

2015

Real Estate Investment Trust (REITS): How it will give solutions in Cyprus real estate problem

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**REAL ESTATE INVESTMENT TRUST (REITS).
HOW IT WILL GIVE SOLUTIONS IN CYPRUS REAL ESTATE PROBLEM**

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The requirements for

The Degree of

BACHELOR IN REAL ESATE VALUATION AND DEVELOPMENT

**REAL ESTATE INVESTMENT TRUST (REITS).
HOW IT WILL GIVE SOLUTIONS INCYPRUS REAL ESTATE PROBLEM**

Dissertation

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INTRODUCTION

The relevant decisions of the Eurogroup led the Cypriot society in a collective shock, surprising the political system, razing the country's economic prospects and overthrowing the lifestyle of the average Cypriot. Cyprus is in recession since mid-2011 with the turmoil in the banking and financial sector, which led to lower investment and consumption. Since March 2013 the Cyprus enjoys an Economic Adjustment-Scheduled agreement with the troika (IMF, European Commission and European Central Bank), which aims to restore confidence, to correct fiscal imbalances and to strengthen competitiveness in economy. The GDP growth rate in real terms during the first quarter of 2014 was negative, estimated at -4.0% compared to the corresponding quarter of 2013. Based on seasonally and working day adjustments to the GDP growth in real terms is estimated at -4, 1%. Negative growth rates were recorded by the secondary sector of the economy (industry, construction) and in the fields of banking, tourism, transport and other services. The Cyprus has returned to international markets after a three-year blockade. Nobody expected the government to regain access so soon after the signing of the Memorandum and the haircut of deposits - was the most rapid return to the markets of a country embedded in an assistance program. The resolute implementation of the memorandum, positive quarterly reviews by the Troika, the best results from it indicators of public finances all contributed to a successful bond issue to € 750.000.00.

In the recent study is examined how real state investment trust can help the Cyprus economy.

CHAPTER 1

ECONOMY OF CYPRUS

1.1. The Cypriot economy in numbers

The Cypriot economy is in a Memorandum of Understanding agreed with the Troika in March 2013 and covers the period 2013-2016. So far, the economic adjustment program (named as the Memorandum) was four assessments echelons Troika visiting Cyprus. The first evaluation took place in July 2013, the second from October 29 up to November 7, 2013, the third from 29 January to 12 February 2014 and the fourth in the first half of May 2014. Based on macroeconomic scenario agreed at the 4th assessment of the Troika, the growth rate of the economy in 2014 is expected to be negative rate of -4.2%. At this point, noting that the European Commission in the spring forecasts announced on May 5, 2014, stated that the growth rate for this year will be at -4.8% (National Statistics of Cyprus, 2015).

The decline in growth in recent years is largely due to the moderation in private consumption. The reasons for this restraint due to a decrease in disposable income, the strict restrictive fiscal policy, the adverse psychological climate in relation to the anxiety that exists for the next day of the banking sector in Cyprus and general pessimism in the market. In the medium term it appears that the prospects of the Cypriot economy will begin to improve. According to official forecasts, the Finance Ministry from 2015 and then begin to record positive growth rates. Specifically, growth is projected to be around 0.4%, while for 2016 and 2017 is projected to increase to 1.6% and 2.3% respectively (National Statistics of Cyprus, 2015).

Of course, these forecasts are conditional on how well we meet the challenges and problems in the Cypriot banking sector mainly from the performance will record the area of tourism and professional services, always in the light of political developments especially in Russia and Ukraine. For historical reminder to mention that the last time the Cyprus economy recorded

positive growth rates was in 2008 (3.9% of GDP). From then until today, the rates are still negative.

Inflation

In 2014 inflation was at 0.2%. The inflation rate for 2015 is projected at 1.1%, while for the years 2016 and 2017 is forecast to increase by around 1.7% annually. It is noted that historically, due to the high dependence of the economy on oil, the inflation in Cyprus directly is influenced by the evolution of oil prices. The evolution of inflation for 2014, was influenced by the decreases observed in the average price of Brent crude oil type, which was € 79 per barrel compared to € 82 in the same period of 2013 (4.1% decrease). The contribution to inflation of the products in the CPI directly are influenced by oil prices (fuel, electricity, gas) was -0.3% (National Statistics of Cyprus, 2015).

Labour market

In 2013, unemployment was at 15.9% as a percentage of Manpower. In 2014 the rate reached 18.6%. The initial forecast of the Finance Ministry would raise unemployment this year to 19.5%. The fall in 18.6% shows a relatively small improvement, but the situation is still very worrying. Latest estimates of the Ministry of Finance predict that in 2015 unemployment will fall to 18% in 2016 to 16.8% and in 2017 15.4% of Manpower, which the end of 2013 amounted to 445 938 people, of which 52.5 % men and 47.5% women (National Statistics of Cyprus, 2015).

At this hour there are two serious challenges as follows: the first great challenge is whether the market can absorb new and second whether to achieve a reduction of long-term unemployed.

It should be noted that people who are unemployed for a period of over six months are increasing. In 2012 the unemployed more than six months was 28.29% of total unemployment in 2013 rose to 34.64% and the first five months of 2014 amounted to 43.32%. Unemployment reaches its maximum point in 2013 as GDP continues to shrink, and will start to improve from 2015 onwards, as GDP will begin to show positive growth rates. It noted that unemployment and more generally the labor market in general presents a lagging GDP change and that is what is the main reason the

assessment of 2014 and forecasts for 2015-2017. This element alone shows the correctness of the position put forward by the TEC to extend the delivery period of the unemployment benefit from 6 to 9 months (Cyprus Profile, 2015).

Although the decrease (restrain), recorded in unemployment rate, alarming levels is the youth unemployment (32.8% in the fourth quarter of 2014 despite the significant reduction recorded in the last year) and long-term unemployed (7.8% for the fourth quarter of 2014). The lower unemployment rate reflects the marginal improvement labor market conditions. However, substantial decline in the rate of unemployment presupposes ending the recession and the return of the economy (European Commission, 2013).

Budget deficit

After 2012 the budget deficit gradually declining. From -6.4% of GDP in 2013 decreased to -5.4%. The 2014 was at -5.8%, while in 2015 will decrease to -5.2% and -2.4% of GDP in 2016. In the context of fiscal policy and on the basis of what has been agreed with the Troika, the goal is to continue the fiscal consolidation, to achieve a surplus of 3% of GDP in 2017 and 4% of GDP in 2018 and maintained thereafter at least in this level. Already the government has committed to the second quarter of 2016 will present the Troika preliminary list of measures to achieve surplus in 2017 and 2018 (Cyprus Profile, 2015).

Public debt

The public debt increased in 2013 to 111.5% of GDP from 86.6% to 71.5% in 2012 and 2011 respectively (European Union, 2013). In 2014 is expected to reach 120.9%, while from 2015 will begin reducing the 118.4%, 111.5% and 106.3% in 2015, 2016 and 2017 respectively.

Salaries

In 2011, nominal wages increased by 2.7% and 1.6% in 2012. In real terms the wages decreased by -0.6% in 2011 and -0.8% in 2012. Data in real terms refer to rates in nominal terms deflated by the consumer price index. The earnings and incomes continue to be adjusted downwards, following the significant decline of 2013. During the first half of 2014, the total earnings of employees decreased 7.8%. Part of the reduction is due to lower employment, which seems to reduce earnings per employee, -5.1%. The decrease in earnings contribute to the reduction of unit labor costs and improve competitiveness. The observed wage adjustment should help to curb upward pressure on unemployment (European Commission, 2013).

Productivity

The Cypriot economy has a temporal low productivity. Both the government (current and former) and employers (which based on international practice and the literature belongs the main responsibility for improving), did not show proper willingness to increase productivity.

At this point, we recall that in March 2006 the then cabinet recommended the Pancyprian Productivity Council with primary responsibility and task of implementing the National Productivity Programme for 2007-2013 with the political responsibility rests with the respective Minister of Labour. Unfortunately, so far very few things were towards improving national productivity, resulting in Cyprus do not compare favorably with what is happening in the European Union of 27.

This time needs to be a convincing and documented report that shows what happened from 2007 to today in the Productivity section. How this increased as a result of any implementation of the National Programme, what costs they were in that direction and that we proceed in the coming years?

It is time for an overall evaluation of the productivity of capital, strictly observing that strengthening the competitiveness of the economy can only come through a reduction in wages and marginalization of the ATA.

While productivity - at national level - is constantly subdued, we cannot have requirements for substantive changes and improvements.

Finally to mention that during the last evaluation of the Cypriot economy step Troika raised to the Cypriot authorities on improving national productivity within a time horizon covering the period 2014-2020.

1.2. The future of Cypriot economy

Regarding prospects for recovery of the economy, it is expected that the economic environment will continue to involve several challenges and 2015. Prospects of recovery, however, are expected to improve sufficiently the degree in case implement all the provisions of Cyprus Memorandum. Under appropriate conditions and with the right moves and initiatives, as mentioned above, the economy can return to positive growth.

In the medium term, according to the baseline macroeconomic scenario, the prospects of the economy are expected to continue to gradually improve. Restructuring the banking system and the expected gradual alleviation and elimination of restrictions on movement of capital, the economy will begin to recover and record positive growth from 2015 onwards. Attracting foreign investment is considered very important for the island's economy, given the close bank liquidity in the market. It has already demonstrated interest from investors, especially for enriching jobs in the tourism sector. In addition, the budgetary adjustment has already promoted well and is expected to contribute positively to the path of recovery. The budget of 2015, as the Medium Term 2015-2017 in line with the objectives of the macroeconomic adjustment program, define the framework for fiscal policy aims at gradual achievement of primary surplus (the surplus apart from the expense of the State debt service). The creation of primary surpluses increases the potential for sustainability of the public debt, since shows that no additional borrowing needs created. The debt sustainability is the most important parameter for the markets to start again trust the Cypriot economy.

Cyprus has completed four successful reviews of the macroeconomic adjustment program, which significantly strengthened confidence in the Cyprus economy, both

internally and internationally.

The better than expected progress of Cyprus economy and the prospects for recovery that are formed, create a positive climate by stimulating the economy. Cyprus has already made significant progress concerning the application of the policies defined in program, especially with regard to fiscal consolidation and stabilization of the financial system. Despite the significant progress that has been recorded in both first pillars of the economic program, is not the case the same as the third pillar relating to structural and institutional reforms. Important reforms envisaged the memorandum and should be implemented in 2015 relating to privatization semi-government organizations, the public administration, local government and the sector health.

The recovery of the economy depends heavily on correcting the distortions has shown economic crisis and creation of a tighter regulatory framework on which to base the regaining the confidence of Cypriot society and foreign investors. The implementation of institutional and structural reform is a key pillar improving the business environment and investment promotion. The costs of reforms may have negative repercussions regarding the short-term prospects of the Cypriot economy, but an one-way to enter the Cyprus orbiting sustainable development.

The better than expected performance of the economy, is due to the relatively improved specific indicators image the real economy, thereby demonstrating the great strengths. The better than expected developments of economy with the good course of the restructuring of banking sector, returned in a climate of improved confidence substantial progress in removing restrictions the movement of capital.

Successful return of Cyprus in international markets, but and hitherto unsatisfactory implementation of the Program of Fiscal Adjustment - thereby achieving the fiscal targets by significant margins – had as a result the Cyprus ratings upgrades by international credit rating agencies. However, despite the significant steps made towards restoration direction of the economic climate, the degree of uncertainty remains high as the increased risks create low visibility as to the duration of the economic downturn. The fact that the Cypriot economy is very sensitive to external factors may delay the return to positive growth.

It is gaining the return to growth in 2015 estimates the Greek Bank, stressing, however, that there are several challenges. In the latest economic review, the bank's Economic Research Service states that *"the Cypriot economy can return to growth in 2015, notes, however, that this will be achieved gradually, as the economic environment still faces several challenges. Focal point for improving the prospects of recovery is the consistent implementation of all provisions of the Memorandum of Cyprus. Examples are the aftermath of the insolvency framework resolution and law of divestments, which were memorandum obligation "*.

The adoption of the insolvency framework launched restarting the evaluation of the Cypriot economic program (5th evaluation), and therefore this positive development was the decline in performance of the Cypriot government bonds, which opened the way to exit the markets at a lower cost. It also highlights that the expected positive assessment of the program will allow the inclusion of Cypriot counterparts at the European Central Bank's quantitative easing program (ESF). It is noted, however, that the better than expected performance of the economy combined with the progress that has been made on restructuring the banking sector, allowed in a climate of improved confidence the complete elimination of capital movement restrictions.

The delay in implementing the structural reforms set out in the Memorandum of Understanding, the negative prospects of Russian economy and financial uncertainty in Greece, may create risks to the output of the economy from recession in 2015. With regard to external challenges geopolitical tensions in the Middle East and Eastern Mediterranean may have a negative impact on economic confidence, tourism and by extension the overall economic activity. As highlighted, the Cyprus achieved significant progress in the implementation of the policies defined in the program, particularly in relation to fiscal consolidation and stabilization of the financial system. Despite the positive outlook, the better than expected fiscal performance does not signal a relaxation of efforts to reform the public sector. The faithful continue and strengthen efforts towards consolidation of government must continue without delay in order to ensure the sustainability of public debt, contributing in this way to recover competitiveness of the economy. The SIC biggest challenge of banks According to the relevant inscriptions, the main challenge for the banking system is to reduce the high level of non-performing loans, which are crucial for restoring the functioning of bank

intermediation. The institutional and structural reforms would contribute to regaining competitiveness and sustainable development. Important reforms envisaged in the Memorandum and should be implemented in 2015 concerning the privatization of semi-governmental organizations, public administration, local government and the health sector. The implementation of institutional and structural reforms is an important pillar for improving the business environment and promotes investment. Structural reforms in improving public finance and strengthening institutions, are the only way to revive the economy and the gradual restoration of confidence in all areas. At this point, it stresses that the recent positive developments do not allow relaxation of efforts to reform the economy. As mentioned, the successful implementation of structural reforms, requires patience and perseverance. Finally, it is underlined that more and longer lasting efforts to enable the economy put back on competitive and sustainable growth path.

The projections are accompanied by various risks. The delay in implementing structural reforms set out in the Memorandum of Understanding, discussions for the exit of the Memorandum before the completion of the financial program, economic uncertainty in Greece – if and contagion risks in the Cypriot economy now are considerably lower than three years ago – and the negative prospects of the Russian economy may create risks to the exit of Cyprus economy from recession in 2015. A major challenge is the full restoration of the credibility of financial sector. An important parameter for stabilization of the system is to limit the increasing trend of problem loans. The most Recent data suggest a as to the accumulation of performing loans. The reform of insolvency and the adoption of new policies strategy development and tackling unemployment constitute important tools to tackle this problem.

With regard to external challenges, geopolitical tensions in the Middle East and Eastern

Mediterranean possibly cause adverse effects on economic confidence, tourism and, by extension, on overall economic activity. Also, potential repatriation of Russian enterprises will affect adversely field of international business services of Cyprus.

On the other, there are factors that may positive impact on the Cyprus economy.

Relaxation

monetary policy that has been announced recently by the European Central Bank, it

is expected to improve liquidity in domestic banking system with positive effects on the real economy. However, a precondition to benefit Cyprus from the quantitative easing of the ECB is positive assessment on the economic adjustment program.

Also, the satisfactory growth in the United Kingdom, in combination with the weakening of euro exchange rate against sterling, are expected to work positively for tourism.

Based on the above and in accordance with the updated macroeconomic adjustment program provided that the national debt will reach € 20.1 billion from € 18.5 billion the previous year in the event of full utilization of available appropriations for the financial sector and as a percentage of GDP increases 126 at 7% in 2015 from 117.8 8% the previous year.

CHAPTER 2

REAL ESTATE INVESTMENT IN CYPRUS

2.1. The effects at construction industry by economic crisis in Cyprus

The construction industry was the first sector economic activities affected by the economic crisis, as is usual in times of recession and especially after the global sector during the decade preceding the economic crisis.

The construction industry has become one of the key pillars of the economic development of Cyprus. The contribution of the construction sector in the EU's gross domestic product (GDP) in 2008 was €1,39 or 8.04% of total GDP. In 2010 the contribution of the sector decreased to € 1,14 or 6.53% of total GDP.

Unfortunately today, the construction sector in Cyprus goes through a difficult period, as is the industry most affected by the economic crisis and faces for the first time in many years the problem of unemployment. Recalling that in 2008 employed 38,600 people in the industry and in 2010 employed 34,600 people, or a decrease of 10.4%. During the same period 2008 - 2010 the unemployed increased from 14,500 to 25,400 ie an increase of 10,900 persons of which 4,000, ie 36.7% from the construction industry.

According to the Statistical Service, the Gross Domestic Product (GDP) of Cyprus in 2011 is estimated at 15.1 billion. Euro at constant prices (2005 base) while the contribution of the construction sector in GDP estimated at 1.07 billion Euro (7% contribution to the GDP of the economy of Cyprus) following the last four years a continuous decline. The impact of the economic crisis in the construction sector is reflected in the following:

- reduced turnover of construction enterprises,
- low business activity,
- reduced demand for construction investment,
- reduced liquidity of companies,
- difficulties lending / financing, and
- delays or even freezes observed in the work performed payments.

The turnover of the construction sector shrank from 3.057 billion Euro in 2008 to 2.1 billion Euro 2011. A decrease of 31.3%, bringing the average monthly unemployment in the area to increase from 902 people in 2008 to 6126 employees in August 2012 i.e. increase of 580%.

Construction industry in Cyprus has been completed, now, five years of crisis, as it has entered a recession since the last quarter of 2008. The main reasons for reduction in construction activity should be sought in the economic crisis have affected the Cyprus economy, pronounced and prolonged recession (for the ninth consecutive quarter), which was formed in the third quarter of 2013 to -5.6% in the general sense uncertainty in the market, lack of liquidity and the restrictive credit policy of Cypriot banks after the 'bail in' (mowing deposits over € 100,000) the Laiki Bank and the Bank of Cyprus, in March 2013).

In the period from April to August, 2012 indicators related to Activity of Manufacturing Industry remain, unfortunately, near their lowest levels. At the same time, it is extremely important that the temporal trend shows no signs of recovery at all, on the contrary continues to be downward. The main reason that the contractors faced problem is the insufficient demand, liquidity problems / loan, the economic crisis and competition from other Cypriot contracting companies. The unemployment problem in the construction sector seems to deteriorate these months (April - August 2012).

Another indicator that confirms the great crisis facing the construction sector is the indicator months for Completion of Current Operations are seeing declining slowly but surely over the last two years and now is close to the lowest point (median 7 months remaining work with existing contracts). At the same time, the trend in demand from consumers / investors continues to follow a downward trend. The Market Index / Building a house within 12 months, is 2%, while at very low levels is also the Index Renovation within 12 months which is around 4% (Polyviou, 2011).

It is appropriate to clarify that the crisis in the construction industry occurred initially (late 2008) in Larnaca and Ammochosto, but later expanded to all districts of Cyprus. Falls in house prices, which made the manufacturers, which in some areas exceeds 20%, have been unable to reinvigorate the market (Xiouros, 2013).

Specifically, according to the available data of the Statistical Service of Cyprus (SSC), the first eleven months of 2013 were issued 4974 building permits recording a decrease of 26.2% compared to the same period last year (6701 licenses). Even greater was the reduction of both the value and the number of new housing units tolerated in 28.9% and 41.3%, respectively. The largest decline (based on number licenses) noted the Pafos district -32.7%, followed by Larnaca (-25.56%), Limassol (-25%), Nicosia (-24.8%) and Ammochosto (-19.7%).

The recession has now raised the total construction including industry and the non-residential sector, which until 2011 had positive rates. Specifically, in the residential sector, the reduction in value and size of new projects (eleven months of 2013 compared to eleven months 2012) is 28.2% and 25.4%, respectively, while in the non-residential the reduction is even greater in those sizes, amounting to 43.9% and 44.7%. From the above it is assumed, that the land development companies (developers), under the burden of high lending of the past, have been limited greatly their investment in all kinds of property.

The Ministry of Communications and Works, under the policy of the state to strengthen the affected building industry and combat unemployment in the industry, has from the beginning of the economic crisis in 2008, promoted a large number of important works of government through the Public Works Department, with aimed at reducing the impact of economic crisis and curb unemployment in the construction industry, which affects the entire social spectrum. Already, large numbers of workers employed in these projects, which has caused some degree the problem of unemployment in the construction industry.

During the period 2008-2010 have executed several projects, with costs in the order of over € 100 million. Per year, while in 2010 the costs for development projects amounted to € 134 million. Currently under construction, with contracts that have signed and running, road and water projects worth € 224 million and building projects worth € 105 m., that is under construction a total value of € 329 million.

In particular, the largest decline (based on the number of licenses) is observed in category of industrial buildings and warehouses (-37.4%), followed by office buildings (-33.7%) and residential buildings (-24.4%). Noteworthy is the large increase in hotels

structures (133.3%) and touring compartments (73.3%), which may be justified, in part, by the emphasis placed on the potential contribution of tourism sector in ending the crisis.

2.2. The trend in real estate after the economic crisis

The Cypriot housing market experienced significant considerable rise in prices, particularly in the last decade. Understandably therefore raises the question whether the rise was a "bubble" on the prices of housing in Cypriot market. Certainly the housing market does not bear the main responsibility for today's problems of the Greek economy, but the question remains whether the fall in house prices will occur anyway due to the existence of previous factors that led to phenomena of "bubble" and thus would affect the Cypriot economy, even without a crisis (Xiouros, 2013).

Factors affecting real estate prices, according to empirical studies (ECB, 2003, Borio and McGuire, 2004), are summarized as follows:

- i. the disposable income of households,
- ii. real interest rates,
- iii. factors relating to financial institutions and credit availability,
- iv. demographic factors,
- v. factors (variables) relating to the supply and
- vi. relevant taxes and subsidies and other public policies for housing.

Income is estimated as the most important factor (positive relationship), while real Interest rates are the second (negative relationship), followed by demographic factors. In the above factors, unemployment can be added (Schnure, 2005), the inflation (Tsatsaronis and Ziu, 2004) and stock prices (Sutton, 2002).

The fall in real estate in Cyprus continued with the recorded sales to be lower for the past few months, compared to the last quarter of 2011. Prices and rents are falling in all regions. A fall in the range of 6.4% for apartments, 6.7% for houses, 15.1% for Retail, 10.8% for offices, and 10.8% for warehouses, with Larnaca present the most

significant reduction. The real estate market has seen an overall reduction in the 2nd half of 2012, prices in the residential sector of 30% in warehouses and land around 40% and commercial properties, around 10%. On the other hand there was an increase in the number of sales in the second half of 2012 and the main reason is the decline in prices.

In the commercial property market in Nicosia the provision of available commercial real estate has exceeded the current demand. Prices for commercial property fell in all cities during the third quarter of 2012. It should be noted the significant development of new individual markets, such Strovolos in Nicosia. The offer was stable throughout 2013. Investment returns in the order of 5.5% - 8% (gross).

Cyprus instituted the motive of providing a permanent residence permit to residents of third countries make buying a property worth more than 300,000 euros to attract even more Russians. The decisions of the Eurogroup for the restructuring of the Cyprus banking sector, capital flows from Russia suffered a serious blow. Proceedings of the Russian market was lost.

The real estate market, which was already on a downward path, it seemed - to moment- that would be the next big victim of the "haircut", after the banks. The real estate market, which was already on a downward path, it seemed - to moment- that would be the next big victim of the "haircut", after the banks (Orphanides & Syrichas, 2012).

By happy coincidence, but by early 2013 he had begun to mature opening Cypriot construction companies in the Chinese market. The residence permit has proved a powerful motive, which, combined with the decline in prices has resulted in recent months to make dozens of property transactions -and even in liquidity and were in excess of two hundred and residence permits.

The property market in Cyprus, in general, according to numbers from the cadastre is experiencing hard times. However, participants in the second home industry are becoming more confident about the present and the immediate future due to the substantial buying interest recently presented by new markets, especially China, North Africa and the Middle East. Indeed, sales of new markets have exceeded 650 units during the last months. A typical example of this trend is the purchase of Paphos,

where the majority of sales of these new markets have occurred. These sales are also mostly in cash, so do not need any bank financing for the development or for mortgages and providing new cash into the economy (Weidmann, 2013).

Those involved in the development of tourism still have taken aggressive measures to adapt to the impacts of the financial crisis since 2008, relatively few new developments and aggressive marketing efforts in existing new markets. Moreover, they reduced the growth of their profit margins by lowering prices so as to quickly reduce their stock. Indeed, prices of real estate in coastal areas have been reduced by 15% -35% from their peak in Q3 2008 (European Parliament, 2013).

The safest investment remain properties. The Association of Real Estate Agents Association of Cyprus as considers that investing in property remains now the most secure, because the long term isthat provides significant value, but of course no one can deny that the real estate market, the locomotive of the Cypriot economy is experiencing lately the effects of economic crisis in Cyprus and other European countries.

The property has always been one of the strongest sectors of the economy and a secure and risk-free investment for Cyprus showing trends for stable and high returns. In a market that is in a maturing phase and characterized by strong fluctuations, and traditional forms of investment (shares, savings, etc.) offer a low or high risk performances, traditional buildings are 'safe and secure' investment.

Lately, interested buyers have shifted their interest, even louder compared to the previous year, in old properties, which were sold at very low prices in comparison with newly constructed, despite the recession maintain their prices yet at rather high levels.

It is an undeniable fact that they have reduced prices in several areas, which implies that timid - timid start experiencing and controversial housing market opportunities. But, to be more correct it cannot be seen Cyprus as a single market. It is correct to split it into two categories. In the first part is included Paphos, Ayia Napa and Protaras and some other tourist areas, like Pissouri, the Oroklini and Livadia.

In these areas decreases in prices reached up to 40%. Those who sell are not Cypriots, but especially the British, who stopped also buying. Why the British behave

in this way? What influenced them? The main reason is the decline in the value of sterling (depreciation over 20%) against the euro, which is due to the international crisis in recent weeks negatively affects the buying interest of the British (European Parliament, 2013).

Increasing doses, the loss of purchasing power and expensive that went on well in life of the British, has brought them to such a predicament forced to sell their properties, because they cannot cope with the modulated cost of living.

In the second category are included the regions of Nicosia and Limassol areas that most interest the Cypriots have in their plans to purchase Home Ownership. What are the data for these two sites? The values have been reduced in this case, not physically in the levels of the first class. How it turns out? From the offers of land development business and construction companies, which are quick and offer as a gift furniture for the home, installation of heating systems, non-payment of VAT etc. These offers translate into tens of thousands of euros. In addition, the situation is not encouraging businesses in the construction sector, since already some projects have been postponed, while land developers have now started to land with permits to meet financing needs (European Parliament, 2013).

The purpose of the article "Properties: At -45% in the quarter" is to describe how the properties are affected by economic crisis in Cyprus. In the last three months is recorded a decrease of 45%. The sales of the first quarter show that the operations are carried out with a dropper since according to the cadastre filed only 1013 deeds of sale in comparison with 1,852 in the same period of 2012 (<http://www.sigmalive.com/inbusiness/news/property/39088>).

The scene today is diametrically different picture, since prices recorded monthly decline and sales presented disappointing. The same piece of construction has been affected. Mainly the acquisition of commercial properties records high deficits with potential investors restrained for markets and manufacturers adhere wait. The wait is both a good news that can result from a law that promotes the purchase of the property and the investment interest of foreign buyers. More specifically it is stated that in Nicosia there are some great, professional buildings whose owners are in discussions with major investors from abroad, with the aim of selling the buildings that complete or

already have been completed. At the same time in Limassol Russian investors appear to save the situation.

There is much talk of Limassol, which in the upgrading projects of recent years, the commercial and business center for decades and developed the tourism product is gaining more and more property buyers mainly in coastal areas. The Russians seem to be buyers with expensive tastes, while purchases by robust investors from the Middle East are a timeless trend in the Cyprus property market (Sigmalive, 2015).

Louisou (2013) in his article tried to share the forecast of 2013 for Cyprus. Mr. Loizou said that the forecasts for Cyprus is in 2013 and 2014 the economy would shrink and unemployment will rise further. Furthermore, by imposing various taxes the purchasing power of the Cypriot consumer and disposable income will be further reduced. The above, coupled with further debt reduction will bring great pressure on businesses resulting in several close or reduce branches / annexes. It will hence be an increase in available commercial real estate, both shops and offices, which will lead to a further decline in rents (Sigmalive, 2015).

An increase for the first time since 2010 was recorded in 2014 property sales in Cyprus, according to data announced by the Land Registry, and it is estimated that the growth will continue this year.

The deeds, filed last year reached 4527 units, compared with 3767 in 2013, recording an annual increase of 20%. In 2010 real estate sales had increased by 5.2%. This development is attributed to the fact that given that "banks are pushing the world with regard to debt obligations, property sales began to make arrangements." As for developers, interest in property sales is focused mainly in China.

In 2015, it is estimated that the increase in sales will continue at the levels of 2014, due to the pressures of the banks.

The biggest increase, reaching 37%, was recorded in Famagusta, followed by Limassol, where sales increased by 35%, Larnaca, with 31% and Nicosia with 6%. The deeds, submitted by foreign buyers increased by 17.3%, while sales in local rose by 21.2%.

Russia

Investment Property in return the vagaries of the ruble

The Russians have long since become a major real estate investors in Limassol, with over 40,000 Russians to declare the city as their permanent residence. Invest in beachfront apartments (first or second row mushroom beach) and houses of 150-200 square meters, at a maximum distance of 500 meters from the beach. Fanatic swimmers enjoying the beautiful climate of Cyprus. The favorite area is the coastal region between hotels Crowne Plaza and Four Seasons. Right now, it is seen interest from Russian investors who want to invest in real estate as a means to distance themselves from the Ruble and associated with it problems. However, we also know very well that the Russian market will inevitably be affected by this year's developments. On the other hand, large numbers of Russians keep their personal deposits in US dollars, which has earned dollar against a weaker euro. Because of this we maintain the belief that the effects of the Russian crisis will be milder (<http://www.propertywire.com/news/europe/cyprus-property-sales-prices-201303297608.html>).

Average investment: € 750,000

China

Increasing traffic from buyers who do not withstand heat

Citizens of the rising global superpower increasingly are investing in property in Cyprus, with almost 2,000 investments recorded in 2014. The Chinese avoid the sun and therefore rarely visit the island during the summer months from July to September. Not prefer frontline property as they do not consider the sea advantage (many do not even know how to swim). The main feature is seeking proximity to supermarkets and good educational institutions. Investing primarily in small houses or apartments in or around the city center (Saint Nektarios, Aghios Nikolaos, and Mesa Geitonia).

China is an economy that imports oil, and therefore citizens will benefit from the reduced price of oil, creating a higher disposable income. It is expected increased demand from Chinese buyers and investors (<http://www.propertywire.com/news/europe/cyprus-property-market-rics-201302227494.html>).

Egypt

Prefer to apartments and hills of the city

Egyptian investors are sophisticated home buyers who prefer to see 15 to 20 properties before reaching a final decision. They maintain a private garden nuisance and therefore invest primarily in apartments. Bands with a shared pool and apartments with private roof garden have high demand. The preferred sites are the eastern outskirts of Limassol and the hills north of the city.

It is expected that the recent investment announcement from the world famous investor Naguib Sawiris in the main marina of Ayia Napa, boost demand for compatriots on Cyprus.

Average investment: € 400,000.

Property sector compared to other sectors of our economy has been particularly affected by the global crisis. The industry faces great challenges and overcoming them is betting all together, members and employees, we have to win. Note here that the real estate sector over time a key pillar of the economy, accounted for 19% of GDP, and its recovery will contribute to the recovery of the economy and increase employment. The immediate goal is to cooperate with the State to take immediate recovery measures of land development and property sector that employs 40,000 people and produces real work. The implementation of the concrete measures we propose will parallel the State the opportunity to increase revenue to public funds, strengthening in this difficult time the Cypriot economy. The long-term goals are related to the implementation of a new industry model of development in the direction of openness and utilization of new data that brings the exploitation of gas and energy,

as well as developments in neighboring countries (<http://www.propertywire.com/news/europe/cyprus-property-market-rics-201302227494.html>).

It is needed the implementation of measures and incentives. Only then can be ensured jobs, to build an optimistic outlook for the future and contribute to public revenue. The proposals focus on four main pillars.

- Incentives for capital repatriation.
- Incentives for investment in land and property development.
- Simplification of market processes by foreigners.
- Simplify licensing.

There is an interest from investors from abroad in Cyprus. It should be mentioned the investments in large real estate and development projects in recent months, such as the French company BOUYGES BATIMENT two projects in Cyprus, the large investment from VTTI company to build oil storage in Limassol, purchase large seaside estate investors in Larnaca, as well as the sale of several large offices throughout Cyprus. Also, based on official data of Lands, some coastal areas of Cyprus this year showed significant increase in sales.

So there should be more openness of the sector to new markets. Extroversion is keyword that fits the culture of Cyprus and has proved its worth in recent decades. This should be the strategic direction through product development, processes and legislation. Let me add that members of our association observe the last period interest and from Cypriot investors.

Unfortunately, not only across the island and internationally the property sector was also affected by the financial crisis. A crisis that could well be made, but hardly anyone could imagine its duration. Unfortunately, it is already the fifth year of this crisis, with similar consequences.

But Cyprus has several peculiarities, which, if done properly manageable will help in faster recovery of the sector. Such peculiarities is the limited supply of land and property due to the small size of the country, on the one hand and on the other our

geographical position, the need for northern Europeans to go down south, the increase for pensioners and the growing need for cottages, the ratification of the double taxation agreement with Russia and the requirement of physical presence in Cyprus, the recent developments in North Africa and Syria, our new energy data as well as all the measures that has been mentioned will help to increase the industry, the demand and the prices (<http://www.propertywire.com/news/europe/cyprus-property-market-rics-201302227494.html>).

2.3. Prices of Real Estate's Index

The price index of houses (houses and apartments) recorded in a quarterly base smaller reduction (1%) in the first quarter of 2015 compared to the previous quarter (2%). The housing prices and flats recorded quarterly reduction of 0.8% and 1.5%, respectively. The quarterly decline in housing prices was the lowest since the fourth quarter of 2012, when it began to accelerate the rate reductions. Home prices recorded an annual based decline by 6.5% in the first quarter of 2015, compared to 8% in the previous quarter.

All provinces recorded had lower annual decline in house prices compared to the previous quarter, something which indicates that correction of path prices is nearing its completion.

2.4. Real Estate Market in Cyprus in 2015

The prices are recording significant reductions in all areas of Cyprus and in all categories of property, reflecting the negative developments in the economy, constraints on the banking system, taxation on immovable property, the bubble in real estate prices and expectations investors for further reductions. These reductions are expected to continue during the next year. According to the latest estimates of the price index of Royal Institute of Chartered Surveyors, property prices fell reaching 20% compared to the previous year. From 2008 to date property prices fell more than 40%. But the price drop has not been completed. Although no one knows what will happen

in the future, the indications are that real estate prices will continue to decline even below their cost of construction, because in this period, prices are determined more by market forces and demand despite the manufacturing cost. Since the prices subside, no entrepreneur will dare to construct new apartments or houses because simply he will have loss (<http://www.propertywire.com/news/europe/cyprus-property-market-rics-201302227494.html>).

The smallest decline since the end of 2012, when began that prices are falling because of the overheating of this market, were the first-quarter this year property prices. As shown by the Housing Price Index, the decline in the first quarter of 2015 was around 1%, while the last quarter of 2014 the decrease was 2%. Based on the Index and a survey of Central, housing prices have returned to average levels of 2006, year in which he began the excessive demand for housing loans, which led to overheating of the sector and the "explosion" of prices. It is noted that the first quarter of this year the prices of houses and flats experienced quarterly declines of 0.8% and 1.5%, respectively, compared with decreases of 2.1% and 1.5% respectively in the previous quarter.

Most of the drop in prices is not due to the economic and banking crisis, but the excessive rise the prices recorded over the period 2003-2008. The fall seen today is just a natural evolution after the bubble created by the excess liquidity in banks and due to incorrect tax management of real estate. Foreign capital doubled deposits in Cypriot banks and diverted to the Cypriot economy in the form of loans to finance bad investments, mostly in real estate. On the one banks and cooperative had unlimited lending to property buyers, causing a marked increase in demand for real estate. On the other, the state taxed the property trading instead of holding property, causing a decrease in the real estate market supply. If the state imposed a property tax currently imposed on property, the property offer would be greater and would counter balance the demand. Moreover, if the Central Bank 'dares' to reduce the funding rate on property markets, the demand would be lower and there would be caused huge bubble in real estate prices. Because of ignorance but of insufficient competent, the bubble in real estate prices not only created but took such dimensions as nowhere else (<http://www.propertywire.com/news/europe/cyprus-property-prices-sales-2015021010143.html>).

Home prices recorded an annual decrease of 6.5% based on the first quarter of 2015, compared with 8% in the previous quarter. The housing prices fell by 6% and apartment prices by 7.7%, against the order of annual reductions of 7.8% and 8.7% respectively in the fourth quarter of 2014. The housing price index from first quarter of 2014 onwards is slowing reductions. As stated in the Central announcement, all provinces recorded a lower annual decline in house prices compared with the previous quarter, which, as noted, it implies that the price adjustment process seems to nearing completion. The largest decrease in Larnaca and Limassol's largest quarterly decline is recorded in Larnaca and Limassol. The general housing price index (1.3%) in the Famagusta district recorded a quarterly increase of 0.7%. Quarterly decreases in the general price index is recorded and Nicosia (1%) and Paphos (1.2%). The largest annual decline in the general housing price index is recorded in Larnaca (7.3%), while the smallest in Paphos (3.3%). Annual reductions to the general housing price index recorded in Nicosia (6.9%), Limassol (6%) and Famagusta (3.5%).

Marginal increase in Famagusta in houses prices and the largest quarterly decline was recorded in the Limassol district (1.4%), the smallest in Larnaca (0.5%), while Famagusta recorded for another quarter marginal increase of 0, 2%. In Nicosia and Paphos, houses prices recorded a quarterly decline of 0.9% and 0.6%, respectively. The biggest annual drop in prices of houses in the quarter under review was recorded in Nicosia by 7.2%, while the smallest annual decline was recorded in Paphos 1.5%. The housing prices in Limassol, Larnaca and Famagusta showed annual declines of 6.1%, 6.8% and 1.7%, respectively.

The apartments

Compared with apartment prices per province, the largest quarterly decline recorded in Larnaca (4.1%), while the smallest in the Limassol district (0.8%). Famagusta recorded an increase of 5,1%, which is probably due to seasonality. The Nicosia and Paphos provinces recorded decreases in the prices of flats by 1.2% and 1.6%, respectively, compared with the fourth quarter of 2014. The largest annual drop in prices of apartments in the first quarter of 2015 was recorded in Famagusta (13.2%), while the smallest annual decline recorded in the Limassol district (5.2%). Prices of apartments in Nicosia, Larnaca and Paphos showed annual declines of 6.2%, 8.0% and 6.3%, respectively.

The first quarter of 2015 the total number of deeds of sale (Cypriots and foreigners) in Cyprus recorded an annual increase of 15.8%, compared with an annual increase of 10,7% in the previous quarter. The bulk of demand from buyers with Cypriot citizenship, for which recorded an annual increase of 24.7%, while in deeds with foreign buyers recorded a decrease of 6,7%. In Larnaca best sellers The biggest annual increase in the total number of deeds of sale registered by Larnaca (49.7%). The Limassol district also recorded an annual increase (28%), the Famagusta remained stable, while Nicosia and Paphos recorded annual decreases of 3.9% and 2.3%, respectively (Central Bank of Cyprus, 2014).

In relation to lending to the property sector, the sector deleveraging continues, since for the ninth consecutive quarter the total amount of housing loans recorded a decrease on an annual basis. Specifically, this amount decreased by 2.6% in March 2015. The same trend was also recorded in subcategories residential loans to domestic and foreign residents. In the construction industry, domestic cement sales recorded an annual basis in the first quarter of 2015 smaller decrease (12%) compared with the first quarter of 2014 (20.7%), though the level of sales reached the lowest point (97 155 tons) from 2002 available (Central Bank of Cyprus, 2014).

2.5. Immediate measures

1.1 Tax amnesty for repatriated capital from investment, provided that will be invested in the purchase of property and exemption from Occupying and property statements regarding all purchases of land and property in Cyprus, submitted to the Cadastre for 2 years period. The public can draw directly hundreds of millions of Euros and simultaneously help the land development sector by combating rising unemployment. According to conservative estimates, it is possible to attract 1 billion. Euro over the next two years and the government cannot collect in the form of taxes and fees, 25% - 30%.

1.2. Granting a tax deduction - credit on income tax (Cypriot individuals or companies) or on capital gains tax (companies or foreign) of 20% on investment every buyer residential units, offices, shops etc. The tax deduction will correspond to 20% of the

investment will be paid within two years from the application of the measure. The tax deduction is granted for a period of staggered five years and may be transferred in the coming years, if not fully exploited each tax year. When holding the property up to 10 years, the tax deduction can be transferred during this period.

The tax deduction will be granted provided:

- i. The sale is made within 24 months from the implementation of the measure.
- ii. The sale of these buildings is the first time.
- iii. The purchaser will retain possession of the property for at least five years.

1.3 Rollover of Capital Gains Tax arising from the sale of property, provided that within six months the owner will make a purchase of another real estate.

1.4 Accelerated depreciation of investments in the construction industry for a period of at least five years as a major incentive for new capital investment in real property.

1.5 Direct grant permanent residence (permanent residency) to those third-country nationals buying house in Cyprus, amounting to € 300.000 or more, if they meet the other conditions. The interior ministry seems here to be placed positively.

1.6 Reduction of capital to be introduced in Cyprus for acquisition of citizenship by foreigners and simplifying procedures.

1.7 Utilization and coordination of public services to promote sales.

Promoting the holiday home abroad by the Ministry of Commerce, Industry and Tourism, using the Foreign Investment Promotion Agency (CIPA) and the CTO. Update of foreign buyers about the advantages of obtaining permanent residence or citizenship through housing market and import of capital in Cyprus.

1.8 Extension of validity of the legislation on transfer duties (removing them where VAT is paid and reduce them by 50% over the first sale of immovable property).

2.6. Concurrently measures

2.1 Re-evaluation of immovable property tax system. It is suggested radically transforming the unification of all taxes and separating them in obtaining taxation and occupation tax. So the citizen knows what pays the outset and the state receives revenue received by it in a simplified basis, without additional administrative costs. The sale price of 18% is paid as VAT and approximately 8% as transfer fees, raising the initial price by 26% (Central Bank of Cyprus, 2014).

2.2 Provide specific incentives for large development projects (eg increase marinas duration timeshare from 90 to 125 years and golfing growth factor of layout). For ordinary projects increased to 20% of the rate applicable for building projects started in 2012 (Central Bank of Cyprus, 2014).

2.3 Direct promotion of legislation which will regulate the issue of management of jointly owned buildings separate from the ownership percentages registration issues and securities. The issue is for a few years in the Ministry of Interior and that on the final adjustment of swimming pools (Poliviou, 2011).

2.4 Promote the One Stop Shop. All development licenses should be considered by those responsible and shall be issued within three months (one stop shop) (Artemis, 2013).

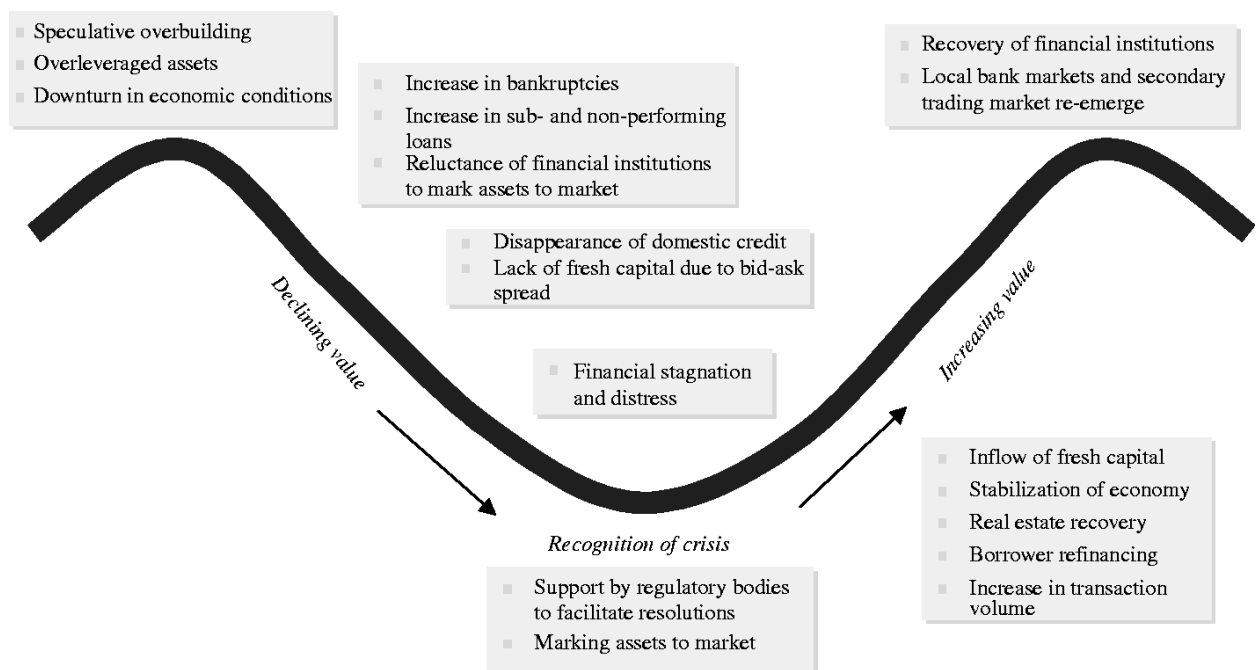
2.5 Extension of the institution of self-control. This measure, which was implemented after years of struggles of our association, be further extended with the combined application of 2.4 above to achieve rapid adoption of all licenses, from planning to final approval of property titles.

The relationship between total economic activity (GDP) and market residential is bidirectional. There are many empirical studies that highlight this bi-way relationship. Beyond the obvious relationship resulting from that residential investment is a subset of GDP, there is something special the relationship between the two sizes. Residential investment is leading indicators economic activity (Central Bank of Cyprus, 2014).

Of course, the main factor that can positively influence the real estate market is restoring macroeconomic stability through the implementation of reforms and the

agreement on a new architecture in the euro area that will ensure the stability of the currency (Artemis, 2013).

We are near the lowest point as regards the economic crisis, but the result of the restructuring of the banking system and the economy will affect demand issue and values for the next two years at least. The properties are kept over-priced and their prices are out of the purchasing power of the domestic market (households and businesses) (Central Bank of Cyprus, 2014).



Source: RREEF Research (2007)

CHAPTER 3- REAL ESTATE INVESTMENT TRUST (REITS)

HOW IT WILL GIVE SOLUTIONS IN CYPRUS REAL ESTATE PROBLEM

3.1. The importance of real estate investment in the economy

The property market in Cyprus, as in other countries, is a popular study theme. The main reason is the enormous importance for the economy of a country, as it constitutes an important part of household wealth and the investor's portfolio (Boydell and Clayton, 1993). The study of property prices is important for both the public and the household and business sector:

- For public sector duties and taxes imposed by the Government in value and property transactions are a big part of government revenue.
- For households, the private houses are not just living space, but often the bulk of their wealth. Typically, money spent on the purchase of housing is almost one quarter of the disposable income of the household, although the degree of intensity varies greatly from household to household (Muellbauer and Murphy, 1997). Consequently, the value of the home has a significant effect on the household for consumption and savings (Case et al., 2004). Any changes therefore in property prices will have an impact on the attitude of the household.
- For businesses, especially on the part of the financial system, housing is the most common form of guarantee for loans of households with housing loans constitute a significant part of assets of most banks and many investment companies. Therefore, property prices significantly affect the portfolio.

Because property values play an important role in the economy of a country, it is reasonable to have great interest in the international literature on the factors affecting them. Certainly, among the factors these are the characteristics of the property, such as the type, size and the distance from the center of the nearest town. But these characteristics usually change in the long run and are not responsible for changes in property values from one year to another. For these short-term changes operators must be related factors aggregates, such as the interest rate, the rate of economic growth, unemployment (Artemis, 2013).

The literature related to housing prices can be divided into two main approaches (Howe & Kain, 2004):

- The utilitarian (hedonic) relating more on price comparison and housing characteristics at the micro level,
- Macroeconomic relating to factors affecting the average price residence in an economy (such as interest rates, money supply, GDP, the consumer price index, etc.).

The utilitarian approach examines how various endogenous factors are affecting house prices (hedonic analysis approach). The factors usually reflect on housing size (number rooms, area, etc.), the distance from the center, age and other quality characteristics, depending on the type and use of the dwelling (eg independent or semi-independent, etc.). This approach is based on the theory of consumer (Lancaster, 1966; Griliches, 1961 and 1964 for more details) and has extended the housing market initially by Rosen (1974).

The studies that consider the effect of macroeconomic variables on house prices which normally come from changes in supply and demand houses. For example, Baffoe-Bonnie (1998) showed that a sudden increase in the money supply lowers interest rates and hence the cost of using property. This leads to an increase in demand and prices of the residential units (Hoesli & Camilo, 2007).

Apart from the money supply, other economic variables possible affect housing prices is the employment / unemployment, the level of interest rates, gross domestic product (GDP) and inflation. Such as supporting the Smith and Tesarek (1991) and Sternlieb and Hughes (1997), the construction activity is influenced by the rate of employment growth.

Hartzel et al (1993) highlight that specific regional characteristics employment also play an important role in the decisions of investors and have influence in the determination of house prices. Furthermore, Giussani et al (1992) found that GDP has a significant positive impact on prices house.

Regarding the impact of inflation in the housing sector, several studies conclude that an increase in inflation reduces demand for real estate market (Feldstein and Poterba, 1992). Specifically, Feldstein (1992) argues that the inflation reduces the incentive to invest in real estate, with thereby reducing the demand for housing. Kearl (1979) argues that the inflation leads to lower demand and price of housing due to increase nominal payment of housing loans (nominal housing payments).

The interest rate on housing loans (mortgage interest rate) is still very important variable affecting the demand housing, as follows from studies Muellbauer (1992), Muellbauer and Murphy (1997) and Maclennan et al (1998). Higher interest rates increase the cost of money and prevent people borrow to buy houses, so the demand and house prices to fall.

The issue of property prices and general future market employs around the world today. Overall, the decline in prices is a positive development for the economy because it reduces the cost of acquiring and renting real estate. Housing costs, whether households or businesses, is important and is an important factor in the cost of living of a household or a business. Therefore, lower costs on property and rents, means lower prices for the consumer, since there is healthy competition. Lower costs on properties will also attract foreign investment, such as holiday buying by foreigners. Tens of thousands of foreigners and other Europeans would be willing to buy homes in Cyprus at lower prices. The fall in prices in the property but could cause huge problems for banks and cooperative and to those who bought properties with loans. Tens of thousands of real estate is trapped in non-performing loans and threatened with liquidation. It is for this that needs a very careful management of non-performing loans from banks and cooperative. The divestitures are inevitable but the way will be the key to the survival of the banking system. Without divestitures banking system risks collapse, but the same can happen with massive divestitures (Hoesli & Camilo, 2007).

The marginal increase in demand for real estate by foreign and local investors as well as the success of the Cypriot banks to the ECB stress tests are important developments that will contribute positively to the future development of the construction sector and real estate market in general.

3.2. Strong links between the banking sector and the real sector

The stability of the banking system in Cyprus is closely related to the property sector, since bank lending practices have acted as enhancers to improve and the recession in the Cyprus property market. On the one hand, the significant credit growth for the period 2006-2008, especially in the property sector was a key factor in the rapid increase in demand and prices in the property market. On the other hand, due to the collapse in demand from local and foreign investors from 2008 onwards and the significant drop in property prices, the banking sector has faced an unprecedented situation due to the rapid growth in non-performing loans were secured by real estate (Hoesli & Camilo, 2007). This, in conjunction with the deep economic recession that followed the events of March 2013 resulted in the dramatic lack of credit to purchase property which in turn further reduced the already weak demand for real estate. Even today new lending remains at extremely low levels, thus reducing the potential for property market and pushing prices down. It is what is often described as the "cyclical", which causes the lending practices and policies generally adopted by the Cypriot banks. It is now clear that in the period rising property prices in 2004-2008, banks in Cyprus "underestimated" the credit risk posed by mortgages (Poliviou, 2011). This can be attributed to various reasons such as the lack of advanced risk assessment systems, or lack of reliable data, but the main reason was that continual increases in property prices had created a false sense of confidence on the part of the Cypriot banks, which in turn led to a rapid expansion of credit to the real estate market. It was a classic case of myopic expectations, which is one of the main factors that create circular movements in property markets (Artemis, 2013).

First, these the myopic expectations contributed significantly to the rapid growth in property prices until the third quarter of 2008 and, secondly, after the global financial crisis broke out, pushed the prices down as foreign investors withdrew from the market, expecting a further decline demand and prices. The rapid fall in prices and the resulting decline in the value of mortgaged properties have led to the deterioration of loan portfolios of Cypriot banks, increasing credit risks and their capital requirements. The lack of credit from banks resulted in a contraction in demand from users and investors, thus reinforcing the downward trend in property prices (Poliviou, 2011).

The Central Bank of Cyprus (CBC) and the banks themselves should take into account and assess the impact of the respective declines in property prices and the subsequent reprising of their portfolios by adjusting their policies accordingly. The collection and analysis of data for all the mortgaged properties is the most effective way to accomplish this. By using such tools, for example, banks will be able to determine the geographical concentration and other features of troubled mortgage, allowing a proper assessment of the risks related to disposals for specific types of properties in specific areas (Demetriades, 2012).

The demand for real estate has become increasingly prone to price fluctuations due to the influence of the banking system. In theory at least, any decision on a loan will be based on long-term forecasts of the future value of the financed property to repay the loan. Also, it should be evaluated and taken seriously the repayment ability of the borrower. The lack of sufficient information does not allow the bank to assess the prevailing trends in the market, thus hindering the implementation of appropriate analysis and evaluation of an application for a loan. Therefore any decision on financing is mainly based on current market prices of similar properties at the time an application is made (Poliviou, 2011). The experience of international shows that property prices are subject to considerable fluctuations, which coincide - or not - with so-called "business cycles." These variations are compounded by the strong interconnection between the available credit and the actual demand for property, but also as a result of specific policies of credit institutions. So credit and supervisory authorities should attach great importance to the monitoring of recent trends and expected medium-term movements in property prices. As is demonstrated here the economic crisis, a sharp decline in property prices is likely to cause serious impact on the banking sector and the real economy of the country. Not surprisingly under these conditions, both the authorities and the banks go to the revision of rating systems and mortgage monitoring methods in order to better manage their portfolios. Overall, the experience of the last seven years has demonstrated the strong link between the banking sector and the real estate industry, but also that the presence of a healthy banking system is a prerequisite for sustainable recovery mortgage market. We expect that the activation of the Law on divestments will pave the way for the gradual recovery of the banking sector, which will contribute to the start of the gradual recovery of the mortgage market after 18 to 24 months (Demetriades, 2012).

CHAPTER 4- METHODOLOGY

4.1. Introduction

According to Rugg and Petre (in Creswell, 2008: 112), the research is carried out to investigate with a view to acquiring knowledge. The Shorter Oxford English Dictionary defines the term “research” as: a) the process of careful search for a particular thing or person, b) a search or investigation undertaken to discover facts and to draw new conclusions through critical study of a theme as follows a scientific research, c) the systematic investigation and study materials, sources etc. to create facts and intelligence. Therefore, the nature of the investigation and therefore the questions posed stimulate careful thinking, acquiring in-depth knowledge, while creating new problems laying the groundwork for further research in a field.

4.2. Explanation of the data collection and analysis, and justification

The topic of the research, which is about Real Estate Investment Trust and how it can help Real Estate Sector in Cyprus.

Primary data

There are two primary methods for research implementation, which can be classified as qualitative and quantitative research methods. The first main research method is the quantitative approach with the survey being the most commonly used technique. Survey method has been variously defined as a method of data collection, such as a telephone or personal interview and a method of primary data collection in which information is gathered by communicating with a representative sample of people (Silverman, 1993: 95).

According to Chisnall other forms are (Saunders et. al., 2007: 107):

- Structured Interview to include one–on–one interview that probe and elicit detailed answers in structured interviews.
- The use of questionnaires.

For the recent study was selected the method of interviews. The qualitative approach of one-on-one interviewing is preferable in this study, because it allows the researcher to comprehend the thoughts and behaviours of the people being interviewed. Similarly, it allows the researcher to understand participant's beliefs, ideas, emotions, and the relationships of individuals. In addition to these, interviewing overcomes the poor response rates that questionnaire surveys have. On the other hand, interviewing someone is recognized for high response rates. Additionally, face-to-face discussion is very well suited to explore attitudes, beliefs, values and motives of respondents. Despite all these, it's the way the interview is going to be conducted that will make it successful or not. As for the data collection technique was chosen the method of interview and especially the form of semi-structured. In a semistructured interview there is a predetermined number of questions but a list of topics that may be covered during the interview. The number of questions varies from interview to interview. Furthermore, depending on the data analysis, the researcher can add new questions that had not planned. So, he discovers and categorizes these new questions and analyzes and processes them more easily (Kaplan and Maxwell, 2005).

Secondary data

The secondary data usually originates from scientific journals, books, magazines, newspapers and reports. The researcher took advantage of these sources to find suitable information related with the construction sector, that would form the basis of the literature review chapter of the study.

According to Birmingham (2001), secondary research from one provides a theoretical background to the research carried out and the other provides the justification for conducting a further investigation on the relevant phenomenon. Apart from the above, secondary research provides a new interpretation of the data collected and / or found by previous primary research, which may lead to a new approach to the relationship between natural resources and corruption.

Data that will be used:

- **Primary data:** Primary data is the original data that will be collected through the interviews just for illustrative purposes of my topic.

- **Secondary data:** Secondary data is data that has already been collected for another purpose and it will be reused them to enhance my research.

4.3. Sample of Data

The interviews were taken by 5 managers of real estate companies in Cyprus, and specifically in the areas of Nicosia and Limassol.

4.4. Evaluation and Analysis

The standardization of data collected, the possibility of reaching a large part of the population and the susceptibility of the data to statistical analysis methods make the quantitative method the most widespread form of empirical research in the study of social phenomena.

CHAPTER 5- ANALYSIS OF THE RESULTS

5.1. Advantages of REIT

“The REITs differ from country to country, but in general the structure is designed to offer investors income and capital gain corresponding to direct investments in real estate. More specifically, the REITs are -usually companies listed on the stock market; that invests and manage properties in Cyprus that generate income, subject to a favorable tax regime and distribute the majority of their profits to their shareholders.”

REITs are securities that are traded like ordinary shares. Concerning companies which invest exclusively in Real Estate. Factories, shops, offices, clusters of houses or even real estate loans.

According to the first interviewer *“an investment in REIT provides significant advantages compared with direct investments in real estate. The REITs are characterized by increased liquidity compared to a direct investment in real estate. In contrast to the difficulties related to the sale or lease of property, the REITs can increase their liquidity through a share capital increase. Furthermore, REITs are an option for investors with comparatively limited resources, which otherwise would not be enough for any investment property. Also, the investor has shares listed on a stock market, with a daily liquidity”*. Moreover as advantages he mentioned the huge variety of choices. Commercial buildings, houses, plots, cheap to expensive or region. They invest as much money as they want, because basically they are talking about small portions of a workplace or a residential complex.

This is the same as those mentioned in the literature review on REITS that for businesses is the most common form of guarantee for loans of households.

The second interviewer stated that *“an advantage of REITs is the diversification that can offer investors and thereby reduce the risk of investing in a particular property. The REITs hold portfolios which include a large number and real estate size, resulting in diversification of investments (diversification), by improving the geographical and / or sector dispersion. As a result, investors in REITs shares benefit from the diversification that make themselves REITs in their portfolio”*. He also stated that “risks are minimized, because usually these companies have a real estate portfolio. If a region is

hit by economic recession that created the problem in cash flow, it is replenished by payments of another region”.

This is according to what was mentioned in the literature review on the demand for real estate which has become increasingly prone to price fluctuations due to the influence of the banking system (Poliviou, 2011).

In addition, the third interviewer answered that *“a key feature of all REITs is the (internal or external) professional management of the property portfolio, which is made by skilled professionals who focus on managing in the best way, the company’s portfolio, identifying the best investment property proceeding to diversify potential risks and maximize profits for shareholders. Similar capabilities do not exist, or is it much more expensive when someone invests their own individual properties.*

The fourth interviewer answered that *“the advantage of REITs is the low transaction costs for shareholders. Direct real estate acquisitions usually have a higher cost (eg transfer tax, transaction fees, tax price premium, transcription costs, legal and notary fees, etc.) in relation to the cost of a stock exchange transaction for the purchase or sale of shares.”* He mentioned also that he has *“no more anxiety about a possible insolvency of the tenant. There are companies that even in the worst economic conditions, have managed to ensure uninterrupted dividend payment. That receives dividends instead of rent”*.

This is similar to the significant credit growth that was mentioned in 2006-2008 in the property sector (Hoesli & Camilo, 2007).

The fifth interviewer answered that *“the valuation at the market of REITs is continuous and more transparent than the direct real estate market. The major problem in the real estate market is the lack of a centralized trading market similar to that of the shares. Thus, the direct real estate investment involves issues related to the valuation of the investment by experts or non-experts, reflecting the risk of the “fair” valuation of the investment”*.

This is according to the impact of inflation and the incentive to invest, as mentioned in the literature review (Feldstein, 1992, Poterba, 1992).

5.2. Attractiveness of REIT

According to the first interviewer, the “key feature of REITs is the favorable tax regime which governed. This favorable tax framework, combined with a dividend policy that surpass 85% - 90% of distributable profits (which happens in most countries where REITs), allows high yields may exceed the rent after tax will derive an individual, direct real estate owner”.

The second interviewer answered that *“for European REITs do not exist at present specific markers with corresponding data. The nearest indicators are those of the European Public Real Estate Association (EPRA) and include the major listed real estate companies in Europe, of which a significant proportion are REITs. These indicators show high total annual returns (more than 22% over the last three years). As it is the case for REITs in the US, the corresponding studies for European-listed Real Estate companies look better weighted for risk returns than those of the general index of European stock. So, that indicates that the future for REITs will be good in Cyprus”*.

The dividend is an important barometer affecting an investment decision as it provides assurance on the financial viability and prosperity of a business. Sometimes a high dividend reveals to us about the prospect of a business, than the balance sheet or its chart. According to the third interviewer, *“investment firms operating in the field of real estate, are obliged to pay 90% of their profits as dividends, in return for tax breaks. The dividends of REITs investors receive from profits, are not reduced by taxes at the corporate level”*.

That is why REITs often have very high dividend yields, compared to other companies. Dividends arise, as in other businesses, increase profits and their cash flows. *“The difference is that it can be calculated relatively easily, one that comes to income from rents or growth through acquisitions”*, mentioned the fourth interviewer.

Companies that invest in real estate; have an obligation to distribute through dividends their profits, giving the investor from Cyprus a wonderful opportunity: Stable income from real estate to income support without the headache of emergency measures by government tax arbitrage. Estate shares liquidated immediately, but also bought directly to the amount desired.

5.3. How REITS work

According to the answered of the five interviewers:

1. The directors, managers and employees must be passive in the management or operation, but may determine the political terms of the lease and control of tenants. The REIT are allowed to own 100% of a subsidiary TRS, and debt and rent payments by the subsidiary TRS to the REIT will be limited to ensure that the subsidiary TRS will pay income taxes.
2. The assets must be real estate as cash and government bonds If the assets of a REIT is from loans, loans must be from real estate. A REIT may hold a 100% Subsidiary Company TRS, but a REIT may not hold directly or indirectly more than 10% shares of any other company except for a REIT. The value of the shares of Subsidiary Company TRS may not exceed 25% of the capital value of the REIT.
3. It should keep informed shareholders sending their letters on the procedures and benefits of a REIT. Otherwise it gets some fine if there is a delay. To be a legitimate company should do Management Resources elections.
4. 90% of taxable income be distributed annually to investors in the form of dividends and the reason is to avoid paying corporate.

CHARTER 6-CONCLUSIONS

Great importance give investors on the rating category that place the creditworthiness of a country the international rating agency, noting that the fact that the credit rating of Cyprus is still by international agencies in non-investment grade, which means

increased investment risk prevents foreign investors to channel significant funds into economic sectors of the island. Foreign investors show interest in Cyprus, partly because the legislation as regards the property allow the opportunity for permanent residence and citizenship in the European Union. The expected growth in several sectors of the economy, such as the proposed casino resort stating that it is only a matter of time before rocketing property prices in Cyprus.

Many investors may not be aware that the management a portfolio of assets (real estate, equity, deposits, etc.) encompasses risks. Often, especially in Cyprus, many investors are exposed to excessive risks that they have not identified. The concentration - albeit unintentionally- of assets, creates excessive risks. Such a concentration risk can leave exposed an investment portfolio to greater fluctuations while there is the risk of faster loss. Factors such as country, currency, estimations of value, market size, the available strategies output is crucial in terms of a well-diversified portfolio. For example, many foreign residents living in Cyprus buy luxury residential properties since the market was at its peak (2006-2007), while today prices have fallen significantly, they are in a bad position to not be able to extricate from their investments.

The setting of clear setting of clear and achievable goals other is an important factor which individual's investors should heed before they decide to proceed with an investment. In other words, what is the desired degree of efficiency and the desired cash flow from this investment? Finally, the proactive management asset of different investors is very important. First, must be continuous monitoring of investments in all market conditions. Second, investors are not limited to a single investment style, since this may restrict or exclude the ability to raise fixed income. Depending of course with the risk profile and disposal of cash risk of each one, the investments should be flexible and dynamic. Cyprus has a lot to offer and can meet all investment needs.

Russian investors are buying real estate in the coastal towns of Cyprus and have a preference for new buildings. Russian investors choose Cyprus because it has now created a large community of their compatriots with the largest share concentrated in Limassol.

The safety and low crime rates are secondary reasons why Russian investors buy property in Cyprus, the survey notes whereas usually not limited to a property but are expanding relatively quickly in comparison to other countries. More specifically, with regard to investments of Russians in Cyprus, the resort market is the first choice. Buying resort type property is prevalent in most of the countries studied (27 out of 39), among them Greece, Thailand, Portugal and Croatia.

Main factor investments in Cyprus are the granting of a residence permit according to the investment property. The priority of the Russians for the property market is the residence permit.

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