



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2015Q4

The Residential Property Price Index stabilised

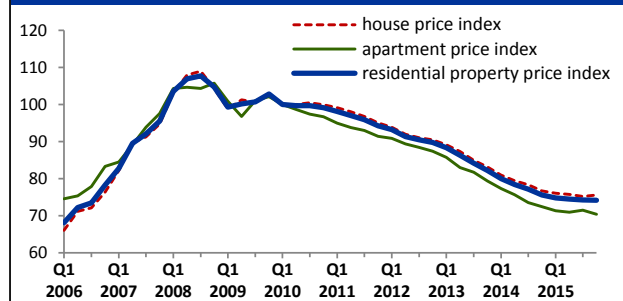
- According to the Residential Property Price Index (houses and apartments), residential property prices remained, on average, unchanged in 2015Q4 compared with 2015Q3. In particular, house prices registered an increase of 0,5 % on a quarterly basis, while the prices of apartments decreased by 1,6% compared with the previous quarter.
- For the first time since 2010Q3, the RPPI is not negative on a quarterly basis, while house prices registered a quarterly increase.
- On an annual basis, the RPPI recorded a decrease of 1,8% in 2015Q4, compared with decreases of 3,7% and 5,0% in 2015Q3 and 2015Q2, respectively.
- The economy as a whole continued to show signs of recovery with GDP recording positive growth rates. The improvement in the domestic economy is expected to have a positive effect on the property sector.

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

Residential property price indices

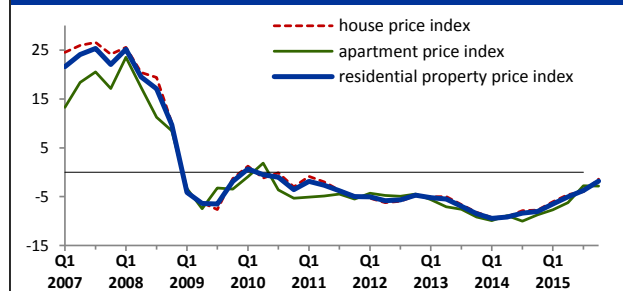
During 2015Q4 the RPPI remained stable compared with 2015Q3. House prices increased by 0,5% on a quarterly basis while apartment prices recorded a

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



Source: CBC.

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



Source: CBC.

decrease of 1,6% compared with 2015Q3 (**Chart 1**). The quarterly increase in house prices is the first registered since 2010Q1. The prices of apartments, further to the increase registered in 2015Q3, declined again on a quarterly basis.

On an annual basis, the house price index recorded a 1.8 % decrease compared with an annual decrease of 3.7 % in the previous quarter of 2015. House prices fell by 1.4 % on an annual basis and apartment prices by 2.8 % against annual reductions of 3.9% and 2.8 %, respectively, in 2015Q3. **Chart 2**

shows that the declines observed in the quarter under review were the smallest in the last five years (i.e. since 2011).

Price changes by district

The largest quarterly increase in the RPPI (houses and apartments) was recorded in the district of Famagusta (2,4%) and the largest decline (0,5%) in Nicosia. Residential property prices also increased on a quarterly basis in the district of Paphos (0,4%). In contrast, residential property prices in Larnaca registered a marginal decrease (0,1%) and in Limassol they remained unchanged.

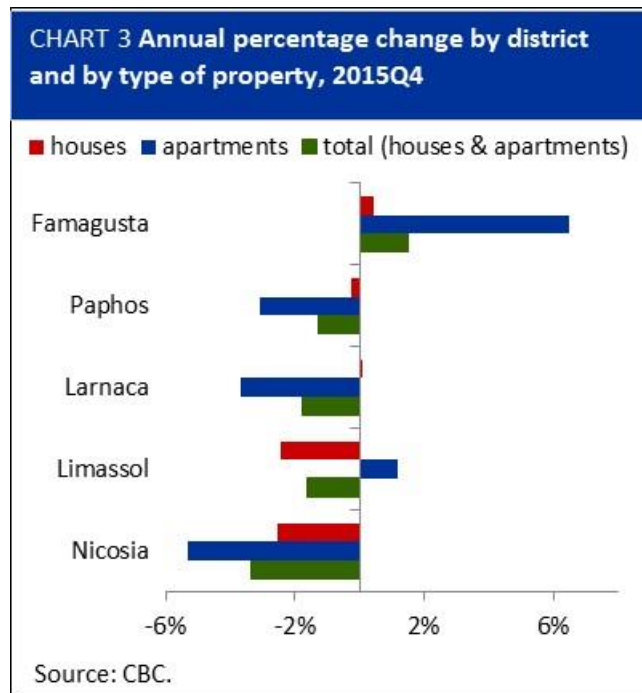
The largest annual decline in the RPPI was recorded in Nicosia (3,3%) and the smallest was recorded in Paphos (1,2%) (**Chart 3**). In addition the RPPI recorded annual declines in Limassol (1,6%) and Larnaca (1,8%), whilst in Famagusta an increase of 1,5% was registered.

As regards house prices, all districts have recorded quarterly increases, with the exception of Nicosia which remained stable. Specifically, Famagusta registered a quarterly increase of 2%, Paphos 1,4%, Larnaca 0,7% and Limassol 0,5%.

All districts, with the exception of Famagusta and Larnaca, have recorded annual decreases in house prices during the quarter under review. Famagusta has registered an increase of 0,4% and Larnaca an increase of 0,1%, whilst Nicosia and Limassol have both registered a decrease of 2,5% and Paphos a decrease of 0,2% (**Chart 3**).

As regards apartment prices by district, all districts recorded a quarterly decrease with the exception of Famagusta, which registered an increase of 3,6%. Nicosia and Larnaca recorded a decrease of 1,6%, Limassol fell by 1,3% and Paphos by 1,2%.

The largest annual decline in apartment prices in 2015Q4 was recorded in Nicosia by 5,3% (**Chart 3**). Apartment prices in Larnaca and Paphos also showed annual declines of 3,7% and 3,1%, respectively. In contrast, apartment prices in Famagusta and Limassol recorded annual growth of 6,5% and 1,2%, respectively. The relatively large annual increase in Famagusta was due to a base effect, i.e. we are comparing 2015Q4 with 2014Q4, the latter being the lowest point since the start of the sub-index for Famagusta.



Other market indicators

According to data from the Cyprus Statistical Service (Cystat), construction activity seems to have stabilised or even slightly increased, albeit from a low level. Specifically, local sales of cement, which is a proxy for construction activity, recorded an annual increase of 13,7% during 2015Q4. Therefore, the sales of cement continued the positive changes registered in the last two quarters, following 6,5 years of continuous decline.

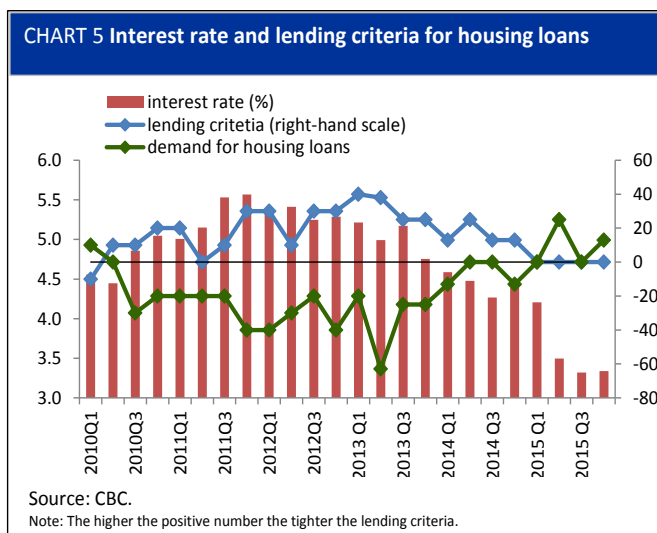
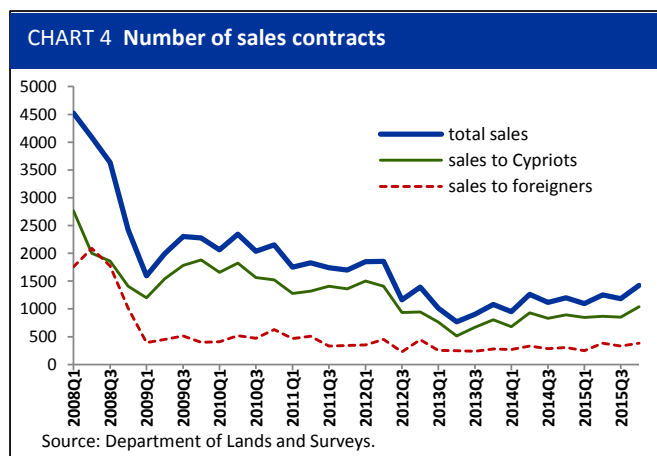
The price index of construction materials declined on an annual basis by 3,9% in 2015Q4, mainly due to the decreasing international oil prices and the low level of construction activity.

As regards demand for properties, data published by the Department of Lands and Survey show that the total number of sales contracts (for both Cypriot and foreign buyers) recorded an annual increase of 18,6% in 2015Q4. Sales contracts with Cypriot buyers recorded an annual increase of 16,4%, while sales to foreign buyers recorded an annual increase of 25,1% (**Chart 4**). All districts recorded annual increases in the total amount of sales contracts in 2015Q4.

The increased demand for properties is supported by various favourable financial developments. According to CBC's *Monetary and Financial Statistics*

the lending interest rate for housing loans¹ was on average 3,34% in 2015Q4 compared with an average of 4,39% in the corresponding quarter of 2014 (**Chart 5**). In addition, according to the CBC’s *Bank Lending Survey*, during 2015Q4 there was an increase in the demand for housing loans from households, which is expected to continue in 2016Q1. At the same time, the lending criteria for housing loans remained unchanged and are expected to remain unchanged during 2016Q1 (**Chart 5**).

As regards the prospects for the real estate market, the index of intention to build or purchase a home, as recorded in the Business and Consumer Surveys of the European Commission 2015Q4, recorded an average of -83,1, remaining almost at the same level as the corresponding quarter of 2014 (-82,8). Although the index has been in negative territory since its inception in 2001, in 2015 it was less negative than the three year average for the period 2012-2014. In 2015Q4 the index of employment expectations has marginally improved and reached an average of 0,23, compared with -11,47 in the same quarter of the previous year. The index of property price expectations for the next three months have again recorded a negative average of -14,73 in 2015Q4. However, it is noted that this is the least negative observation since 2008Q4.



¹ Floating rate and up to one year fixed.

Table 1 Residential property price indices by type and by district
(annual and quarterly data, 2010Q1 = 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
	Q4	70,4	75,6	75,1	76,3	68,7	75,7	70,8	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
(annual and quarterly data, 2010Q1 = 100)

Year*	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	-	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
	Q4	75,1	74,3	60,6	63,8	61,3	75,2	77,0	72,5	80,0	72,2

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/nqcontent.cfm?a_id=11836&lang=en