



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2015Q3

Signs of stabilisation in residential property prices

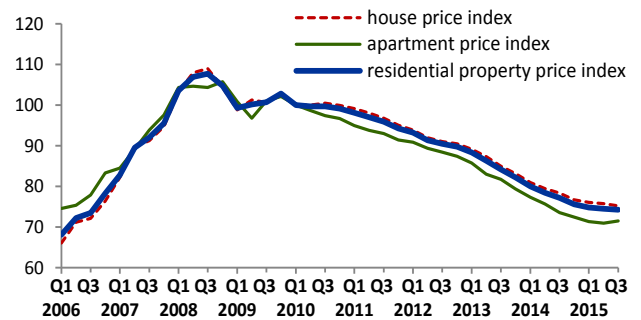
- The continued deceleration of the quarterly decreases in the RPPI indicates a path of stabilisation in prices.
- Specifically, the RPPI (houses and apartments) recorded a marginal decrease of 0,3% in 2015Q3. While apartment prices recorded their first quarterly increase since 2009Q4 (0,8%), this was compensated by the reduction in house prices of 0,7%.
- On an annual basis, the RPPI recorded a decrease of 3,7% in 2015Q3, compared with decreases of 5% and 6,5% in 2015Q2 and 2015Q1, respectively.
- The recovery of the economy, the improvement in financial conditions, the lower lending rates and the improved framework for more efficient issuance of title deeds are expected to have a positive effect on the demand for properties and their prices.

Overview	2014 Q4	2015 Q1	2015 Q2	2015 Q3
Quarterly index (2010 Q1=100)	75,6	74,8	74,5	74,2
Quarterly change	-2,0%	-1,0%	-0,4%	-0,3%
Annual change	-8,0%	-6,5%	-5,0%	-3,7%

Residential property price indices

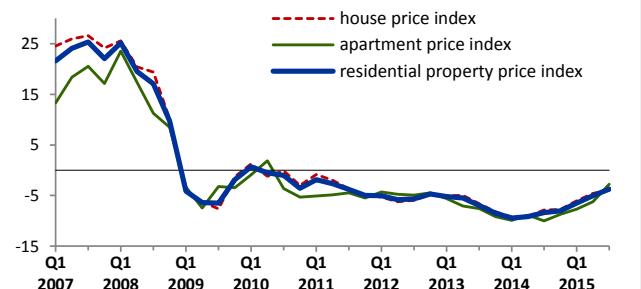
During 2015Q3 the decelerating trend in price decreases continued, with the RPPI recording a marginal decrease of 0,3%, compared with quarterly

CHART 1 House and apartment price indices (2010 Q1 =100)



Source: CBC.

CHART 2 House and apartment price indices (annual change,%)



Source: CBC.

decreases of 0,4% and 1% in the previous two quarters. House prices decreased by 0,7% on a quarterly basis, while apartment prices increased by 0,8% in 2015Q3 (**Chart 1**). The quarterly increase in apartment prices is the first since 2009Q4. Provided that the economy continues to recover, unemployment continues to fall, and the financial soundness of the banks improves, prices will most likely stabilise around the average price levels of 2006, the year in which the over-lending for housing began, resulting in the overheating of the sector.

On an annual basis, the RPPI declined by 3,7% in 2015Q3, compared with a decline of 5% in 2015Q2.

House prices declined by 3,9% on an annual basis and apartment prices by 2,8%, compared with annual declines of 4,6% and 6,2%, respectively, in 2015Q2. **Chart 2** shows the deceleration of the annual decreases since 2014Q1.

Price changes by district

The largest quarterly decline in the RPPI (houses and apartments) was recorded in the district of Famagusta (1,6%). Residential property prices declined on a quarterly basis by 1,3% in Nicosia and 0,1% in Limassol. In contrast, residential property prices in Larnaca and Paphos increased on a quarterly basis by 0,7% and 0,9%, respectively.

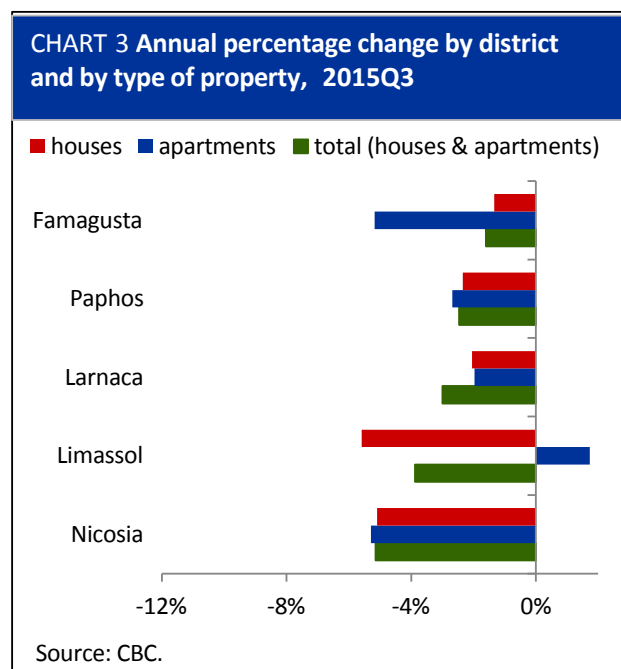
The largest annual decline in the RPPI was recorded in Nicosia (5,1%), while the smallest was recorded in Famagusta (1,6%) (**Chart 3**). In addition, the RPPI recorded annual declines in the districts of Limassol (3,9%), Larnaca (3%) and Paphos (2,5%).

As regards house prices, the largest quarterly decrease during 2015Q3 was recorded in the district of Famagusta (2%). House prices in Nicosia and Limassol declined on a quarterly basis by 1,6% and 0,8%, respectively, whilst house prices in Larnaca and Paphos recorded marginal increases of 1,2% and 0,2%, respectively.

The largest annual decline in house prices during the quarter under review was recorded in the district of Limassol (5,6%), while the smallest decline was recorded in the district of Famagusta (1,3%) (**Chart 3**). House prices in the districts of Nicosia, Larnaca and Paphos exhibited annual declines of 5,1%, 2% and 2,3%, respectively.

The largest quarterly decline in apartment prices during 2015Q3 was recorded in the district of Famagusta (1,5%), while Nicosia recorded a quarterly decrease of 0,6%. In contrast, apartment prices in Limassol, Larnaca and Paphos recorded quarterly increases of 2,1%, 0,3% and 1,5%, respectively.

The largest annual decline in apartment prices during 2015Q3 was recorded in the district of Nicosia (5,3%), while the smallest was in the district of Larnaca (2%) (**Chart 3**). Apartment prices in the districts of Paphos and Famagusta were also lower on an annual basis by 2,7% and 5,2%, respectively. As regards apartment prices in Limassol, they recorded an annual increase



of 1,7%, the first since 2010 when the series for apartment prices in Limassol starts.

Other market indicators

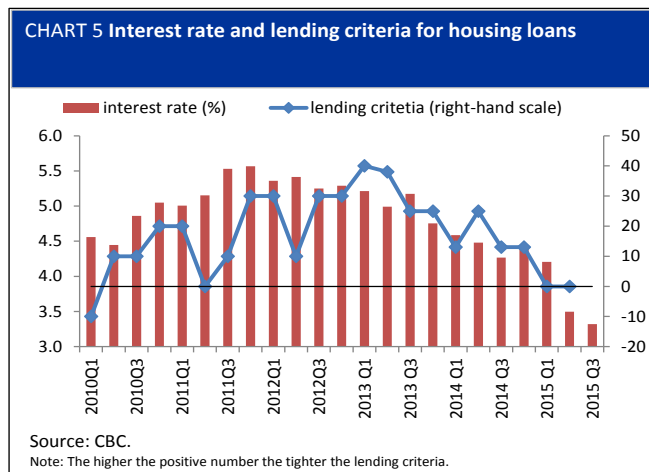
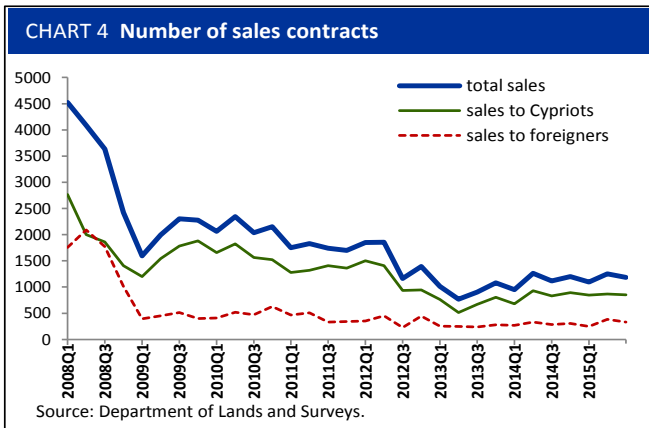
According to data from the Cyprus Statistical Service (Cystat), construction activity seems to have stabilised, albeit at a low level. Specifically, local sales of cement recorded an annual increase of 6,8% during 2015Q3, compared with an annual decrease of 13,7% in 2014Q3. The price index of construction materials reduced on annual basis by 3,2% in 2015Q3, mainly due to low international oil prices and the low levels of construction activity.

As regards demand for properties, data published by the Department of Lands and Surveys show that the total number of sale contracts (for both Cypriot and foreign buyers) recorded an annual increase of 6% in 2015Q3. Sales contracts with Cypriot buyers recorded an annual increase of 2,7%, while sales to foreign buyers recorded an annual increase of 15,8% (**Chart 4**). All districts, except Limassol, recorded annual increases in the total amount of sales contracts in 2015Q3.

The increased demand for properties is supported by various favourable financial developments. Specifically, according to the CBC's *Monetary and Financial Statistics* the lending interest rate for housing loans¹ was, on average, 3,32% in 2015Q3, compared with an average 4,27% in 2014Q3 (**Chart 5**).

¹ Floating rate and up to one year fixed.

In addition, according to the CBC’s Bank Lending Survey, during the last available quarter (2015Q2) there was an increase in demand for housing loans from households, while at the same time the lending criteria for housing loans remained unchanged.



As regards the prospects of the sector, according to data from the Business and Consumer Surveys of the European Commission, during 2015Q3 the index of intention to build or purchase a home in the next 12 months recorded an average of -89,9, which is less negative compared with 2014Q3 (-92,8). The same trend was recorded by the index of employment expectations in the construction sector, which was on average -6,8 in 2015Q3 compared with -9,33 in 2014Q3. The index of property price expectations for the next three months in the construction sector recorded an average of -30,3 during 2015Q3, while in October and November of 2015 it recorded less negative levels (-18,8 and -16,7, respectively).

The improved framework for more efficient issuance of title deeds in Cyprus is expected to have a positive effect on the property market. Specifically, following the approval of the relevant bill by parliament, buyers who have repaid their properties to the seller but did not receive a title deed, either because the property was mortgaged by the seller or due to the fact that the seller owed tax to the state, can now apply to get a title deed. Hence the risk of losing their properties will be mitigated, while confidence in the Cypriot property market will be restored, as it was damaged during the previous years when a significant number of foreign and local buyers were trapped in the time consuming and inefficient processes that used to be in place. In addition, the issuance of title deeds is expected to become more streamlined through the more efficient approval of building permits by the local authorities.

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

Year*	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	
2006	-	77,7	71,4	74,7	69,0	71,2	85,6	68,4	73,0
2007	-	91,2	89,5	88,8	84,3	90,7	92,7	90,3	89,9
2008	-	104,8	106,1	104,7	103,3	103,2	101,1	106,5	105,7
2009	-	100,2	100,9	100,5	96,9	101,3	103,0	104,4	100,7
2010	-	98,2	100,1	99,9	99,0	99,5	100,3	99,5	99,6
2011	-	93,3	97,2	98,6	94,4	94,9	95,4	94,4	96,3
2012	-	89,0	91,8	94,4	90,8	87,3	87,5	87,9	91,2
2013	-	82,5	86,1	87,8	86,5	79,5	83,3	80,0	85,2
2014	Q1	77,3	80,9	82,7	81,4	74,5	78,2	72,8	80,0
	Q2	75,6	79,4	81,2	79,8	72,9	77,6	71,5	78,4
	Q3	73,6	78,3	79,6	79,4	70,9	77,3	70,3	77,1
	Q4	72,4	76,6	77,7	77,5	70,0	76,6	69,8	75,6
2015	Q1	71,4	76,0	77,0	76,5	69,1	75,7	70,2	74,8
	Q2	70,9	75,7	76,5	76,4	68,4	74,7	70,3	74,5
	Q3	71,5	75,2	75,5	76,3	68,8	75,4	69,2	74,2

Source: CBC.

*The annual data for the years between 2006 and 2013 are calculated as the simple average of the four quarters of each respective year.

TABLE 2 Apartment and house price indices by district
(quarterly data, 2010 Q1 = 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	-	99,3	97,8	97,1	100,1	99,4	100,1	99,4	100,4	101,4	100,1
2011	-	99,0	91,8	88,7	98,5	95,1	98,5	95,1	96,8	99,1	97,2
2012	-	95,2	88,3	82,2	94,1	91,5	94,1	91,5	88,7	90,7	89,7
2013	Q1	89,0	82,8	71,7	71,7	71,8	87,3	87,5	82,1	86,7	81,4
2014	Q1	83,5	76,9	65,6	69,2	69,7	82,4	82,8	77,3	81,0	73,3
	Q2	82,4	75,3	63,6	67,3	66,6	80,7	81,3	75,8	80,8	72,3
	Q3	80,6	74,0	62,9	66,4	62,4	79,2	81,2	73,4	80,8	71,7
	Q4	79,3	73,4	62,9	65,8	57,6	77,1	78,9	72,4	80,2	71,9
2015	Q1	78,3	72,9	60,4	64,8	60,6	76,4	77,8	72,0	79,7	72,1
	Q2	76,8	73,7	61,4	63,7	60,1	76,4	77,3	71,1	78,7	72,2
	Q3	76,3	75,3	61,6	64,6	59,2	75,2	76,6	71,9	78,9	70,8

Source: CBC.

*The annual data for the years between 2010 and 2013 are calculated as the simple average of the four quarters of each respective year.

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 at the Central Bank of Cyprus (CBC).

Data from 2006 to 2009 were collected retrospectively from a number of credit institutions. From 2010 onwards, the data are collected by the CBC from the member banks of the Association of Cyprus Banks (Bank of Cyprus, 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 standardised form, through an online data submission platform.

The partnered credit institutions receive the relevant information from more than 90 independent property surveyor offices in relation to mortgage lending. 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 aggregate Residential Property Price Index (RPPI) is calculated as the weighted sum of the two indices by type (house and apartment price indices).

Change in the weighting method to calculate the aggregate indices: In 2015Q1, the weighting method changed and the aggregate houses and flats indices are now calculated by using as weights the summation of the value of the properties in the sample of the last four quarters. This weighting method is applied in the historical series as well. In this way a more representative allocation between houses and apartments in the Cypriot housing market is provided. In previous publications of the report, the indices used to be aggregated using the number of observations (valuations) of the last four quarters. Similarly, the aggregate RPPI is calculated using as weights for the residential property price indices by district the summation of the value of the properties in each respective district. This change in the weighting method of the aggregated indices was suggested by the IMF as part of an evaluation exercise of the RPPI. The evaluation was carried out in the context of the possible use of the indices for updating the property values of the General Valuation (1 January 2013) undertaken by the Department of Lands and Surveys.

As a result of the change in the weighting method, the CBC RPPI for both the historical (2006-2009) and the new series (2010 onwards) has been revised. In the new series the aggregated flats and houses indices, and the residential property price indices by district have also been revised. It is worth noting that the change in the weighting method has not affected significantly either the level of the indices or their growth rates.

The hedonic methodology is used for the construction of the indices. In case the number of observations per quarter in a particular district is not enough to implement the hedonic method, the simple average method is used. Further details about the methodology and other relevant information are available on the CBC's website, at http://www.centralbank.gov.cy/media//pdf/Methodology_EN_.pdf

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