Investment in Cyprus Real Estate in the context of the practice of currency risk management

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DISSERTATION

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September 2015

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Abstract

Real estate investments as an industry has always been a domestic field, however, following many other asset categories, investments in real estate expands to the international level. The currency differs depending on where investments are made and as a result of this real estate investors also face currency risks in addition to all other real estate related risks they already need to manage. The management of currency risk can have different forms, and the purpose of this thesis is to find out how and if property purchasers in Cyprus hedge this risk. To create an understanding of the issue, a summary of some theories on the currency market and real estate market can be found in the thesis. Only a small amount of research exists on the subject in Cyprus and the theories are mainly from foreign studies and the currency risk management from other business sectors. These theories, combined with the research questions, have formed the questions for the interviews and questionnaire used in this research.

The present research shows that currency fluctuation risk does not affect a buyers’ willingness to purchase property in Cyprus. The hedging strategies used on the market seem to primarily be future contract approach and diversification.

The risk is well understood by property purchasers; however, it does not affect the property purchase in Cyprus. Most of the property purchasers have a basic understanding of the currency risk; nevertheless, the majority does not use any hedging vehicles. Most of the respondents held or currently hold investments in foreigner denominators. All the respondents stress the necessity of real estate intermediaries to have expertise in currency fluctuations risk.

Real estate market intermediaries suggest that in the recent years investors and individual buyers are more aware of this risk and keep it in mind when making decision to purchase property here in Cyprus. The significant role in this change of currency risk perception played rouble crash in the beginning of this year. The interviews also imply a shared idea of real estate intermediaries’ lack of knowledge in applying risk hedging strategies and difficulty to forecast any market perspectives.
Acknowledgements

With this thesis, I am completing my studies at the Neapolis University Pafos in Msc Real Estate.

I would like to thank my supervisor Dr George Mountis for his guidance and support during the whole process.

I also would like to thank the interviewees, who were kind enough to answer my questions; and the property buyers in Cyprus, who took time to fill up the questionnaire.

Jekaterina Ivanova
# Content

1. Introduction
   1.1 Background
   1.2 Purpose of the study
   1.3 Importance of the study
   1.4 Research questions
   1.5 Scope of the study
   1.6 Outline

2. Literature review
   2.1 Real estate market
      2.1.1 Real estate as an asset
      2.1.2 Real estate as an investment
      2.1.3 Direct real estate
      2.1.4 Indirect real estate
   2.2 Risk
      2.2.1 Currency risk
   2.3 Risk assessment
      2.3.1 PPP
      2.3.2 IPR
      2.3.3 Fisher equation
      2.3.4 Monetary model
   2.4 Management of currency risks
      2.4.1 Exposure and hedging strategies
      2.4.2 Active and passive management
      2.4.3 Currency fluctuations on rent
      2.4.4 Management/hedging strategies
      2.4.5 Diversification
      2.4.6 Linear hedging
      2.4.7 Non-linear hedging

3. Research methods
   3.1 Research design
   3.2 Data
   3.3 Participants
      3.3.1 Interviewees
      3.3.2 Questionnaire respondents
   3.4 Limitations

4. Research findings
   4.1 Interview summaries
      4.1.1 Summary of the interview with Igor Kochetok, sales manager in A. Athanasiou Group in Limassol, Cyprus
      4.1.2 Summary of the interview with Dimitris Symeonides, managing director of Veskip Estate Agents Ltd in Limassol, Cyprus
      4.1.3 Summary of the interview with Victoria Christodoulidou, CEO and general manager of Inrealty Real Estate Ltd in Limassol, Cyprus
      4.1.4 Summary of the interview with Chrysovalanto Aga, solicitor, compliance officer and client introducer to the
banks from Pafos, Cyprus  25
4.1.5 Interview conclusions  26
4.2 Questionnaire responds analysis  26
  4.2.1 Descriptive statistics  27
    4.2.1.1 Country of origin  27
    4.2.1.2 Property ownership  27
    4.2.1.3 Purchased property purpose  28
    4.2.1.4 Knowledge about currency fluctuation risk  28
    4.2.1.5 Possession of other investment assets  29
    4.2.1.6 Investment time-frame  30
  4.2.2 Inferential statistics  30
    4.2.2.1 Awareness of currency fluctuation risk  30
    4.2.2.2 Awareness of the currency fluctuation risk when applying for loan in foreigner currency  31
    4.2.2.3 Risk influence on property purchase  32
    4.2.2.4 Risk hedging  32
    4.2.2.5 Role of risk in property purchase  33
    4.2.2.6 Small loss in exchange for growth opportunity  34
    4.2.2.7 Knowledge of property market intermediaries  34
    4.2.2.8 Cyprus as a member of Eurozone is less risky in terms of currency fluctuation risk  35
    4.2.2.9 Risk in Eurozone  36
5. Conclusions  37
  5.1 Future development of the study  38
References  39
Appendix I  42
Appendix II  43
Appendix III  45
List of charts

Chart 1, Country of origin 27
Chart 2, Property units per owner 28
Chart 3, Property purpose 28
Chart 4, Knowledge of currency fluctuation risk 29
Chart 5, Possession of other investment assets 29
Chart 6, Investment duration 30
Chart 7, Awareness of currency fluctuation risk 30
Chart 8, Respondents characteristics according to the risk awareness aspect 31
Chart 9, Awareness of the risk when obtaining the loan 32
Chart 10, Risk hedging 32
Chart 11, Respondents characteristics according to the risk hedging aspect 33
Chart 12, Role of risk in property purchase 33
Chart 13, Small loss in exchange for growth opportunity 34
Chart 14, Knowledge of property market intermediaries 34
Chart 15, Respondents characteristics according to the risk awareness aspect 35
Chart 16, Cyprus as a member of Eurozone is less risky in terms of risk 35
Chart 17, Risk in Eurozone 36
Chart 18, Respondents characteristics in terms of the perception of risk in Eurozone 37