The housing crisis affecting local native Cypriots is not only mimicking the overall EU housing crisis but it also suffers great income inefficiencies as the island’s economy is small and poorer in high-paying jobs compared to EU capitals experiencing similar patterns. This proposal paper suggests a digital platform which poses as a counter measure.

A proposed state-operated social housing digital platform.

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The Problem

Cyprus is and has been a member of the European Union (EU) since 2004 and a member of the Eurozone from 2008. As a country, due to its geography (island), size and population along with other socio-economical characteristics, Cyprus has always been placing a lot of focus on attracting foreign direct investments (FDI). This practice has almost always been active in the country (post 1974) due to its attractiveness as an island in the Mediterranean which, coupled with the trust that the EU/Eurozone legal framework grants to its Members, has been utilized from all governments as a tool to enhance the economy, relapse from downturn economic cycles and pushback on unemployment. Direct taxation, value-creating projects, employment positions, complementary sectors stimulation are some of the benefits of this practice. FDI makes-up c.27.2% of Cyprus's Nominal Gross Domestic Product (2026 Nominal GDP data), driving other sectors as well, hence the incentives for foreigners to actually come and invest here are attractive and competitive to other EU countries - Competitive Corporate Tax (15%), Capital Gains Exemptions, Dividend Tax Exemption and other. The Cyprus Citizenship by Investment Programme (CIP) up until late 2020 and its successor the current Cyprus Permanent Residence (PR) Programme which grants indefinite, lifetime residency to non-EU citizens through a minimum investment of €300.000 (in Cyprus), have heavily boosted the real estate sector in the latter years accumulating, in a relatively small amount of money, a relatively great amount of wealth – which is partially funnelled back in the economy, theoretically creating a better economic environment for the Cypriot society as a whole.

The problem that we are currently facing in Cyprus and which in a way contradicts the heavy development of the real estate sector in recent years is unaffordability of housing for local Cypriots aged 25+. In other words, Cypriots are currently having a hard time finding property to live on their own away from their parental home. This fact alone creates a deep social problem as a paradox is observed since, in a growing economy, housing for locals has become a privilege rather than a right. One can argue many reasons that are enrooted in the causes of this situation – increase of labour cost, increase of construction materials, other exogenous factors that consequently affect the local construction economy. But out of all these reasons that may be in fact applicable, a change in the product offered is actually the biggest issue. Developers acquire (or have acquired) land and subsequently build on this land (either in-house or by outsourcing to a construction company), developing properties targeted towards foreigners that have different disposable incomes, exceptionally higher that the average Cypriot has. <u>Since Cyprus has all these incentives in place for direct investments attraction, it reaches to attract foreigners that can purchase the properties built, essentially bridging seller</u>

and buyer, contributing to the real economy (GDP) but leaving out local buyers which see their economic situation, in many cases, as forbidding to claim a new or even resold development.

An assumption is that property builders / developers are geared towards potentially higher profit projects, hence they turn their activities to such direction. Although this probably is a valid point, it is also probable that there exists a set of local buyers that are willing and able – potentially through financing- to acquire new developments at market prices less than prices marketed to foreigners but still above total construction cost, enough to justify a seller's profit. Although the problem might be viewed as an issue arising during the transaction between the one who develops/sells a new real estate project and the one that is willing to buy the said new real estate project, there are many components (aspects that affect final product price) in this transaction that are dependent on other players, such as:

i) Land Provider (owner of land)
ii) Construction company (often outsourced, independently contracted by developer)
iii) Architect (often outsourced, independently contracted by developer)
iv) Project financier (local banks)

If we take a closer look on what each aforementioned element of the transaction does:

i) The land owner is who the initiation of a project depends on. With no land, no project can be made. In Cyprus land is owned by: 1) legal and physical entities; 2) the State; 3) the Church; 4) Turkish-Cypriot owners; 5) U.K. (Sovereign Based Areas). Given that the two last types of owners are (for legal reasons) currently not relevant for examining, the first three types of owners are the sources of land for new developments in Cyprus. In an incentive-based economy, the first type of owners if willing to sell, have an asking price, same applies for the Church (under maybe different parameters), whereas for the State, land is a tool rather than an asset that can be used under a certain scope and for which profit maximization is not the leading criteria – as opposed to first 2 types of owners.
ii) Construction companies are willing to take on a project over another, mainly depending on profit as the leading criteria.
iii) Architects are willing to take on a project over another, mainly depending on profit as the leading criteria.
iv) A project financier (usually a local bank) can finance a new multi-unit residential project in two ways: 1) either finance the developer directly (not preferred by banks, as risk is concentrated on the ability of the developer to deliver and sell the project); 2) finance potential buyers directly, essentially splitting the risk they assume between the ability of the developer/construction company to deliver the project and the repayment ability of the project purchaser.

The current market indicates the below trends:

i) Privately owned land (by persons or corporations) is sold to developers targeting foreign buyers, who, knowing they can sell their projects at high prices (relative to local demand), are able to afford higher bid prices for land. Still, there is residual land, which is either for location or other reasons not in the primary interest of developers, that could be potentially utilized if land owner is willing to sell.

ii) Construction companies are often overwhelmed by projects assigned by developers making it difficult to hire them for private projects e.g. persons looking to build their house or a family looking to build a small apartment complex.

iii) Banks make it hard for buyers to borrow money. Internal bank policies are nowadays so strict (Cyprus has a past on banking crisis which largely involved the construction sector), that a buyer has to pass a long scrutinous process to acquire a loan to buy a property. Likewise, financing a project directly and not through its buyers is avoided by banks (as aforementioned) and from developers, who prefer to sell on paper (pre-launch sales) essentially transferring the financing process to the individual buyer – bank relationship.

iv) The foreign-infused demand in property and the way new developments are launched and designed to be sold (supply) affect other parts of the housing market as well. Older, existing projects become more attractive and their prices go up, whereas rents also increase, across the board – from older to new developments. These latter increases are also not in-line with the median wage (income) in Cyprus, and are particularly observed in Limassol and Paphos (coastal cities that are preferred by foreign buyers).

The housing problem in Cyprus is real and is affecting locals. It is not only a local phenomenon as it can be also observed in other parts of the world as well. This paper does not suggest any form of intervention in Cyprus's FDI scheme nor any policy intervention that could alter or regulate the market. These are valid points and one could argue on them but are not the subject of this paper.

This paper suggests the creation of a state-owned, state-regulated platform that brings together the parties involved in land development both from the supply as well as the demand side. The core idea is that using a state-owned platform that gives credibility and trust to the users (from all sides), the process creating new property in the market can start from the buyer's side. Essentially buyers can bid for state-declared projects which are outsourced to construction companies. Banks are present in the platform if needed, where a buyer may ask for financing and they can respond if they can provide (and how much they can) and for how much cost (interest).

The core idea of this platform is treating housing as a social benefit rather than a consumer commodity. The issue with these kinds of policies is that often they disassociate with practical enforcement and public economics hurdles. The suggested platform instils the fundamental idea of budgeting and cost planning for the housing offered a priori. It brings together parties involved in the process, essentially omitting land developers, which very often are the ones facing the highest profit margins by pushing final purchase prices to limits that practically exclude local buyers. In this case, the state plays the role of the land developer with 0% (or near 0%) profit margin. The key to this discussion is that although the state's profit margin is non-existent the risk of the project development is still passed to the final buyers (and their potential financiers). Looking at the current market the idea of pre-launch sales is spread across Cyprus, applied by almost all land-developing companies. This essay suggests that this process can also be carried-out by the state through this platform with scalability (economies of scales) potential due to the credibility, trust and concentration forces that it has (vs. perhaps other similar commercial initiatives).

A Proposed State-Owned Platform – How It Works

General Framework

The platform will address both the buyers and the providers of the offered product. Given a tripartite fragmentation of this digital system, legal and physical entities will have the opportunity to sign up as: i) land providers; ii) registered parties, whereas only physical entities will be able to join as iii) buyers.

To simplify an initial analysis of the platform's approach, let's say the land in consideration on which the new development will take place is already state-owned. Then:

1) Land's market-value should be calculated. A valuation of the land at current market levels must be used as an input for the prices the buyers will face.
2) Capital cost should be calculated at current and forward-prices (say 6 to 12 months). Hedging contracts might also be considered. Values calculated must be used also as an input for the final project pricing and as a benchmark both for contract bidders as well as for direct orders (from state to supplier).
3) Project construction and site-oversight can be given out as a contract to bidders (similar to capital cost contract bidders). Alternatively, both individuals and legal entities can register to the platform's registered parties' section from which they can express interest in said specific project. In this way the platform has a database with professionals it can utilize throughout its operation and can also assign more collective tasks, thus outsourcing on a wider basis and potentially skipping hidden costs. It should be noted that each project would be individually evaluated by the project initiators (which must always be inhouse state-employed) regarding outsourcing vs inhouse capital and labour allocation cost.

Some key points:

- Certain roles in the digital platform should be strictly reserved for in-house public servants. Architectural plans, contract negotiation, cost allocation/budgeting, financial modelling and forecasting as well as pricing should be done inhouse.
- All licensed commercial banks can sign up as registered parties to finance buyers. Each buyer can request an individual loan offer from whichever bank he wishes – credit institutions should not be able to know what interest (cost of debt) other lenders are offering for each particular case.
- Registered partners by default should also be some governmental services such as the Tax Department, Land Registry, District Local Government Organizations and others. By having these services present, the entire process can be faster as, required documents, required background checks, authentications can be done through the platform, directly without the buyer having to act as a middleman between each party.

The Buyers

Since the entire idea of the platform is based on selling a project off-plan, one of the core aspects of the sales model is how buyers engage with prospective developments and what are the decisive criteria with which they are categorized and given priority over other prospective buyers. A few elements to be considered:

- Age group. Platform should be open to 25+ individuals (physical entities).
- Yearly Income
- Cash & Cash Equivalent (Bank Deposits)
- Assets / Liabilities

The categorisation, ranking and ultimately, prioritisation of the buyer should be based on a method system (to be decided) that, when taking into consideration all variables, favourites individuals that in a commercial out-of-the-platform setting would be less competitive versus other market-fit buyers.

Prices as well as payment structure should follow the standard commercial methods. Price and construction progress have an inverse relationship (risk/return) which is ultimately reflected on the payment structure present on the sale agreement. Although the projects are state-initiated and hence have near zero default probabilities it is still beneficial for the project's successful deployment, completion and sale to attract buyers at an early stage. The state-initiator element is also crucial for expediting the buyers' financing process by local banks – it happens many times that in a standard commercial project each bank treats each project differently w.r.t. the developer involved (market reputation), often delaying funds access.

Current Market Cost & Prices

Current construction cost excluding land cost differs between districts across Cyprus, mainly due to the labour input demand and supply factor that in many cases increases cost. Because of this same demand, land market prices also differ – coastal cities like Limassol, Paphos and Larnaca experience a surge in foreign demand, thus increasing land value. Foreign demand vs local demand has a saddle difference – even if we assume that at some point of time these 2 demands have similar volumes (meaning number of buyers) there still a material difference in the maximum price/sqm each of these 2 kinds of buyers is willing to reach. This factor often pushes land developers and other involved parties to take on projects that require less work but yield same or even higher profit.

The below figures correspond to average market prices as deduced from properties marketed – extremely higher prices do exist but are not relevant for a broader market analysis. As we can see below, construction price differences across the island are not so divergent as someone would expect based on the final prices buyers face.

Q1/Q2 2026 Prices

District	Apartment Construction Cost	Apartment Selling Price	House Construction Cost	House Selling Price
Limassol	€1,450 – €1,700 / m²	**€4,200 – €4,800 / m²**	€1,800 – €2,200 / m²	**€3,800 – €5,000 / m²**
Paphos	€1,300 – €1,500 / m²	**€3,200 – €3,600 / m²**	€1,600 – €1,900 / m²	**€2,800 – €3,500 / m²**
Larnaca	€1,300 – €1,450 / m²	**€2,500 – €2,900 / m²**	€1,550 – €1,800 / m²	**€2,400 – €2,900 / m²**
Nicosia	€1,350 – €1,500 / m²	**€2,300 – €2,600 / m²**	€1,600 – €1,850 / m²	**€2,100 – €2,500 / m²**
Famagusta	€1,250 – €1,400 / m²	**€2,200 – €2,700 / m²**	€1,500 – €1,750 / m²	**€2,200 – €2,600 / m²**

Moving to land cost, we can see that this is the main component that substantially alters retail prices. Since land is what we would call a non-abundant production input, as it is not infinite in volume nor can it be recreated, many land owners are able to sell their plots at very high prices, which developers take-on knowing they can transfer this cost (with a very high markup) to foreign-infused demand prices.

District	Land Cost % Share of Final Price	Average Selling Price (Per m²)	Estimated Land Component Value (Per m²)	Primary Market Driver

Limassol	**30% – 40%**	€4,500+ / m²	**€1,350 – €1,800+**	Severe scarcity of urban plots; high international corporate demand.
Paphos	**25% – 30%**	€3,400 / m²	**€850 – €1,020**	Strong foreign investment targeting seaside and elevated sea-view plots.
Larnaca	**20% – 25%**	€2,700 / m²	**€540 – €675**	Rapid development boom, but raw land banking remains moderately priced.
Nicosia	**20% – 25%**	€2,450 / m²	**€490 – €612**	Stable domestic market driven by student housing and corporate expansions.
Famagusta	**15% – 20%**	€2,450 / m²	**€367 – €490**	Highly seasonal holiday-home market with a vast supply of open coastal land.

The following table gives pretty much the full picture. As we saw looking at the above data, apartment construction cost excluding land across all districts stands at an average €1.500. Now looking at the following table, the two (coastal) cities with the highest average market selling price are Paphos and Limassol. These regions also share the highest land developer profit margins. Hence, although rising construction costs and labour force scarcity are two valid factors contributing to housing unaffordability by locals, the biggest issue is land prices which land owners afford to request as land developers know they can not only match other regions' profit margins but also materially surpass them. In a free economy each market player acts on incentive, hence this behaviour cannot really be reversed given current trends. A state-owned, state-operated digital platform acting as a coordinator for residential developments would eliminate the profit-lead incentive of land developers which drives land prices up. Further down we produce a cost-forecast for a possible unit on the digital platform using zero land cost (state-owned land). We could also include an indicative land cost to cover operational costs (or to consider some kind of opportunity cost) but for simplicity we keep it at zero. In a more sophisticated analysis where land owners are able to sell the land to the state, and consequently this land can be made available for the projects offered on the platform, the state's bidding price (for the land acquisition) would be substantially lower than what these 2 cities currently face. The state does not interfere in the market, it just gives the land sellers an alternative bid-price, which although materially lower, comes with trust of payment ability, quickness through governmental checks and validations as well as a steady-flow land lease option given the uncertainty on a global scale.

District	Avg. Market Selling Price (per m²)	Deducted: Hard Build *(Contractor Tender)*	Deducted: Soft Costs *(12% of Hard)*	Deducted: Land Cost *(Regional Share)*	Remaining: Developer Profit *(Net Margin)*	Total Share Sum
Paphos	**€3,400.00** *-100.00%*	**– €1,400.00** *-41.18%*	**– €168.00** *-4.94%*	**– €935.00** *-27.50%*	**€897.00** *-26.38%*	**100%**
Limassol	**€4,500.00** *-100.00%*	**– €1,575.00** *-35.00%*	**– €189.00** *-4.20%*	**– €1,575.00** *-35.00%*	**€1,161.00** *-25.80%*	**100%**
Famagusta	**€2,450.00** *-100.00%*	**– €1,325.00** *-54.08%*	**– €159.00** *-6.49%*	**– €428.75** *-17.50%*	**€537.25** *-21.93%*	**100%**
Larnaca	**€2,700.00** *-100.00%*	**– €1,375.00** *-50.93%*	**– €165.00** *-6.11%*	**– €607.50** *-22.50%*	**€552.50** *-20.46%*	**100%**
Nicosia	**€2,450.00** *-100.00%*	**– €1,425.00** *-58.16%*	**– €171.00** *-6.98%*	**– €551.25** *-22.50%*	**€302.75** *-12.36%*	**100%**

Subsequently, it makes sense to look at baseline average and median wages of native Cypriots. Isolating deposits and generational wealth, recurring revenue stemming from employment is the decisive factor contributing to purchasing power and financing ability.

Again, a very distinct paradox can be spotted. The two coastal districts with the highest residential prices, namely Limassol and Paphos, have both lower average and median gross monthly wages than Nicosia which holds first place w.r.t. to median gross wage standing at €2.190. Looking at housing supply in Nicosia, prices are lower, geared towards local buyers – a factor that coupled with the higher salary base for Nicosia makes native Cypriots relocate from other cities to the capital, further enhancing coastal cities current foreign buyer targeted pricing.

District	Estimated Gross Average Monthly Wage (Native Cypriots)	Estimated Gross Median Monthly Wage (Native Cypriots)	Key Local Native Employment Drivers
Nicosia	**€2,650**	**€2,190**	Driven by public sector civil servants, semi-governmental organizations (EAC, Cyta), and bank headquarters.

Limassol	**€2,390**	**€1,980**	Centered around domestic port services, shipping logistics, local law/audit firms, and construction management.
Larnaca	**€2,280**	**€1,880**	Supported by aviation and airport networks, hospitality management, and expanding wholesale distribution hubs.
Paphos	**€2,120**	**€1,790**	Heavily influenced by year-round tourism, private regional developers, and local agricultural cooperatives.
Famagusta	**€1,980**	**€1,680**	Tied directly to seasonal coastal hospitality, local retail trades, and commercial crop cultivation.
National Baseline	**€2,410**	**€1,940**	*Isolated Macro-Baselines for Native Citizens (Excl. High-Tier Tech Naturalizations).*

A numerical example

Let's assume we model the cost for a 12-apartment project, with 12 identical 2-bedroom apartments. Material costs for this case scenario include supplier's markup (profit margin) but exclude any in-between contractor's profit, meaning that the materials are either assumed to be directly purchased by the state (hence in-house cost budgeting) or that the construction company provides them at cost of purchase from supplier. For simplicity, let's assume land cost is €0. Also, for simplicity, a 0% tax rate is applied on the final product, any higher tax rate applied will effectively increase the below presented cost base. Below we present a scenario calculated using prices from CYSTAT and modelled using inflation rates provided by CYSTAT as well. Other exogenous risk factors may affect construction cost but we use these base prices as a benchmark.

<u>June 2026 Apartment Construction Cost Estimation Breakdown</u>	
Apartment Average Construction Cost / sqm (2021) - 100%*:	€1,043
Material Cost Component % (Historically):	60%
Labor Cost Component % (Historically):	40%
Direct Cumulative Inflation (Materials)*:	22.74%
Direct Cumulative Inflation (Labor)*:	29.46%
June 2026 Apartment Average Construction Cost / sqm:	**€1,308.21**
2- Bedroom Average Internal Living Area (sqm):	80
2- Bedroom Average Covered Verandas Area (sqm):	20
2- Bedroom Average Total Area (sqm):	100
(Say) 4 storeys, 4 apartments per floor (1-3):	12 apts
Total Apartments Area (sqm):	1,200
Communal Area (as a % of Total Apartments Area):	20%
Total Gross Internal Area (sqm):	1,440
Total Project Construction Cost:	€1,883,828
Cost Per Apartment:	**€156,986**

**Source: CYSTAT*

As discussed, we are looking at local buyers. This set of buyers are the ones that currently face difficulties acquiring property through current market practice. One of the aspects of these difficulties is financing a property purchase. Prepayment on purchase is usually expected at around 20% - 30% of face value (for this case we price the unit <u>at cost</u>) and the rest is bankable given the purchaser can justify the funds to cover repayments + interest, either by cash deposits or by his recurring (monthly) income. Prepayment amount reserved for a bank loan is also one of the biggest problems locals face. Given the project developer here is practically the state, banks could potentially lower the prepayment amount needed, transferring the residual amount either to the loan sum to be amortised or to an independent escrow account where the amount is treated as a lump sum and gets guaranteed by the state – notice in this case only this residual amount is guaranteed by the state not the entire facility given out. Taking a 25% average prepayment requirement, a 20-year tenure for the loan and a c.5.5% average interest rate (given no early repayment occurs) we have:

Property Face Value:	€156,985.68
Prepayment Percentage:	25%
Prepayment Amount:	€39,246.42
Remaining to be Financed:	€117,739.26
Tenure (years):	20

Loan Information	
Loan Amount	€117,739.26
Annual Interest Rate	5.50%
Term of Loan in Years	20
First Payment Date	01/01/2027
Payment Frequency	Monthly
Compound Period	Monthly
Payment Type	End of Period
Rounding	On

Monthly Payment **€809.91**

Summary	
Rate (per period)	0.458%
Total Payments	€194,379.94
Total Interest	€76,640.67
Est. Interest Savings	-

Given the latest CYSTAT data as of early 2026 (q1) average gross wage in Cyprus rose by 3.7% y-o-y to reach €2.601, whereas the median gross wage stood at €1.881. These figures combined with the modelled monthly payment above would mean that at least half (50th percentile) of the island's employed population would yield a better than 43% (809.91/1881) debt-to-gross income ratio. Of course, this does not tell the full story as we should extract other mandatory payments from this median gross salary (e.g. car loan payments, utility recurring payments etc.) but it does give us a positive outlook on repayment ability. It should also be noted that even though we modelled the cost of a 2-bedroom apartment unit, we examine repayment ability given 1-individual income. When a 2-individual disposable income scenario occurs, potential financing of a unit like this becomes more attractive (plausible) for a commercial bank. By applying the EU legal minimum of 5%, our examples purchase price climbs to €164,834.97 and the same monthly loan payment reaches €850.41.

Our Proposed Platform vs KOAG

Currently the Cyprus Land Development Corporation (KOAG), which is the main state-lead authority responsible for affordable housing projects for local Cypriots, sells units for a €1.650/sqm + VAT. So, if we want a reality check lets calculate above figures using this as input + a 5% VAT on final purchase price:

Property Face Value:	€207,900.00
Prepayment Percentage:	25%
Prepayment Amount:	€51,975.00
Remaining to be Financed:	€155,925.00
Tenure (years):	20

Loan Information	
Loan Amount	€155,925.00
Annual Interest Rate	5.50%
Term of Loan in Years	20
First Payment Date	01/01/2027
Payment Frequency	Monthly
Compound Period	Monthly
Payment Type	End of Period
Rounding	On

Monthly Payment **€1,072.59**

Summary	
Rate (per period)	0.458%
Total Payments	€257,421.00
Total Interest	€101,496.00
Est. Interest Savings	-

As we can see from shifting our example to fit KOAG's selling price, the monthly payment is still doable (especially for a 2-income household). This cost analysis mainly serves to point out that constructions cost is not what makes housing non-affordable. Land scarcity and construction/labour hiring difficulty is what is making the process more and more difficult. Focusing on the latter aspect of the problem, which is also the main problem of KOAG's functionality, we trace difficulty finding construction contractors to build the projects as: i) private high-margin projects lead by land developers are far more appealing to them; ii) KOAG must apply for town planning and building permits just like any private citizen. They frequently get stuck in multi-year standoffs with local municipalities over zoning, green space allocations, and land valuation compensations; iii) Because KOAG is a semi-governmental body, its procurement process is bound by strict public laws. Competing construction firms routinely file legal appeals against winning bids, which can tie up a project in court and freeze development for 12 to 18 months before a single brick is laid.

Further down we examine the basic process of contracting construction companies and other privately held individuals/corporations involved in the development of the projects. We introduce a repository of registered partners that coexists with standard procurement practices along with tracking and performance metrics + bidder incentives.

Buyer Selection

If we consider a conservative examination/approval time-horizon for potential financing, intended buyers, either all-cash or debt and cash, will be able to "lock" a unit in 3± months from time of expression of interest, acceptance of application by the platform to final signing of property purchase agreement (sales agreement). As the projects would be advertised before being available to the public, buyers interested in bank loans would be able to pre-calculate how much is the banking system, in general, willing to lend them.

A natural question that comes across to a person trying to understand this process is how will the buyer selection be realized. Let's look at two subscription scenarios:

- Undersubscription

  Given an undersubscribed project, the project should have some kind of threshold to signal commencement. Commercially, land developers which have zero own bank lending involved in a project, typically require 50% - 70% pre-launch (off-plan) sales to be made (contract of sales commitment) in order to commence construction. Currently, empirically this does not happen in Cyprus for the majority of projects, especially in Paphos and Limassol which are mainly building for foreigners. The reason for this is the belief that due to the historical tendency over the past years that has favoured Cyprus, projects will keep selling-out. For our case a probable assumption is that given the materially lower cost of purchase an undersubscription scenario is practically non-existent.

- Oversubscription

If we consider the initial assumption of this essay, that is that there exists a set of local buyers willing and able to purchase properties but at a lower price than current prices and still above construction cost then an oversubscription scenario is almost a certainty under an applied system as the one we are describing. Of course, financial, demographic, marital and maternal/paternal status criteria should be applied to subsidize or equivalently penalize an application but the core logic behind bidding for a project should be in-line with commercial practice and terms, which are: i) an initial reservation fee; ii) proof and source of funds & related due diligence; iii) signing of Sales Agreement; and finally, iv) commencement of payment. As mentioned earlier, lending institutions as well as governmental authorities should be connected to the platform in an interactive way with both the buyers as well as with each other – this should help combat delays, hidden costs associated with buyer non-eligibility (reasons could be financial, legal/tax or something else). The whole process of having all the required documents and money in place could be done months before the actual project goes live for bidding. For social housing, property characteristics and price ranges should not diverge between projects, thus a buyer missing out on a project should be able, in due time, to choose and alternative, in which case all the preliminary work would not be lost.

Regarding the selection process, in which multiple buyers would be bidding for a project, then we see the following as some general guidelines:

  - Projects should be advertised before going live for bidding, so prospective buyers can think, prepare documents and secure funding (if needed);
  - Applications should come with a mandatory reservation fee which is refundable if applicant is rejected. This should help reduce non-relevant buyer applications. With a flat call-fee, say EUR10K (plus any applicable VAT) across all projects, an applicant calling for a project and being rejected can choose to keep the fee active for on-going and future projects (the ones that fit his criteria) for an agreed amount of time. This can also provide back feedback to the platform in order to asses interest and volume of buyers as well as type of projects buyers are interested in (although for a social housing scheme like this, excluding size and location, preference variability should be minimal).
  - A common concern that arises is that for these kinds of projects demand will heavily exceed supply. By gauging demand on this platform, the state can also have another empirical tool to measure

actual gap between buyer concerns and market reality. If ready to buy buyers (cash and financing secured) overly exceed supply even with initiatives as this then the problem should require direct state interference and not only parallel countermeasures. On the other hand if locals cannot even afford these minimum cost units then the problem shifts entirely to median renumeration across the population.

- A fundamental aspect of this suggested platform is achieving to produce affordable housing projects in bulk. Market inefficiencies exist both in the private as well as the public sector, it is only that in the private sector profit maximization and strong financial incentive drive each supply-side party to move faster. It is therefore logically deducted, that if construction contractors have an incentive to work more with platform-found projects, supply will increase, mimicking private sector-lead projects. Having: 1) local buyers that are approved faster by banks for financing as their source of wealth is relatively easily verified; 2) all required local authorities granting approvals on one platform interacting with each other (vs privately-lead projects); 3) possible fast-track procedures for approvals for these projects introduced within the platform across governmental authorities as well as 4) a steady, on-going project flow for construction companies and other involved parties that includes strong incentives working with the platform, can substantially increase the platforms potential output within a time horizon appealing for buyers.
- Although income - based criteria and other scoring allocation criteria should be present at the buyer selection stage, an applicant should be rejected by the system in general but should be evaluated on a project-by-project basis. Increased supply along with increased demand, is the only way this idea becomes useful, sustainable and actually functioning. In the current real estate sector of Cyprus where things move so fast and everybody wants to make a profit, only an active and continuously growing system as the one we are introducing could actually compete and seem attractive to individuals actively looking for a primary residence.

Contracting and Coordination

At this stage it would not really make sense to go into technical details about the way contracts should be published, processed, made public or even negotiated. There are a lot of new practices dealing with procurement processes, specifically applied between the public and the private sector. One technical solution that could potentially be used is the introduction of Smart Contracts, which are self-executing digital programs stored on a blockchain (private or permissioned blockchains) that automatically run when preset terms and conditions are met. When looking at a contract between the public and the private sector, these Smart Contracts act as an objective, automated referee. They hold funds or project milestones in digital escrow and release them only when pre-agreed data triggers are verified.

Before any technical aspects of the contracting process arise, we must first examine the incentives that will make the private sector interested in a project as the one we propose. As we try to establish the obstacles this effort might face, one of the greatest, if not the greatest, is lack of interest from construction companies and other involved parties willing to take-on the projects. Some actions promoting this involvement could be:

1) Point allocation leading to prioritisation for future projects.
2) Depending on capacity of partner, bulk project assignment.
3) Fast-track processes. Parties should know that permits and other bureaucratic processes that usually stall a project are, for projects on the platform, accelerated.
4) Assistance with project particularities. State-involved parties, such as architects, financial analysts, lawyers and other public servants, work closely with the private firms in order to advise and help on any challenges that may occur.
5) Construction companies operate with them also using subcontractors. Realistically there is no reason to change this because it would most probably lead to inefficiencies. Despite this, material supplies should follow the cost ranges used by the state to forecast project required resources and selling prices. This is also the main part on which disputes arise and projects are postponed. The state has the capacity and the legal calibre to secure material supplies at agreed ranges for its contractors a priori.
6) Linking local universities' engineer graduates with the scheme. Promoting technical school graduates' placement in construction worker and other tradesman positions required on-site. Advertising this as an employment future opportunity could actually encourage industry-related professionals to form new construction companies, that although small and at a beginner's level can work and contribute to this narrative.

Going back to the technical aspect of tender bidding, contract negotiation and formulation, we suggest enforcement of existing practices with improvement where needed. One could argue that although it sounds nice, having this process take place on a digital platform alone, meaning we just take things online, does not solve transparency, bureaucracy and other inefficiency loopholes. Although the involvement and dedication of different parties working together plays a pivotal role in the success of this attempt, having this entire process online happening within an interactive system, promotes the idea of this initiative and attracts interest both from service providers as well as buyers. State-lead projects tend to lack the enthusiasm and aggressiveness needed to compete with market-run procedures. The digitalisation of this process acts not only as a way to bring along working parties and speed up processes but as a creditability badge that should fightback the disbelief with which the broader audience faces the public sector and its known inefficiency (delay is the primary inefficiency). The coordination of the project and the ultimate responsibility should be assigned to civil servant(s) overseeing each project(s), hence a top-down approach regarding management of the new developments should be followed, to ensure timely acknowledgment and reporting of issues unavoidably faced, especially in novel concepts as this.

Applicability & Social Implications

The system we describe is based on transparency, better communication amongst stakeholders and should serve as an option for the local buyer. It is very difficult to substitute the private sector, for many reasons, of which the primary reason is the incentive of a home provider in the private sector vs the incentive of a group of civil servants whose renumeration does not depend on the success of the project.

Having this in mind along with the known bureaucracy issues Cyprus faces within its public sector many would argue that there is not a lot of reason backing this initiative. After all, the success of such a project might be dismissed beforehand just by looking at the success rate of big contracting projects between the state and private corporations as well as KOAG's number of successfully completed projects during its years of operation.

The differentiation that this proposed platform introduces is the offering of the product to a broader buyer base. Even with the various potential buyer selection criteria in place, if ready-to-buy buyers (this is further aided by the presence of governmental authorities and local lending institutions on the platform) are interested in the platform offering then planning, budgeting and partner hiring can happen on a larger scale. This feedback system, eliminating external dependencies and arbitrage opportunities (land-developers) reduces cost enough to target Cyprus's working middle-class.

The platform could be deployed by KOAG. It is up to state-planning to decide where to position such a platform. The success of the initiative strongly relies on the number of first-time home owners it can accommodate and, on the time, it can accommodate them.

We believe that if applied correctly and, on a bulk-basis the platform could:

- Offer a housing option that many buyers currently do not have. <u>This can eventually drive long-term rental prices down.</u>
- As construction targets foreigners with luxury complexes, cities (especially Paphos and Limassol) are split into new ultra-luxury developments and over-priced old, neglected units that find demand only due to the abnormality of the market. This does not only affect buyers and renters, but it also ruins cities' scenery and promotes habitation of dangerous not fit to live units.
- Cyprus is currently (as the rest of the EU) facing an inflationary crisis. It is easier to cut the cost of a house than it is to increase wages. This is particularly true for Cyprus as

privately held companies operating in Cyprus and employing Cypriots are mainly family-lead enterprises with not enough capacity to accommodate high salaries in an already small and saturated economy such as the Cypriot economy is.

- This whole discussion revolves around helping the middle-class. We argue that it is better to strengthen and help widen the middle-class rather than wait for it to disappear into poverty. This particular aspect of the situation has also been a matter of discussion for EU countries in the last years especially post COVID-19. Cyprus's small geographical, demographical and economical size is a good opportunity to see if this works.

Thanks for your time reading.

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Appendices

1) https://www.cystat.gov.cy/en/KeyFiguresList?s=31

2) https://www.cystat.gov.cy/en/SubthemeStatistics?id=42

3) https://www.centralbank.cy/en/publications/residential-property-price-indices

4) https://www.rics.org/news-insights/market-surveys/cyprus-property-price-index