



RESIDENTIAL PROPERTY PRICE INDEX

2012 Q2

Continuing negative trend in residential property prices

- Residential property prices (houses and apartments) continued on a negative trend during the second quarter of 2012 in all districts, with the exception of Paphos.
- The largest quarterly declines in house and apartment prices were recorded in Famagusta (4,4% and 3,7%, respectively) and the smallest in Paphos (0,4% and 0,5%, respectively).
- The relative stabilisation of residential property prices in Paphos was accompanied by an increase in transaction volume relating to both local and foreign investors.

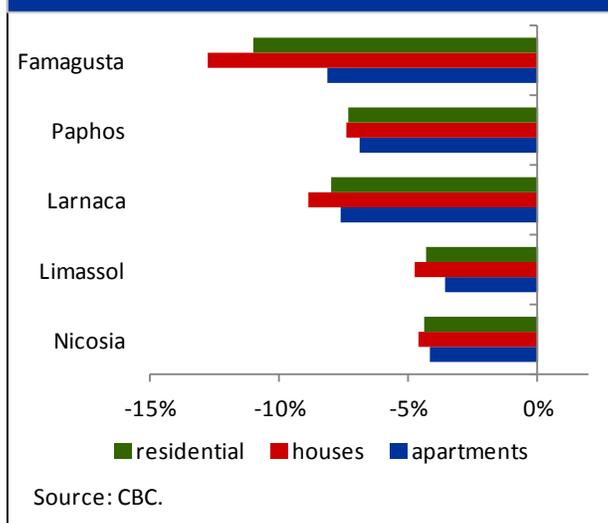
Overview	Q1 2012	Q2 2012
Quarterly Index (Q1 2010=100)	92,1	90,3
Quarterly Change	-1%	-2%
Annual Change	-4,9%	-5,9%

Residential property price indices results

During the second quarter of 2012, residential property prices recorded a decrease of 2% compared with the first quarter of 2012. This reduction was twice as large as the reduction recorded in the previous quarter, reflecting the further deterioration of the business climate in the real estate market.

For the fifth consecutive quarter, house prices exhibited larger declines (2,2%) compared with apartment prices (1,6%). A similar picture is drawn from the results of the by district residential property price indices with the exception of Paphos and Limassol districts, where higher quarterly declines were registered in apartment prices relative to house prices (0,5% compared with 0,4% in Paphos,

CHART 1 Annual percentage change by district and by type of property, 2012Q2

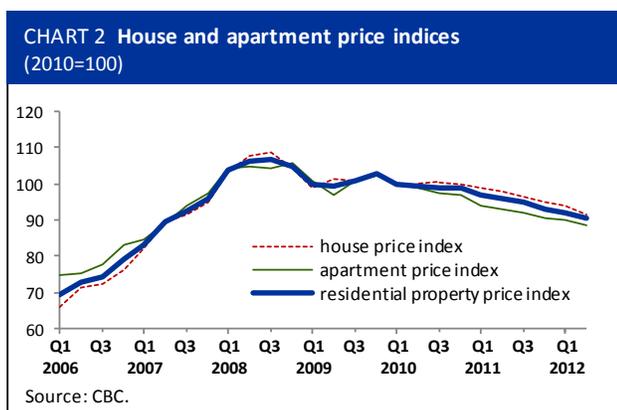


respectively and 2% compared with 1,5% in Limassol, respectively).

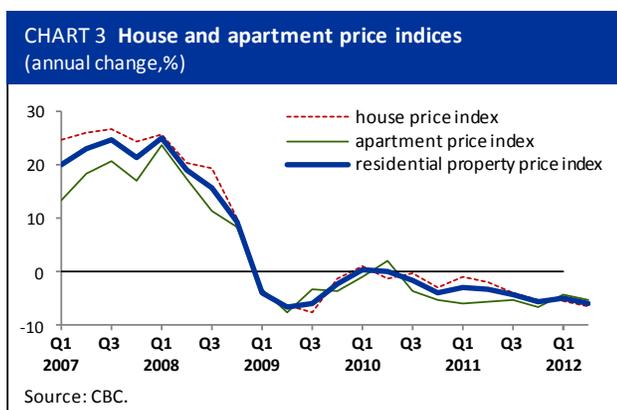
The sharpest deterioration in investment climate occurred in Famagusta, which recorded the largest quarterly declines in the prices of both apartments and houses (3,7% and 4,4%, respectively). Larnaca was the district to register the second largest decline in residential property prices during the reporting period (2,8% decrease in apartment prices and 3,5% decrease in house prices).

In contrast, Paphos registered the lowest reductions in residential property prices during the period under review. In particular, apartment and house prices decreased only marginally, by 0,5% and 0,4%, respectively, reflecting an increased buying interest for Paphos properties demonstrated by Chinese investors. The corresponding reductions in the property prices in Nicosia, which until the fourth quarter of 2011 registered the lowest quarterly

declines, were 1,1% and 1,9% for apartments and houses, respectively.



Compared with the respective quarter of the previous year, residential property prices decreased by 5,9% and house prices by 6,5%, recording the largest annual price declines of the past two years. The corresponding annual decrease in apartment prices was 5,1%.



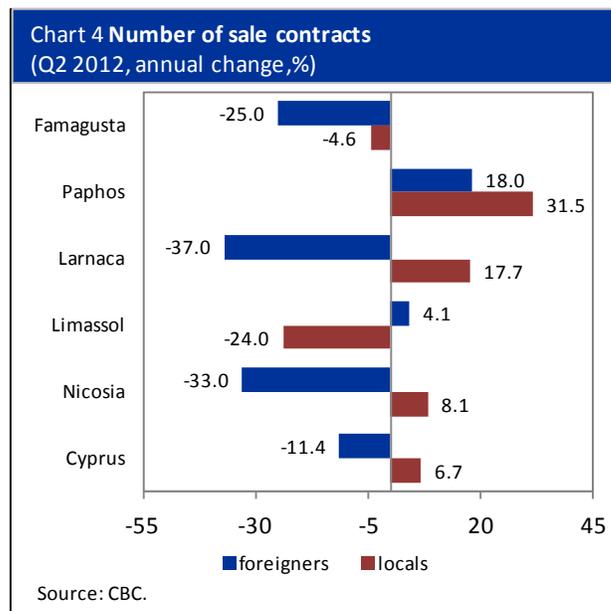
The largest annual decline in the by district residential property prices was recorded in Famagusta (8,2% decline in apartment prices and 12,7% decline in house prices), and the smallest annual declines were recorded in the Limassol apartment prices (3,6%) and the Nicosia house prices (4,6%). In addition, the annual reductions in residential property prices recorded in Famagusta and Larnaca (11% and 8%, respectively) were historically the highest.

Major developments in the property market

The course of various demand indicators and in particular of the transaction volume, provide an interesting insight into the developments in the

property market during the period under review. According to data from the Department of Lands and Surveys, the transaction volume during the second quarter of 2012 increased by 1,6% compared with the previous year, registering a positive annual growth rate for the second consecutive quarter.

As in the previous quarter, the aforementioned increase in the transaction volume was entirely due to an increase in the buying interest of local investors. Specifically, the number of transactions relating to local buyers increased by 6,7% compared with a year ago (1.409 transactions compared with 1.321) while the number of transactions relating to foreign investors recorded a decrease of 11,4% (449 transactions compared with 507). It is worth noting that the decline in foreign investors’ buying interest was lower than in the preceding quarter (11,4% compared with 25,2%).



As shown in **Chart 4**, the demand is presented particularly uneven across districts. With regard to residents’ demand for property, this increased in all districts with the exception of Limassol and Famagusta, where there was a registered decline of 24% and 4,6%, respectively in the number of transactions. The largest annual increase in residents’ demand for properties was recorded in Paphos (31,5%), followed by Larnaca (17,7%) and Nicosia (8,1%).

The opposite holds for the demand for property from non-residents, where Limassol and Paphos

recorded an increase in the number of transactions of about 4,1% and 18%, respectively. In contrast, Larnaca, Nicosia and Famagusta recorded significant declines in foreign investor interest, with decreases in demand of 37%, 33% and 25%, respectively. Overall, the data suggests that there has been a revival in the buying interest for Paphos properties, while the opposite is observed for Famagusta.

Despite the positive developments that occurred in the demand for properties, the downturn in the construction sector continued, as evidenced by the relative indicators. Domestic cement sales registered an annual decrease of 29,4% during the period under review, while unemployment in the construction sector increased by a further 43,1%.

According to the results of the Business and Consumer Survey questionnaire published by the European Commission, the real estate sector is expected to continue on its correction path over the short term. The business sentiment indicator in the construction sector presented a slight deterioration (-57,70 average value for the second quarter of 2012 compared with -57,33 in the previous quarter) in parallel to the index of intent to purchase or build a house in the next twelve months (-90.76 compared with -85.8 in the previous quarter). The indices of the expected sale prices and employment in the construction sector over the next three months, also remained at very negative levels, despite presenting slight improvements.

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
2012 Q2	88,4	91,6	95,0	90,3	86,4	85,7	83,9	90,3

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
2012 Q2	95,3	88,6	83,0	78,2	76,6	94,7	91,1	88,7	92,1	88,2

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, Société Générale 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 house and apartment indices are the weighted sum of the by district house and apartment price indices.

The results of the indices have been revised in the current report, as a result of the resubmissions of data to the CBC by the participating banks. Hence, the availability of a larger sample of data enabled the improvement of the filtering techniques for the data and of the functional forms of the regressions.

In constructing the indices, the hedonic methodology was employed. Further details about the methodology and other relevant information are available on the CBC website, http://www.centralbank.gov.cy/nqcontent.cfm?a_id=1.

The current report is available at: http://www.centralbank.gov.cy/nqcontent.cfm?a_id=11836&lang=en