



CENTRAL BANK OF CYPRUS

EUROSYSTEM

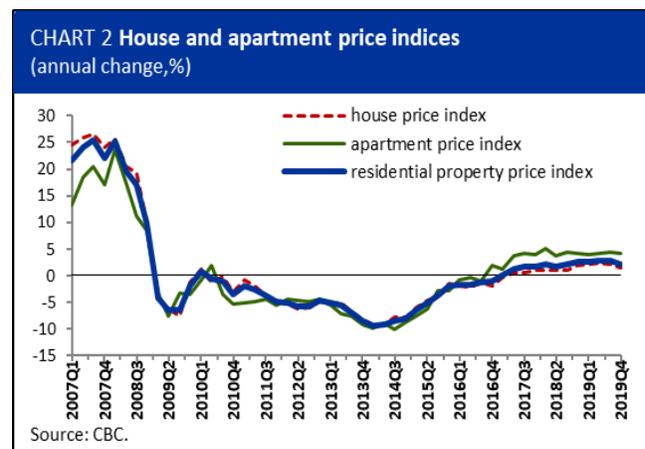
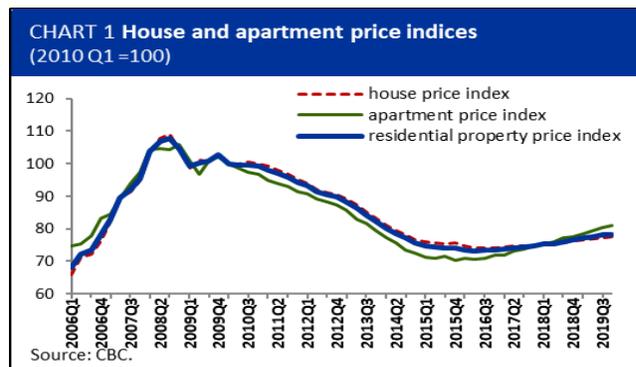
RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2019 Q4

Property price increases have decelerated

- The RPPI¹ continued its upward trend albeit with a slight deceleration compared with previous quarters. It recorded a quarterly increase of 0,3% compared with 0,7% in 2019Q3. The deceleration was exhibited in both apartment and house prices.
- Specifically, quarterly indices for apartments and houses increased by 0,5% and 0,2%, respectively, in 2019Q4 compared with 1,5% and 0,3%, respectively, in the previous quarter. The largest decrease was registered in apartment and house prices in Paphos (-3,0% and -0,9%, respectively). Prices in Larnaca and Famagusta also decreased, after several quarters of continuous increases.
- Deceleration was also observed in the annual change of the indices, where the RPPI increased by 2,2% in 2019Q4, compared with 2,8% in the previous two quarters. Property price indices increased annually both in apartments (4,1%) and in houses (1,5%). The largest annual increase in house prices was recorded in Famagusta (3,3%) and in apartments in Limassol and Larnaca (7,6% and 7,4% respectively).
- The deceleration observed in the increase of the RPPI reflected the decrease in demand for real estate from foreign investors due to mainly the stricter criteria in the Cyprus Investment Program (CIP)². On the contrary, local buyers seem to have provided significant support to the real estate market in 2019. This support is not expected to continue in 2020, due to the effects of the Covid-19 pandemic.

OVERVIEW	2019 Q1	2019 Q2	2019 Q3	2019 Q4
Quarterly Index (2010Q1=100)	77,2	77,6	78,1	78,3
Quarterly change	0,7%	0,5%	0,7%	0,3%
Annual change	2,7%	2,8%	2,8%	2,2%



¹ The CBC RPPI is calculated on the basis of market valuations of real estate prices and a 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_1atest.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.

² Through CIP, foreign investors can invest, inter alia, in the real estate market for a minimum of € 2m to acquire Cypriot citizenship.

Residential property price indices

The RPPI (houses and apartments) continued its upward trend, albeit at a decelerated trend, recording a quarterly increase of 0,3% in 2019Q4 compared with 0,7% in 2019Q3. House and apartment price indices registered a quarterly increase of 0,2% and 0,5%, respectively, in 2019Q4 compared with 0,3% and 1,5%, respectively, in 2019Q3 (**Chart 1**).

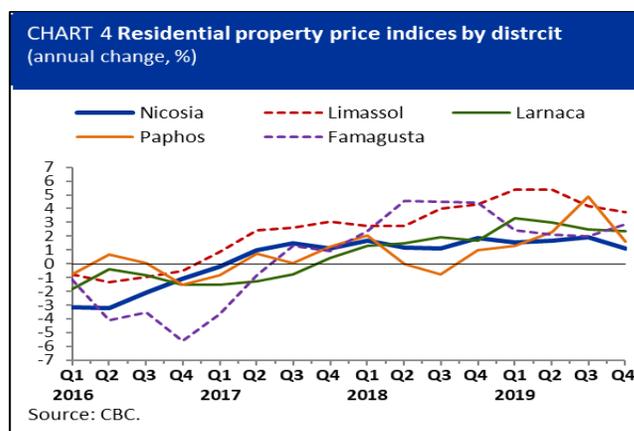
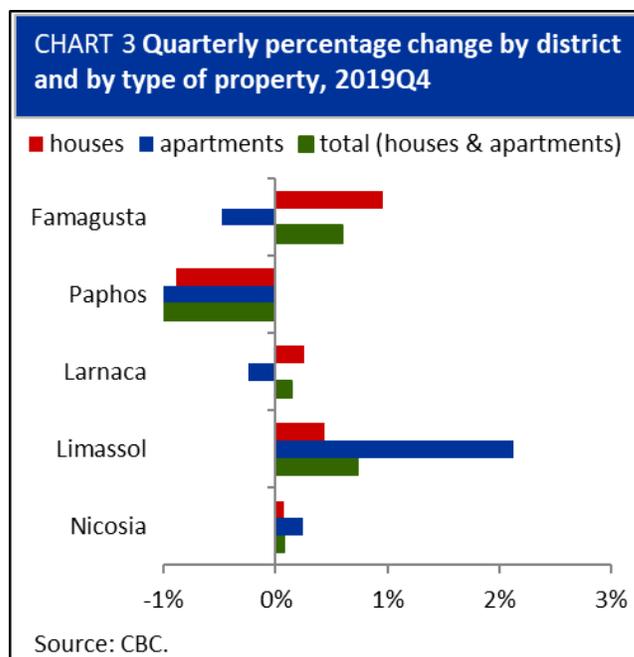
Residential property prices recorded an increase of 2,2% on an annual basis in 2019Q4 compared with 2,8% in 2019Q3. House and apartment prices registered an annual increase of 1,5% and 4,1% in 2019Q4 compared with 2,2% and 4,4%, respectively, in 2019Q3 (**Chart 2**).

In contrast to the CBC RPPI, the corresponding house price index of the Cyprus Statistical Service (Cystat) recorded a quarterly decrease of 3,7% and an annual decrease of 4,8% in 2019Q4. The house price index of Cystat recorded an annual increase of 2,3% in 2019Q3, a value relatively close to the CBC RPPI (2,8%). The difference in the results of the two indices reflect the different methodologies used. It is possible that the Cystat index (which is based on transaction prices of real estate) was affected by the large decrease in demand from foreign investors who usually buy more expensive real estate. At the same time, the CBC index, which is based on market valuations of real estate prices, is expected to be affected by the above developments in a more gradual way.

Price changes by district

On a quarterly basis, residential property prices increased in all districts as was the case in the previous two quarters, with the exception of Paphos which registered a quarterly decrease of 1,3%. Quarterly increase in residential prices was registered in Limassol by 0,7%, in Famagusta by 0,6% and in Nicosia and Larnaca by 0,1% (**Chart 3**). However, compared with the previous quarter, there is a relative deceleration in all districts' increases.

Even though the RPPI increased on an annual basis in all districts, a general deceleration was observed. An annual increase of 3,7% was observed in Limassol, in Famagusta 2,8%, in Larnaca 2,4%, in Paphos 1,6% and in Nicosia 1,1%. (**Chart 4**).



House prices in Famagusta, Limassol, Larnaca and Nicosia registered quarterly increases of 1,0%, 0,4%, 0,3% and 0,1%, respectively, while in Paphos a decrease of 0,9% was recorded. On an annual basis, house prices increased in all districts. In Famagusta house prices increased by 3,3%, in Limassol by 2,4%, in Nicosia by 1,1%, in Larnaca by 0,9% and in Paphos by 0,7%.

Apartment prices registered quarterly increases of 2,1% in Limassol and 0,3% in Nicosia, while they registered a decrease of 3%, 0,5% and 0,2% in Paphos, Famagusta and Larnaca, respectively. On an annual basis, apartment prices recorded increases in all districts for the seventh consecutive quarter even though in 2019Q4 the rate of increase decelerated. The only exception was Limassol where apartment prices increased by 7,6% compared with 6,8% in 2019Q3. Apartment prices in the quarter under examination increased in Larnaca, Paphos, Nicosia and Famagusta by

7,4%, 8,3%, 1,6%, 1,5% and 0,8%, respectively, compared with 8,3%, 5,3%, 2,1% and 2,3%, respectively, in 2019Q3.

The deceleration observed in the increase in residential property prices could be driven by the foreign market, as shown by the sales contracts registered with the Department of Lands and Surveys (DLS). This development reflects mainly the stricter criteria in the Cyprus Investment Program (CIP). According to preliminary indications, this deceleration in property prices is expected to continue in 2020. It is noted that due to the methodology used by the CBC in the calculation of the index, any reversal in the trend of property prices is reflected gradually and with a relative time lag. Therefore, it is expected that the decrease in demand observed in the second half of 2019 will be reflected more strongly in the relevant price index in the following quarters.

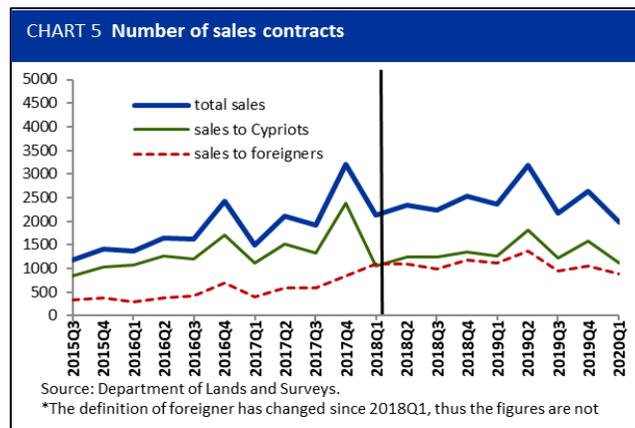
Other market indicators

The deceleration in the ongoing increase in residential property price indices observed in 2019Q4, is broadly consistent with other real estate and economic indicators. The number of sales contracts is the most important indicator for studying and drawing conclusions during this period.

Specifically, according to the Department of Lands and Surveys (DLS), sales contracts for real estate have recorded an annual increase of 12,2% in 2019 compared with 5,8% in 2018. This increase in 2019 is mainly attributed to local buyers whose demand increased by 20,7%, as demand from foreign buyers registered only a small increase of 2,6% in the same year. This significant deceleration in the increase of sales contracts by foreign investors is driven by the annual decrease of 9,6% registered in the second half of 2019 compared with the second half of 2018, due to the CIP's stricter criteria that apply since May 2019.

In 2020Q1, however, there is an annual decrease in the sales contracts of Cypriot buyers by 11%. This decrease reflects the significant decrease recorded in sales contracts since the imposition of restrictive measures as a response to the pandemic in mid-March. The decrease in sales contracts of foreign buyers for the same period was higher and reached 21,3% in 2020Q1 (Chart 5). Reduced aggregated demand by both local

and foreign buyers (-15,8%) in 2020Q1 indicates the uncertainty regarding the developments in the real estate sector in 2020 due to the effects of the pandemic.



According to data published by Cystat, construction activity (category buildings) recorded an annual increase of 13,6% in 2019Q4 registering a small slowdown compared with previous annual increases. Developments in the sector should be closely monitored since the construction activity will inevitably be affected by restrictive measures due to Covid-19.

The ongoing recovery of the construction sector in 2019 is also reflected by the reduction in unemployment in the sector in 2020Q1. Specifically, according to Cystat, unemployment in construction continued to decrease reaching an average of 1.283 in 2020Q1 compared with 1.780 in 2019Q1.

Authorised building permits for all types of real estate, which are considered to be a leading indicator of construction activity, recorded a considerable annual increase of 12,6% in 2019. The number of building permits for residential properties was 5.179 in the same year, corresponding to an annual increase of 16,2%. In January 2020, there was a small decrease of 1,1% in the number of authorised building permits.

According to CBC's Monetary and Financial Statistics³, the interest rate for housing loans⁴ averaged 2,10% in 2019Q4 compared with 2,11% in 2019Q3. It still remains at a very low level compared with available historic data. (Chart 6). Furthermore, according to the

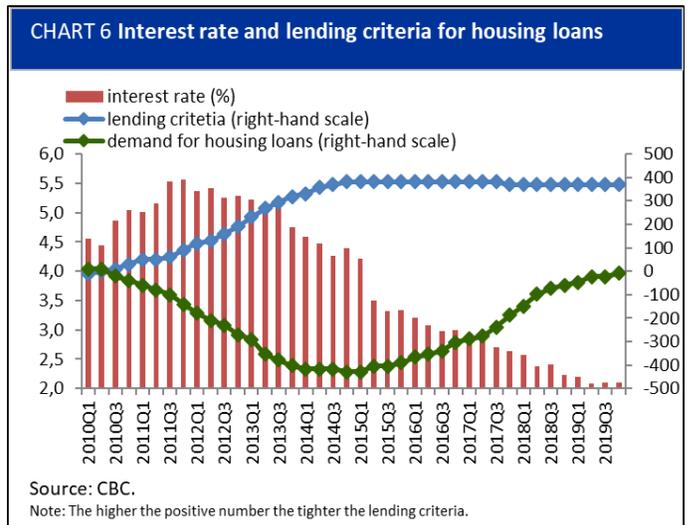
³ <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

⁴ Floating rate and up to one year fixed.

CBC’s Bank Lending Survey⁵, demand for housing loans by households increased in 2019Q4 compared with 2019Q3 (Chart 6).

According to Business and Consumer Surveys (BCS), the sector shows the first signs of deceleration in 2020Q1, after several quarters of continuous upward trend. Property price expectations in the next three months averaged at 12,6 in 2020Q1, compared with 14,5 in 2019Q1 (Chart 7). At the same time, the index of employment expectations in the next three months in the construction sector reached an average of 8,5 in 2020Q1, compared with 9,2 in 2019Q1.

Despite the problems faced in 2019, the year ended with a positive sign for the real estate sector, albeit with a relative slowdown in the second half of the year. However, the course of the real estate sector in 2020 seems uncertain and difficult due to the decrease in demand from both foreign investors (mainly due to the stricter criteria in the CIP) and local buyers (due to the effects of the Covid-19 on unemployment and their disposable income of the households). The effects of the above developments are expected to be clearer in the next market report for 2020Q1, when new data will be available.



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	Residences by type				Residences by district				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	-	73,4	74,6	74,9	77,4	67,4	75,3	67,2	74,3	
2018	-	76,6	75,6	76,0	80,1	68,5	75,7	69,9	75,8	
2019	Q1	78,4	76,7	76,8	82,9	69,9	77,0	70,2	77,2	
	Q2	79,3	77,0	77,0	83,6	70,3	77,5	71,4	77,6	
	Q3	80,5	77,2	77,4	84,1	70,7	78,5	72,0	78,1	
	Q4	80,9	77,4	77,9	84,7	70,8	77,5	72,5	78,3	

Source: CBC.

*The annual data for the years between 2006 and 2018 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, 2010Q1 = 100)

Year*	Quarter	Apartments					Houses				
		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	97,0	97,1	100,1	99,4	100,4	101,4	100,1
2011	-	99,0	91,8	88,7	82,7	83,1	98,5	95,1	96,8	99,1	97,2
2012	-	95,2	88,3	82,2	76,9	76,8	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	-	77,0	78,6	61,8	64,2	57,4	73,9	76,9	69,5	80,2	69,4
2018	-	78,9	84,6	63,5	67,6	59,5	74,6	78,4	70,1	79,8	72,4
2019	Q1	79,6	88,0	67,4	68,9	60,8	75,6	81,0	70,7	80,7	72,4
	Q2	80,0	89,6	68,8	69,1	61,9	75,7	81,2	70,8	81,4	73,6
	Q3	80,6	91,7	69,9	71,1	62,2	76,0	81,3	70,9	81,9	74,3
	Q4	80,8	93,7	69,8	68,9	61,9	76,1	81,6	71,1	81,2	75,0

Source: CBC.

*The annual data for the years between 2010 and 2018 are calculated as the average of the four quarters of each respective year.

Table 3 Residential property price indices by type and by district
(annual change, %)

Year*	Quarter	Residences by type		Residences by district					Residential property price index
		Apartments	Houses	N/sia	L/sol	L/ca	Paphos	F/sta	
2007	-	17,4	25,3	18,9	22,1	27,3	8,3	32,1	23,3
2008	-	14,8	18,6	17,9	22,5	13,8	9,1	17,9	17,6
2009	-	-4,4	-4,9	-4,0	-6,2	-1,9	1,8	-1,9	-4,7
2010	-	-2,0	-0,8	-0,6	2,1	-1,8	-2,6	-4,7	-1,1
2011	-	-5,0	-2,9	-1,3	-4,6	-4,6	-4,9	-5,1	-3,3
2012	-	-4,6	-5,6	-4,3	-3,8	-8,1	-8,2	-6,9	-5,3
2013	-	-7,3	-6,2	-7,0	-4,8	-8,9	-4,8	-8,9	-6,5
2014	-	-9,4	-8,5	-8,5	-8,0	-9,3	-7,0	-11,2	-8,8
2015	-	-4,9	-4,0	-5,3	-4,0	-4,6	-2,7	-1,4	-4,3
2016	-	-0,1	-1,8	-2,4	-0,9	-1,2	-0,4	-3,6	-1,4
2017	-	3,3	0,5	0,9	2,2	-0,8	0,3	-0,6	1,2
2018	-	4,4	1,2	1,5	3,5	1,6	0,6	4,0	2,1
2019	Q1	4,0	2,1	1,5	5,4	3,3	1,3	2,4	2,7
	Q2	4,3	2,3	1,7	5,4	3,0	2,3	2,1	2,8
	Q3	4,4	2,2	1,9	4,2	2,5	4,9	2,0	2,8
	Q4	4,1	1,5	1,1	3,7	2,4	1,6	2,8	2,2

Source: CBC.

*The annual data for the years between 2007 and 2018 are calculated as the annual change between the average level of the index for the four quarters of each respective year and the previous year.

Table 4 Apartment and house price indices by district
(quarterly data, %)

Year	Quarter	Apartments					Houses				
		N/sia	L/sol	L/ca	Paphos	F/sta	N/sia	L/sol	L/ca	Paphos	F/sta
2018	Q1	0,8	1,5	-0,4	3,6	0,7	0,5	0,2	-0,6	0,3	1,7
2018	Q2	0,1	1,9	2,1	-0,2	3,2	0,1	0,3	0,3	-0,2	1,9
2018	Q3	0,5	2,9	2,7	-0,2	3,4	0,1	1,3	0,6	-1,7	0,5
2018	Q4	0,8	1,3	0,6	0,5	1,1	0,9	1,2	0,1	2,6	-0,7
2019	Q1	-0,1	1,1	3,8	1,7	-1,1	0,5	1,6	0,4	0,1	-0,3
2019	Q2	0,6	1,8	2,0	0,2	1,9	0,1	0,3	0,1	0,9	1,6
2019	Q3	0,7	2,4	1,7	2,9	0,5	0,4	0,1	0,1	0,6	1,0
2019	Q4	0,3	2,1	-0,2	-3,0	-0,5	0,1	0,4	0,3	-0,9	1,0

Source: CBC.

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, National Bank of Greece, Astro Bank, Cyprus Development Bank, Société Générale and Eurobank) and the Cyprus Asset Management Company 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