



## INTERNATIONAL UNION FOR HOUSING FINANCE FACT SHEET

### > CYPRUS

*Member Contributor: Housing Finance Corporation Cyprus*

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## 1. DEMOGRAPHIC OVERVIEW

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Cyprus has 798,000 inhabitants and over the last five years its population has experienced positive growth, mainly through a high migration rate, although this rate has steadily declined from 2.3% in 2005 to 0.2% in 2009. The largest age group is that of those aged between 21 and 44 years (36.7%), followed by those under 21 (26.5%) and then by those aged between 44 and 65 (24.8%). However, given that most of the migration received in the last few years has been middle-aged or elderly people, the country will have to face a rapidly aging population, which will affect its housing needs and, possibly, represent a burden for future public sector budgets.

## 2. MACROECONOMIC BACKGROUND

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Cyprus experienced a high level of economic growth between 2005 and 2008 with an average real GDP growth rate of 4.18%. That period was characterised by austerity plans that would eventually allow the country to join the euro in January 2008. Nevertheless, this growth was abruptly discontinued following the global financial crisis, which saw the country fall into a recession with a negative growth rate of -1.7% in 2009, mainly due to the slowdown in the tourism and construction sectors.

The country's unemployment rate, which had also been decreasing over the last five years, rose in 2009 to the same level as it was in 2005 (5.3%). The inflation rate had been stable at approximately 2.15%; however, it witnessed a 102.8% increase in 2008 (caused by high commodity prices and an increase in final demand) and then dropped to a value of 0.17% in 2009. Nevertheless, the global crisis does not seem to have had a significant effect on the average income level in Cyprus. In fact, this experienced a steady increase over the last five years, before falling slightly to EUR €21,200 in 2009.

The service sector is the major contributor to the GDP of the country, representing 78.9% of GDP and accounting for 71% of the labour force. The main drivers of the service sector are financial services, real estate and tourism. Therefore, a slowdown in these sectors has clear effects on the country's economy, which currently has a budget deficit of 4.4% of GDP, thereby infringing the EU's budget criterion which seeks to limit such deficits to no more than 3%.

## 3. HOUSING MARKET

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### 3.1. Housing Supply

Cyprus has 374,300 dwellings, which accommodate 276,600 households, the average size of which is 2.8 people. This high ratio of dwellings versus households was highly influenced by the boom years, when approximately 6% of the GDP was dedicated to investments in housing. Despite the fact that the growth rate of the real fixed investment in housing was negative in 2008 and in 2009, in 2009 there were 18,200 house completions and 16,700 new building permits were issued. Therefore, there does not seem to be a housing supply shortage in the country at present.

## 3.2. Housing Tenure

Dwellings are mainly owner-occupied (61.8%) and, otherwise, they are primarily rented from private landlords (18.7%). Therefore, the rental market of properties owned by the government or by social landlords is not overly developed in Cyprus. In any case, the quality of most dwellings is very high given that more than half of the country's stock has been built since the 1980s.

## 4. RESIDENTIAL MORTGAGE MARKET

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### 4.1. Lending

In Cyprus, the main lending institutions are the commercial and the cooperative banks, which offer both variable and initially fixed rate mortgages. Currently, the representative interest rate on new mortgage loans is 4.82% and the residential mortgage debt to GDP ratio is 74.44%, which suggests a developed housing finance system. This ratio rapidly increased over the last five years, and in October 2009 this ratio was three times higher than that observed in December 2005. Nevertheless, it seems that this rapid growth will not continue in 2010 as demand has been falling recently and, in parallel, banks have been tightening their lending standards.

### 4.2. Funding

Funding of housing loans comes mainly from bank deposits. The Government of Cyprus is currently preparing legislation for the establishment of a covered bond market in order to enable financial institutions to issue covered bonds for the financing of mortgage loans.

## 5. GOVERNMENT HOUSING POLICIES

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Cyprus sets transfer and stamp duty taxes on house purchases, whereby buildings are subject to VAT at 15%. There is also an annual property tax and a tax on capital gains at the moment of the sale of the dwelling. However, there are a number of government actions such as a grant for dwellings of less than 250 square meters, subsidised prices or reduced interest loans, in line with the country's policy to promote owner occupation, which particularly benefits low and middle-income households.

## 6. REFERENCES AND DATA SOURCES

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Central Bank of Cyprus

[http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=1&lang=en](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=1&lang=en)

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European Mortgage Federation, Hypostat

[www.hypo.org](http://www.hypo.org)

Housing Finance Corporation Cyprus

<http://www.hfc.com.cy/>

RICS – 2010 European Housing Review

[http://www.rics.org/site/scripts/documents\\_info.aspx?categoryID=409&documentID=44](http://www.rics.org/site/scripts/documents_info.aspx?categoryID=409&documentID=44)

Statistical Service of the Republic of Cyprus

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