The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Fallout From Crisis Felt on Cypriot Property Market

By Alexander Bratersky

March 24, 2013



As Cyprus is struggling through its financial crisis, the turmoil might affect the island's real estate market, known as a major investment destination for well-to-do Russians.

Konstantin Popov, chairman of property developer Inkom's board of directors, said Russian investors might lose more than $3 billion on the island's property market if the crisis deteriorated.

"Over the last years, Russians became the most active buyers of Cypriot real estate," Popov said in comments published on the RRE.ru property research site.

Popov said that, according to expert estimates, Russian investments in Cypriot real estate amounted to $10 billion over the past 10 years.

He said capital outflows from Cyprus would lead to property prices falling 25-30 percent

in such popular places as Paphos and Limassol, where Russians prefer to buy villas or townhouses priced around 300,000 euros ($386,000)and about 600,000 euros, respectively.

According to estimates provided by the Moscow branch of Sotheby's International Realty in 2011, Russians accounted for almost 5 percent of property buyers on the island.

Research conducted by the Gordon Rock and Cybarco real estate agencies in 2009 stated that Muscovites, followed by residents of St. Petersburg, were the biggest property buyers in Cyprus.

As many as 45 percent of Russian real estate deals in Cyprus were concluded for investment purposes, followed by 40 percent for family reasons.

"Clean water, good weather and a loving man — what do you need to stay happy?" pop singer Aziza Mukhametshina told Sobesednik magazine in March, explaining the reasons why she had bought a house on the island with her husband.

But the situation might become more gloomy for Mukhametshina and other Russians due to the uncertain situation with Cyprus' financial system.

"All my family live in Cyprus, since it used to be a safe place. I haven't worried about them, but today I am getting worried," said a Russian businessman who gave his name only as Alexander.

Popov from Inkom compares the situation with the mortgage crisis in the United States in 2008, when banks put properties on sale, but investors had no money to buy them.

Yulia Titova, head of the Rentsale international property agency, said the current situation showed "a big loss for the reputation of Cyprus as a stable investment destination," the Homes Overseas investment portal reported.

She said demand for Cypriot property might fall and then prices would drop.

Other real estate agencies also predict that prices might fall, at least over a short-term period.

"In a three- to six-month period, it is possible to predict that the demand will be lower, so there will be a certain cut in prices," said Stanislav Zingel, the president of Gordon Rock.

"If the partial expropriation of deposits is enough to improve the situation in the Cypriot economy, property prices might return to their current level," Zingel said.

Anecdotal evidence suggests that Russians, who value Cyprus for its clement weather, European education and lax residence rules, are waiting cautiously for the situation to develop.

"We received information from our department for pre-owned property sales that some owners have cancelled the sales of their houses," said Sergei Filatov, head of Pafilia, the biggest private property developer in Cyprus.

The reason for cancellation is that they understand that they would not be able to withdraw

their money from the island because of the problems with the banking system, Filatov said.

"In a long-term perspective, everyone understands that property remains the most trustworthy way to keep money," Filatov said.

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Original url:
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