



## RESIDENTIAL PROPERTY PRICE INDEX

2012 Q1

### Price declines continue in 2012

- Residential property prices (houses and apartments) decreased by a further 1% during the first quarter of 2012, compared to the previous quarter.
- The declines in prices were smaller than in the previous quarter in all districts, with the exception of Paphos and Famagusta where there were reductions of 3,1% and 2,4%, respectively.
- The slight deceleration in the decline of residential prices is partly due to the implementation of new legislative measures aimed at directly stimulating the housing market.
- The largest quarterly decrease in house prices was recorded in Paphos (3,5%) followed by Larnaca (2,8%), while the largest quarterly decrease in apartment prices was recorded in Famagusta (2,7%).

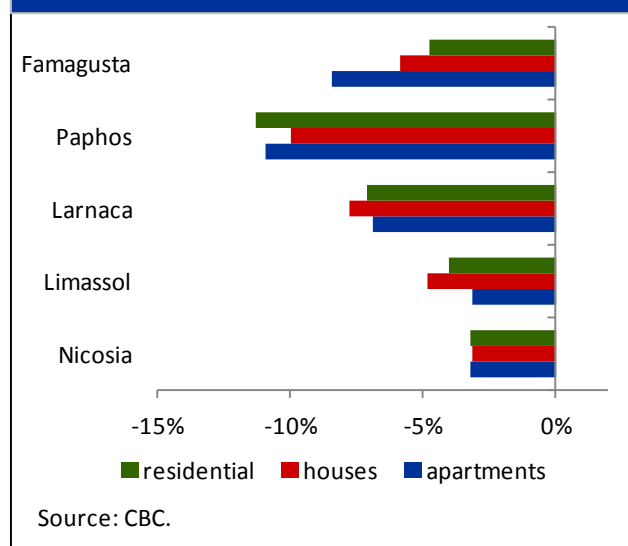
Overview	Q4 2011	Q1 2012
Quarterly index (2010Q1=100)	93,1	92,1
Quarterly change	-1,8%	-1%
Annual change	-5,7%	-4,9%

### Residential property price indices results<sup>1</sup>

During the first quarter of 2012, the rate of decrease in residential property prices exhibited a slight slowdown. Specifically, the residential property price index (houses and apartments) registered a quarterly decline of 1% in the first quarter of 2012, compared

<sup>1</sup> The figures presented in this report correspond to the revised series of residential property price indices. More information on the revised indices will be available in the report: "Residential Property Price Index: Annual Review 2010-2011".

CHART 1 Annual percentage change by district and by type of property, 2012Q1



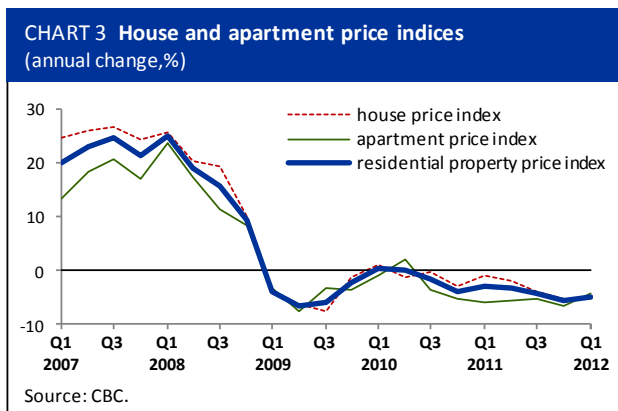
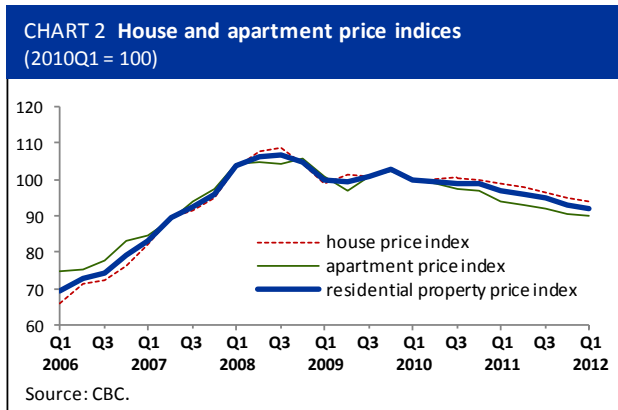
with a quarterly decline of 1,8% in the fourth quarter of 2011. The respective quarterly decreases in house and apartment prices were 1,1% compared with 1,9%, and 0,6% compared with 1,9%, respectively.

The slight deceleration in the rate of decrease of residential property prices can, to a large extent, be attributed to the implementation of new legislative measures which were aimed at directly revitalising the housing market. These measures included the significant reduction (and in some cases abolition) of transfer fees and value-added-tax payable by first-time buyers for the acquisition of a primary residence. Nonetheless, these measures did not reverse the downward trend in residential property prices.

The deceleration in residential property prices was observed in all districts, with the exception of Paphos and Famagusta, where prices registered larger quarterly declines compared to the previous

quarter (3,1% compared to 2,6% and 2,4% compared to 1,8%, respectively).

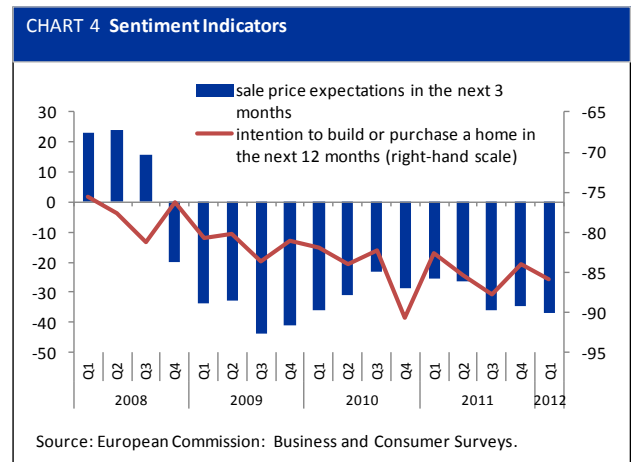
Famagusta also registered the largest decrease in apartment prices (2,7%), while Paphos registered the largest decrease in house prices (3,5%). In contrast, Limassol recorded a marginal increase in apartment prices (0,2%), while Nicosia and Famagusta registered the smallest decrease in house prices (0,5%)



Residential property prices fell by 4,9% (4,3% drop in apartment prices and 5,4% drop in house prices) on an annual basis. The largest annual decline in residential property prices was registered in Paphos (10,6%), while the smallest decline was registered in Nicosia (3,2%). In addition, Paphos also registered the largest annual decline in both apartment (10,2%) and house prices (9,6%). The smallest annual decline in apartment prices was registered in Limassol (3,1%), while the smallest annual decline in house prices was registered in Nicosia (3,1%).

**Major developments in the property market**

The aforementioned developments in residential property prices are also depicted in the number of transactions during the first quarter of 2012. According to data from the Department of Lands and Surveys, the number of sales contracts deposited during the first quarter of 2012 exceeded by 5,9% that of the previous year. This marked the first recorded increase in the number of sale contracts since the third quarter of 2010. It is worth noting, however, that this increase was solely attributed to increases in local demand (17,3% annual increase in the number of sales contracts to locals), while foreign demand, as also measured by the number of sales contracts deposited by foreign nationals, declined significantly by 25,5%, on an annual basis.



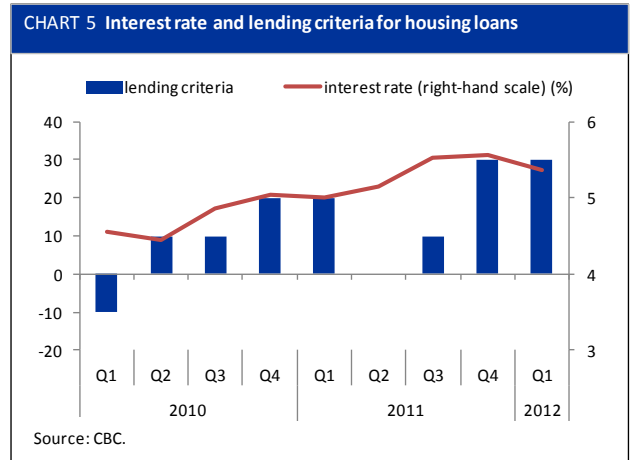
Nevertheless, other important indicators of the construction sector indicate that the real estate market remained in recession during the first quarter of 2012. Specifically, domestic cement sales recorded their lowest level since 2002, when data is available. The registered decline was 39,9% on an annual basis.

Additionally, according to the Business and Consumer Survey published by the European Commission, the index of sale price expectations in the next three months registered a deepening during the first quarter of 2012 (average index value -37) compared with the fourth quarter of 2011 (average index value -34,7) (Chart 4). At the same time, the index of intention to build or purchase a home in the next 12 months fluctuated at very negative levels

(-85,7) (Chart 4, pg.2), signalling that the demand for housing will remain depressed.

With regards to the lack of liquidity that is observed in the real estate market, high interest rates on housing loans and strict lending criteria make access to credit even more difficult. Specifically, the interest rate on housing loans<sup>2</sup> rose to 5,4% in the first quarter of 2012, compared to 5% in the first quarter of 2011 (Chart 5). In parallel with the increase in interest rates, the lending criteria for housing loans, as published in the CBC Bank Lending Survey, were tightened during the first quarter of 2012 compared to the previous quarter, as the relevant index registered a positive value (30) (Chart 5).

In addition, during the quarter under review, the number of unemployed people in the construction sector reached its highest level since 2002, when data became available, registering an annual increase of 41,7%.



Prospects for a short-term recovery of the housing market are deemed weak, considering the lack of liquidity prevailing in the market, coupled with the anticipated austerity measures that are currently being discussed for the reform and consolidation of the Cyprus economy.

<sup>2</sup> Floating Rate and up to 1 year initial rate fixation.

**TABLE 1 Residential property price indices by type and by district**  
(quarterly data, 2010Q1 = 100)

Quarter	<u>Residences by type</u>		<u>Residences by district</u>					Residential property price index
	Apartments	Houses	N/sia	L/sol	L/ca	Paphos	F/sta	
2008 Q1	104,4	103,2	103,0	99,7	103,6	99,7	102,9	103,8
Q2	104,6	107,9	104,3	103,5	104,9	99,9	100,6	106,4
Q3	104,4	108,9	106,9	103,2	104,3	102,5	113,4	106,9
Q4	105,8	104,3	104,4	106,6	100,0	102,4	108,9	105,0
2009 Q1	100,9	98,8	99,7	95,6	99,4	103,7	108,3	99,7
Q2	96,8	101,2	100,8	93,7	99,3	104,1	106,0	99,4
Q3	101,0	100,6	101,1	96,7	103,4	102,6	101,1	100,8
Q4	102,1	103,0	100,2	101,5	103,0	101,6	102,3	102,7
2010 Q1	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Q2	98,6	100,0	99,2	99,5	99,5	99,9	98,6	99,4
Q3	97,3	100,4	99,9	98,0	98,4	99,8	98,2	99,0
Q4	96,7	99,9	99,9	97,6	97,9	98,3	98,4	98,7
2011 Q1	94,0	99,1	99,6	95,6	96,1	94,7	92,5	96,9
Q2	93,2	98,0	99,3	94,4	93,9	92,4	94,3	96,0
Q3	92,2	96,5	98,6	93,7	92,4	89,6	91,8	94,8
Q4	90,4	94,7	97,4	92,3	90,4	87,3	90,1	93,1
2012 Q1	89,9	93,7	96,5	91,8	89,4	84,7	87,9	92,1

Source:CBC.

**TABLE 2 Apartment and house price indices by district**  
(quarterly data, 2010Q1 = 100)

Quarter	<u>Apartments</u>					<u>Houses</u>				
	N/sia	L/sol	L/ca	Paphos	F/sta	N/sia	L/sol	L/ca	Paphos	F/sta
2010 Q1	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Q2	98,8	99,2	97,9	97,5	100,4	99,6	99,7	100,8	101,7	97,7
Q3	99,1	96,0	95,9	97,1	95,5	100,6	99,2	100,8	102,1	101,7
Q4	99,4	95,8	94,7	93,3	92,6	100,2	98,5	99,9	101,9	101,1
2011 Q1	99,5	93,3	91,3	87,6	86,5	99,7	97,1	99,4	102,4	97,9
Q2	99,4	91,9	89,8	84,0	83,4	99,2	95,6	97,3	99,5	101,1
Q3	99,1	91,8	88,0	80,3	80,7	98,2	94,5	96,1	98,6	96,9
Q4	97,9	90,2	85,8	78,8	81,8	97,0	93,2	94,5	95,9	92,7
2012 Q1	96,4	90,5	85,4	78,7	79,5	96,5	92,5	91,9	92,5	92,3

Source:CBC.

**Notes:**

The residential property price index and other residential property price indices and sub-indices presented in the current report are produced by the Real Estate Unit of the Economic Research Department at the Central Bank of Cyprus (CBC).

Data from 2006 to 2009 were collected retrospectively from a number of monetary financial institutions. The data for the period after 2009 are collected by the CBC from the member banks of the Association of Cyprus Banks (BOC, Marfin Popular Bank, Hellenic Bank, Alpha Bank, Emporiki Bank, National Bank of Greece, Piraeus Bank, USB Bank, Cyprus Development Bank, Societe Generale and Eurobank) and the Cooperative Central Bank in a standardised form, through an online data submission platform.

The partnered banks receive the relevant information from independent property surveyors for the purpose of granting mortgage loans. The data received are representative of the Cyprus residential property market, covering the whole of the government controlled territory of the Republic of Cyprus (Nicosia, Limassol, Larnaca, Paphos and Famagusta districts) and they refer to all types of residential property (houses and apartments).

All the estimated indices have been rebased so that the first quarter of 2010 equals 100. The RPPI is calculated as the weighted sum of the two by type sub-indices (house and apartment price indices), using the quarterly number of observations as weights. In the same manner, the aggregate houses and apartment indices are the weighted sum of the by district houses and apartments price indices.

The results of the residential property prices indices and sub-indices presented in the current report have been revised compared to previous versions, in consequence of the submission of historical data to the CBC by the partner banks. Therefore, the availability of a larger data sample enabled the improvement of the various cleaning and filtering techniques applied to the data, as well as of the functional forms of the hedonic regressions employed for the production of the different price indices.

In constructing the indices the hedonic methodology was employed. Further details about the methodology and other relevant information are available on the CBC website, [www.centralbank.gov.cy](http://www.centralbank.gov.cy).

The current report is available at: [http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=11836](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=11836)