



CENTRAL BANK OF CYPRUS

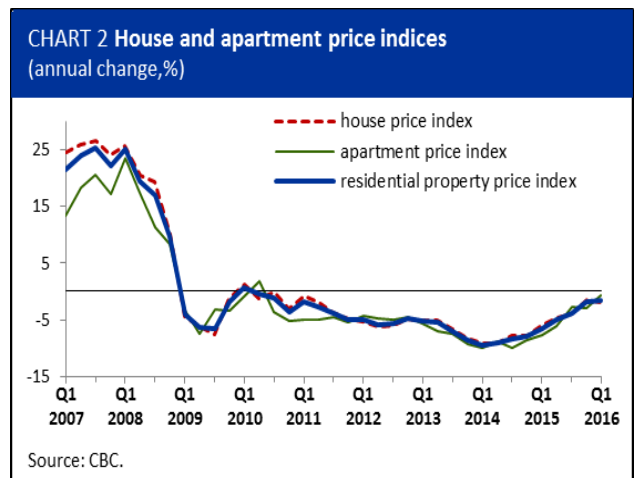
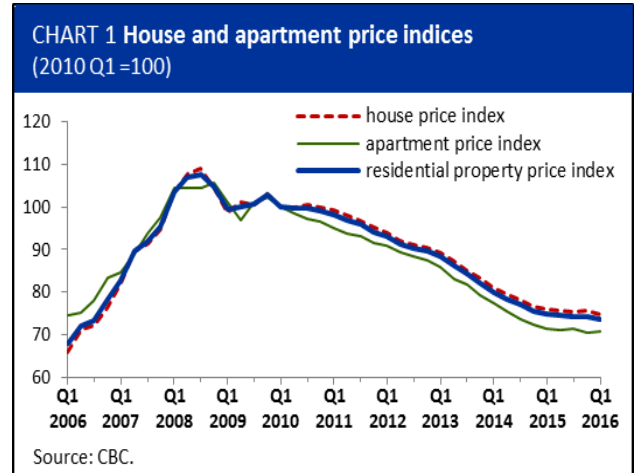
EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2016Q1

The stabilisation of residential property prices continued

- The stabilisation of residential property prices continued with small fluctuations in the RPPI (houses and apartments) and its sub-indices, amid positive prospects for the sector evident in other economic indicators.
- According to the RPPI, residential property prices fell marginally by 0,8% in 2016Q1 compared with 2015Q4. Apartment prices increased on a quarterly basis by 0,6% and house prices decreased by 1,3%.
- During the last four quarters, the RPPI recorded on a quarterly basis either small reductions or no change, which, in combination with other developments in the sector, suggests that residential property prices are stabilising.
- On an annual basis, the reductions in residential property prices continued to decelerate, declining by 1,6% in 2016Q1. This is the smallest decrease since 2010Q3.
- Other relevant indicators of the property market show positive developments and suggest favourable prospects for the sector. For example, demand for properties, as measured by the sales contracts registered with the Department of Lands and Surveys, recorded a significant increase in 2016Q1, while in the same period construction activity increased.



Overview	2015 Q2	2015 Q3	2015 Q4	2016 Q1
Quarterly index (2010Q1=100)	74,5	74,2	74,2	73,6
Quarterly change	-0,4%	-0,3%	0,0%	-0,8%
Annual change	-5,0%	-3,7%	-1,8%	-1,6%

Residential property price indices

During 2016Q1, the RPPI recorded a marginal decrease (0,8%) compared with the fourth quarter of 2015. House prices showed a quarterly decline of 1,3%, while the apartment prices registered a quarterly increase of 0,6% (**Chart 1**). The fact that during the last four quarters the RPPI registered either marginal decreases or remained stable, shows the trend for price stabilisation that currently exists in the property market.

On an annual basis, the RPPI recorded a 1,6% decrease compared with an annual decrease of 1,8% in 2015Q4. House prices fell by 1,9% and apartment prices fell by 0,7% on an annual basis, compared with annual reductions of 1,4% and 2,8%, respectively, in 2015Q4. As shown in **Chart 2**, these annual reductions are on a steady path towards the zero line, meaning that residential property prices are stabilising¹.

Price changes by district

Residential property prices registered the largest quarterly decline in Famagusta (2%). Quarterly decreases were also registered in Nicosia (0,8%), Limassol (0,5%), Larnaca (1,4%) and Paphos (0,7%).

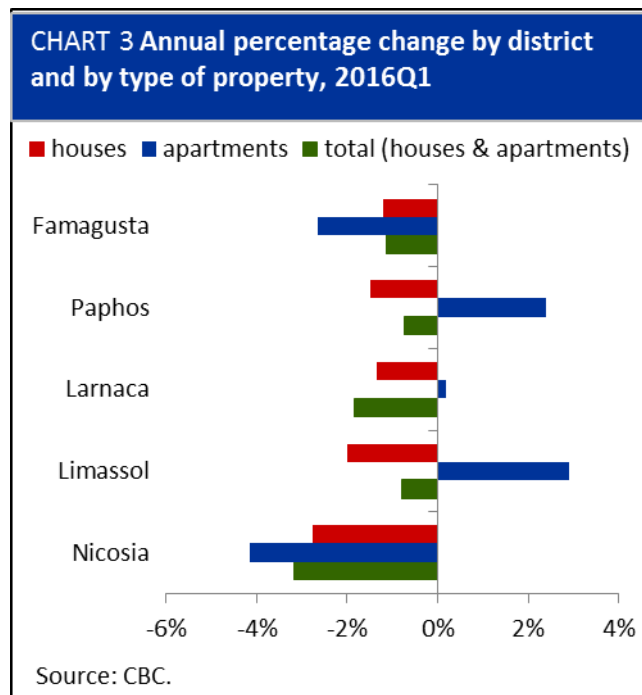
The largest annual decline in residential property prices was again registered in Nicosia (3,2%) and the smallest was registered in Paphos (0,7%) (**Chart 3**). Annual decreases in RPPI were also registered in Limassol (0,8%), Larnaca (1,8%) and Famagusta (1,1%).

As regards apartment prices by district, Limassol and Paphos have registered quarterly increases of 0,9% and 4%, respectively. Apartment prices in Nicosia were stable, while Larnaca and Famagusta registered a quarterly decline of 0,2% and 3,9%, respectively.

On an annual basis, apartment prices in Limassol, Larnaca and Paphos increased by 2,9%, 0,2% and 2,4%, respectively (**Chart 3**). On the other hand, apartment prices in Nicosia and Famagusta recorded an annual decrease of 4,1% and 2,6%, respectively.

As regards house prices, all districts recorded a quarterly decline. Specifically, house prices in Nicosia recorded a quarterly decrease of 1,1%, in Limassol 1%, in Larnaca 1,9%, in Paphos 1,8% and in Famagusta 1,4%.

On an annual basis, house prices recorded annual decreases in all districts during the quarter under review. Specifically, in Nicosia an annual decrease of 2,8% was recorded, in Limassol 2%, in Larnaca 1,4% and in Paphos 1,5% (**Chart 3**).



Other market indicators

According to data from the Cyprus Statistical Service (Cystat), construction activity in 2016Q1 continued the improvement seen in previous quarters. Specifically, during 2016Q1 the index of production in construction and domestic cement sales recorded annual increases of 7,6% and 37,9%, respectively.

As regards demand for properties, data published by the Department of Lands and Surveys show that in 2016Q1 the total number of sales contracts (both Cypriot and foreign buyers) recorded the largest

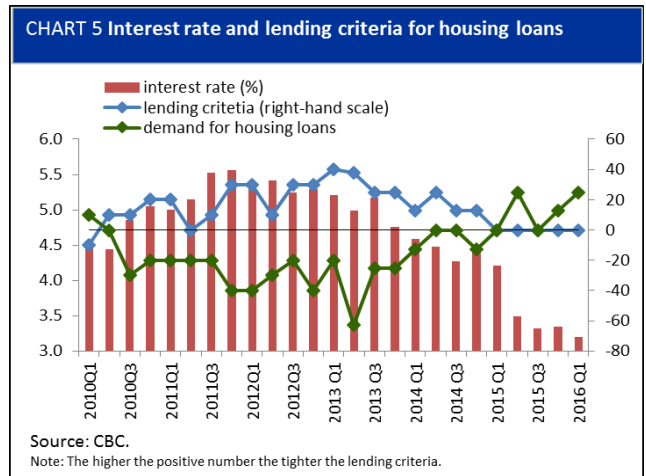
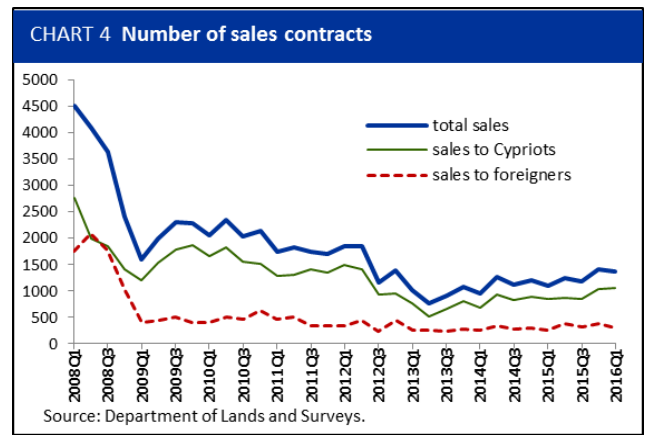
¹ We expect a stabilisation in residential property prices to be shown in the CBC RPPI with a delay, due to the smoothing on the coefficients of the hedonic regressions, which is an integral part of the construction method of the

indices. Statistical calculations based on alternative methods of estimating the indices show stabilisation in prices, which is expected to be more evident in the indices of the next quarters.

annual increase of the last seven quarters, i.e. 24,5%. The number of sales contracts with Cypriot buyers registered an annual increase of 26.1%, while sales to foreign buyers increased by 19,2% (Chart 4). All districts recorded an annual increase in the total number of sales contracts for the second consecutive quarter.

According to the CBC’s *Monetary and Financial Statistics*, the interest rate for housing loans² was, on average, 3,2% in 2016Q1, its lowest point since the series began (Chart 5). Additionally, according to the CBC’s Bank Lending Survey, in 2016Q1 the demand for housing loans by households continued to increase. At the same time, the lending criteria for housing loans remained unchanged for the fifth consecutive quarter (Chart 5).

As regards the prospects for the real estate market in general, according to the Business and Consumer Survey of the European Commission, the index of employment expectations in the construction sector recorded an average of -2,1 in 2016Q1 compared with -7,7 in the same quarter of the previous year. The index of expectations for real estate prices recorded an average of -8 in 2016Q1 compared with -17 in the corresponding quarter of the previous year. This is the lowest negative level registered since 2008Q4, which reflects the sentiment prevailing in the market that the real estate sector is gradually improving.



² 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	Residences by type		Residences by district					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
2016	Q1	70,8	74,6	74,5	75,9	67,8	75,1	69,4	73,6

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	Flats					Houses				
		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
2016	Q1	75,1	75,0	60,5	66,4	59,0	74,3	76,2	71,1	78,5	71,1

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.

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 have been 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 reports, 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 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