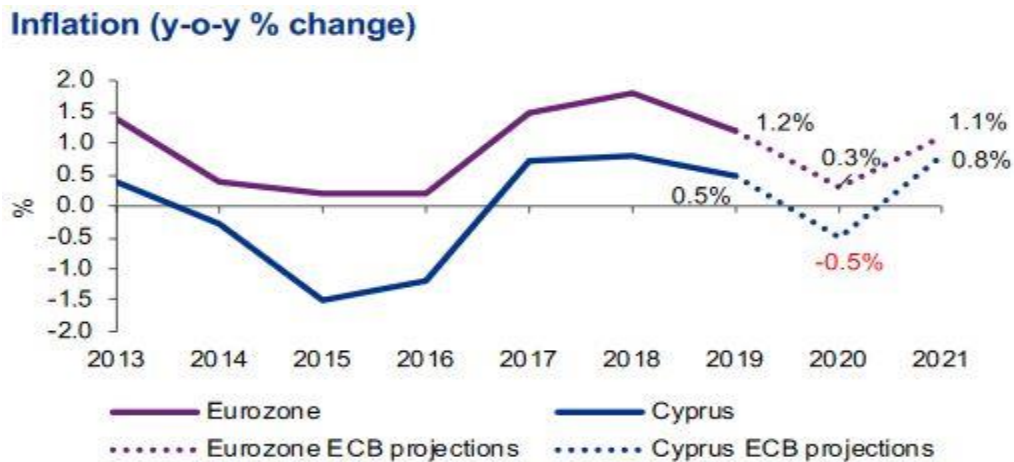


Source: KPMG-Cyprus Real Estate Market Report – The Insights, 11<sup>th</sup> edition. 2020

From chart 2.1 we can identify the eight most principal sectors which create and support the economy of Cyprus. As we understand, Real Estate & Construction Sector is in the 3<sup>rd</sup> position under tourism and Public administration. This however, does not change its importance in producing economical power. The sector of Real Estate employs 42.770 people. This number exceeds the manufacturing employees total of 30.290 and Financing 20.380. Also, a growth of 16% in real estate and construction activities was made since 2018 with a total growth of 4% in workforce. (KPMG, 2020)

Further, another important economic indicator to help us track economy is Inflation. This indicator refers to the rise in prices of daily goods and services like food, clothing, housing, transport etc. Also, is indicative of the purchasing power of a country's currency. The following picture shows the recorded data on inflation. As we can see, there was a negative course during the financial crisis period where the drop was from 0.5% to -1.5% from 2013 to 2015. Even though a European country, Cyprus has a significantly lower Inflation rate from between Euro-zone. (KPMG)

Figure 2.2: Inflation data from 2013 to present.

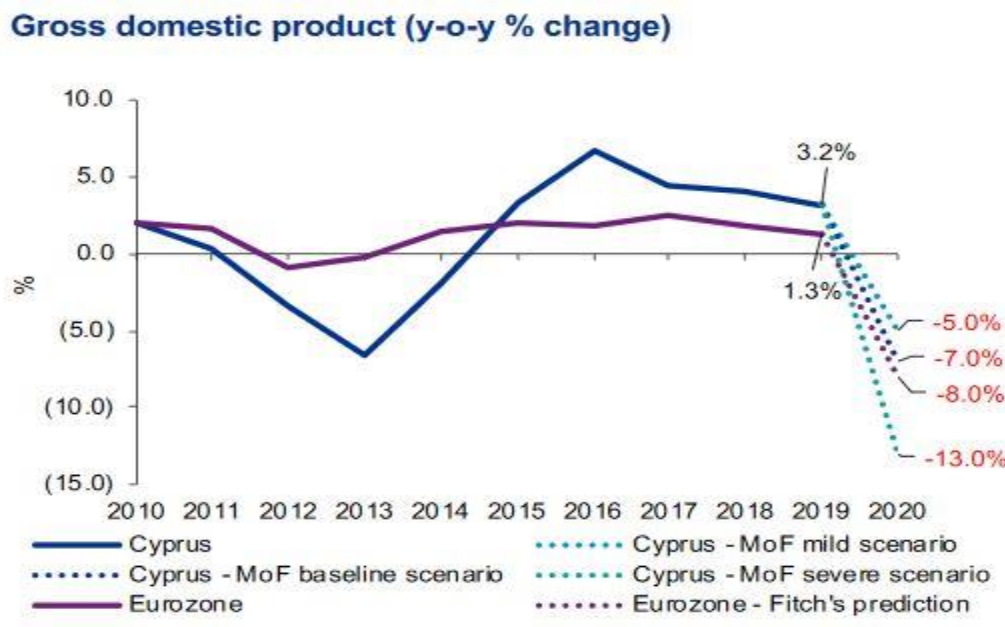


Source: KPMG-Cyprus Real Estate Market Report – The Insights, 11<sup>th</sup> edition. 2020

Future forecasts for the second half of 2020 expects inflation of Cyprus to drop at -0.5% and return to positive ratings in the next year. This is the first time to go

negative since 2016. Very remarkable is that inflation had been decreasing even after CIP was introduced but we see the huge increase since 2016 were Applications were booming. Results of CIP application and approvals will be presented in section 2.3.

Figure 2.3: GDP data from 2010 to present.



Source: KPMG-Cyprus Real Estate Market Report – The Insights, 11<sup>th</sup> edition. 2020

GDP indicates the total monetary value of goods and services within a country in a period of time. Usually is calculated in an annual basis and can also be broken down into the contribution of each sector of the economy. “is considered the world’s most powerful indicator of national development and progress. (Investopedia, 2020)

From picture 2.2, we see the same route of increase and decrease like Inflation. As KPMG states, most important growth drivers in 2019 were Information & Communication with +0.83% increase, Construction with +0.81%, Tourism, wholesale & Retail trade with +0.65% and Real Estate activities with +0.42% respectively.

Undoubtedly, demand of real estate properties is where real estate market operates from. Simply, the demand will adjust the supply and then the prices. In order

to find out the demand levels at present we collected a 10 year period data of building permits. This data are based Dueling projects which are mostly preferred by foreign buyers and Chinese buyers generally. Adding, we strongly believe that demand in RE by foreign buyers has played a significant role in the data that follows.

**Table 2.1: Dwelling Units**

Year	Units
2010	14,312
2011	8,839
2012	5,879
2013	4,141
2014	2,855
2015	3,197
2016	3,649
2017	4,939
2018	6,201
2019	9,627
2020	Jan-Apr 2,111

Source: CyStat, 2020

In table 2.1, we see the changes in construction of Dwellings Units in a 10 year period from 2010-2019. We see that the previous decade has ended with much higher amount of units in contrast with the years after. This was the results from the economic recession of 2009 that had a tremendous national and international economic impact. As we see, that construction amount has not fully returned to the pre crisis levels but there is a spectacular increase year by year.

**Table 2.2: Building Permits**

Year	Permits
2010	8,777
2011	7,506
2012	7,172
2013	5,341
2014	4,933
2015	5,014

2016	5,354
2017	5,728
2018	6,408
2019	7,218
2020	N/A

Source: CyStat, 2020

Table 2.2 shows the changes in building permits for the last 10 years. The data are similar to table 2.1 According to KPMG, there is an increase of 13% in 2019 compared to last year. Very important to identify is that residential developments is the principal property category for issuing permits. Residential development has an estimated 72% along with hotels developments at 3% and other developments at 25%. Extremely important is the proportion of building permits issued by the size of projects. KPMG provides information of total number of permits for projects over 900msq which are 682 and 6.536 for projects smaller than 900msq. Small projects combine up to 91% of the total permits issued in 2019. According to our findings, foreign buyers especially from China mostly prefer to buy individual real estate property like luxury houses and other type of residential accommodation. This is to be further identified in the next section. As we can see, the first half of this year has recorded a lower number of permits than the previous years. This could also be a symptom of Covid-19 pandemic since the beginning of the year.

## **2.1 PANCYPRIAN STATISTICAL DATA FOR TRANSFER OF SALES AND CONTRACT OF SALES TO FOREIGN BUYERS**

Data from foreign real estate property transactions will help us to understand the impact of foreign buyers in the development of real estate market, economically and evolutionary. These changes are strongly related with CIP developed in 2013 as we will explain further in this topic. The real estate market of Cyprus attracts both European buyers and non European. This topic is mostly interested in the Chinese portion of buyers and due to the confidentiality of Cyprus Government institutions and

Land and Survey Department we were unable to collect the exact number of these transactions. However, we could provide assumptions on Chinese contribution into transaction activity along with our questionnaire results from many real estate and development professionals. The following tables provide data from transaction activity from all foreign buyers from 2010 until present.

**Table 2.1.1: TOTAL NUMBER OF PROPERTIES TRANSFERRED TO FOREIGN BUYERS**

YEAR		NON EU	
2012	405	N/A	
2013	350	N/A	
2014	444	N/A	
2015	646	N/A	
2016	958	N/A	
2017	1117	N/A	
2018		194	
2019		388	
2020		477	JAN- JULY

Source: (DLS, Cyprus)

From table 2.1.1 we see the transaction history of properties been transferred to foreign buyers. Unfortunately, from our research we could not gather transaction activity by Chinese buyers rather than non EU in total. As we can see there is an increase in foreign buyers since 2013, the year of CIP's implementation. We assume that foreign buyers increase with a respectively increase of Chinese buyers also.

**Table: 2.1.2: TOTAL NUMBER OF PROPERTIES WITH REGISTERED CONTRACT OF SALES BY FOREIGN BUYERS**

YEAR		NON EU	
2012	1476	N/A	
2013	1017	N/A	
2014	1015	N/A	
2015	1349	N/A	
2016	1813	N/A	

2017	2406	N/A	
2018		2939	
2019		2952	
2020		1077	JAN- JULY

Source: (DLS, Cyprus)

**Table 2.1.3: TOTAL NUMBER OF BUYERS - (TRANSFERS OF SALE)**

YEAR		NON EU	
2012	543	N/A	
2013	452	N/A	
2014	576	N/A	
2015	814	N/A	
2016	1421	N/A	
2017	1389	N/A	
2018		186	
2019		280	
2020		612	JAN- JULY

Source: (DLS, Cyprus)

**Table 2.1.4: TOTAL NUMBER OF FOREIGN BUYERS WHO REGISTERED CONTRACT OF SALES**

YEAR	EU	NON EU	
2012	1624	N/A	
2013	1104	N/A	
2014	1418	N/A	
2015	1549	N/A	
2016	2227	N/A	
2017	2594	N/A	
2018		2571	
2019		2907	
2020		1013	JAN-JULY

Source: (DLS, Cyprus)

Again, from tables above we see the increase of foreign transaction activity or registered contracts from 2013 to present. At this point we notice that foreign buyers play a huge role in real estate market in Cyprus. This follows to job opportunities and finally higher expenditure per person who also leads to real estate demand for both, ownership and renting. As we understand FDI in real estate gives huge advantages for strengthening the real estate market and Cyprus economy generally.

## **2.2 Cyprus Investment Program**

Cyprus had to enforce economic policies by the time TROIKA had taken over the financial control of the country in 2013. Following a series of proposals and negotiations, Cyprus was under austerity measures after their first agreement that year. The measures were not enough though, the government had to search for more economic sources. The CIP was a project of attracting foreign Investment and since then it has been under many changes and reviews in order to become more trustworthy. (In-Cyprus, 2019)

Today, after the latest decisions taken by the Council of Ministers in 2019, foreigners may apply Cyprus Citizenship through different options as follow.

Financial Criteria for Cyprus Investment Program

\* Donations – €75K donation to the Research and Innovation Foundation or a certified innovative enterprise or a certified social enterprise.

And

€75K donation to the Cyprus Land Development Corporation

\* Investments - € 2M in the construction or purchase of residential or commercial developments, infrastructure projects or land under development, provided a development plan is included in the application. Any investment in land that is situated in a building zone of zero developments is excluded



Or

\* € 2M in the purchase, establishment or participation in Cypriot Companies/Businesses. The invested funds shall be used towards the financing of the company's investment objectives exclusively in Cyprus.

Or

\* € 2M investment in Alternative Investment Funds, Registered Alternative Investment Funds or financial assets of Cypriot companies or Cypriot organizations, licensed by Cyprus Securities and Exchange Commission. Such funds are allowed to invest up to €200 thousand in secondary market stock of the Cyprus Stock Exchange

Or

\* Combination of the previous with a minimum investment of € 2M

CIP comes along with many advantages, As Cyprus Government states:

\* Free movement of People – Citizens of EU member states are able to freely travel, reside, study and work within 28 countries of the EU.

\* Free movement of Services – Individual citizens and their companies can offer services within the EU Member States.

\* Free Movement of Capital – Move capital and Purchase property in any preferred State of EU.

\* Free Movement of Goods – Goods produced in the EU can be freely transferred between Member States.

\* No requirement to live in Cyprus – Applicants after obtaining their citizenship and a permit of six month period can either live or not in their property bought in Cyprus.

\* Attractive Tax System - The 183-day Rule

In order for an individual to be considered a tax resident of Cyprus, he/she needs to be physically present in Cyprus for more than 183 days of the calendar year.

\* High Standard of Living – Private Schools, low criminality rate, infrastructure, quality etc.

\* Visa free Travel – Citizens of EU can travel between member states without visa. Since Jan 2020 the list contains 172 countries of visa free travel.

\* Dual Citizenship – Cyprus allow applicants to hold two different citizenships.

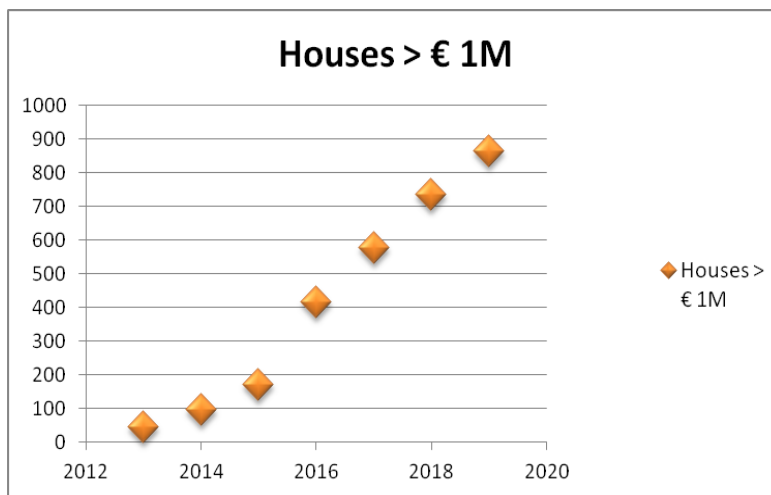
All the above have generated a phenomenal financial income for the economy of Cyprus. Many foreign investors have applied for Cyprus Citizenship in either of these options. People from all around the world like Asian, African, English, Russian and more are living among us. The impact of each market differs along with the real estate assets each one prefers. As a fact, England has been a major player in Cyprus real estate market so far. However, things might differ due to Brexit but still the two countries are well bonded. Many English people live in the island and now being recognized as “third country nationals” they can still register and buy property like Australians and Americans in this category. Also, the choice of buying and owning properties in Cyprus by British is not controlled by the EU as it is not stipulated in its four freedoms principle (capital, goods, services and work). Russia seems to come 2<sup>nd</sup> in real estate activity and undoubtedly is a huge financial source too. The connection between Russia and Cyprus concerns not only real estate transaction but also other Banking financial businesses.

### **2.3 Post and Pre CIP Analysis of Real Estate Market of Cyprus**

As a fact, both Cyprus Real estate market and construction industry have made a lot of changes in order to suit the CIP era. The Citizenship program could not provide so many advantages with Chinese Buyers investing in old fashion, low technology projects. The building design, quality and materials have been completely reviewed with a huge

change in the construction developments. Especially housing development has faced a lot of changes. The new houses have many electronic capabilities, automations and high finishing standards. Also, they are built in private development areas which mostly are coastline front and their size is usually extremely above average. The table below is presenting year by year sales activity of housing developments that worth more than one million euro each.

**Picture 2.3.1 Number of high Value Residential properties**



Source: (KPMG, 2020)

High value residential properties have been exhibiting a remarkable increase in the recent years. In 2016 there was a 146% year on year growth but since then, 2019 had a declaration growth of 18% compared to 2018. Once more, we see that this trend has began in 2013 where Citizenship program was initialized by the republic of Cyprus. The CIP is believed by many economist that has developed real estate trends and externalities in both, specific areas and Cyprus generally, as we will see more in depth in the next section.

#### 2.4 Cyprus revenues since Citizenship Program (CIP)

Cyprus Minister of Finance, Mr. Charis Georgiades said last year (2019), Economy of Cyprus has developed by 13% and the CIP has an allocation of 1.2%. The total

revenues are €6.6 Billion and €3.6 Billions of them come from real estate investments. Results from an economical survey produced by the Ministry of Finance conclude that CIP has helped the economy of Cyprus to recover and it will resume in a way that makes it useful, controllable and reliable. (IMI, 2019)

**Table 2.4.1: Cyprus Citizenship Application Approvals by Year.**

Year	Approved CIP Applications
2012	48
2013	55
2014	214
2015	337
2016	443
2017	503
2018	581
2019	700

From table 1, we can notice that CIP approvals have been increasing since the initial date of their introduction, in 2013. At the early beginning of this policy the approved numbers were very low in contrast to recent years. At the time where CIP was introduced Cyprus was still under economic recession and international rating agencies had put Cyprus economy in the worst level ever rated. “On Jan. 13, 2012, Standard & Poor's Ratings Services lowered its long-term and short-term sovereign credit ratings on Cyprus by two notches to 'BB+/B' from 'BBB/A-3'.” The same agency was also unrepentant in any progress in the economy for the next year, too. As they stated, “The negative outlook reflects our view that there is at least a one-in-three probability that we could lower Cyprus' long-term rating again in the next 12 months.” The new program along with the unpredicted economy of Cyprus was uncertain to foreign investors to apply for.

**Table 2.4.2: Cyprus Citizenship by Investment: Total Revenue since 2013 (in EUR millions)**

Investment	6.6 Billion - %
Deposit "haircuts"	8%
Government Bonds	9%
Bank Deposits	11%
Business Investment	15%
Real Estate	55%
Mixed Investment	2%

From table 2, we can see how revenues from CIP in Cyprus are allocated in six different categories. It is very distinguished the size of real estate investments in contrast to other categories. More than 50% of the total revenues are put in just this industry (55%). It is very obvious that CY Investment Program has attracted a huge number of Foreign EU and non EU buyers due to the benefits they can gain along with other advantages.

## **2.5 Covid-19 impact in Cyprus economy and Real Estate Market**

2020 has been a year full of surprises so far. The Covid-19 disease has turned into a global pandemic with many disadvantages in every sector. Like health factor, the global trade and financial industry face tremendous disadvantages since the 1<sup>st</sup> quarter of the year.

In Cyprus, the tourism industry is completely paralyzed with very little visitors to book in the island's hotel or other touristic accommodation. People are scared of losing their jobs due to negative affects in business, nationally and globally. Small, medium and big businesses are pushed to the edge of their financial endurance with a huge possibility they start firing people before the end of this year. Based on seasonally and working day adjusted data, GDP growth rate in real terms is estimated at -11.9% according to a Flash Estimate announced by the Statistical Service (CyStat). Also, Negative GDP growth is mainly attributed to the sectors of Hotels and Restaurants, Manufacturing, Construction, Transport, Storage and Communication, Wholesale and

Retail Trade, Repair of Motor Vehicles, Arts, Entertainment and Recreation. In Q1 2020, employment had decreased by 0.2% in the euro area and by 0.1% in the EU. (Financial Mirror, 2020)

From Real Estate Point of view, real estate market faces huge damages in every angle. In the short term:

- Hotels - empty due to travel and isolation restrictions
- student accommodation - empty as students prefer to study choosing distance learning form home or abroad
- Real Estate Investment – investors are not interested unless the pandemic is cured and demand is increased.
- Shops – many businesses are closed and others is unknown how much more they will last.

In the long term:

- Housing – Demand will drop down due to lack of income (no jobs >less families >low fertility rate >less babies >less Demand )

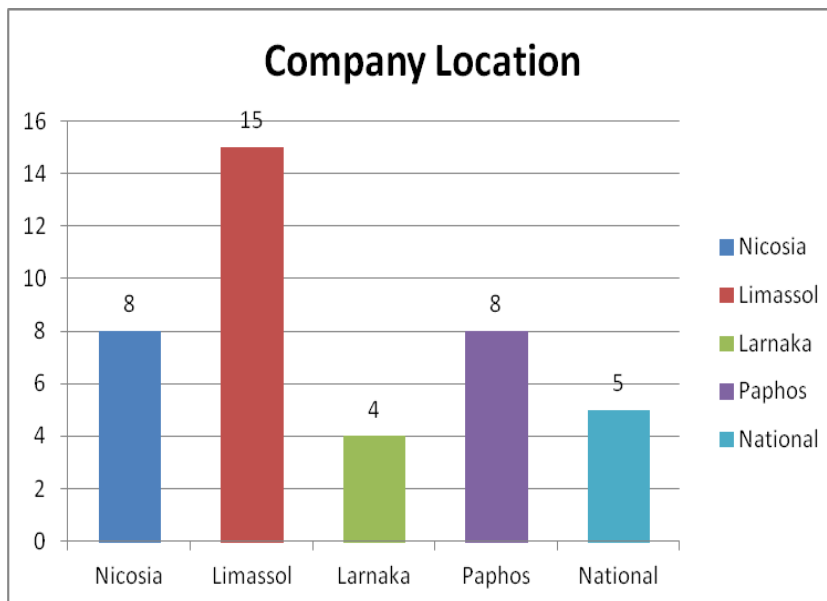
The Covid-19/Corona Virus has a tremendously negative financial impact for our country. As we stated, real estate sector is a principal financial source for our economy. The disadvantages of this crisis are similar to the period of financial crisis in 2009. The unemployment is increasing and economic factors that adjust the economy drop.

## **Chapter 3: Survey Data Analysis**

For the purpose of this section we had to prepare a questionnaire based on foreign investors and buyers and how they interact into the Cyprus Real Estate Market. The questionnaire was targeting real estate and land development professionals as representers of foreign buyers. We strongly believe that they could provide information about the real estate issues and manners of dealing with foreign buyers. Further data about foreign market requirements and trends have been collected as we are going to examine. We have also contacted the Political Division of Embassy of the People's Republic of China in the Republic of Cyprus for more demographic data of Chinese citizens in Cyprus. From our Survey we were able to collect forty (40) professional's aspect on foreign real estate buyers in Cyprus. Our contacts sourced from big international firms and single individual professionals. These data will help us draw conclusions and recommendations on how much impact the Chinese market has in Cyprus real estate market and what the consequences will be in case they are unable to inflow their capital due to Chinese monetary restrictions. We will go through each question and discuss the results. The Questionnaire is detached with this Dissertation and also handed in Compact Disk (CD) form.

Initially, we would like to find out in which city of Cyprus the people and firms we have contacted are situated. These data could provide information of which cities are mostly affected and more demanded by foreign buyers separately.

Figure 3.1: Cyprus Real Estate and Land Development firms Location by City



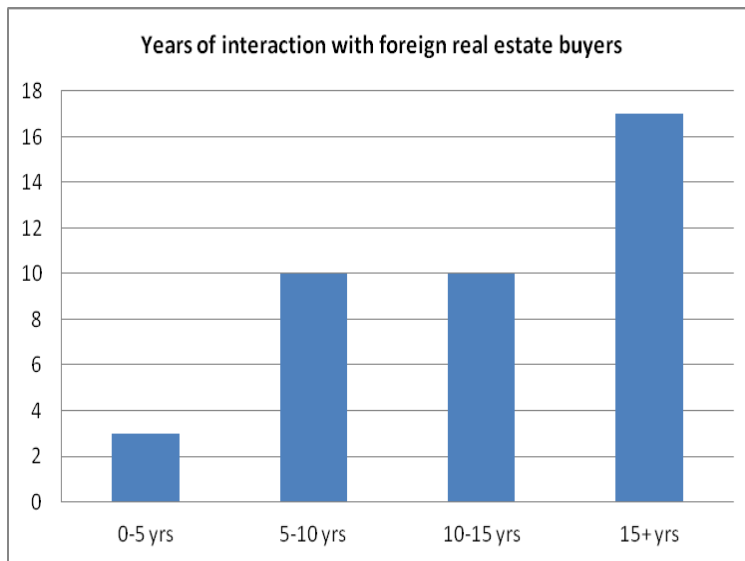
From picture above we see that Limassol situates the highest percentage of these professions. As a fact, Limassol situates many company headquarters and other financial corporations like Forex and Shipping Companies. Also, the city is boomed by luxury property developments during the last decade and pioneers in infrastructure like the Marina, that was built in 2014. Limassol has been also a pioneer in attracting foreign investors and one of the first cities to sell multimillion properties to over than 34 different nationalities boasting successive sales since 2010. (allaboutLimassol, n.d.)

Paphos and Nicosia are in 2<sup>nd</sup> place with Larnaka having the lowest amount. As we can see, there are some firms that interact nationally. These firms could be also situated in just one city and provide services all across the country through collaboration with other real estate firms.

In order to track real estate market throughout the years we needed to see if we could find professionals that collaborate with real estate for at least 5 years. The data will help us understand how strong the real estate industry impacts the employment and how it occurs year by year.



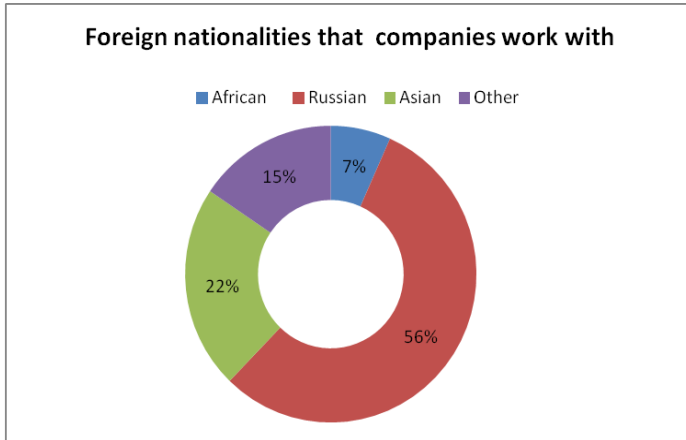
Figure 3.2: Average Time of professionals Interacting with Foreign Buyers/Investors.



From our respondents we have gathered the above data. As we can see, the foreign real estate has been popular for many years. More than half of our contacted firms and professionals are interacting with foreign property activity for more than 15 years now. Many of them seem to have started their real estate businesses during the last decade as almost the other half of them have 5 to 15 years of experience in the industry. Few of them have developed their profession in real estate market the last 5 years. Despite the fact, in section 2, that real estate sector contributes with 17% of Gross Added Value in the Cyprus economy we see that there is a small increase of new established firms in it. However, the construction industry has a higher increase in workforce due to the higher property demand increase.

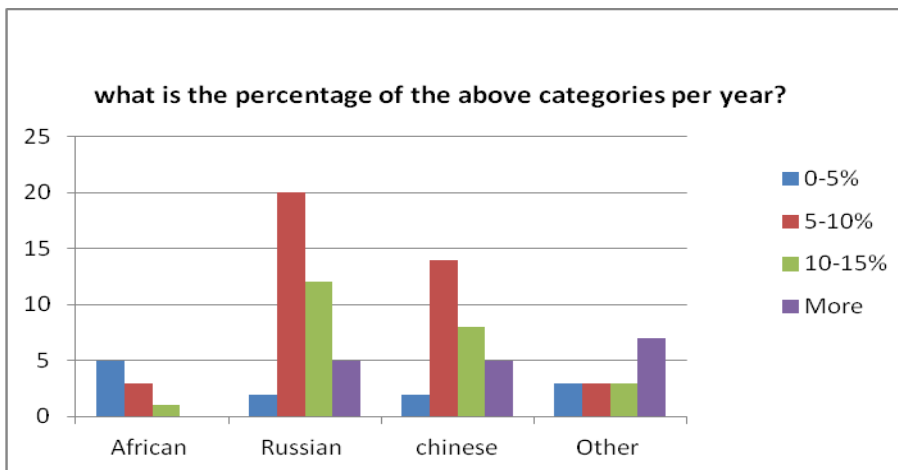
Moving on, we wanted to find out the percentage of each foreign market that contributes with real estate activity in Cyprus. In order to investigate our major market, China, we asked our sources to answer separately what percentage do they collaborate with foreign non EU nationalities. The results are shown in the picture below.

Figure 3.3: Foreign Customers by non EU Nationality



As we can see, the contribution of Cyprus real estate market with Russian customers is very significant. Russians have put their mark among us and their luxury taste in real estate property is well identified. As a fact, Asian market seems to possess a huge share in the market. However, this category does not describe Chinese separately between the whole Asian market. For this purpose we had to investigate the subject even more.

Figure 3.4 Which Nationality Real Estate Professionals mostly work with.



Picture 3.4 shows that 50% out of the total (40) real estate respondents, that we managed to take information from, work with Russian Buyers and investors from 5% to

10% of their total activity. Where, some of them stated that they have more than 15% of their total activity based on Russian and Chinese customers. As we can see the African market is very less interested in Cyprus real estate and the last category (other) we believe that represents small agencies that deal with local people and does not collaborate with citizenship programs.

Moving on, RE Agencies and companies dealing with foreign customers in Cyprus do not all provide the same services. In order to understand how balanced is the allocation of foreign investment in the country we asked our respondents if they are eligible to provide CIP information to foreign clients. The results were:

Table 3.1 CIP Approved Eligibility Professionals

Yes	37,5%
No	62,5%

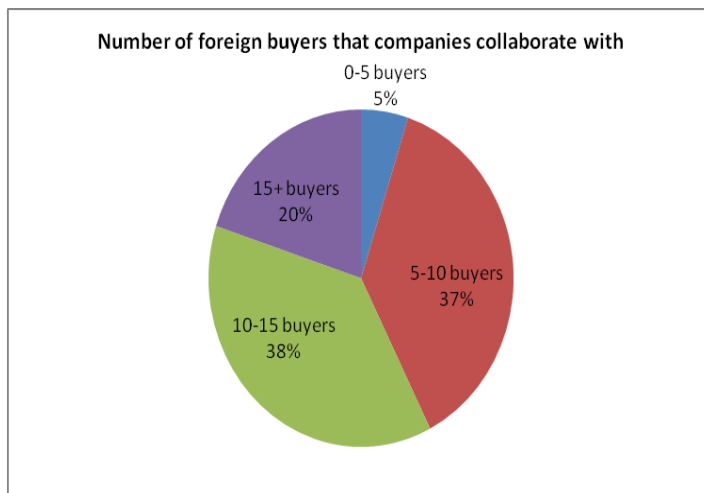
As we can see, foreign buyers can only get in touch with specific RE firms as do not all provide CIP services and legislation. Some of them deal with just local customers and legal contracts in real estate. Even though, we see that 37,5% of them can deal with CIP registration if required by a non EU person. In case where all agencies could provide Information about CIP we could say that FDI is 100% allocated along the country. However, there are many reasons that may affect the size of the investment because sometimes:

- The agency does not provide national portfolio
- The agency only promotes specific areas due to personal benefits (for example Limassol coastline)

- Land development firms seem to over value their properties to deal with CIP causing externalities
- Land development firms mostly build private blocks and try not to mix other nationalities (like small communities and cause externalities too)
- other

In the next question our respondents had to answer specifically how many foreign buyers they collaborate with per annum. The data here will help us identify whether there is a huge foreign investment in real estate by non EU countries. The picture below shows that 8 out of 40 Cyprus RE professionals deal with more than 15 foreign buyers each year. The most of them have an average between 5 to 10 buyers yearly.

Figure 3.5: Number of Foreign Buyers by each Firm per annum.

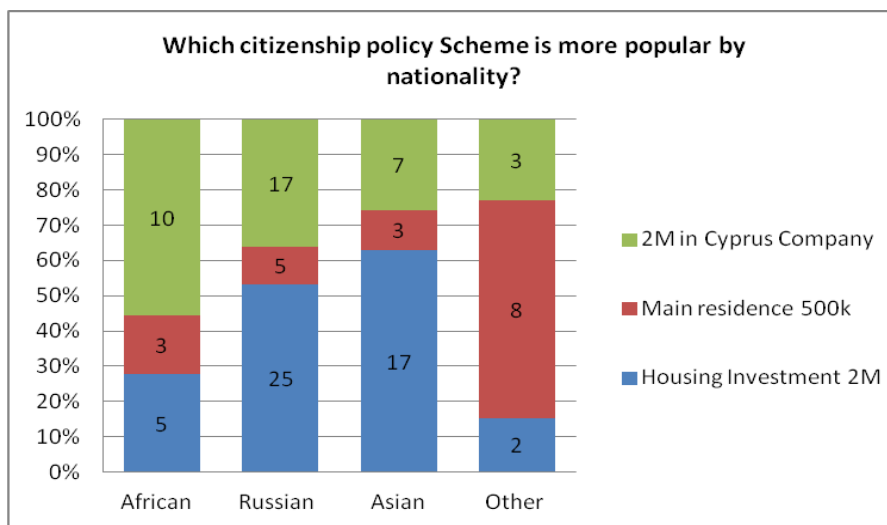


According to our results, we see that the majority of real estate firms have foreign customers. Very important to refer to is that most of them have at least 5 foreign costumers every year and 20% colaborate with more 15. More, we see a balance between firms that deal with 5-10 and 10 to 15 foreign customers.

Adding to the above, we have to inform our readers that we managed to collect data from a small portion of Cyprus RE experts. Results from bigger scale of information could be different but we strongly believe that we are in position to provide authentic results as we have contacted and given responds from very reliable and well established firms.

Further, we would like to know whether a foreign buyer could contribute to the Cyprus real estate market by choosing just one CIP or more. This data can help us understand whether the CIP is just an opportunity for them or if they are really interested in buying property assets and mix up with Cyprus’s economy.

Figure 3.6: Most popular Cyprus Investment Program by each non EU Nationality

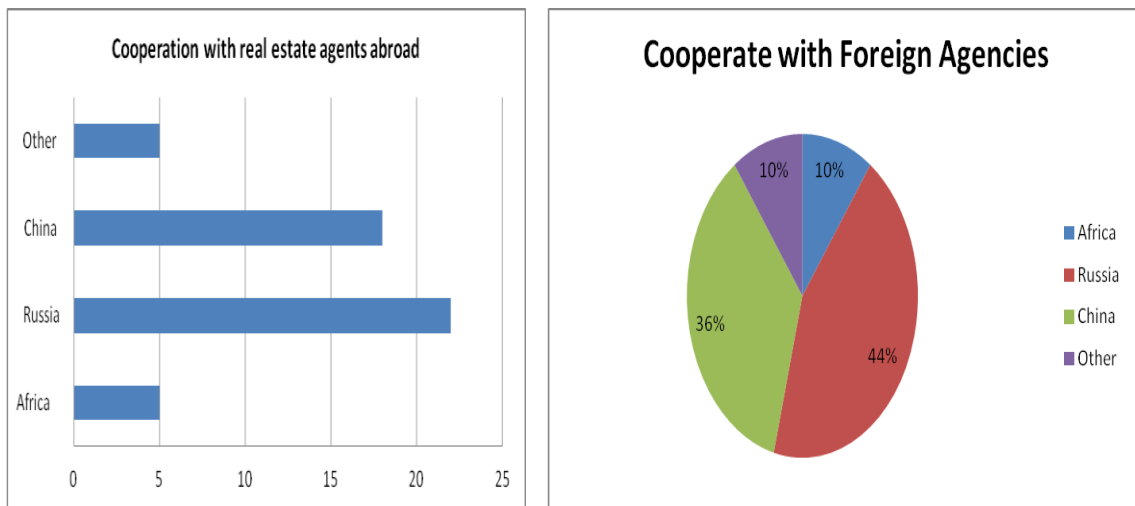


As we can notice, the respondents want Russian market to be the first in Real estate investments with 52% of their total transaction activity across Cyprus. Also, Russia records a significant amount of applications in Business investment. Even though Chinese market has also a respectively similar interest in housing, the interest in businesses is much more lower. The african market is significantly smaller than the other two, while we have some data according other nationalities who seem to be interested in Residency much more than the other two programs. Very important is the fact that both China and Russia do not apply for just Residence Program. This shows that

actually these foreign buyers want to spend their money in assets that will generate financial return than just get benefited by CIP advantages.

Moving on, we would like to know how Cyprus real estate professionals search for their possible customers. The questions was if they cooperate with other real estate agencies in any of the suggested countries. In picture below we can see their answer.

Figures 3.7: Cyprus Firms cooperating with non EU agencies.



As a fact, most RE agencies and Land Development firms have to collaborate with other professionals from abroad. China and Russia are countries with huge economic impact all across the world and of course they are very populated with many possible buyers. The multimilion Real Estate projects in Cyprus require excessive marketing and promotion abroad, so local and international firms need to develop collaborations to familiarise foreign people with what is happening in Cyprus, the prospects, the advantages and all the required legislation. Many of the local agencies collaborate with more than 10 foreign countries but once again, the gaze falls on Russia and China. More, there are many firms that collaborate globally and they can interact with international portfolio management and other financial issues. From our results we see that most of

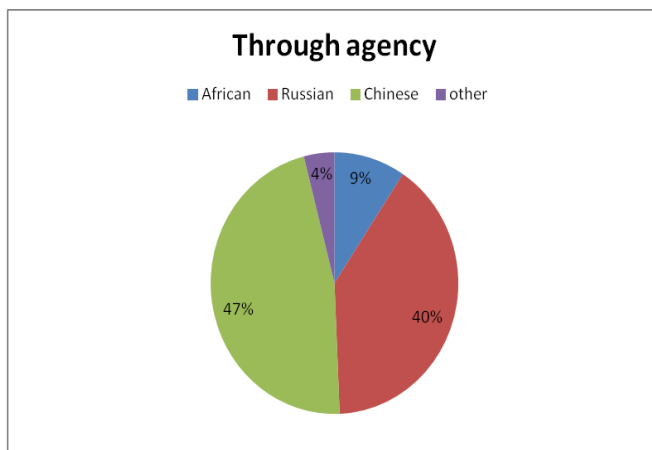
the Cypriot RE firms with 44% deal with Russian agencies and second comes Chinese with 36%.

The next question verifies the importance of international collaboration between RE agencies. The majority of our respondents stated that most of their foreign customers contact with them through a foreign agency. Table 3.2 below shows our responds.

Table 3.2: How Foreign Buyers Contact RE Firms In Cyprus

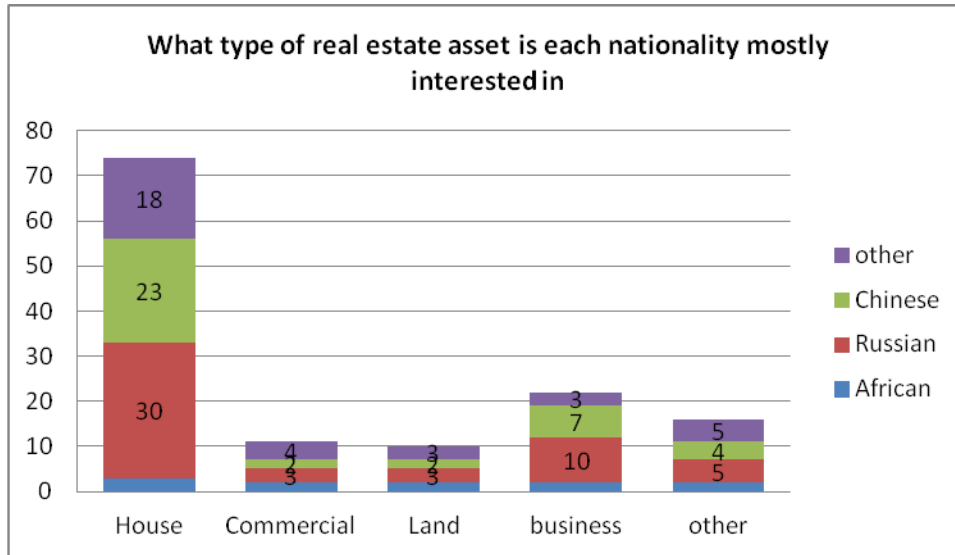
Contact	African	Russian	Chinese	other
Through agency	7	30	35	3
Personally	2	7	5	10

As we can see, Russian and Chinese Agencies highly promote Cyprus RE market. We assume that the small amount of customers in the second row represents people who already bought or invested in Cyprus and they have encourage more family members or friends to contact a specific agency due to their personal experience and satisfaction. It is very significant the role of international relations and how positively they can affect the market.



China seems to have the higher belief at 47% of contacting CY agencies through foreign agencies and Russia comes second with 40%.

Figure 3.8: Type of RE Assets Preferred By non EU Nationalities

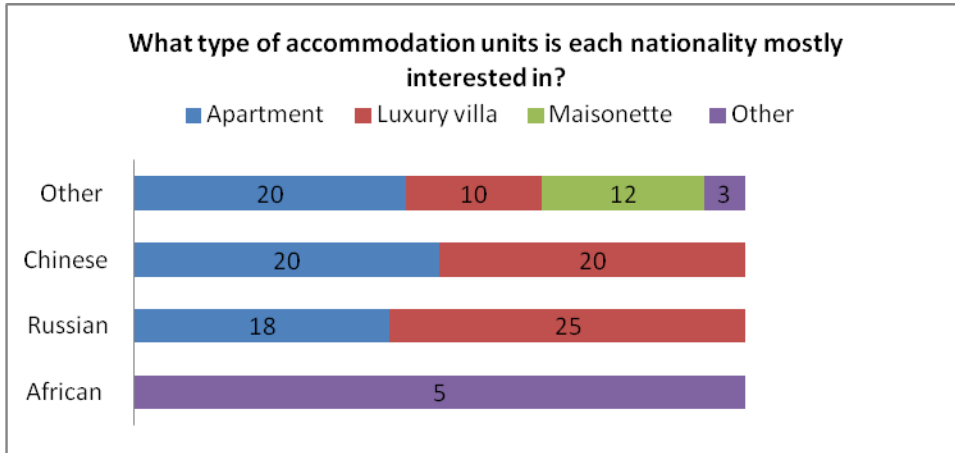


More in depth, we asked our respondents to give us their experience on RE assets each nationality is mostly interested in. From our responses we have noticed that most foreign nationalities are highly interested in housing property assets. Once again, Russian people are in the top with 30 responses in housing and 10 in Business Investments. China is in the second place with 23 responses in housing and 7 in business.

For more specification on the topic, we had to find out what type of housing units each nationality is mostly interested in. This can help us define the financial size that inflows from these markets and to verify question 8 that results to housing investment program being the most popular by non Europeans.

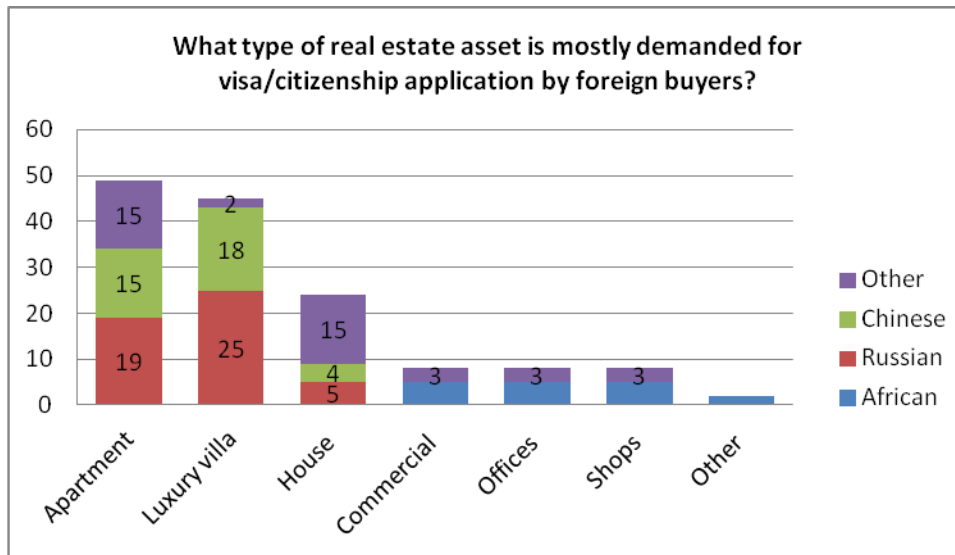


Figure 3.9: Type of Housing Units Each non EU nationality is mostly Interested



Russian and Chinese buyers along with their financial environment seem to have an expensive taste in housing accommodation. Due to the cost of CIP usually these people are millionaires or well financially established with continuous cashflow. The results verify the interest of these nationalities on luxury Villas and apartments. Russia is leading the market once more with Chinese to come 2<sup>nd</sup>. Very noticeable is that African market has no interest on Housing properties. It's interest is mostly on industrial and other business investments. From "other" category there is also a similar level of housing demand but we strongly believe this represents resale activities. The reason of this, is that many CIP applicants do not live in their houses more than 6 months after their visa is issued. They are able then to rent their property to other people or the asset is given to property management companies to generate income for the owners. The following picture verifies the type of property assets that are mostly demanded for applying to CIP.

Figure 3.10: Type of RE Property is Demanded for CIP Application



We see that housing is the most popular category along with Business Investments. Once again we have Russian people in 1<sup>st</sup> place and Chinese in 2<sup>nd</sup> for both Luxury Villas and apartments. Also, we verify that these buyers are not interested in simple structure houses but only in high design standards due to the low demand in “house” category from our survey. These Buyers have boosted the Architectural and Technical sectors to think outside the box. The size of the capital inflow and the positive impact on the Economy of Cyprus has adjusted the Construction and Development process for attracting more and more foreign buyers. However, uncontrolled construction development and wrong design projects can lead to risks which may have both positive and negative impact on local buyers. Such risks are overvalued areas, bubbles, externalities and more.

The following question are more strict based on our topic. Respondents are called to answer a serie of questions according to the prospect of Cyprus real estate market in a period where foreign capital inflow is the pillar of its growth, economically and evolutionary. Initially, to verify this we had to take answers whether the professionals in the industry believe that CIP have played a role in RE prices changes.

Table 3.3: Question 14 & 15

Yes	67%
No	33%

With huge difference in the results, 67% do believe that CIPs are related with price adjustments and 33% said they are not. Also, we asked about their opinion whether CIPs have created externalities in some areas or not. Again, they tend to believe more that CIPs have created externalities with 67% to agree and 33% to disagree. More, we wanted their opinion on if CIPs have created a balloon in RE market of Cyprus and of course if this balloon concerns the whole country or in just some areas.

Table 3.4: Question 16 & 17

Yes	55%
No	45%

Once more, 55% believe that prices on RE properties do not represent the actual value and the same percentage believes there is a balloon in RE that affects the whole Country in contrast to a 45% who believe this happens in just some specific areas.

One of the most important questions was the major topic concern. A direct question on whether they believe China's Capital Restriction will affect the chinese RE activity in Cyprus.

Table 3.5: Question 18

Yes	25%
No	75%

Unexpectedly, 75% disagree this will happen while just 25% of them believe it will. For those who believe that China's capital restrictions will have negative impact we wanted them to give us an average percentage of this decrease on demand by Chinese.

Table 3.6: Question 19

Less than 10%	62,5%	10-20%	12,5%	20-30%	0%	more than 30%	0%
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For the second time, we have faced an unpredictable respond. China's outflow Restriction will mostly affect Chinese RE activity in Cyprus by less than 10% according to 62,5% of our responds while 12,5% believe this policy can affect up to 20%. The remaining 25% believe that the impact will not cause any financial damage in the industry.

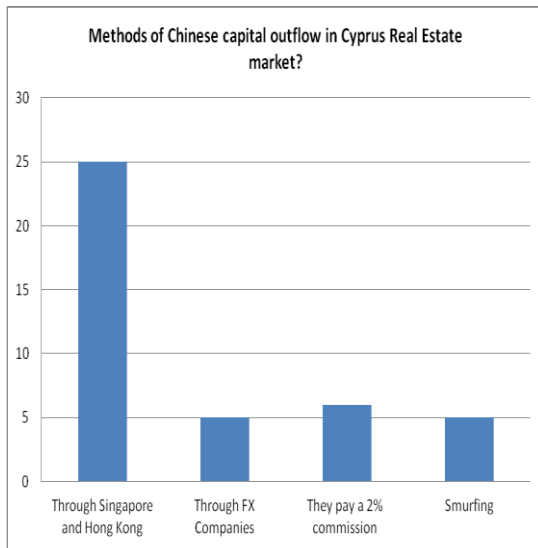
Further, we would like to see if there is any change in transferring capital by Chinese people after the China's capital limit. Basically, we would like to know if Chinese struggle to buy or if they can still manage to outflow their capital through other methods. The respond was once again much unexpected as 35 respondents stated that Chinese use other methods to transfer their capital while 5 replied that China has made it hard for them.

Table 3.7: Question 20

Other methods	87,5%	Struggle to buy	12,5%
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Moreover, for more details we asked the respondents to describe methods of capital outflow by Chinese buyers. Answers are shown in the picture below.

Figure 3.11: Methods of Capital Inflow (to Cy) by Chinese Buyers



- Through Singapore and Hong Kong 62,5%
- Through FX Companies 12,5%
- They pay a 2% commission on the total amount to those banks, trustees, asset managers, fund managers, or generally agencies that introduce them to Cyprus 15,5%
- Smurfing 10%

As we can see, there are plenty of methods Chinese Buyers can use in order to avoid capital movement limitations. As stated, Hong Kong and Singapore have independent economies that did not enforce the China's capital Restriction Policy. This gives the Chinese people to move their money outside the country through these two states. This is the most popular method as stated with 62,5%. More, Forex companies have been very well established during the recent years and Cyprus situates many of them. Chinese people can be benefitted from money transfer firms like them without any issues. The foreign exchange market works through financial institutions and operates on several levels. Behind the scenes, banks turn to a smaller number of financial firms known as "dealers", who are involved in large quantities of foreign

exchange trading. Most foreign exchange dealers are banks, so this behind-the-scenes market is sometimes called the "interbank market" (although a few insurance companies and other kinds of financial firms are involved). Trades between foreign exchange dealers can be very large, involving hundreds of millions of dollars. Because of the sovereignty issue when involving two currencies, Forex has little (if any) supervisory entity regulating its actions.

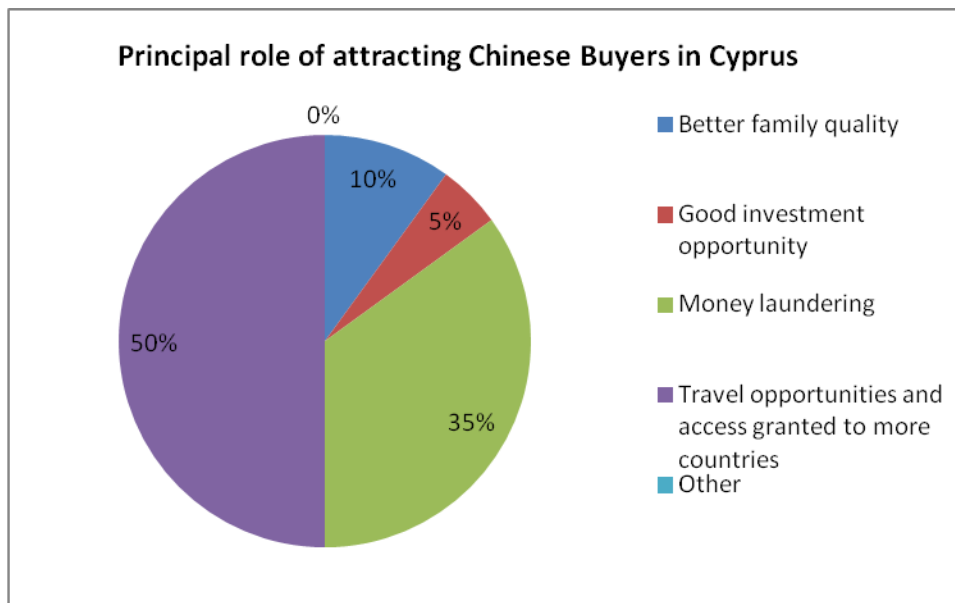
Also, the second most popular method is by paying 2% commission to involved parties of their "immigration" procedures. The real estate agent is playing the role of a Bank. For example, a well established firm can provide sale evidence to Cyprus Government for issuing the Visa of their customer and then he pays back with an extra cost on the favor. He is like having a loan and pays installments plus the interest rate.

Another way is "Smurfing". A method where a large amount of capital, in China, is splited into smaller amounts, then reunited/in flowed in Cyprus. This method requires reliable individuals so Chinese mostly choose close people to their families that will not steal their money.

We were very surprised to see how many alternative methods there are for Chinese people in order to avoid China's Capital Control. Even though their Government has set the amount of capital outflow that low, people can still be able to buy or invest in Cyprus.

In order to draw a more general picture on the topic, we wanted the respondents to state their opinion on which do they believe is the principal role of attracting Chinese Buyers in the country. The reason of asking this question is to identify whether Chinese like our country or there is a different reason to be aware of. The following picture shoes their statement.

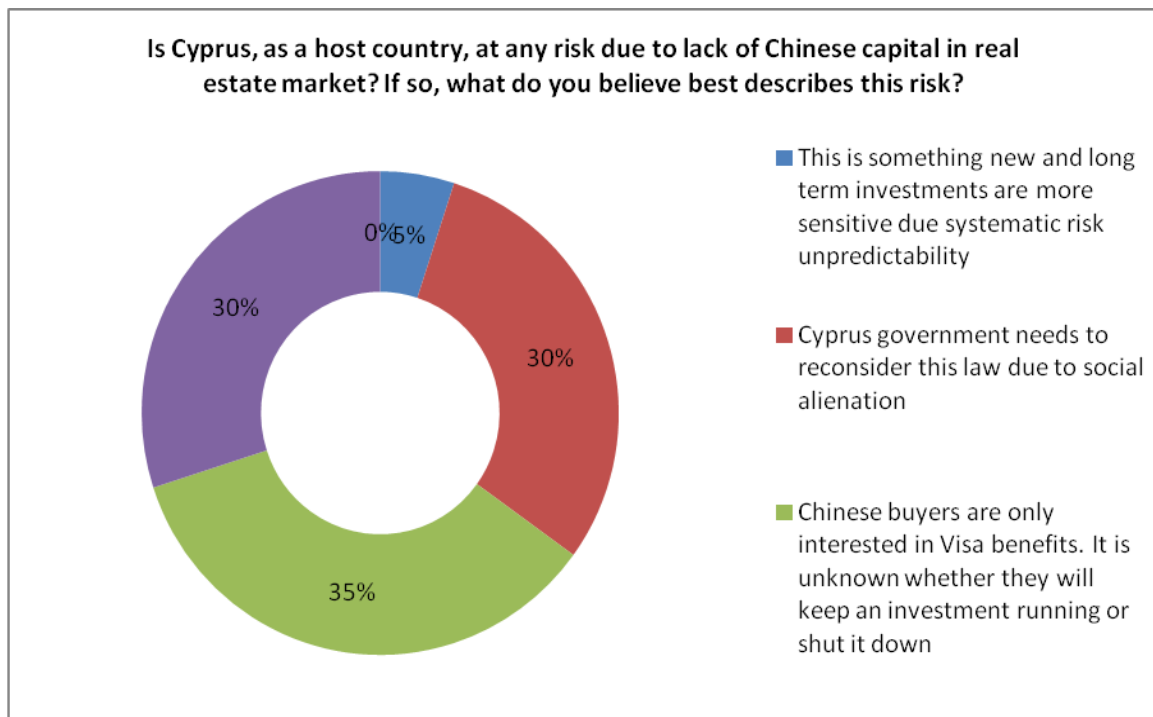
Figure 3.12: Reasons Attracting Chinese Buyers in Cyprus



Impressively high, the major reason of attracting Chinese is due to the benefits granted by issuing the Cyprus Citizenship. The access to the European States along with business and money movement is the most important for them. It seems that Cyprus is just their way to succeed as the second most popular reason is Money Laundering. Wealthy Chinese buyers who can afford the CIP cost can use the advantages in order to whiten their "Black Money". Whittening money can be sometimes controlled by governments but, taxation is in the procedure. Third in popularity is our living standard. As a fact, Cyprus has very low criminality rate, the educational level of our schools along with private school institutions is very high and of course the climate is perfect. Ironically, the so called Cyprus "Investment" Program has the lowest responds on Investment Opportunity as a reason to be Chosen for.

Our last question concerns any risks that may arise in Cyprus due to Chinese Capital Control policy. The respondents gave various answers as follows.

Figure 3.13: Risks due to China's outflow Capital Restriction.



As we can see, most respondents replied that Chinese Buyers are only interested in the benefits granted from issuing their Cyprus Citizenship. This verifies our results from the previous question. However, this can lead to a major economical risk for many reasons:

- these buyers do not pay taxes unless they spend more than 183 days in the country.
- The real estate property maybe remains empty with no contribution to the economy of Cyprus
- The buyer can sell his property after a permit of five year period. After obtaining their “golden advantages”, Chinese people could move to a different EU state either to work or to live.

Adding to the above, a few weeks ago the CIP was under reconsideration and some major changes are:



- Citizens need to provide proof of held property in the course of 5 years
- Donations up from EUR 75,000 to 100,000 EUR each (at least two required)

The Research and Innovation Foundation now requires a donation of at least EUR 100,000. This donation was previously set at EUR 75,000. The donation should be made after the citizenship is approved, yet before the certificate of naturalization is issued. As before, the alternative is to invest at least EUR 100,000 in a certified innovative enterprise approved by the Ministry of Finance, or a certified social enterprise.

- In terms of participation in business, the required number of Cypriot or EU employees is up from 5 to 9

Previously, within the option of purchase, establishment or participation in Cypriot businesses, the number of Cypriot/EU citizens to be employed was set at 5. Now, this number has been raised to 9.

- Married children can no longer apply under the parent's application

Married children can no longer apply under the parent's application. However, parents of both the main applicant and their spouse can now apply for citizenship. Previously only the parents of the main applicant could benefit from the program. The main applicant and the main applicants' parents can now purchase a single residence at the minimum cost of EUR 1,000,000.

In addition, it is no longer explicitly indicated that an investment of up to EUR 200,000 may also be alternatively made in securities of the secondary market of the Cyprus Stock Exchange.

The investment funds should be taken from the investor's personal account or companies' accounts abroad. The funds should be sent to Cypriot credit or payment institutions licensed and supervised by the Central Bank of Cyprus.

Further, social alienation seems to be a serious problem. As been stated, Golden Visas have the trend to create externalities and to gather foreign people in communities. As time passes, foreigners become a majority and then acquire further rights for their people. Rights can be political, cultural or religious and their blend with the locals results in weakening the morals and customs.

On the other hand, there is a portion of respondents to believe that any loss Chinese activity in Cyprus real estate market will not result to a tremendous financial risk. As they stated, there are bigger foreign markets which are much more concerned of losing. We have researched foreign markets like Russia and the UK and found that they have bigger imported activity from long ago. There are at least 50,000 British who reside in Cyprus, with most having their property in Paphos district. Current relations between Cyprus and the United Kingdom are considered excellent with high levels of cooperation on energy, diplomacy and education. On 16 January 2014 President of Cyprus Nicos Anastasiades and British Prime Minister David Cameron reaffirmed the strong bonds of friendship and partnership between Cyprus and the UK. From our research also found out that Russians living in the country are around 5,000 (WIKIPEDIA 2020).

Adding to the above, we have contacted the Embassy of China's in Cyprus in order to receive demographic results for Chinese people. We asked if they could tell us the actual amount of Chinese people in Cyprus and how many of them have issued Cyprus Citizenship so far. They very politely answered that at present there are 4000 Chinese people but only half of them have the Cyprus Citizenship. However, FDI in reality is lower than expected. Investors can easily issue a family member's citizenship a lot cheaper after they purchase their own. As Eleni Drakou (2020) state, "parents of the

main applicant's spouse or partner may now, under the new Regulation, apply to obtain the Cyprus citizenship, which means that both the parents and the parents-in-law of the investor can now be granted citizenship. Just like the main applicant's parents, the in-laws should have their own residence in Cyprus, valued at no less than EUR 500,000. As we understand, not only Chinese investors are benefited from CIP but their family members, too. The financial result though is very much lower than the expected.

## **Chapter 4: Conclusions and Recommendations**

To sum up, Capital control is a significant monetary policy enforced by the government and the Central Bank of a country. Every monetary Restriction in these policies is specifically designed to overcome a financial risk. The design can be very strict and many times prohibits International capital movement, too. In the past, many countries under Capital Restriction Policy managed to control their financial risks. As a fact, host countries are more vulnerable in case of outflow from foreign governments, especially when the host country is an emerging economy. FDI can provide many advantages like, technology, workforce, know-how and more but also by cutting off the liquidity in host country, unemployment and other disadvantages can arise.

In Cyprus we have succeeded a tremendous financial development since the crisis period earlier this decade. As a fact, a major pillar of this development has been FDI from non EU countries in RE industry. CIP is one of our most popular investment plans to sell and undeniably it has played a major role in the economic development. Since 2013 more than 5000 foreign investors have been attracted by the program. The benefits from obtaining a Cyprus Citizenship are very tempting for foreigners and their capital Inflow is very necessary for the economy of Cyprus. Many people from Russia, China and other non EU citizens have bought their property and they live among us. However, there is only one foreign market that pioneers in RE activity in our country. Cyprus as an island has more reasons to avoid Capital Restrictions in order to keep the

FDI inflow. Restrictions from foreign governments, especially of our main buyer's, will result to negative effects in the RE industry and economy generally. The UK, has been a major RE buyer for many decades. Even though they are out of EU, they still can purchase RE property and live in the country.

At present, in Cyprus there is a big RE activity and Chinese market is a part of it. FDI from Chinese buyers is welcomed and their economic impact in construction industry along with employment and other factors is very important. According to China's Capital Control policy, we strongly believe that will not affect the RE activity in Cyprus by Chinese people. The reason is that, despite the latest reconsiderations, people from China can easily inflow their money with other methods. In contrast with standard procedures, it can be more time consuming but eventually it can be possible. Adding, the latest obligation changes under the CIP may discolor the Chinese interest due to the extra investigation on each applicant. According to our respondents the most unknown risk is whether CIP buyers keep their RE property or sell it after obtaining their Citizenship. More, the alienation of Cyprus has been pointed. More and more foreigners are living among us and this should concern our politicians.

# Appendices

## List of Figures

Figure 1.1: Reasons of China's Capital Limit p.29

Figure 2.1: Key Pillars of the economy p.32

Figure 2.2: Inflation data from 2013 to present p.33

Figure 2.3: GDP data from 2010 to present p.34

Figure 2.3.1 Number of high Value Residential properties p.39

Figure 3.1: Cyprus Real Estate and Land Development firms Location by City p.47

Figure 3.2: Average Time of professionals Interacting with Foreign Buyers/Investors P.48

Figure 3.3: Foreign Customers by non EU Nationality p.49

Figure 3.4 Which Nationality Real Estate Professionals mostly work with p.49

Figure 3.5: Number of Foreign Buyers by each Firm per annum p.51

Figure 3.6: Most popular Cyprus Investment Program by each non EU Nationality p.52

Figure 3.7: Cyprus Firms cooperating with non EU agencies p.53

Figure 3.8: Type of RE Assets Preferred By non EU Nationalities p.55

Figure 3.9: Type of Housing Units Each non EU nationality is mostly Interested p.56

Figure 3.10: Type of RE Property is Demanded for CIP Application p.57

Figure 3.11: Methods of Capital Inflow (to Cy) by Chinese Buyers p.60

Figure 3.12: Reasons Attracting Chinese Buyers in Cyprus p.62

Figure 3.13: Risks due to China's outflow Capital Restriction p.63

## List of Tables

Table 2.1: Dueling Building Units p.35

Table 2.2: Building Permits p.35

Table 2.1.1: TOTAL NUMBER OF PROPERTIES TRANSFERRED TO FOREIGN BUYERS p.37

Table: 2.1.2: TOTAL NUMBER OF PROPERTIES WITH REGISTERED CONTRACT OF SALES BY FOREIGN BUYERS p.37

Table 2.1.3: TOTAL NUMBER OF BUYERS - (TRANSFERS OF SALE) p.38

Table 2.1.4: TOTAL NUMBER OF FOREIGN BUYERS WHO REGISTERED CONTRACT OF SALES p.38

Table 2.4.1: Cyprus Citizenship Application Approvals by Year. p.43

Table 2.4.2: Cyprus Citizenship by Investment: Total Revenue since 2013 (in EUR millions) p.44

Table 3.1 CIP Approved Eligibility Professionals p.50

Table 3.2: How Foreign Buyers Contact RE Firms In Cyprus p.54

Table 3.3: Question 14 & 15 p.58

Table 3.4: Question 16 & 17 p.58

Table 3.5: Question 18 p.58

Table 3.6: Question 19 p.59

Table 3.7: Question 20 p.59

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[com.nupmil.nup.ac.cy/eds/pdfviewer/pdfviewer?vid=1&sid=04adcacb-5930-4cc9-8bca-7a517913abe5%40pdc-v-sessmgr04](http://com.nupmil.nup.ac.cy/eds/pdfviewer/pdfviewer?vid=1&sid=04adcacb-5930-4cc9-8bca-7a517913abe5%40pdc-v-sessmgr04) [Accessed 23 Jul. 2020].

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**ANCYPRIAN STATISTICAL DATA FOR TRANSFER OF SALES AND CONTRACT OF SALES TO FOREIGN BUYERS**

**TOTAL NUMBER OF PROPERTIES TRANSFERRED TO FOREIGN BUYERS**

YEAR		NON EU	
2012	405	N/A	
2013	350	N/A	
2014	444	N/A	
2015	646	N/A	
2016	958	N/A	
2017	1117	N/A	
2018		194	
2019		388	
2020		477	JAN-JULY

**TOTAL NUMBER OF PROPERTIES WITH REGISTERED CONTRACT OF SALES BY FOREIGN BUYERS**

YEAR		NON EU	
2012	1476	N/A	
2013	1017	N/A	
2014	1015	N/A	
2015	1349	N/A	
2016	1813	N/A	
2017	2406	N/A	
2018		2939	
2019		2952	
2020		1077	JAN-JULY

**TOTAL NUMBER OF BUYERS - (TRANSFERS OF SALE)**

YEAR		NON EU	
2012	543	N/A	
2013	452	N/A	
2014	576	N/A	
2015	814	N/A	
2016	1421	N/A	
2017	1389	N/A	
2018		186	
2019		280	
2020		612	JAN-JULY

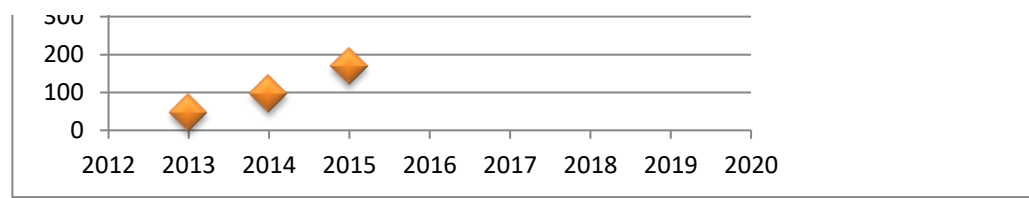
**TOTAL NUMBER OF FOREIGN BUYERS WHO REGISTERED CONTRACT OF SALES**

YEAR		NON EU	
2012	1624	N/A	
2013	1104	N/A	
2014	1418	N/A	
2015	1549	N/A	
2016	2227	N/A	
2017	2594	N/A	
2018		2571	
2019		2907	
2020		1013	JAN-JULY

**Number of high value residential properties analysis > €1 mln**

year	Houses > € 1M
2013	46
2014	96
2015	169
2016	415
2017	575
2018	733
2019	864





**Cyprus Citizenship Application Approvals by Year**

Year	Approved Applications
2012	48
2013	55
2014	214
2015	337
2016	443
2017	503
2018	581
2019	700

**Cyprus Citizenship by Investment: Total Revenue since 2013 (in EUR millions)**

Investment	%
Deposit "haircuts"	8%
Government Bonds	9%
Bank Deposits	11%
Business Investment	15%
Real Estate	55%
Mixed Investment	2%

<https://www.imidaily.com/editors-picks/cyprus-citizenship-program-raises-min-investment-to-e2-5m-reports-e6-6-billion-revenue-si>

[nce-2013/](#)

**Duelling Building Units**

Year	Units
2010	14,312
2011	8,839
2012	5,879
2013	4,141
2014	2,855
2015	3,197
2016	3,649
2017	4,939
2018	6,201
2019	9,627
2020	N/A

**Building Permits**

Year	Permits
2010	8,777
2011	7,506
2012	7,172
2013	5,341
2014	4,933
2015	5,014
2016	5,354
2017	5,728
2018	6,408
2019	7,218
2020	N/A

CyStat [https://www.mof.gov.cy/mof/cystat/statistics.nsf/industry\\_construction\\_62main\\_en/industry\\_construction\\_62main\\_1](https://www.mof.gov.cy/mof/cystat/statistics.nsf/industry_construction_62main_en/industry_construction_62main_1)

GDP	USD Billion
2010	25.73
2011	27.57
2012	24.98
2013	23.9
2014	23.13
2015	19.2
2016	22.89
2017	22.64
2018	24.96
2019	24.56
2020	N/A

KPMG (2020) <https://tradingeconomics.com/cyprus/gdp>

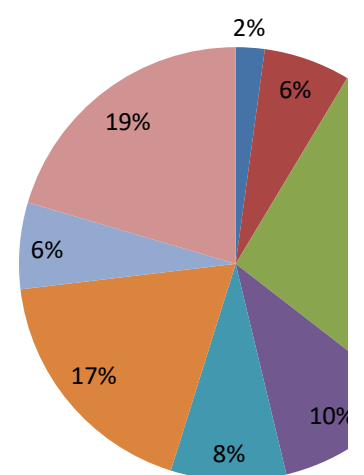
Unemployment	Rate
2013	16.00%
2014	16%
2015	15%
2016	14%
2017	13%
2018	10%
2019	7%
2020	9%

KPMG (2020) <https://tradingeconomics.com/cyprus/gdp>

**Gross Value Added (GVA) by Sector in 2019**

ARTS, ENTERTAINMENT	5%
AGRICULTURE, FORESTRY&F	2%
MINING, ELECTRICITY, GAS, W	2%
MANUFACTURING	6%
TOURISM, RETAIL TRADE	25%
PROFESSIONAL ACTIVITIES	10%
FINANCING & INSURANCE A	8%
REAL ESTATE & CONSTRUCT	17%
INFORMATION % COMMUN	6%
PUBLIC ADMINISTRATION&D	19%

**GROSS VALUE ADDED**







[en?OpenForm&sub=2&sel=2](#)

## BY SECTOR IN 2019





questions

1	Firm Location	No
	Nicosia	8
	Limassol	15
	Larnaka	4
	Paphos	8
	National	5

10	Contact	African	Russian	Chinese	other
	Through agency	7	30	35	3
	Personally	5	10	5	10

2	Years of interaction with real estate buyers	
	0-5 yrs	3
	5-10 yrs	10
	10-15 yrs	10
	15+ yrs	17

3	Foreign nationalities that companies work with	
	African	3
	Russian	25
	Asian	10
	Other	7

6	Number of foreign buyers that companies collaborate with	
	0-5 buyers	2
	5-10 buyers	15
	10-15 buyers	15
	15+ buyers	8

7	Just one	15
	More than one	25

8	Policy	African	Russian	Asian	Other	
	Housing Investment 2M		5	25	17	2
	Main residence 500k		3	5	3	8
	2M in Cyprus Company		10	17	7	3

9	Africa	5
	Russia	22
	China	18
	Other	5

11	Asset	African	Russian	Chinese	other	
	House		3	30	23	18
	Commercial		2	3	2	4
	Land		2	3	2	3
	business		2	10	7	3
	other		2	5	4	5

12	Accommodation	African	Russian	Chinese	Other
	Apartment		18	20	20
	Luxury villa		25	20	10
	Maisonette				12
	Other	5			3

13	Asset	African	Russian	Chinese	Other
	Apartment		19	15	15
	Luxury villa		25	18	2
	House		5	4	15
	Commercial	5			3

Offices	5		3
Shops	5		3
Other	2		

17	Cyprus generally	22
	Some areas	18

20	Other methods	35
	Struggle to buy	5

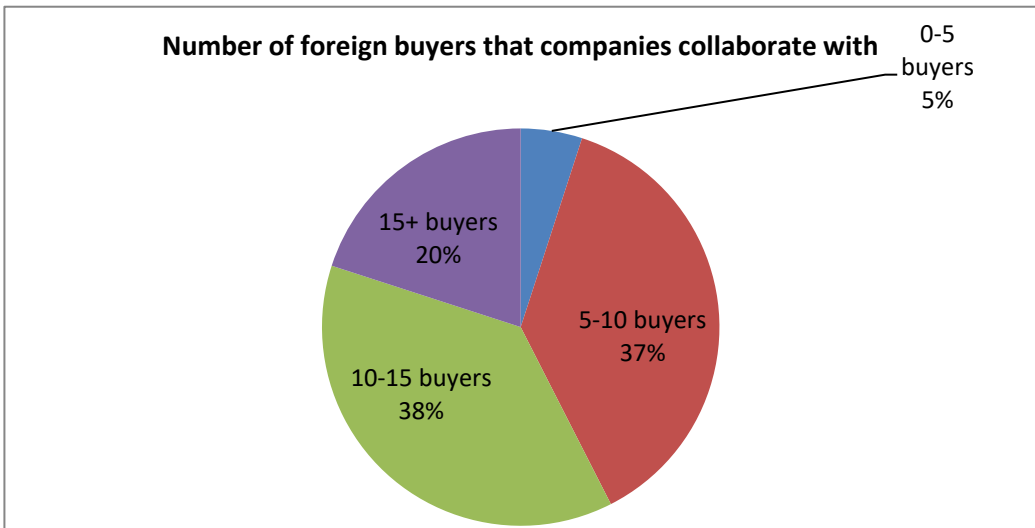
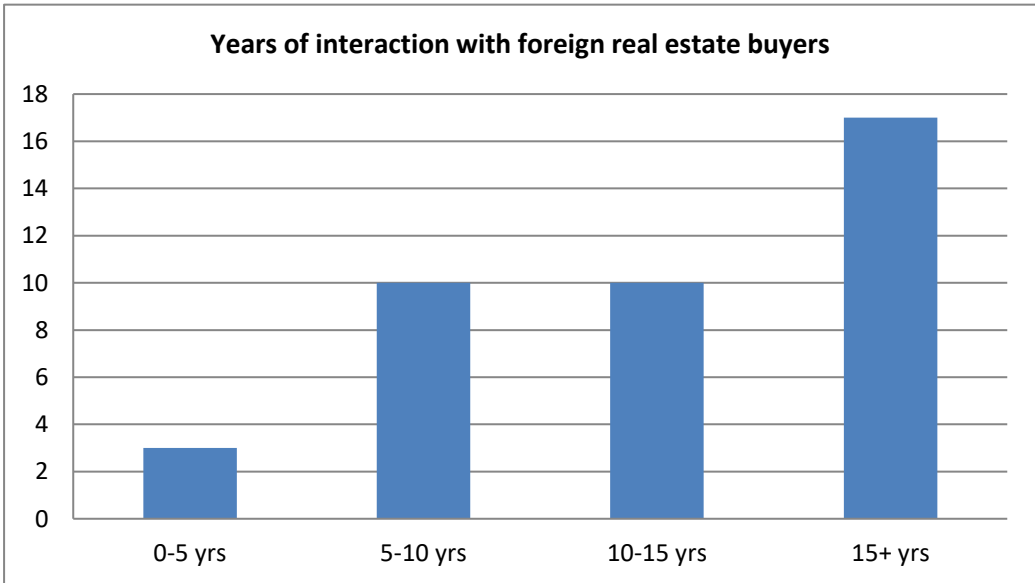
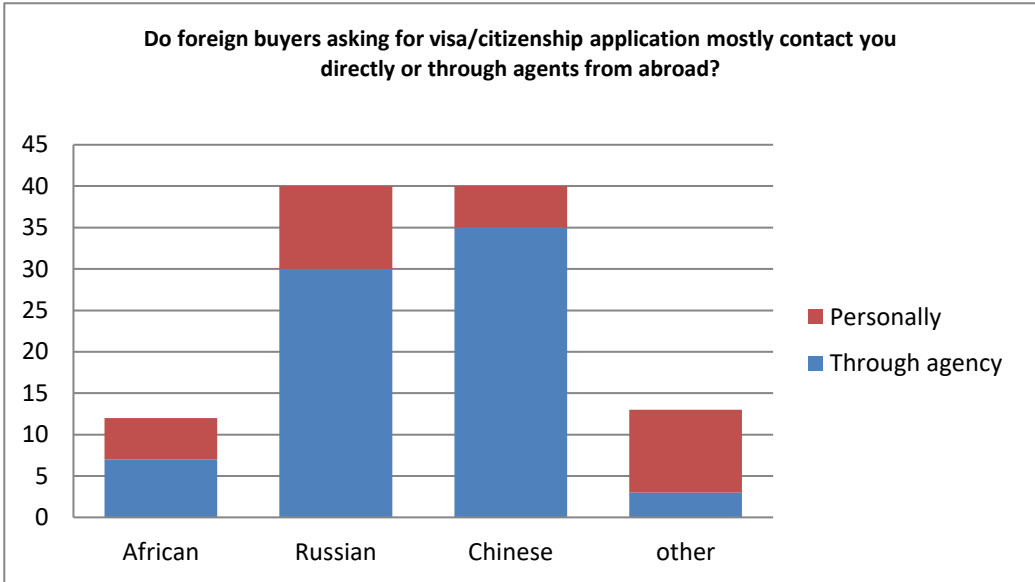
19	Less than 10%	33
	10-20%	5
	20-30%	2
	more than 30%	0

21	Through Singapore and Hc	25
	Through FX Companies	5
	They pay a 2% commissior	6
	Smurfing	5

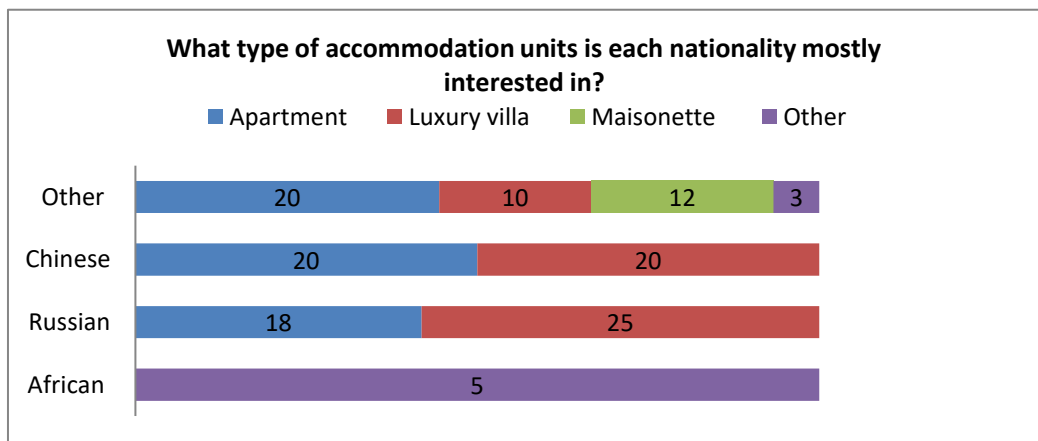
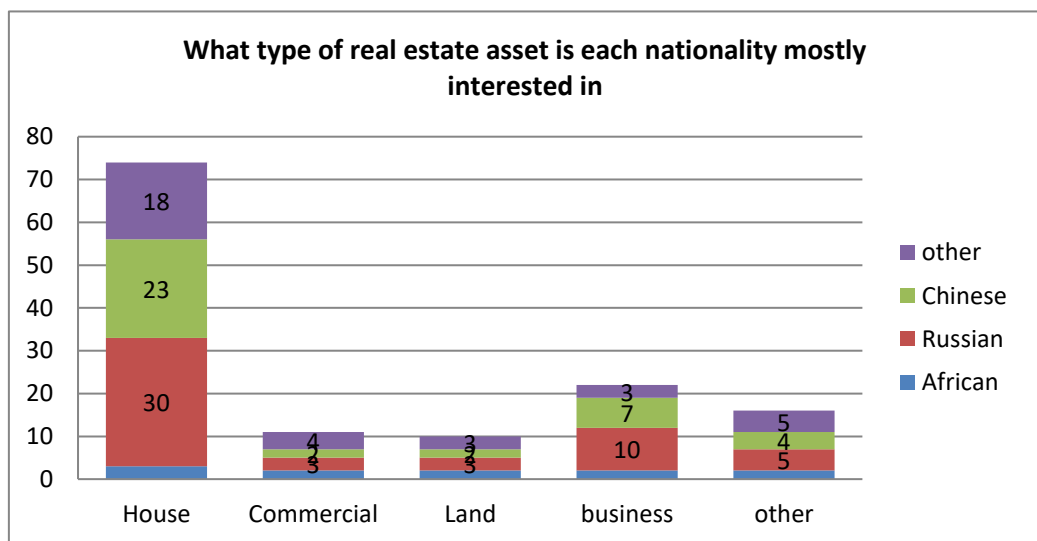
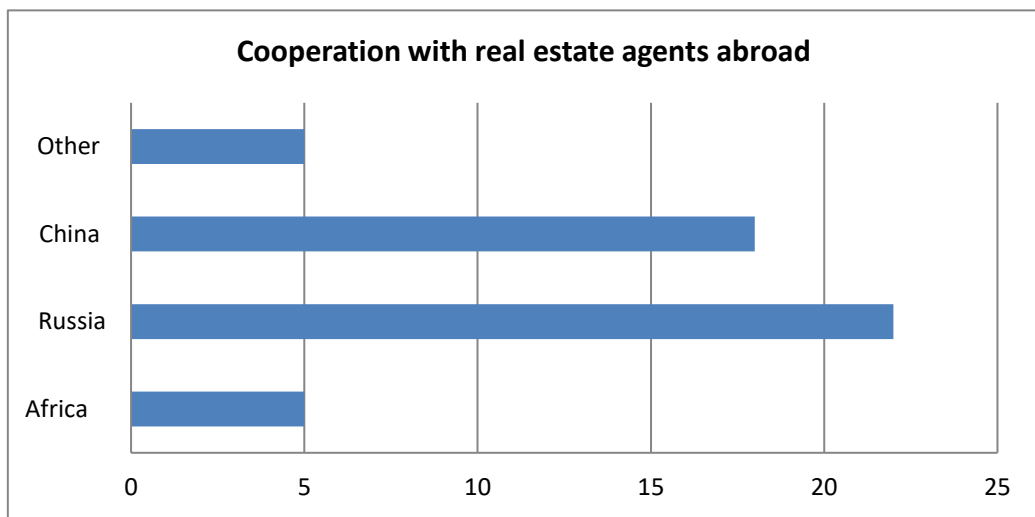
22	What do you believe is the principal role of attracting Chinese Buyers in Cyprus	
	Better family quality	4
	Good investment opportu	2
	Money laundering	14
	Travel opportunities and a	20
	Other	

23	Is Cyprus, as a host country, at any risk due to lack of Chinese capital in real estate market? If s	
	This is something new and	2
	Cyprus government needs	12
	Chinese buyers are only in	14
	Other countries have muc	12
	Other	

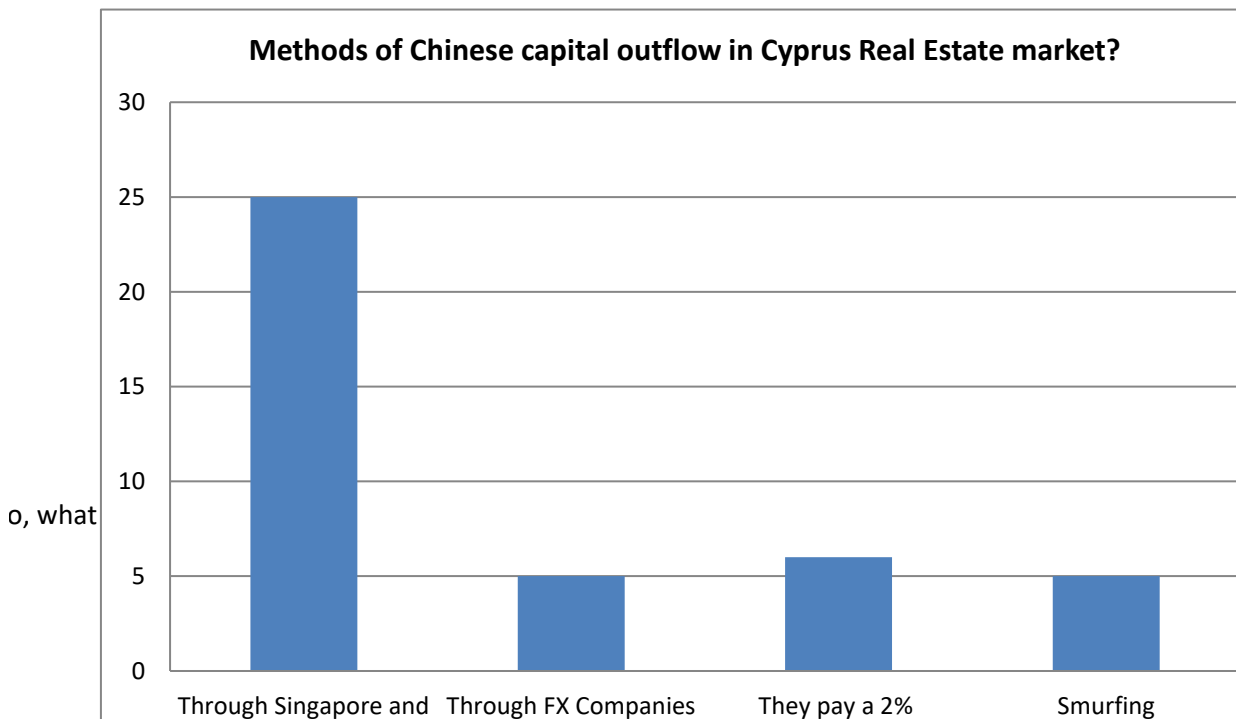
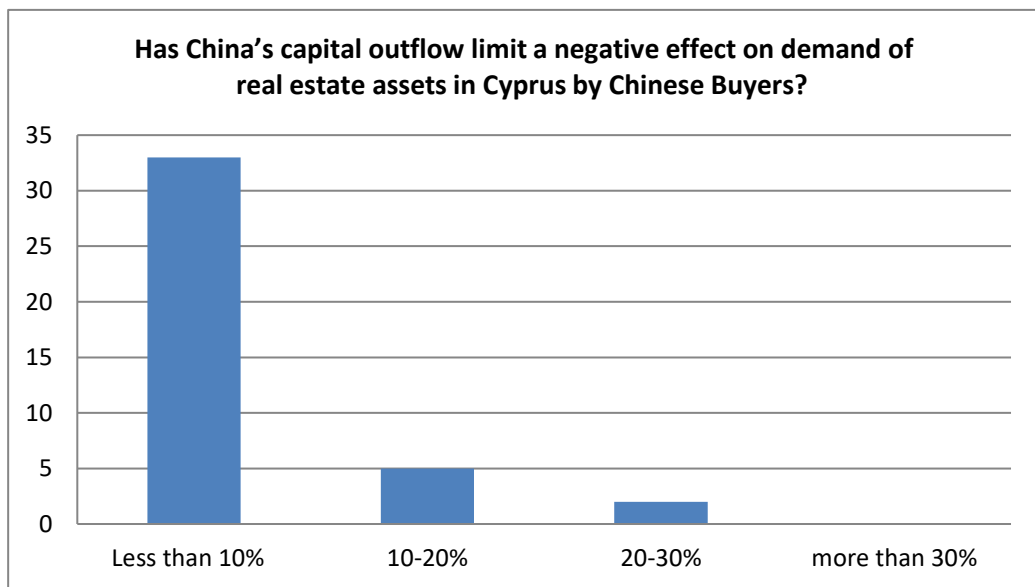
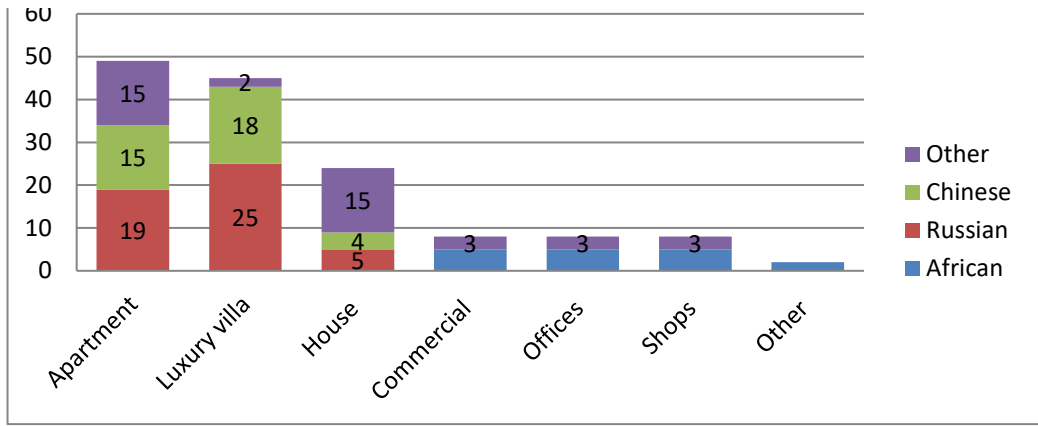




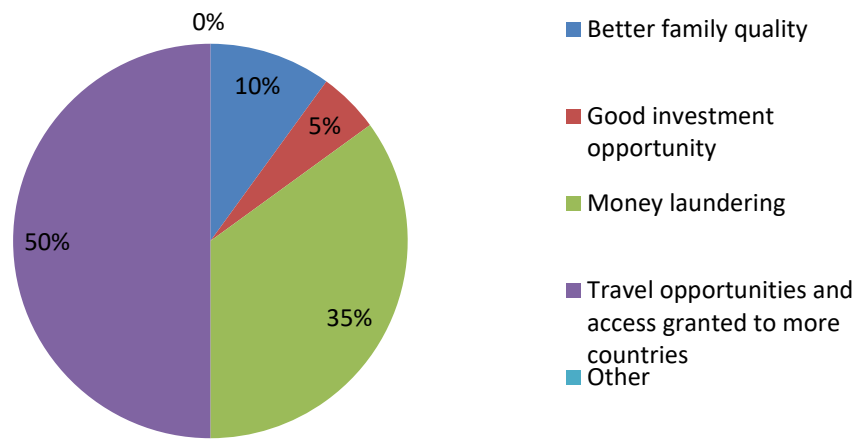


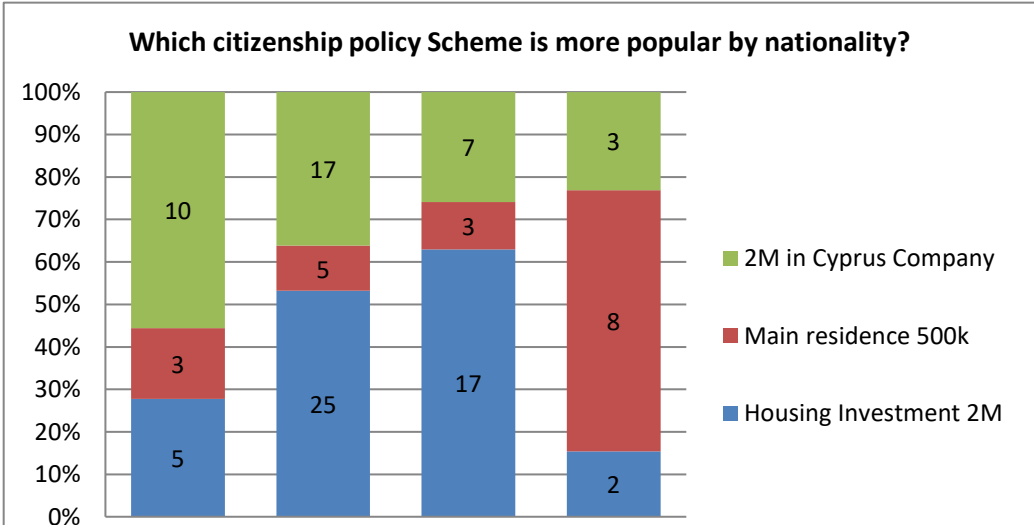
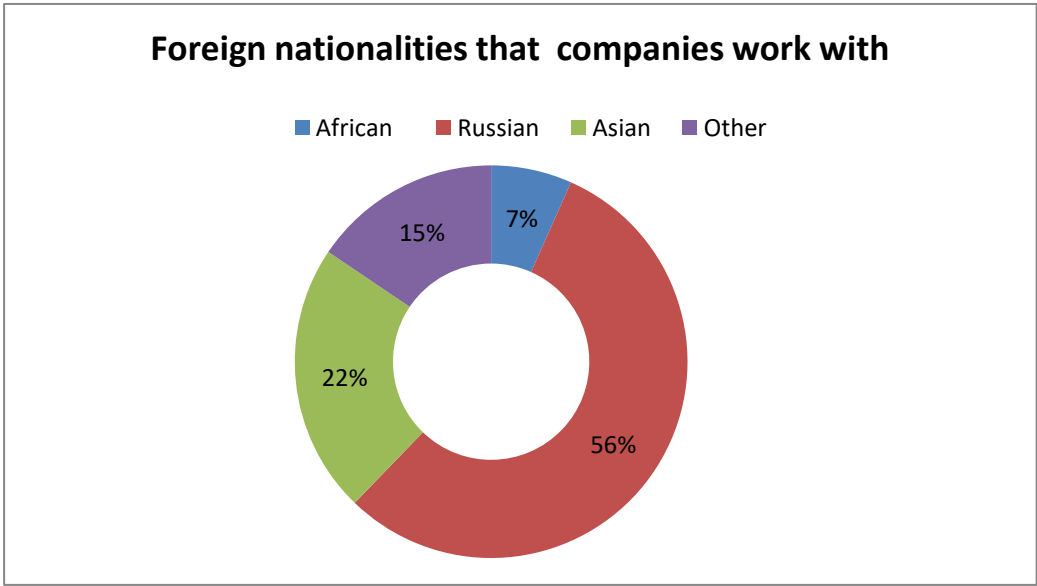
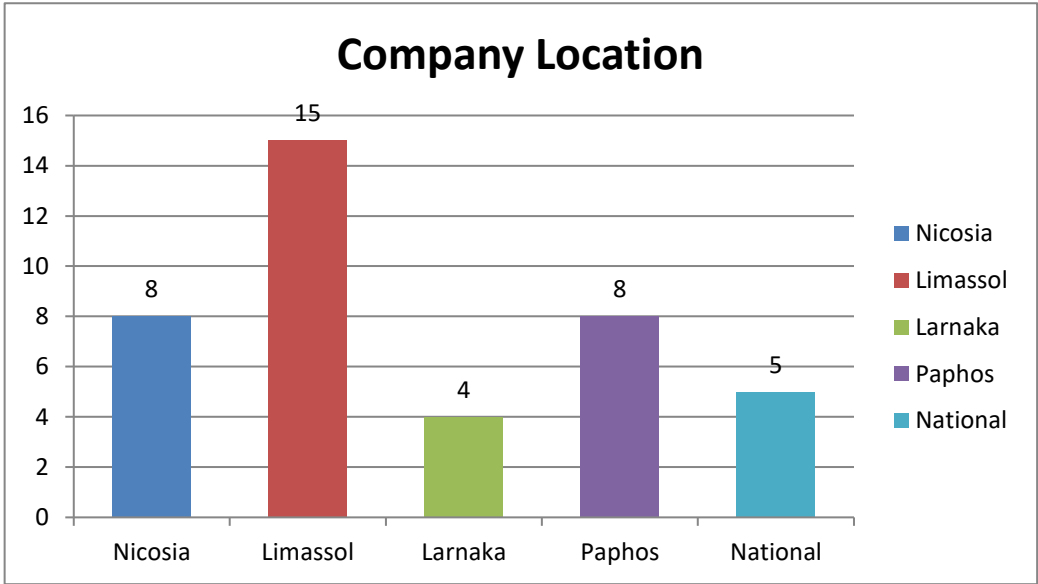


What type of real estate asset is mostly demanded for visa/citizenship application by foreign buyers?



### Principal role of attracting Chinese Buyers in Cyprus





378

African

Russian

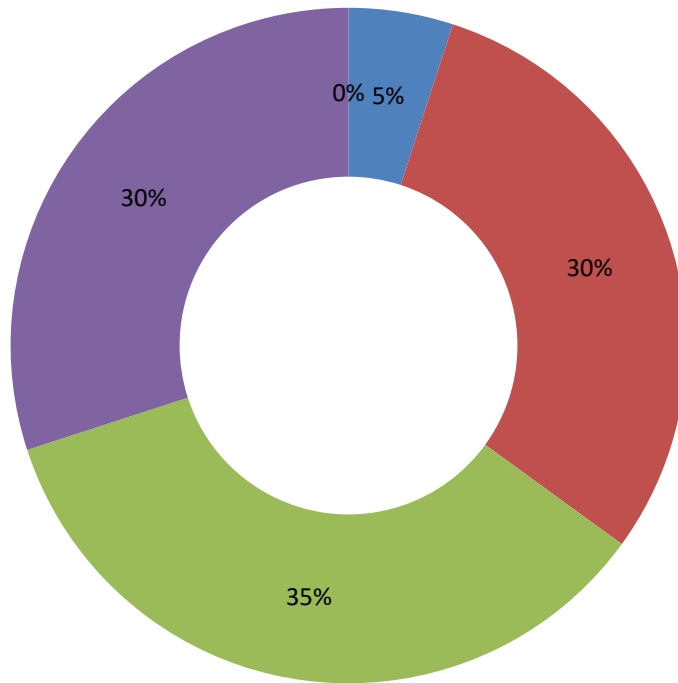
Asian

Other

|

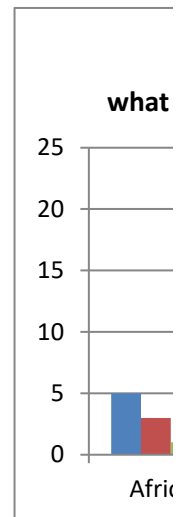


Is Cyprus, as a host country, at any risk due to lack of Chinese capital in real es  
believe best describes this risk?



what is the percentage of the above categories?

Percentage African	Russian	chinese	Other	
0-5%	5	2	2	3
5-10%	3	20	14	3
10-15%	1	12	8	3
More	0	5	5	7







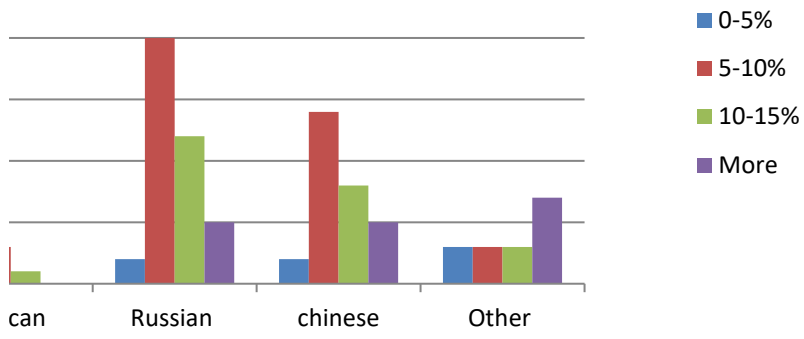


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**state market? If so, what do you**

- This is something new and long term investments are more sensitive due systematic risk unpredictability
  - Cyprus government needs to reconsider this law due to social alienation
  - Chinese buyers are only interested in Visa benefits. It is unknown whether they will keep an investment running or shut it down
  - Other countries have much more economic impact on Cyprus real estate so any lack from Chinese FDI will not bring negative results
  - Other
-

is the percentage of the above categories per year?



questions

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	Nicosia	8
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	National	5

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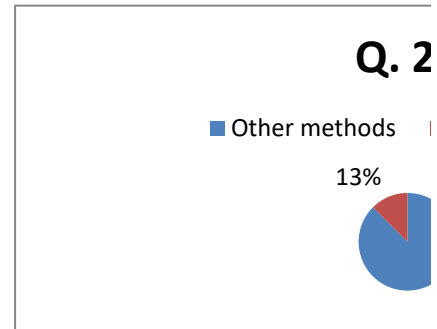
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	Other	5			3

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	Luxury villa		25	18	2
	House		5	4	15
	Commercial	5			3

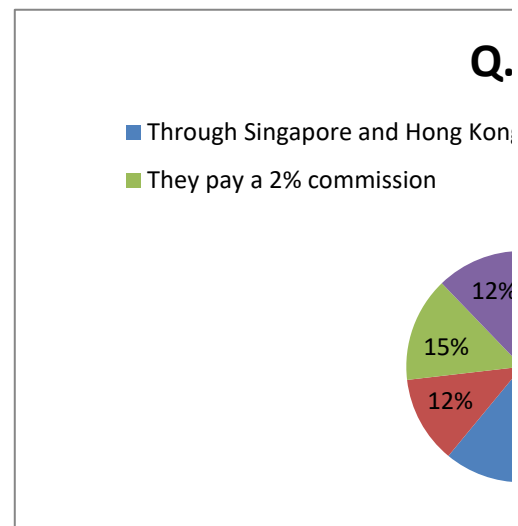
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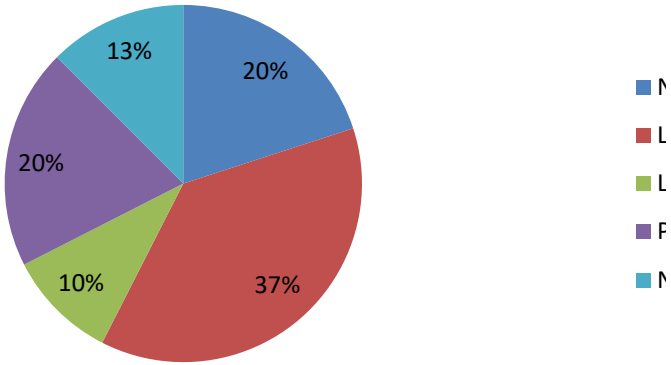
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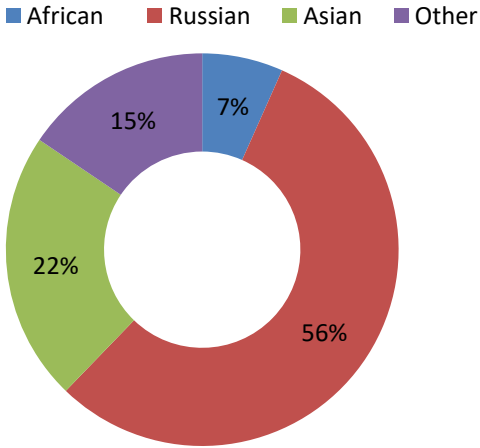




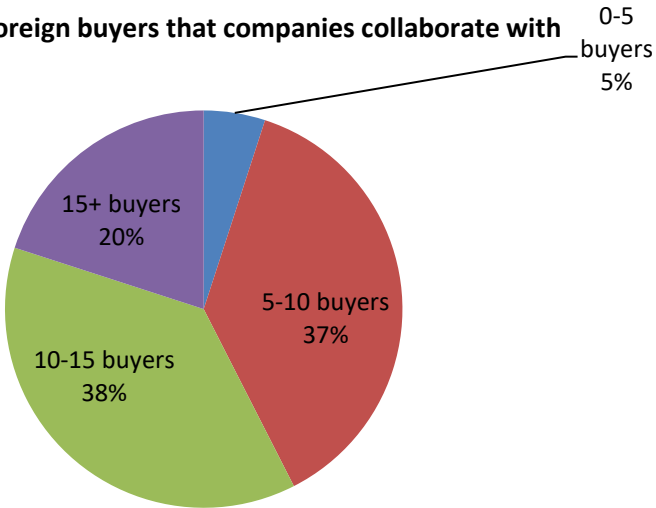
### Firm Location



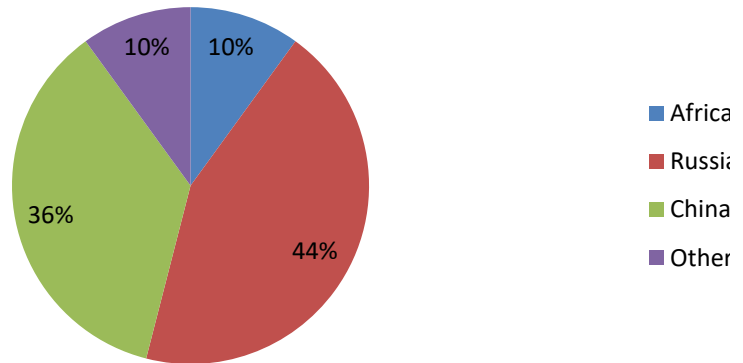
### Foreign nationalities that companies work with



### Number of foreign buyers that companies collaborate with

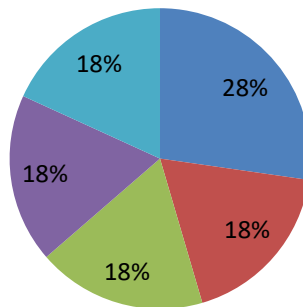


## Cooperate with Foreign Agencies



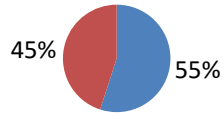
## Chart Title

■ House ■ Commercial ■ Land ■ business ■ other



### Q. 17

■ Cyprus generally ■ Some areas



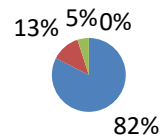
### Q. 18

■ Struggle to buy



### Q.19

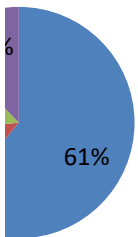
■ Less than 10% ■ 10-20% ■ 20-30% ■ more than 30%



### Q. 20

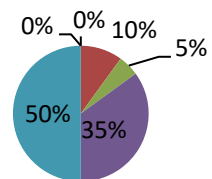
■ Through FX Companies

■ Smurfing



### Q. 22

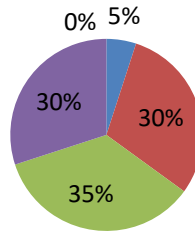
■ Better family quality  
■ Good investment opportunity  
■ Money laundering  
■ Travel opportunities and access granted to  
■ Other



o, what do you believe best describes this risk?

### Q. 23

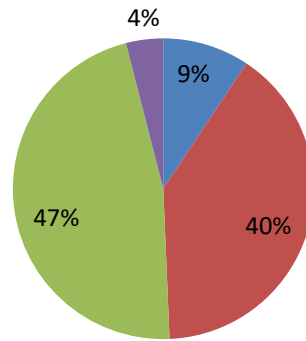
- This is something new and long term investments are more sensitive due systematic unpredictability
- Cyprus government needs to reconsider this law due to social alienation
- Chinese buyers are only interested in Visa benefits. It is unknown whether they will k investment running or shut it down
- Other countries have much more economic impact on Cyprus real estate so any lack FDI will not bring negative results
- Other



Nicosia  
Limassol  
Larnaca  
Paphos  
National

### Through agency

■ African ■ Russian ■ Chinese ■ other



a  
a  
i  
r

n 30%

more countries

risk

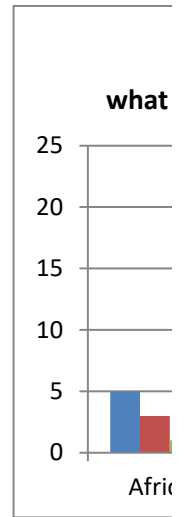
keep an

from Chinese



what is the percentage of the above categories?

Percentage African	Russian	chinese	Other	
0-5%	5	2	2	3
5-10%	3	20	14	3
10-15%	1	12	8	3
More	0	5	5	7

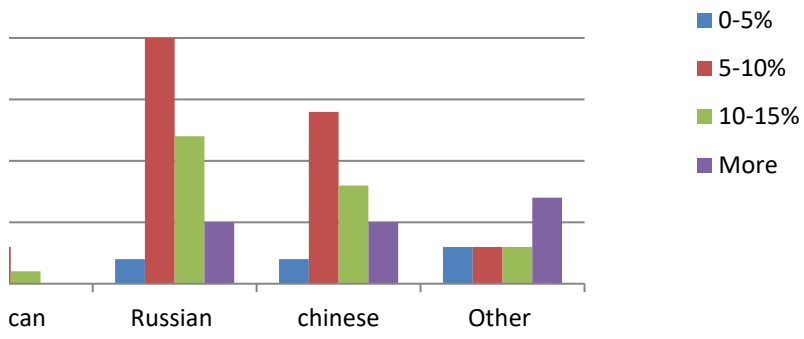








is the percentage of the above categories per year?



## Questionnaire Survey

# The Effect of China's Limit on Capital Outflows in Cyprus Real Estate Market.

### Introduction

Cyprus real estate market has succeeded a tremendous progress since the economic recession of 2009. Demand levels for real estate assets have increased but also foreign buyers and investors seem to be attracted to the country. The reasons vary and some foreign markets tend to be much more interested than others. Nevertheless, Foreign Direct Investment (FDI) has always been a principal economic source for the Republic of Cyprus and any shortage may result to negative economic consequences. Such shortages may arise from government policies like China's limit on Capital Outflows.

### Objective

This questionnaire is part of my post graduate program, Masters in Real estate of Neapolis University of Paphos (NUP), targeting to gain the professionals knowledge and perception in the Real Estate industry. The following questions will give us an up to date answers along with a more realistic view of how FDI has affected Cyprus Real Estate Market the last 5-10 years, where it is mostly originated and what consequences will arise in case of a non FDI scenario in Cyprus.

### Instructions

Go through the following questions and answer them with honesty. All information given from the readers will not be used for any other purpose outside of this dissertation thesis. Please, provide your answered questionnaire with one of the following methods:

Address: Skoutari 22A Peyeia, Paphos

Email: [p.ftochos@nup.ac.cy](mailto:p.ftochos@nup.ac.cy)

Viper: 96779224

For further information please contact Panikos Ftochos at 96779224.

## Questionnaire

1. In what city of Cyprus is your firm located?

Nicosia		Limassol		Larnaca		Paphos		National	
---------	--	----------	--	---------	--	--------	--	----------	--

2. How long does your firm interact with foreign real estate buyers?

0-5 yrs		5-10 yrs		10-15		15+ yrs	
---------	--	----------	--	-------	--	---------	--

3. Which of the following foreign nationalities do you mostly work with?

African		Russian		Asian		other	
---------	--	---------	--	-------	--	-------	--

4. What is the percentage of the above categories?

Percentage	African	Russian	Chinese	Other
0-5%				
5-10%				
10-15%				
More				

5. Are you eligible to provide information and services for citizenship/visa application to foreign buyers?

Yes	
No	

6. If yes, how many foreign buyers do you collaborate with per year?

0-5		5-10		10-15		15+	
-----	--	------	--	-------	--	-----	--

7. Do foreign buyers mostly apply for just one citizenship policy scheme or more?

Just one	
More than one	

8. Which citizenship policy Scheme is more popular by nationality?

Policy	African	Russian	Asian	Other
Real estate investment 2M				
Main residence 500k				
2M in Cyprus Company				

9. Does your firm cooperate with other real estate agencies in any of these counties?

Africa		Russia		China		Other	
--------	--	--------	--	-------	--	-------	--

10. Do foreign buyers asking for visa/citizenship application mostly contact you directly or through agents from abroad?

Contact	African	Russian	Chinese	other
Through agency				
Personally				



11. What type of real estate asset is each nationality mostly interested in?

Asset	African	Russian	Chinese	other
House				
Commercial				
land				
business				
other				

12. What type of accommodation units is each nationality mostly interested in?

Accommodation	African	Russian	Chinese	Other
Apartment				
Luxury villa				
Maisonette				
Other				

13. What type of real estate asset is mostly demanded for visa/citizenship application by foreign buyers?

Asset	African	Russian	Chinese	Other
Apartment				
Luxury villa				
House				
Commercial				
Offices				
Shops				
Other				

14. Do you believe that visa/citizenship policy schemes are related with any increase or decrease in real estate prices?

Yes	
No	

15. Do you believe that visa/citizenship policy schemes have created externalities in some areas?

Yes	
No	

16. Do you believe that visa/citizenship policy schemes have created a balloon in real estate market of Cyprus?

Yes	
No	

17. If yes, do you believe this balloon affects Cyprus generally or just some areas?

Cyprus generally		Some areas	
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18. Has China's capital outflow limit a negative effect on demand of real estate assets in Cyprus by Chinese Buyers?

Yes	
No	

19. If yes, at what percentage?

Less than 10%		10-20%		20-30%		more than 30%	
---------------	--	--------	--	--------	--	---------------	--

20. Do Chinese buyers, after the capital outflow limitation policy from their government, struggle to buy real estate assets in Cyprus or do they buy through other methods?

Other methods		Struggle to buy	
---------------	--	-----------------	--

21. If possible, can you describe other methods of Chinese capital outflow in Cyprus Real Estate market?

22. What do you believe is the principal role of attracting Chinese Buyers in Cyprus

- a) They want a better quality for their families
- b) They visa/citizenship policy schemes are good investment opportunity
- c) Money laundering
- d) Travel opportunities and access granted to more countries
- e) Other

23. Is Cyprus, as a host country, at any risk due to lack of Chinese capital in real estate market? If so, what do you believe best describes this risk?

- a) This is something new and long term investments are more sensitive due systematic risk unpredictability.
- b) Cyprus government needs to reconsider this law due to social alienation.

- c) Chinese buyers are only interested in Visa benefits. It is unknown whether they will keep an investment running or shut it down.
- d) Other countries have much more economic impact on Cyprus real estate so any lack from Chinese FDI will not bring negative results.
- e) other

Thank you for your time!