



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2018 Q3

The residential property price index is still on an upward trend, recording significant increase in some districts

- The RPPI¹ (houses and apartments) continued its upward trend recording a 0,3% increase in 2018Q3. By district, the RPPI sub-indices for Limassol, Larnaca and Famagusta recorded an increase, while they remained constant in Nicosia and recorded a marginal decrease in Paphos. The house price index has remained constant while the apartment price index recorded a quarterly increase of 1,2%.
- The RPPI increased by 1,6% on an annual basis in 2018Q3. All RPPI district sub-indices have recorded annual increases. The largest annual increase in house prices was recorded in Famagusta (4,5%) and in apartment prices in Limassol (8,7%).
- The significant increase in apartment prices in Limassol seems to be driven by increased demand in specific areas, mainly coastal, partly due to the transactions that relate to the Cyprus Investment Program. Despite the generally moderate price increases in Cyprus, this upward trend, especially in Limassol, underlines the need for close monitoring of the developments.

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



¹ The CBC RPPI is calculated on the basis of market valuations of real estate prices and a statistical methodology that is 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.

Residential property price indices

The RPPI (houses and apartments) continues its moderate recovery, recording a quarterly increase of 0,3% in 2018Q3. House price indices have remained constant in 2018Q3 while apartment prices registered a quarterly increase of 1,2%. **(Chart 1)** This was the ninth consecutive quarterly increase in apartment prices.

Residential property prices recorded an increase of 1,6% on an annual basis in 2018Q3, compared with 1,4% in 2017Q3. House and apartment prices registered an annual increase of 0,8% and 3,9%, respectively, in 2018Q3 **(Chart 2)**.

The continued signs of recovery in the real estate sector in 2018Q3 seem to be related to foreign investment, as well as to new, sustainable lending to domestic residents. In addition, real estate and construction activity continues to recover. The latest legislative package approved by the parliament on July 2018 for enhancing the foreclosure and insolvency laws, for securitisation of loans and for the sale of loans is expected to further reduce the levels of NPLs held by banks and help them to further strengthen their Balance Sheets. The upgrading of Cyprus's rating to the investment grade by S & P, Fitch and DBRS is due inter alia to the above reforms.

Price changes by district

On a quarterly basis, residential property prices increased in the districts of Limassol, Larnaca and Famagusta, while they recorded a marginal decrease in Paphos and Nicosia. Specifically, residential property prices increased by 1,4% in Limassol, 1,3% in Famagusta, and 0,3% in Larnaca, while there was a reduction of 0,8% in Paphos. The index in Nicosia remained stable **(Chart 3)**. As regards annual changes in the RPPI by district, increases were recorded in all districts; in Famagusta there was a 4,1% annual increase, 3,6% in Limassol, 1,6% in Larnaca, 0,7% in Nicosia and 0,1% in Paphos **(Chart 4)**. This is the fourth consecutive quarter in which residential property price indices did not register negative annual change in any district.

House prices in Famagusta and Limassol registered quarterly increases of 0,9% and 0,7%, respectively. In Nicosia and Larnaca they registered marginal decreases of 0,1% and in Paphos a decrease of 1,7%. On an annual basis, house prices recorded an increase in all districts with the exception of Paphos where a decrease of 2% was registered. In Famagusta

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

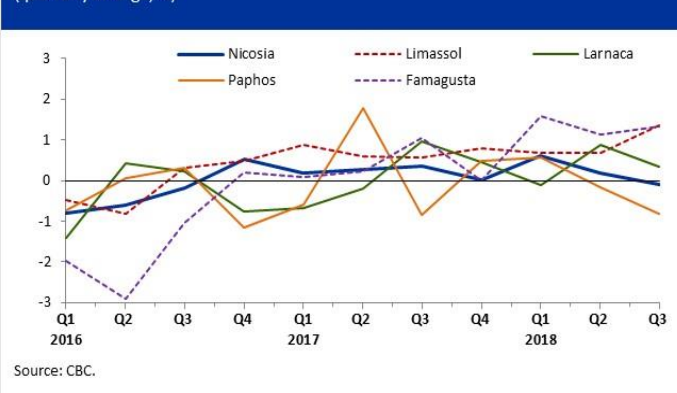
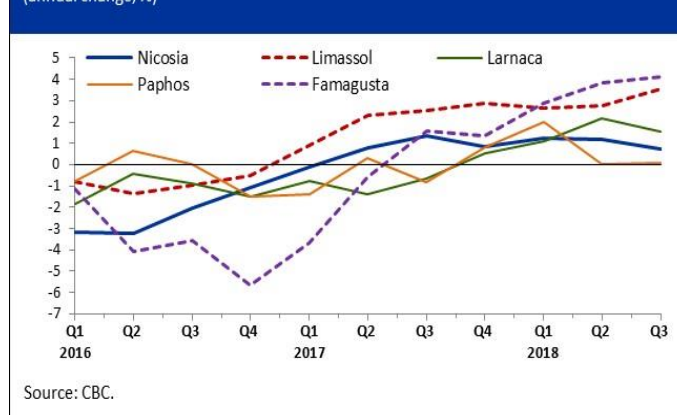


CHART 4 Residential property price indices by district (annual change, %)



house prices increased by 4,5%, in Limassol by 1,6%, in Larnaca by 1,1% and in Nicosia by 0,5%.

Apartment prices registered quarterly increases in all districts; in Famagusta by 3%, in Limassol by 2,9%, in Larnaca by 2,2%, in Paphos by 0,6% and in Nicosia by 0,1%. On an annual basis apartment prices also recorded increases in all districts. The largest increase was registered in Limassol (8,7%). Apartment prices recorded an annual increase of 5,2% in Paphos, 5% in Famagusta, 2,7% Larnaca and 1,2% in Nicosia.

During the last quarters, property prices in Limassol exhibited considerable increases, especially apartment prices which recorded higher annual increases than the rest of the districts. In fact, apartment price increases in Limassol accelerated, while house price increases are comparatively smaller than apartment increases. The strong increase in prices, which were also analysed in the previous RPPI report, seem to particularly affect the coastal areas of Limassol.

It is noted that sales of luxury homes to foreigners participating in the Cyprus Investment Program, are not particularly financed by the domestic banking system and are therefore not included in the valuation data

sent by the local banks to the CBC for the purpose of constructing the RPPI. However, these transactions seem to have an indirect, though significant, impact on specific areas of the Limassol district, which in turn has an effect on the accelerating increase in apartment prices. This is also supported by the significant increase in rents in Limassol, which, according to the Royal Institute of Chartered Surveyors (RICS) Cyprus, increased considerably over the past two years.

More recently, the districts of Paphos and Famagusta, which are also affected by foreign demand for real estate, recorded significant price increases as well. On the contrary, Nicosia registered more moderate increases and does not seem to be influenced significantly by foreign demand.

Other market indicators

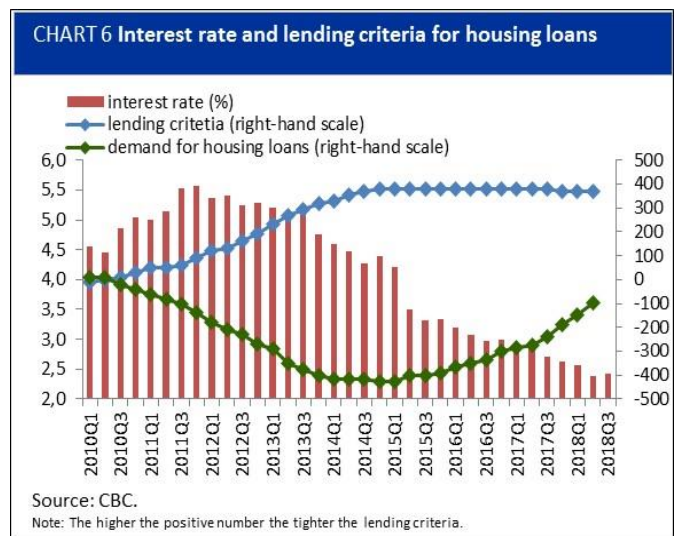
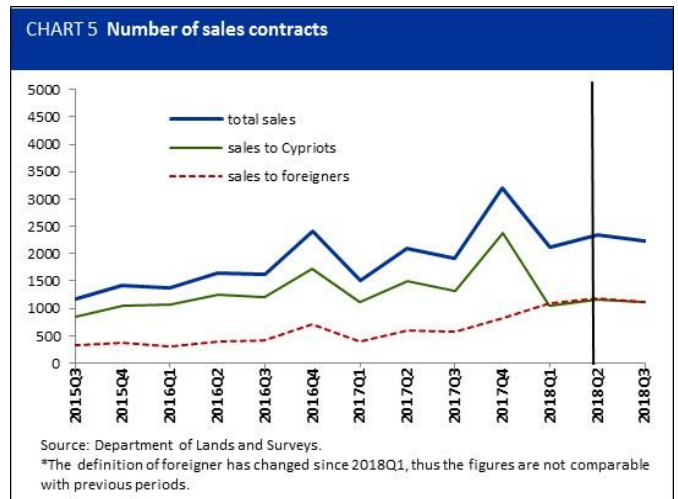
The recovery of residential property prices that was registered in 2018Q3 is consistent with other economic indicators.

In particular, data published by the Department of Lands and Surveys (DLS) in 2018Q3 indicate that the total number of sales contracts² recorded an annual increase of 16,9% (Chart 5). According to the DLS’s data, based on the new methodology of classification between locals and foreigners, the market is equally shared between local and foreign buyers. About 30% of the total purchasers in 2018 are third-country nationals, and probably most of them relate to the government’s scheme for naturalization of non-Cypriot investors by exception, as it includes real estate investment in its criteria. The rest 20% are European citizens.

The construction activity recorded an increase of 24,3% in 2018Q3. Despite the high rate of growth, it is noted that the level of construction activity is close to 2011 levels.

In addition, according to data published by Cystat, unemployment in the construction sector continued to drop reaching 1.847 individuals in 2018Q3, compared with 2.746 in 2017Q3. The highest level was recorded in 2013Q2, with an average of 7.622 unemployed persons.

² 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.



According to the CBC’s *Monetary and Financial Statistics*³, the interest rate for housing loans⁴ averaged 2,4% in 2018Q3, which was the lowest since data are available (Chart 6). According to the CBC’s *Bank Lending Survey*⁵, the demand for housing loans by households continued to increase in 2018Q3, the twelfth consecutive quarter of increase. More generally, the continued upward trend of the sector appears to be related to some extent to new, sustainable housing loans granted, given that the lending criteria applied by banks cumulatively from 2010 onwards remain at strict levels. (Chart 6).

Regarding the future trend of the sector, according to various indications, it is projected to remain upward in the coming quarters. More specifically, according to

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>

the *European Commission's Business and Consumer Surveys*, employment expectations for the next three months in the construction sector averaged 13,1 for 2018Q3 compared with 2,5 in the same period of 2017. Furthermore, property price expectations for the next three months averaged 16,1 for 2018Q3 compared with 4,4 in the same period of 2017.

In conclusion, the real estate sector is on an upward trend, along with the recovery of various macroeconomic indicators and the economy in general. Despite the generally moderate increase in prices, the dynamics, particularly, underline the need for close monitoring of the developments and a high degree of alertness.

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
	Q3	76,3	75,3	75,5	80,3	68,8	74,8	70,5	75,6

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
	Q3	78,3	85,5	64,4	67,6	61,2	74,2	78,3	70,4	78,5	72,8

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