

# Real Estate and Economic Development in Cyprus\*

By

Dr. Stelios Platis

S. Platis ECONOMIC RESEARCH

*Part of a Joint Research Project with PRIO (Cyprus Centre)*

*\* The views expressed in this Presentation belong to the author only and do not necessarily correspond to those of PRIO or of S. Platis ECONOMIC RESEARCH. None of the wording used or references made in this presentation implies recognition of any internationally unrecognized authority. The terms ‘South’ and ‘North’ are used for simplicity to refer respectively to the ‘areas of the Republic of Cyprus in which the Government of the Republic of Cyprus exercises effective control’ and the ‘areas of the Republic of Cyprus in which the Government of the Republic of Cyprus does not exercise effective control’ as defined in Protocol 10 to the 2003 Act of Accession.*

# Purpose of Research

- Assess the *dynamic* nominal economic convergence between the two economies  
... by also recording (for the first time) *actual property price increases* in both markets
- Shed light on actual economic facts and enable *fact-based analyses and proposals towards finding a workable solution*
- Threats and Opportunities...

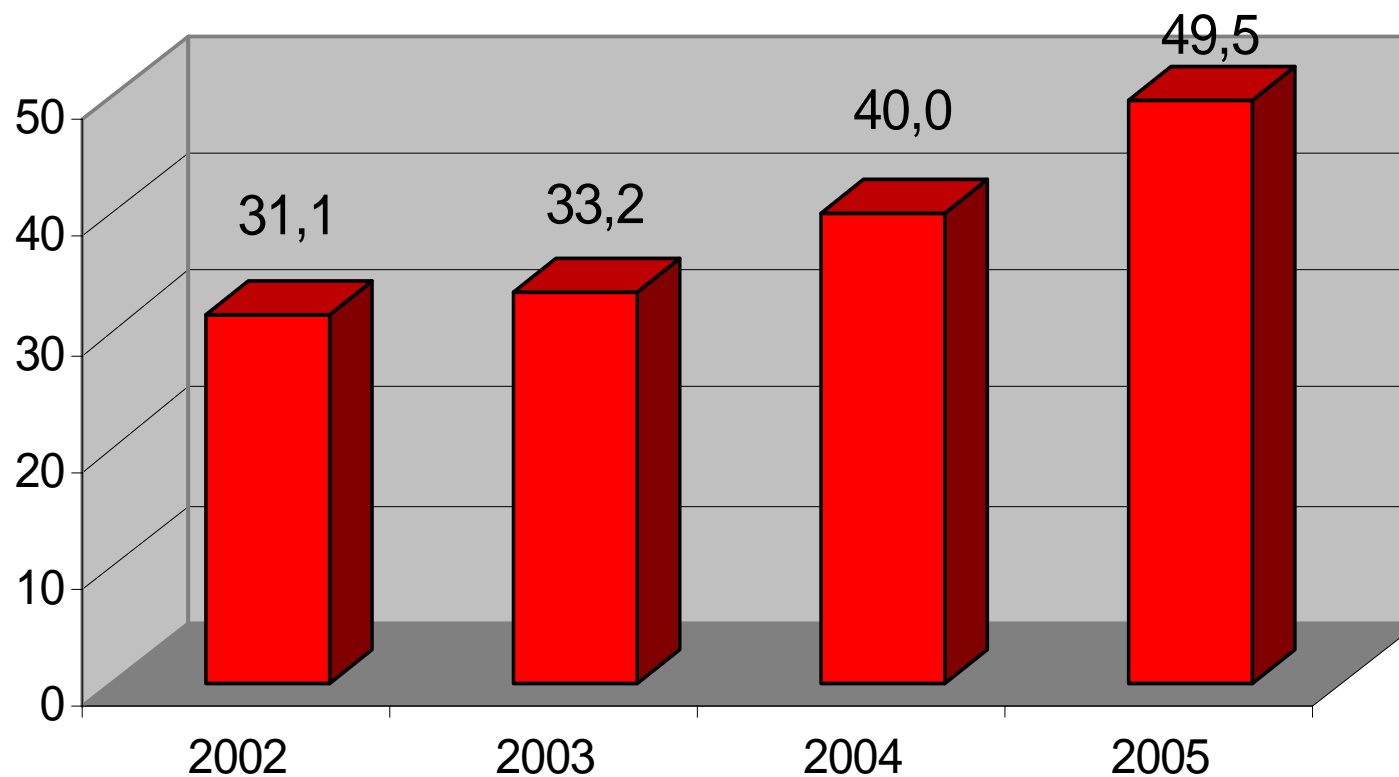
# Economic performance

- The economy in the South is a “more mature” European market economy; open and quite liberalised
- The economy in the North is a very fast-developing, closed economy, dependent on, and internationally active only through Turkey
- Economic output in the North appears to be converging with the South ... *very fast!*
- Based on current rates, **complete nominal income convergence** before 2014...

# Comparative Macro-Economic Performance

MACROECONOMIC PERFORMANCE	2000	2001	2002	2003	2004	2005	2002-2005	1995-2005
<b>Real GNP growth (%)</b>								
North	-0,6	-5,4	6,9	11,4	15,4	10,0	10,9	5,4
South	2,4	4,7	2,9	3,8	2,1	4,6	3,3	3,6
<b>GNP per capita (CYP)</b>								
North	3.157	2.811	2.677	3.055	3.762	4.866	3.590	2.837
South	7.744	8.280	8.600	9.208	9.406	9.834	9.262	7.937
<i>North as % of South</i>	<i>40,8</i>	<i>33,9</i>	<i>31,1</i>	<i>33,2</i>	<i>40,0</i>	<i>49,5</i>	<i>38,4</i>	<i>35,2</i>
<b>Real GDP growth (%)</b>								
North	0,0	-5,4	6,2	10,6	14,2	13,5	11,0	5,8
South	5,0	4,1	2,1	1,9	3,9	3,8	2,9	3,7
<b>GDP per capita (CYP)</b>								
North	3.157	2.807	2.656	3.008	3.666	4.632	3.769	2.793
South	8.183	8.701	8.968	9.428	9.804	10.169	9.592	8.148
<i>North as % of South</i>	<i>38,6</i>	<i>32,3</i>	<i>29,6</i>	<i>31,9</i>	<i>37,4</i>	<i>45,5</i>	<i>38,3</i>	<i>33,8</i>

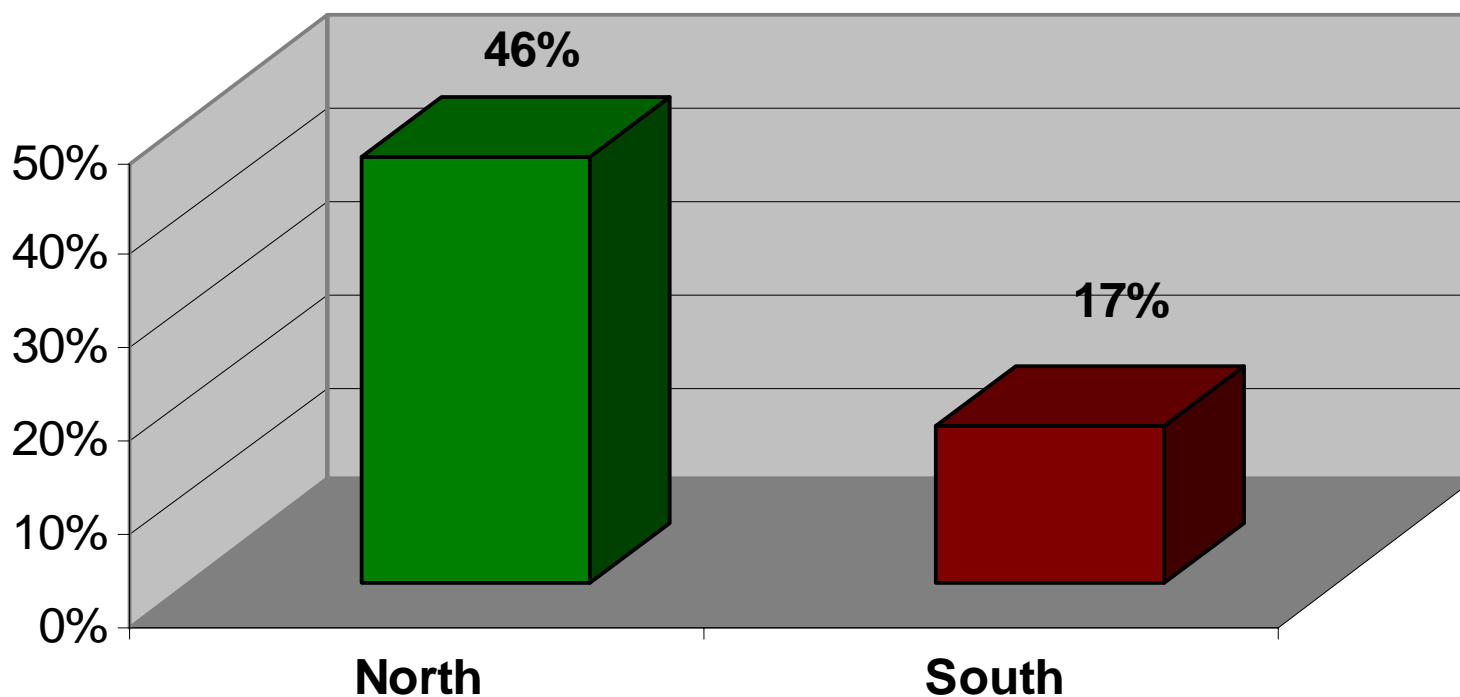
### GNP per capita, North as % of South



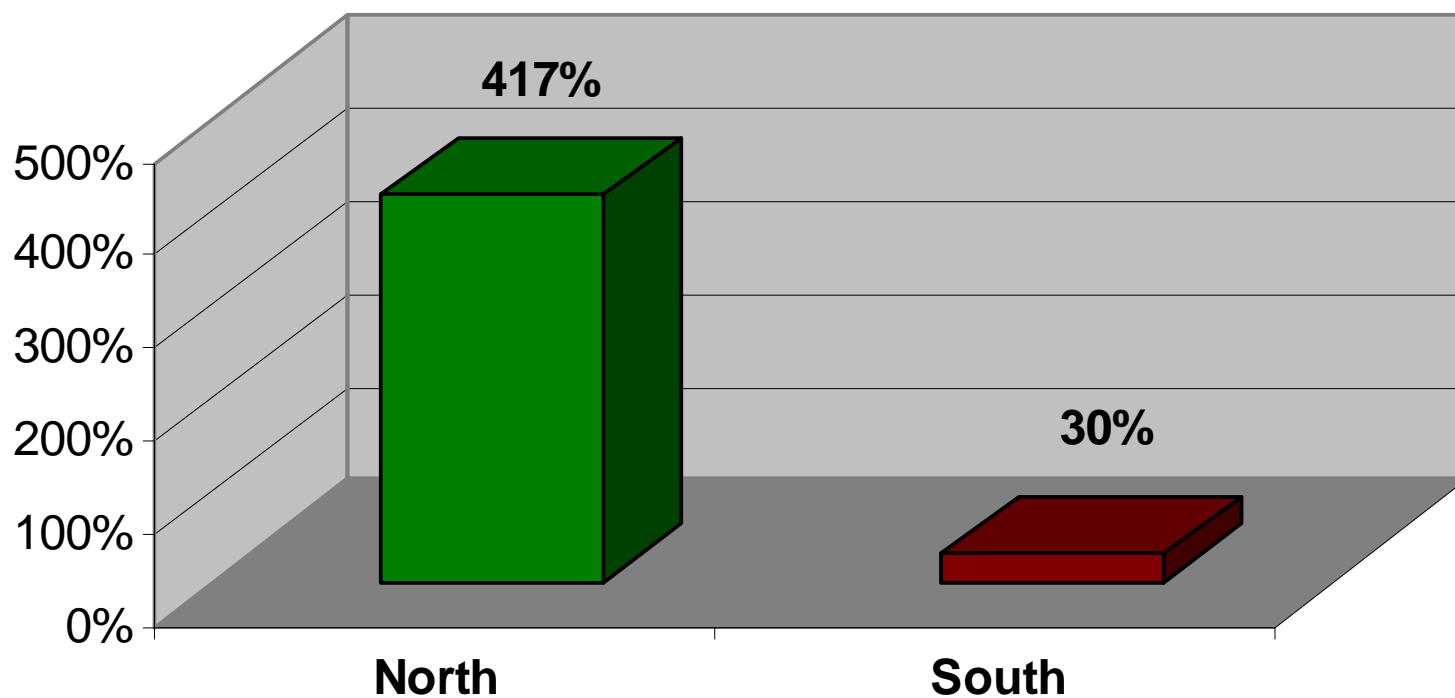
# Real Estate Markets

- For both economies, the real estate and construction sectors appear to be the main drivers of growth ...
  - ... and in particular for the economy in the North, this has been the main driving force of convergence
- Overall, property prices appear to be converging very fast and lead income per capita convergence

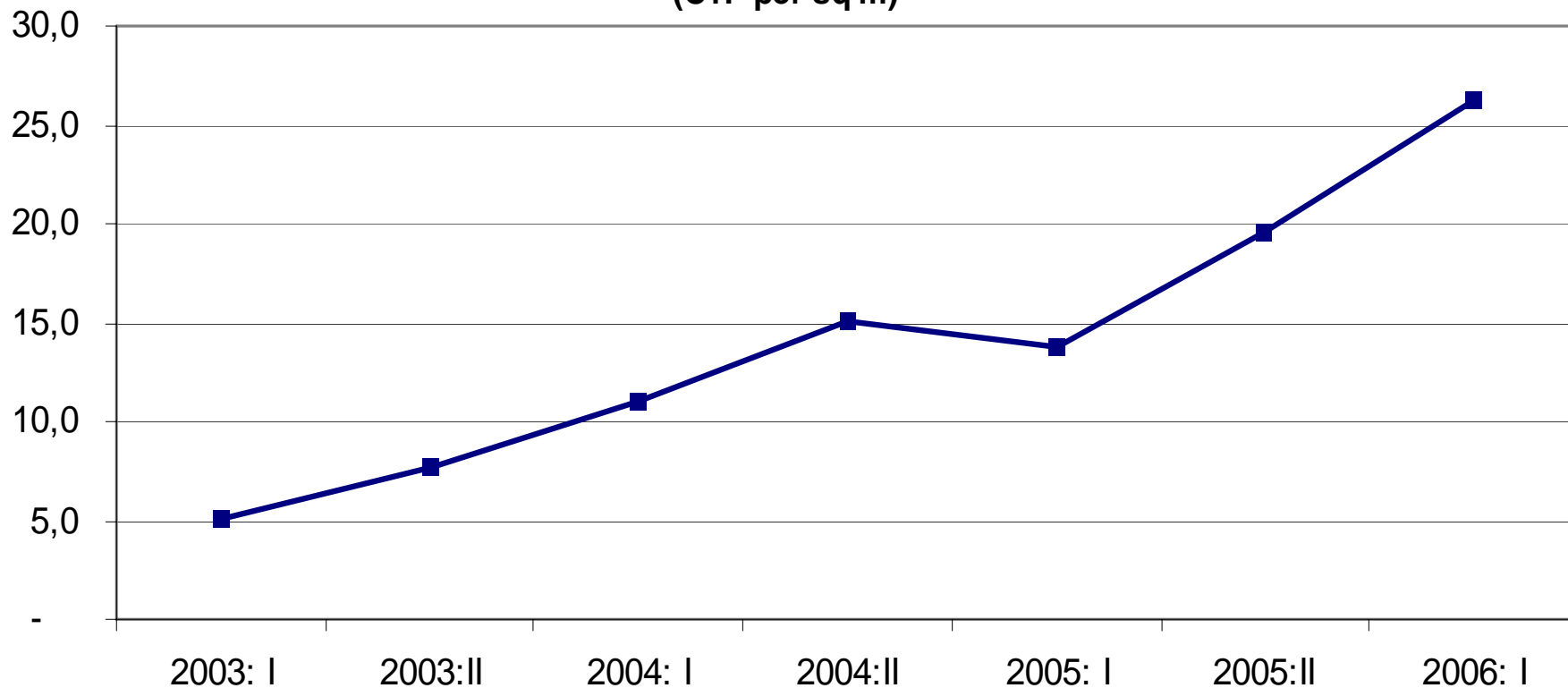
## Overall asking price increase of housing units (2003 1st half - 2006 1st half)



### Overall asking price increase of land (2003 1st half - 2006 1st half)



Average land price in the North  
(CYP per sq m)



# Overview

- A main component of the economic activity (for both economies) has been the two real estate and construction sectors
- The real estate market in the North (despite legal uncertainty) remains, very much active and extremely dynamic
  - Growth of **417% in land prices** and **46% in housing unit prices** in *3 years*
  - Hence **convergence** in land prices between the two markets from **9%** in 2003 to **36%** in 2006 and **37%** to **46%** for housing units
- **Actual convergence** is estimated **much closer**, than output per capita figures depict
  - “legal uncertainty discount” estimated now at around 30-40%

# Challenges

- This *dynamism* on the ground in the two separate economies constitutes both a *threat* and an *opportunity*
  - A **catalyst towards a solution** (economic parity, puts less pressure on reunified economy)
  - An **obstacle to a solution** (different and irreconcilable institutional infrastructure)

# Thank You!

## Real Estate and Economic Development in Cyprus

*S. Platis ECONOMIC RESEARCH*  
*Part of a Joint Research Project with PRIO (Cyprus Centre)*

Dr. Stelios Platis, Director, S. Platis ECONOMIC RESEARCH