



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2018 Q2

The residential property price index is still on a moderate upward trend

- The RPPI¹ (houses and apartments) increased by 0,3% in 2018Q2. This was the eighth consecutive quarterly increase. The house price index and the apartment price index recorded quarterly increases of 0,2% and 0,7%, respectively. The sub-indices of residential property prices by district have increased, with the exception of Paphos, which recorded a marginal decrease of 0,2% on a quarterly basis.
- The RPPI increased by 1,7% on an annual basis in 2018Q2. All RPPI district sub-indices have recorded annual increases, with the exception of Paphos where prices remained approximately stable. The largest annual increase in house prices was recorded in Famagusta (4,6%) and in apartment prices in Limassol (6,1%).
- The significant recovery of the real estate sector in Limassol seems to be related to increased demand in specific areas, mainly coastal. For the time being, spill-over effects in the non-coastal areas of Limassol do not appear to be significant.

| OVERVIEW | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 |
|------------------------------|---------|---------|---------|---------|
| Quarterly Index (2010Q1=100) | 74,3 | 74,6 | 75,0 | 75,3 |
| Quarterly change | 0,4% | 0,4% | 0,6% | 0,3% |
| Annual change | 1,4% | 1,5% | 1,8% | 1,7% |



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 began in 2016Q3, recording a quarterly increase of 0,3% in 2018Q2. House and apartment price indices registered quarterly increases of 0,2% and 0,7%, respectively (**Chart 1**). These were the sixth and eighth consecutive quarterly increases in house and apartment prices, respectively.

Residential property prices recorded an increase of 1,7% on an annual basis in 2018Q2, compared with 1,1% in 2017Q2. House and apartment prices registered an annual increase of 1,1% and 3,1%, respectively, in 2018Q2 (**Chart 2**).

Continued signs of recovery in the real estate sector were also evident in other relevant economic indicators in 2018Q2. For example, sales contracts and building activity continued to increase, while unemployment in the sector has further declined. Nevertheless, there are significant challenges that need to be tackled effectively, in particular the non-performing exposures (NPEs) that are collateralised with real estate or are related to the construction sector in general. The latest legislative package passed by parliament on 8 July 2018 for the securitisation and sale of loans is expected to further reduce the levels of NPEs held by banks. At the same time, it may lead to an increase in the supply of real estate in the market, especially of land and commercial properties, which could result in a decline in prices.

Prices changes by district

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

House prices recorded quarterly increases in all districts, with the highest being in Famagusta (0,7%).

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

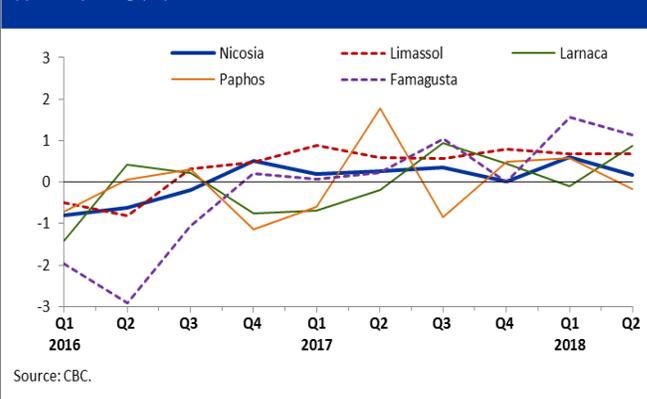
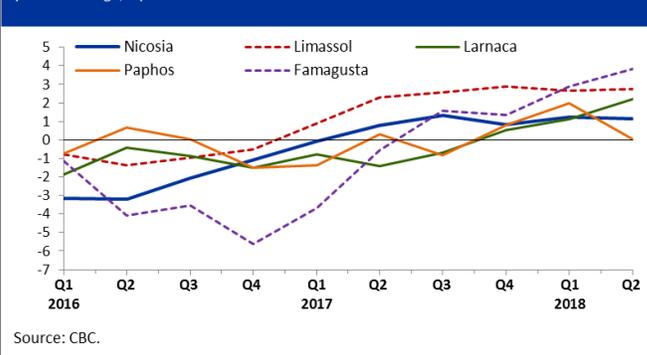


CHART 4 Residential property price indices by district (annual change, %)



Increases were also recorded in Larnaca (0,4%), in Limassol (0,3%), in Paphos (0,3%) and in Nicosia (0,2%). House prices increased on an annual basis in all districts with the exception of Paphos where a 1,1% decrease was recorded. The largest increase was recorded in Famagusta (4,6%), while smaller increases were recorded in Larnaca (1,7%), Limassol (1,5%) and Nicosia (0,9%).

Apartment prices registered the largest quarterly increase in Famagusta (3,2%), while in Larnaca, Limassol and Nicosia they recorded smaller quarterly increases of 2,2%, 1,5% and 0,1%, respectively. A decrease of 0,2% was recorded in Paphos. Apartment prices increased on an annual basis in all districts with the highest increase being recorded in Limassol (6,1%). Apartment prices recorded smaller annual increases in the districts of Paphos (5,5%), Larnaca (2,3%), Nicosia (1,6%) and Famagusta (1,5%).

During the last five quarters a significant increase in property prices was registered in Limassol, especially in apartment prices². However, it should be noted that

² Sales of luxury homes for the purpose of obtaining a passport are not financed by the domestic banking system

and are therefore not included in the sample for the construction of the CBC indices. However, these sales seem

these increases relate to properties situated on the seafront. According to an analysis of recent data, any spill-over effects in the rest of Limassol have thus far been very limited.

According to the latest population census of the Cyprus Statistical Service (Cystat), Limassol is the most densely populated city. At the same time, the central location of the Cyprus University of Technology, the demand for Airbnb, the construction of the marina and the decision to build a casino, have all contributed to the fact that properties in the coastal areas are higher than the rest of Limassol, and the rest of Cyprus.

Prices in some areas of Limassol have been driven by non-residents who have applied for citizenship through the scheme for the naturalization of investors. One of the prerequisites of the scheme is the investment in a permanent residence worth at least €500.000 (plus VAT). The scheme also includes the option to invest in real estate of at least €2 million. This has also contributed to the observed increase in prices in the specific areas of Limassol.

In the last two quarters, significant annual increases have also been recorded in apartment prices in Paphos, which can, however, be attributed to a base effect.

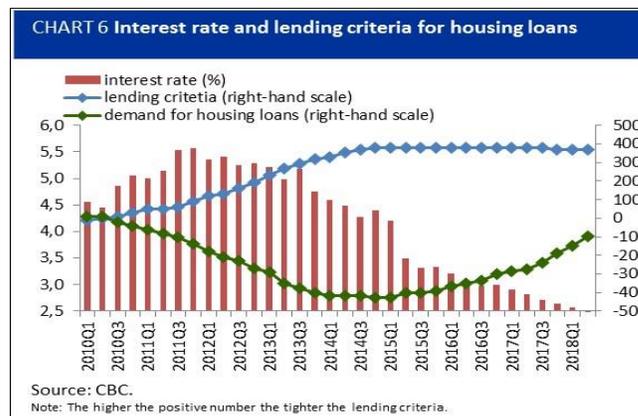
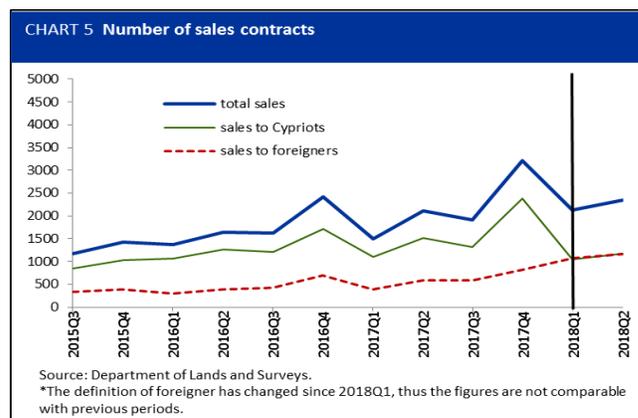
Other market indicators

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

In particular, data published by the Department of Lands and Surveys in 2018Q2 indicate that the total number of sales contracts³ recorded an annual increase of 11,7% (**Chart 5**). It is noteworthy that the largest number of foreign buyers in the period January – July 2018 was once again 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 citizens. The latter transactions are most likely related to the government's scheme for naturalization of investors, which provides incentives for investment in real estate properties.

to have an indirect impact on specific areas of Limassol, reflected in the ongoing recovery in house and apartment prices.

³ The codification of the DLS for the categorization of local and foreign property buyers has changed since 2018 and therefore it cannot be compared with last year's corresponding data.



In addition, according to data published by Cystat unemployment in the construction sector dropped to 2.048 individuals in 2018Q2, from 3.007 in 2017Q2.

According to the CBC's *Monetary and Financial Statistics*⁴, the interest rate for housing loans⁵ averaged 2,5% in 2018Q2, continuing the downward trend over the past five years (**Chart 6**). It is evident from the CBC's *Bank Lending Survey*⁶ that the demand for housing loans by households continued to increase in 2018Q2. At the same time, the housing lending criteria since 2010 have remained strict (**Chart 6**). In general, the ongoing recovery of the sector appears to be driven, *inter alia* by new viable loans.

According to the *European Commission's Business and Consumer Surveys*, employment expectations for the next three months in the construction sector averaged 8 for 2018Q2 compared with 4,5 in the same period of 2017. Furthermore, property price expectations for the next three months of the same

⁴ <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

⁵ Floating rate and up to one year fixed

⁶ <https://www.centralbank.cy/el/publications/surveys/bank-lending-survey>

period of 2018, averaged 10 compared with 4,4 in the same period of 2017.

In conclusion, the real estate sector in Cyprus is on an upward trend. Property prices are increasing at a moderate rate, except in the specific areas outlined in this report. Despite the decline in the NPEs, they are still among the highest in the euro area and remain a major challenge for the sector. Credit institutions need to make the most of the tools available in order to ameliorate this problem, since it is preventing the Cypriot economy from growing at its full potential.

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 |
| | Q2 | 75,3 | 75,3 | 75,5 | 79,2 | 68,6 | 75,4 | 69,6 | 75,3 |

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 |
| | Q2 | 78,2 | 83,1 | 63,0 | 67,2 | 59,4 | 74,3 | 77,8 | 70,5 | 79,9 | 72,1 |

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

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