



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2017Q2

Moderate recovery in the Residential Property Price Index

- The RPPI (houses and apartments) recorded an increase of 0,5% on a quarterly basis in 2017Q2¹. Increases of 1,5% and 0,1% were also recorded in the apartment price indices and the house price index, respectively. Sub-indices recorded quarterly increases in all districts, with the exception of the apartment price indices in Larnaca and Paphos as well as the house price indices in Nicosia.
- The same recovery path was also observed on an annual basis, as the majority of the main indices and sub-indices registered either positive growth rates or stabilisation.
- The acceleration of growth in residential property prices, both on a quarterly and on an annual basis, confirms the gradual recovery of the property sector in Cyprus, and it is also suggested by other relevant indicators. Combined with the robust growth in the broader economy, confidence in the sector has strengthened and we expect further recovery in demand.

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

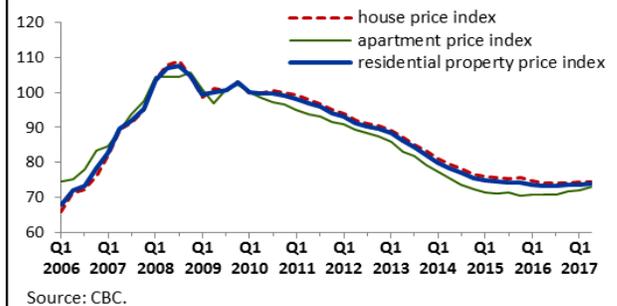


CHART 2 House and apartment price indices (annual change,%)



Overview	2016 Q3	2016 Q4	2017 Q1	2017 Q2
Quarterly index (2010Q1=100)	73,3	73,5	73,7	74,1
Quarterly change	0,1%	0,1%	0,3%	0,5%
Annual change	-1,3%	-0,9%	0,2%	1,1%

¹ The reader is reminded that the construction of the CBC RPPI is based on appraisals data and on a statistical method that is widely used in the literature for this purpose, which incorporates to some extent past developments in current results using smoothed regression coefficients (see methodology report:

https://www.centralbank.cy/images/media/pdf/Metodology_EN_latest.pdf). As a result, it is possible that the RPPI may delay in capturing turning points in the market, both with respect to time and to the magnitude of the recovery in the market.

Residential property price indices

The RPPI continued to increase, recording a rise of 0,5% on a quarterly basis in 2017Q2. Apartment and house price indices registered quarterly increases of 1,5% and 0,1%, respectively (**Chart 1**).

On an annual basis, the RPPI recorded its second consecutive increase (1,1%) in 2017Q2. Apartment prices increased by 3,3% on an annual basis, while house prices recorded their first annual increase (0,4%) following seven years of declining prices (**Chart 2**).

The acceleration of growth in residential property prices, both on a quarterly and on an annual basis, is a robust indication of the gradual recovery of the real estate sector in Cyprus. This, combined with the robust growth in the broader economy, has enhanced confidence in the sector and laid the grounds for a further recovery in demand..

Price changes by district

Residential property prices recorded quarterly increases in Nicosia (0,3%), Limassol (0,6%), Paphos (1,8%) and Famagusta (0,2%). Larnaca was the only district in which residential property prices recorded a quarterly decline, albeit marginal (0,2%) (**Chart 3**). As regards annual changes in the RPPI by district, the largest increase was recorded in Limassol (2,3%), and was partly due to a base effect. The RPPI recorded increases of 0,8% and 0,3% in Nicosia and Paphos, respectively. In contrast, the RPPI decreased on an annual basis in Larnaca (1,4%) and Famagusta (0,6%) (**Chart 4**).

Apartment prices increased on a quarterly basis in Nicosia (2,3%), Limassol (2,2%) and Famagusta (2%). In contrast, apartment prices recorded quarterly decreases in Larnaca (1,1%) and Paphos (1%).

House prices recorded a quarterly increase in Larnaca and Paphos by 0,1% and 2,6%, respectively, while they stabilised in Limassol and Famagusta. House prices decreased by 0,7% on a quarterly basis in Nicosia.

Apartment prices recorded annual increases in all districts in 2017Q2, with the exception of Paphos, in which registered an annual decrease of 3,2%. Specifically, apartment prices increased on an annual basis in Nicosia (2,7%), in Limassol (6,1%), in Larnaca (0,9%) and in Famagusta (2,3%).

CHART 3 Residential property price indices by district (quarterly change, %)

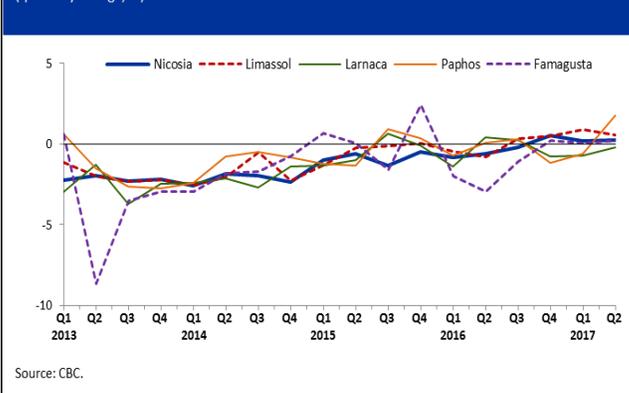
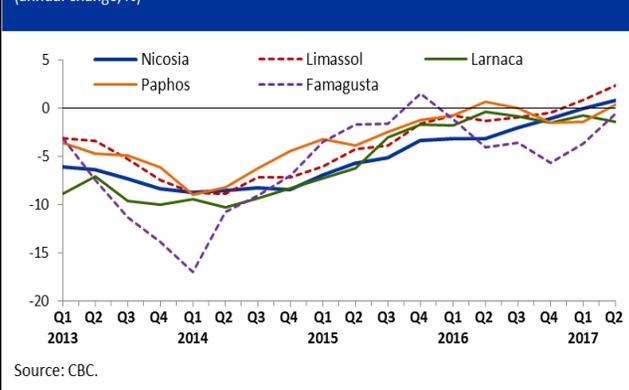


CHART 4 Residential property price indices by district (annual change, %)



As regards house prices, increases of 1,1% and 2,2% were recorded in Limassol and Paphos, respectively. These were the second consecutive increases in both districts. House prices recorded an annual decrease of 2,3% in Nicosia, while a marginal decrease of 0,1% was recorded in Famagusta.

Other market indicators

Construction activity continues to recover, increasing by 32,6% on an annual basis in 2017Q2 according to the index of production in construction, which is published by Cystat. However, the index remains at lower levels compared with its long-term average. Authorised building permits, which are considered to be a leading indicator for future construction activity, increased on an annual basis for the eighth consecutive quarter. Specifically, permits increased by 6,5% in 2017Q2, mainly as a result of the 11% annual increase in the building permits for residential buildings.

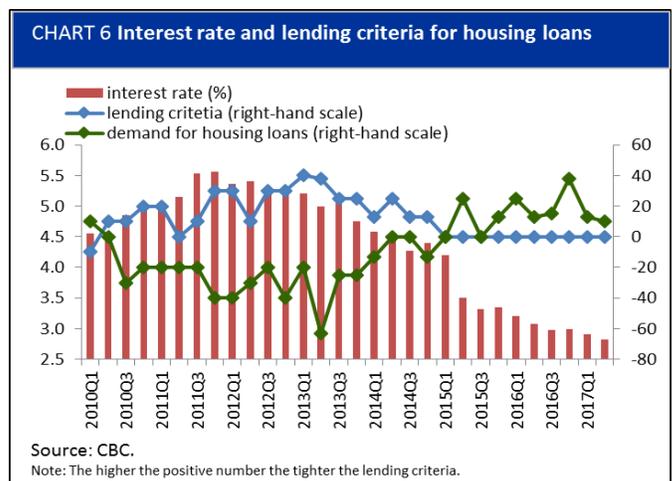
Demand for properties continued to recover as well. According to data published by the Department of Lands and Surveys, the total number of sales

contracts (locals and foreigners) recorded an annual increase of 28% and 17,2% in 2017Q2 and 2017Q3, respectively (**Chart 5**). The number of sales contracts by domestic residents registered an annual increase of 10% in 2017Q3, reaching 1.328 contracts, while sales to foreigners increased by 27,6% from a low base, reaching 585 contracts. The level of total sales contracts in the first nine months of 2017 (5.523) was at similar levels with the respective figure of 2011 (5.317). However, it was significantly lower compared with the respective figure of 2008 (12.245).

According to the CBC’s *Monetary and Financial Statistics*, the interest rate for housing loans² was on average 2,8% in 2017Q2 compared with 3,1% in 2016Q2 (**Chart 6**). The CBC’s *Bank Lending Survey* shows that demand for housing loans from households increased in 2017Q2. At the same time, the lending criteria for housing loans remained unchanged (**Chart 6**). It should be noted that the increase in new lending for housing purposes is unrelated to investments emanating from the Government’s naturalisation scheme, since these investments are self-funded.

The prospects for the real estate market exhibited slight improvement compared with previous quarters, according to the European Commission’s *Business and Consumer Surveys*. Specifically, the index of employment expectations in the construction sector reached an average of 4,5 and 2,5 in 2017Q2 and 2017Q3, respectively. It is worth noting that this index was positive throughout 2017. In addition, the index

of expectations for real estate prices was, on average, 4,4 in both 2017Q2 and 2017Q3, reaching its highest level since 2008, when the financial crises started. Furthermore, the index of construction activity during the previous three months was on average 6,6 and 4,4 in 2017Q2 and 2017Q3, respectively.



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	<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	-	71,0	75,6	76,0	76,4	68,7	75,3	70,1	74,4
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
2017	Q1	71,9	74,4	74,5	76,6	67,2	74,1	66,9	73,7
	Q2	73,0	74,5	74,7	77,1	67,1	75,4	67,0	74,1

Source: CBC.

*The annual data for the years between 2006 and 2015 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	-	76,6	74,0	61,0	64,2	60,3	75,8	77,2	71,9	79,3	71,8
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
2017	Q1	75,3	76,6	62,3	64,3	57,4	74,1	76,6	69,3	78,8	69,0
	Q2	77,0	78,3	61,6	63,7	58,6	73,7	76,6	69,3	80,8	69,0

Source: CBC.

*The annual data for the years between 2006 and 2015 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/ngcontent.cfm?a_id=11836&lang=en