



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

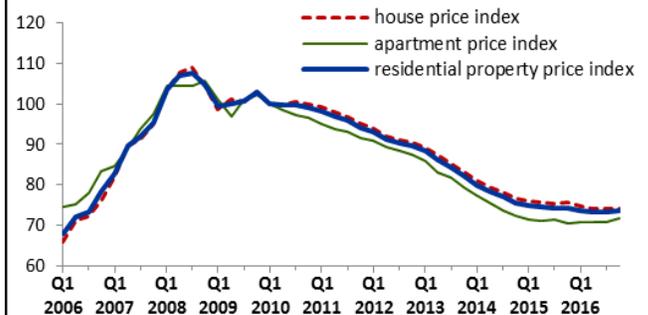
2016Q4

Small quarterly increase recorded in residential property prices in 2016Q4

- In 2016Q4, the Residential Property Price Index (houses and apartments) recorded the second consecutive marginal increase (0,3%) on a quarterly basis, reflecting the gradual recovery of the real estate sector in Cyprus.
- During the same period, house prices decreased marginally by 0,1%, while apartment prices increased by 1,3%.
- Residential property prices declined by 0,9% on an annual basis in 2016Q4. It is worth noting that even a small quarterly increase in the next quarter, will result in a positive annual rate of change for RPPI. House prices decreased by 1,9%, while apartment prices increased by 1,9% on an annual basis. This is the first annual increase in apartment prices since 2010 and it reflects the increases recorded in four out of the five districts.
- A strong indication of the recovery in the real estate sector is reflected in the annual increase in 2016Q4 in both sales contracts (70,1%) and the construction activity index (17,9%).

Overview	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Quarterly index (2010Q1=100)	73,6	73,2	73,3	73,5
Quarterly change	-0,8%	-0,5%	0,1%	0,1%
Annual change	-1,6%	-1,7%	-1,3%	-0,9%

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



Source: CBC.

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



Source: CBC.

Residential property price indices

The RPPI recorded a small increase of 0,3% on a quarterly basis in 2016Q4. This was the second consecutive increase, confirming the trend of stabilisation and slight recovery in residential property prices. Apartment prices increased by 1,3%, while house prices decreased by 0,1% on a quarterly basis (Chart 1).

The RPPI declined by 0,9% in 2016Q4 on an annual basis, compared with an annual decline of

1,8% in 2015Q4. House prices declined by 1,9%, while apartment prices increased by 1,9% on an annual basis (**Chart 2**). The annual increase in apartment prices was the first since 2010 and reflects the gradual improvement in the domestic real estate sector.

Price changes by district

Residential property prices registered quarterly increases in Nicosia (0,5%), Limassol (0,5%) and Famagusta (0,2%). In contrast, residential property prices in Larnaca and Paphos continued to decrease on a quarterly basis by 0,7% and 1,1%, respectively (**Chart 3**). As regards annual changes in residential property prices by district, the largest decrease was recorded in Famagusta (5,6%) and the smallest decrease in Limassol (0,5%). Residential property prices also decreased in Nicosia (1,1%), Larnaca (1,5%) and Paphos (1,5%) on an annual basis (**Chart 4**).

More specifically, apartment prices recorded quarterly increases in all districts except Paphos. Apartment prices increased by 0,8% in Nicosia, 2% in Limassol, 1,9% in Larnaca and 0,1% in Famagusta. In contrast, apartment prices decreased by 2,4% in Paphos.

As regards the decrease in apartment prices in Paphos, a more in-depth analysis reveals that if the valuations which were performed for debt-to-asset purposes¹ are excluded from the sample, then the quarterly decrease is smaller.

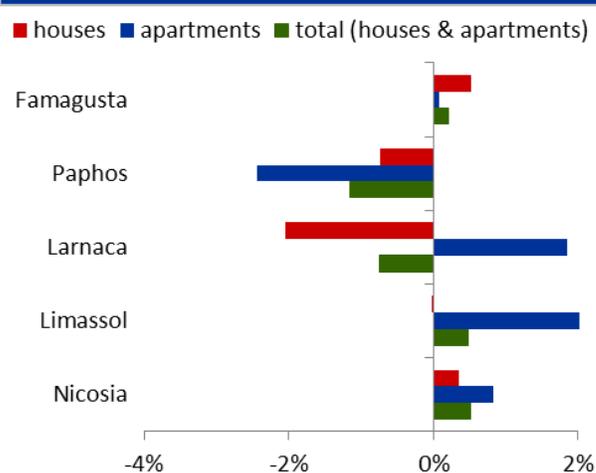
As regards house prices, a quarterly increase of 0,4% and 0,5% was recorded in the districts of Nicosia and Famagusta, respectively. In contrast, a decrease of 2,1% and 0,7% was recorded in Larnaca and Paphos, respectively, while house prices stabilised at the previous quarter's level in Limassol.

Apartment prices recorded increases in four out of five districts on an annual basis in 2016Q4. Apartment prices in Nicosia recorded an annual increase of 0,3%, the first since 2011Q2. Increases were also recorded in Limassol (1,6%), Larnaca (2,8%) and Paphos (2,2%). In Famagusta, however, a decrease of 6,4% was recorded (**Chart 4**).

House prices decreased on an annual basis in all districts. Specifically, house prices decreased by 1,6%

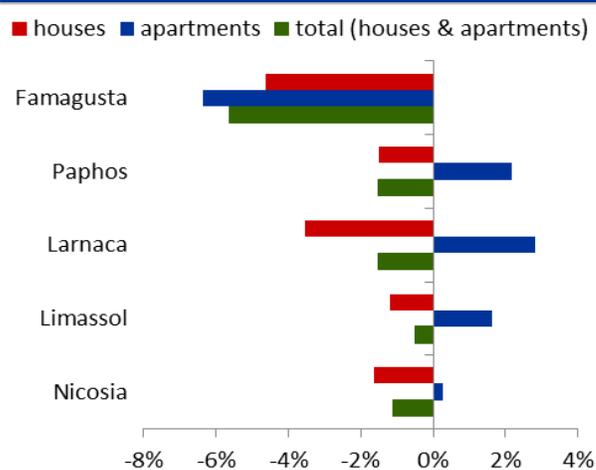
in Nicosia, 1,2% in Limassol, 3,5% in Larnaca, 1,5% in Paphos and 4,6% in Famagusta (**Chart 4**).

CHART 3 Quarterly percentage change by district and by type of property, 2016Q4



Source: CBC.

CHART 4 Annual percentage change by district and by type of property, 2016Q4



Source: CBC.

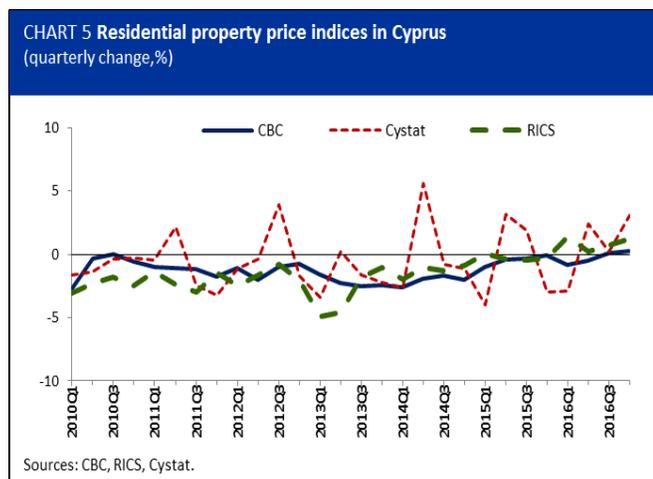
Comparison with other residential property price indices

In **Chart 5** we present the results of all the residential property price indices which are available for Cyprus, namely the CBC RPPI index, the Cyprus

from the sample in the future, possibly resulting in minor revisions in some of the sub-indices.

¹ According to Eurostat's methodology, transactions related to debt-to-asset swaps should not be included in the sample. As such, these valuations will be excluded

Statistical Service (Cystat)² house price index and the RICS³ residential property index. All indices recorded quarterly increases in 2016Q4, which is in line with the gradual recovery experienced in the real estate market.



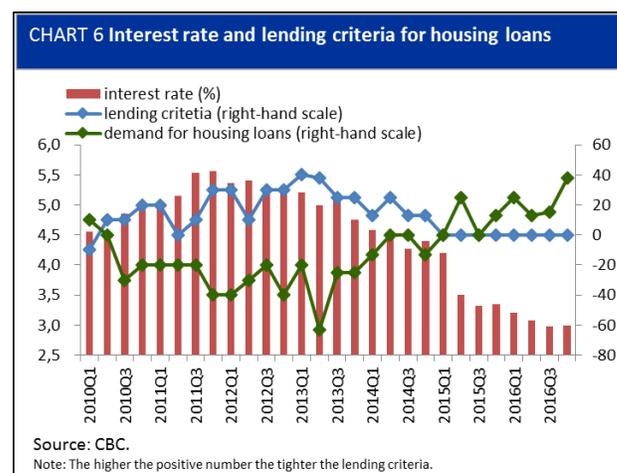
Other market indicators

Activity in the real estate market in Cyprus, as reflected in other relevant indicators, is on a path of stabilisation and gradual recovery. We are thus optimistic that the real estate sector will successfully overcome the challenges it currently faces.

According to the CBC's *Monetary and Financial Statistics*, the interest rate for housing loans⁴ continued to be low, thus supporting demand for loans for borrowers who meet the lending criteria. It was on average 3% in 2016Q4 compared with 3,3% in 2015Q4 (**Chart 6**). This development is reflected in the increased demand for housing loans from households, which according to the CBC's *Bank Lending Survey* increased for the fifth consecutive quarter in 2016Q4. At the same time, the lending criteria for housing loans remained unchanged (**Chart 6**). The decrease in household's NPLs from €12,7 billion in January 2016 to €12,1 billion in January 2017 is also considered to be a positive development.

²http://www.mof.gov.cy/mof/cystat/statistics.nsf/economy_finance_15main_en/economy_finance_15main_en?OpenForm&sub=5&sel=2
³<http://www.rics.org/cy/knowledge/market-analysis/rics-cyprus-property-price-index/>

The increase in demand for properties, resulting from increased demand for housing loans, is shown in the data of the Department of Lands and Surveys. Specifically, the total number of sales contracts (locals and foreigners) recorded an annual increase of 70,1% and 10,1% in 2016Q4 and 2017Q1, respectively. However, part of the large increase in 2016Q4 is attributed to the fact that the government incentive related to the capital gains tax waiver was due to end at the end of December 2016. The number of sales contracts by domestic residents registered an annual increase of 65,3%, while sales to foreigners increased by 83,1% (**Chart 7**).



Construction activity in Cyprus is also gradually recovering. According to the index of production in construction, which is published by Cystat, construction increased by 17,9% on an annual basis in 2016Q4. In addition, local sales of cement increased by 16,2% in the same period. The number of authorised building permits, which are considered as a leading indicator for future construction activity, recorded an annual increase of 10% in 2016Q4, while building permits for dwellings increased by 40,3%.

The prospects for the real estate market appear to be favourable according to the European Commission's Business and Consumer Survey. Specifically, the index of employment expectations in the construction sector reached an average of 1,8 in 2016Q4 compared with 0,2 in the same quarter of the previous year. This was the second consecutive

³ <http://www.rics.org/cy/knowledge/market-analysis/rics-cyprus-property-price-index/>

⁴ Floating rate and up to one year fixed.

positive figure for the aforementioned indicator. The index of expectations for real estate prices recorded its least negative value since 2008Q4, registering, on average, -1,4 in 2016Q4 compared with -14,7 in 2015Q4. In addition, the indicator of building activity during the last three months was on average 3,4, compared with -2,6 in 2015Q4, confirming the recovery in construction activity.

In summary, the real estate market in Cyprus presented signs of recovery in 2016Q4, however there are still significant challenges ahead that need to be addressed.



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	-	74,7	78,8	80,3	79,5	72,1	77,4	71,1	77,8
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
	Q2	70,7	74,2	74,1	75,3	68,1	75,2	67,4	73,2
	Q3	70,8	74,2	73,9	75,6	68,2	75,4	66,7	73,3
	Q4	71,7	74,2	74,3	75,9	67,7	74,5	66,8	73,5

Source: CBC.

*The annual data for the years between 2006 and 2014 are calculated as the 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>Flats</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	-	81,5	74,9	63,8	67,2	64,1	79,8	81,1	74,7	80,7	72,3
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
	Q2	75,0	73,8	61,1	65,8	57,3	73,7	75,8	71,0	79,0	69,1
	Q3	74,7	74,0	61,2	66,9	57,4	73,7	76,1	71,4	79,4	68,5
	Q4	75,3	75,5	62,3	65,2	57,4	73,9	76,1	69,9	78,8	68,9

Source: CBC.

*The annual data for the years between 2006 and 2014 are calculated as the 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/nqcontent.cfm?a_id=11836&lang=en