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The Small Island Housing Affordability Crisis: Structural Constraints, Market Dynamics and Potential Solutions in Paphos, Cyprus

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DECLARATION

I hereby declare that this dissertation entitled "The Small Island Housing Affordability Crisis: Structural Constraints, Market Dynamics and Potential Solutions in Paphos, Cyprus" is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text. It has not been previously submitted, in part or whole, to any university or institution for any degree, diploma or other qualification.

All sources of information have been acknowledged by means of references.

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ABSTRACT

The issue of housing affordability in Paphos, Cyprus relates to the structural mismatch between the paying capacity of the average household and the minimum viable development costs of standard specification medium-density dwellings. This misalignment is driven by an entrenched "island premium" resulting from import dependency for construction materials, mobilisation diseconomies for specialised labour, and logistical vulnerabilities that elevate capital and operational expenditures beyond levels affordable to median-income households.

This research adopts a mixed-methods sequential explanatory methodology. Detailed cost data from anonymised developer and quantity surveying sources were integrated with residual income affordability metrics and qualitative insights from key market actors. The residual valuation model identifies "feasibility deserts" where the developer's internal rate of return criteria cannot be achieved at a price which is accessible to a large proportion of the potential local owner occupier market.

Dual-market dynamics in Paphos, fuelled by foreign investment and tourism-linked demand, exacerbate these gaps by inflating land valuations and redirecting supply toward investor-oriented segments. Sensitivity analyses demonstrate that isolated demand-side subsidies or credit enhancements risk inflating prices without addressing underlying cost floors.

Supply-side interventions could include releasing public land with affordability covenants, cooperative procurement to reduce freight-related material surcharges on buildings, inclusionary zoning with density bonuses and streamlined planning processes, and integration of renewable-ready infrastructure to mitigate operational cost burdens.

Comparative analysis with Mediterranean island contexts such as Malta, Corsica, and the Balearics supports the transferability of these findings and highlights governance capacity as a critical enabler. The financial institutions' perspectives stress the role of lending practice, whether residual income is taken into account, and the very conservative approach taken to valuation in what is an extremely constrained economic environment.

Modern methods of construction and lifecycle cost savings offer additional pathways to compress the island premium when combined with targeted skill development and institutional coordination.

Overall, bridging the affordability-viability gap in Paphos, Cyprus demands multi-lever policy packages that simultaneously address fixed cost rigidities, valuation distortions, and tenure security to enable sustainable access to adequate housing for local households within a small island economic framework.

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