



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2018 Q1

The residential property price index is still on an upward trend

- The RPPI¹ (houses and apartments) increased by 0,6% in 2018Q1. This was the seventh consecutive quarterly increase. The apartment price index and the house price index recorded a quarterly increase of 0,9% and 0,4%, respectively. Sub-indices of house prices by district have increased, with the exception of Larnaca, which recorded a marginal decrease of 0,1%.
- The RPPI increased by 1,8% on an annual basis in 2018Q1. All RPPI district sub-indices have recorded an increase, with the largest being in Famagusta (2,9%) and the lowest in Larnaca (1,1%).
- The recovery of the real estate sector is expected to continue in the coming quarters. This is based on relevant economic indicators, which registered a positive trend in 2018Q1. Although VAT imposed on land transactions has been applied since January 2018, sales contracts and building permits have continued to increase in 2018Q1.



OVERVIEW	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Quarterly Index (2010Q1=100)	74,1	74,3	74,6	75,0
Quarterly change	0,5%	0,4%	0,4%	0,6%
Annual change	1,1%	1,4%	1,5%	1,8%

¹ The CBC RPPI is calculated on the basis of market valuations of real estate prices and the statistical methodology widely used in the international literature. It takes partial account of developments in previous quarters through smoothed regression coefficients (see relevant methodology:

https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf). Therefore, it is likely that there will be a short lag in capturing turning points in the market with respect to both time and the magnitude of the recovery.

Residential property price indices

The RPPI (houses and apartments) continues its recovery which begun in 2016Q3, recording a quarterly increase of 0,6% in 2018Q1. Apartment and house price indices registered quarterly increases of 0,9% and 0,4%, respectively (**Chart 1**). These were the seventh and fifth consecutive quarterly increases in apartment and house prices, respectively.

Residential property prices recorded an increase of 1,8% on an annual basis in 2018Q1 compared with 0,2% in 2017Q1. In 2018Q1 apartment and house prices registered an annual increase of 4% and 1%, respectively (**Chart 2**).

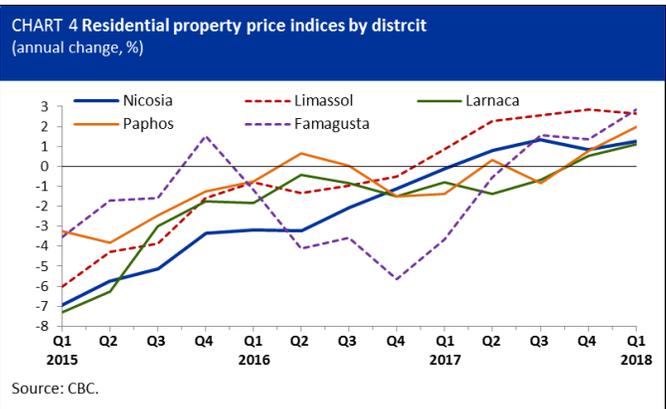
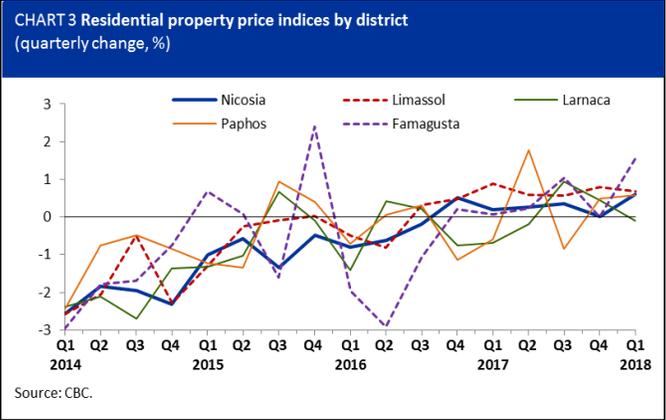
Continued signs of recovery in the real estate sector were evident in 2018Q1, despite reservations stemming from the VAT imposed on land transactions since 2018. Relevant economic indicators, such as sales contracts and building permits, continued to grow, while unemployment in the sector continued to decline.

Prices changes by district

Residential property prices increased in all districts on a quarterly basis, with the exception of Larnaca, where they marginally decreased. Specifically, residential property prices increased by 1,6% in Famagusta, 0,8% in Limassol and 0,6% in Nicosia and Paphos, while in Larnaca there was a 0,1% reduction (**Chart 3**). As regards annual changes in the RPPI by district, increases were recorded in all districts for the second consecutive quarter. The largest annual increase in residential property prices was recorded in Famagusta (2,9%). There was a 2,7% annual increase in Limassol, a 2% increase in Paphos, 1,2% in Nicosia and 1,1% in Larnaca (**Chart 4**).

Apartment prices registered the largest quarterly increase in Paphos (2,6%), while the largest decrease was in Larnaca (1,4%). In Nicosia, Limassol and Famagusta a quarterly increase of 0,7%, 2% and 0,6% was recorded, respectively.

House prices recorded quarterly increases in all districts, with the highest being in Famagusta (1,8%). They also increased by 0,5% in Nicosia, 0,3% in Limassol, 0,2% in Larnaca and 0,1% in Paphos.



Apartment prices increased on an annual basis in all districts except Larnaca, where they fell by 1%. The annual increase in apartment prices was 3,8% in Nicosia, 6,9% in Limassol, 4,7% in Paphos and 0,2% in Famagusta. In Limassol a significant price recovery, especially in apartments², has been recorded during the last five quarters.

House prices increased or stabilised on an annual basis in all districts. The largest increase was recorded

² Sales of luxury homes, usually for acquiring Cyprus residency, are not financed by the local banking system, therefore they are not included in the sample for the

construction of the CBC real estate price index. Nevertheless, these sales have an indirect effect on the

in Famagusta (3,9%). In Nicosia, prices remained stable while they increased by 1,2% in both Limassol and Paphos, and 1,4% in Larnaca.

Other market indicators

According to relevant market indicators, the upward trend in the Cyprus real estate sector is expected to continue.

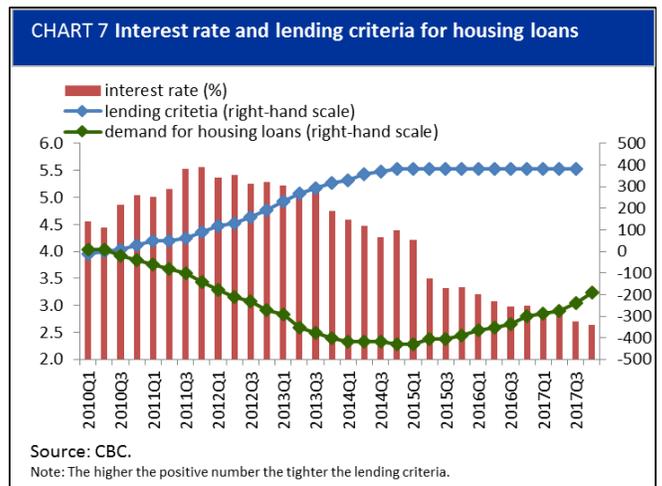
According to data published by the Department of Lands and Surveys in 2018Q1, the total number of sales contracts recorded an annual increase (Chart 5), although aggregate data may not be comparable with previous quarters due to the DLS’s definition of local and foreign property buyers has changed as of 2018 and therefore relevant data are not comparable with previous years. Nevertheless, it is noteworthy that the largest number of foreign buyers in the period January - May 2018 was observed in Paphos, about half of whom were European citizens. The second highest number of foreign buyers was observed in Limassol, with 77% being third-country nationals.

Authorised building permits, which are considered to be a leading indicator of building activity, recorded a considerable annual increase of 5,5% in 2018Q1. The number of building permits for residential properties was 1.374 (Chart 6) corresponding to an increase of 16,8% compared with 2017Q1.

In addition, according to data published by the Cyprus Statistical Service (Cystat) unemployment in the construction sector dropped to 2.309 individuals in 2018Q1 from 3.404 in 2017Q1.

According to the *European Commission’s Business and Consumer Surveys*, employment expectations for the next three months in the construction sector averaged 7 for 2018Q1 compared with 3,4 in the same period of 2017. Furthermore, property price expectations for the next three months of the same period of 2018, averaged 6,4 compared with 1,5 in the same period of 2017.

According to the *CBC’s Monetary and Financial Statistics*³, the interest rate for housing loans⁴ averaged 2,57% in 2018Q1, continuing the downward trend over the past five years (Chart 7). It is evident



from the *CBC’s Bank Lending Survey*⁵ that the demand for housing loans by households continued to increase in 2018Q1. At the same time, the housing lending criteria since 2010 have remained strict (Chart 7). It can be inferred from the above that the ongoing recovery of the sector, at least to date, is not driven by lending activity.

Despite the upward trend in the real estate sector in Cyprus, the high percentage of NPFs in the real estate and housing sectors is still a challenge, affecting the ability of the banks to lend. The percentage of NPFs in these sectors is considerably higher in Cyprus than in the rest of Europe even though some reductions have been recently recorded.

market which can be attributed to the continuing recovery in house prices (and especially apartments) in Limassol.

³ <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

⁴ Floating rate and up to one year fixed

⁵ <https://www.centralbank.cy/el/publications/surveys/bank-lending-survey>

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	-	71,0	74,3	74,2	75,7	67,9	75,1	67,6	73,4
2017	-	73,1	74,6	74,8	77,3	67,6	74,9	67,3	74,2
2018	Q1	74,8	75,1	75,4	78,6	68,0	75,6	68,8	75,0

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.

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	-	75,0	74,6	61,3	66,0	57,8	73,9	76,1	70,8	78,9	69,4
2017	-	76,8	78,5	62,3	64,5	57,9	79,9	76,9	69,6	79,8	69,5
2018	Q1	78,1	81,9	61,7	67,3	57,6	74,2	77,5	70,2	79,7	71,7

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