



# CENTRAL BANK OF CYPRUS

EUROSYSTEM

## RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2020 Q4

### A marginal quarterly decrease was recorded for the second consecutive quarter.

- The Residential Property Price Index (RPPI)<sup>1</sup> recorded a marginal decrease in 2020Q4, for the second consecutive quarter. More specifically the RPPI recorded a quarterly decrease of 0,2% compared with a decrease of 0,4% in 2020Q3. On an annual basis, a deceleration of 0,8% was recorded compared with an increase of 1,2% in 2020Q3.
- House prices recorded a quarterly decrease of 0,5% compared with a quarterly increase of 0,7% in apartment prices. Similarly, on an annual basis, house prices marginally decreased by 0,1% while apartment prices increased by 2,7%, compared with 2020Q3. The trend observed in residential prices by type of property, indicates a shift in the preferences of buyers and investors towards apartments vis-à-vis to houses.
- The partial subsidisation of the interest rate on housing loans by the state supported residential property demand, especially in 2020. A shift in preferences towards cheaper or smaller properties is being registered during the last few years, resulting in an increased supply for apartments compared to houses. The latter is confirmed by the increase in building permits for residential properties, which at the same time recorded a decrease in the total area and value of permits.
- The quarterly increase in apartment prices in Larnaca could probably be due to the demand from foreign investors, in the context of the permanent residency scheme in Cyprus.

Overview	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Residential property price index (2010 Q1=100)	78,6	79,4	79,1	78,9
Quarterly change	0,4%	0,9%	-0,4%	-0,2%
Annual Change	1,8%	2,2%	1,2%	0,8%
(a) Property price index Houses (2010Q1=100)	77,4	78,1	77,8	77,3
Quarterly change	0%	1%	-0,5%	-0,5%
Annual change	0,8%	1,5%	0,7%	-0,1%
(b) Property price index apartments (2010Q1=100)	82,0	82,7	82,5	83,1
Quarterly change	1,4%	0,8%	-0,2%	0,7%
Annual change	4,6%	4,3%	2,5%	2,7%

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



### Changes of the residential property price index (RPPI)

The RPPI (houses and apartments) recorded a marginal decrease in 2020Q4 for the second consecutive quarter. The RPPI registered a quarterly decrease of 0,2% in 2020Q4, compared with a decrease of 0,4% in 2020Q3.

The downward trend in RPPI is due to the decrease in house prices by 0,5% compared with the previous quarter. On the other hand, apartment prices recorded a quarterly increase of 0,7% compared with a decrease recorded in 2020Q3 (Chart 1, p. 1).

On an annual basis, the deceleration in RPPI continues, with residential prices increasing by 0,8% in 2020Q4 compared with 1,2% in 2020Q3. House prices recorded a marginal decrease of 0,1% in the quarter under review compared with the corresponding quarter of last year. On the other hand, apartment prices increased by 2,7% on annual basis, continuing, however, their decelerating trend (Chart 2).

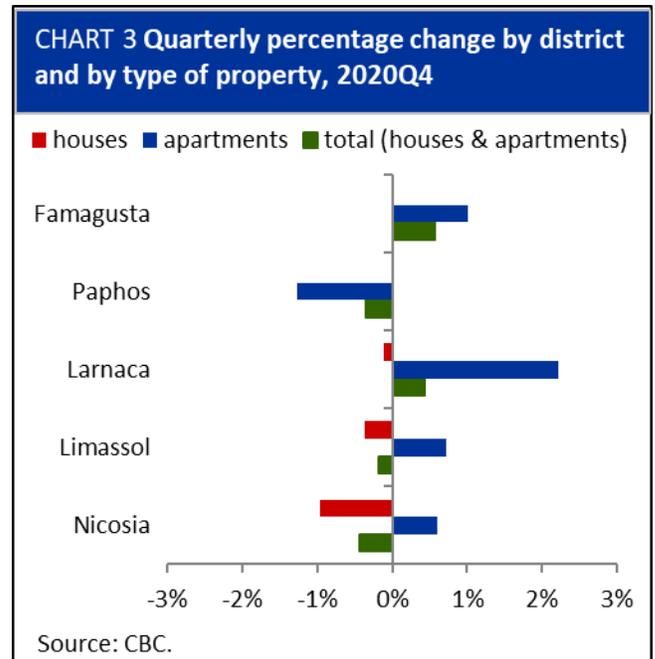


Overall, for the whole of 2020, the RPPI recorded a deceleration, increasing by 1,5% compared with an increase of 2,5% in 2019. House and apartment prices recorded an increase of 3,5% and 0,7%, respectively.

The greater resilience of the apartment prices may be due to a shift in the preferences of buyers and investors towards apartments instead of houses. Given the current environment of low interest rates, investment in the real estate sector, such as investing in apartments to let, continues to offer higher returns compared to other types of investments or deposits. Furthermore, apartments are a more affordable option for first-time home buyers compared to houses. At the same time, demand for real estate is supported by the state’s scheme for partial subsidization of the interest rates on housing loans amid the pandemic.

### Price changes by district

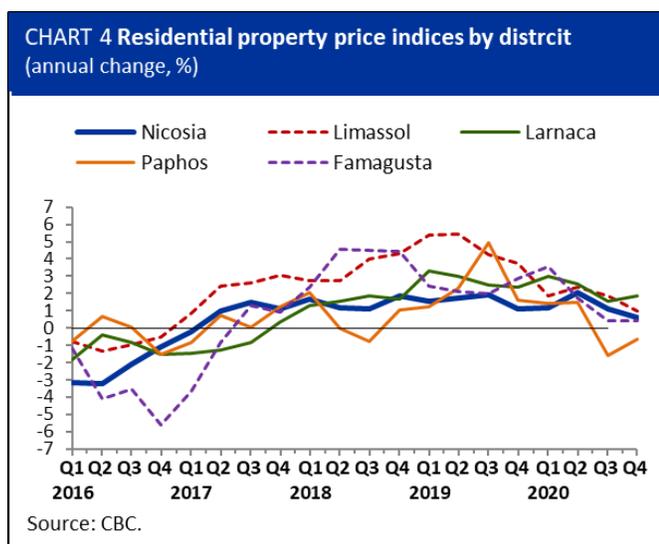
In 2020Q4, the RPPI recorded decreases on a quarterly basis in Nicosia, Limassol and Paphos, while residential property prices increased in Larnaca and Famagusta. In particular, residential prices in Nicosia decreased by 0,4%, in Limassol by 0,2% and in Paphos by 0,4%. On the other hand, residential prices in Larnaca increased by 0,4% and in Famagusta by 0,6% (Chart 3).



On an annual basis, the RPPI by district recorded a deceleration in Nicosia and Limassol, increasing by 0,6% and 1% respectively, compared with 2019Q4. In Paphos, there was a 0,6% decrease, while in Famagusta residential property prices remained stable. On the contrary, residential property prices in Larnaca increased by 1,8% on an annual basis, compared with an increase of 1,6% in 2020Q3 (Chart 4, p. 3).

On a quarterly basis, house prices recorded a slight decrease or stabilisation in all districts. In particular, in Nicosia, Limassol and Larnaca residential property prices decreased by 1%, 0,4% and 0,1%, respectively. On the other hand, prices in Paphos and Famagusta remained stable. On an annual basis, the deceleration in house prices persists. In Limassol prices remained stable, while in Larnaca and Famagusta they increased by 0,7%, and 1,1% respectively. In Nicosia and Paphos were recorded decreases of 0,3% and 0,8%, respectively, compared with 2019Q4.

Apartment prices recorded a quarterly increase in all districts except in Paphos, where they decreased by 1,3%. In particular, apartment prices in Nicosia increased by 0,6%, in Limassol by 0,7%, in Larnaca by 2,2% and in Famagusta by 1%. Similarly on an annual basis, apartment prices recorded an increase in all districts with the exception of Paphos, where prices decreased by 0,9% compared with 2019Q4. The deceleration continues in Limassol, with prices increasing on annual basis by 3,5% compared with an annual increase of 5% and 8,2% recorded in the previous two quarters. Apartment prices increased by 2,5% in Nicosia and by 0,6% in Famagusta, where they decreased by 0,9% in the previous quarter.



In Larnaca there was a significant increase of 5,6% in apartment prices on an annual basis, compared with 3% in 2020Q3. The increases in apartment prices recorded in Larnaca are possibly due to demand from foreign investors, in the context of the scheme of obtaining permanent residence in Cyprus. Specifically, this trend appears to be partly caused by the purchase of secondary homes in Cyprus by foreign investors, with their preferences focusing mostly in Larnaca.

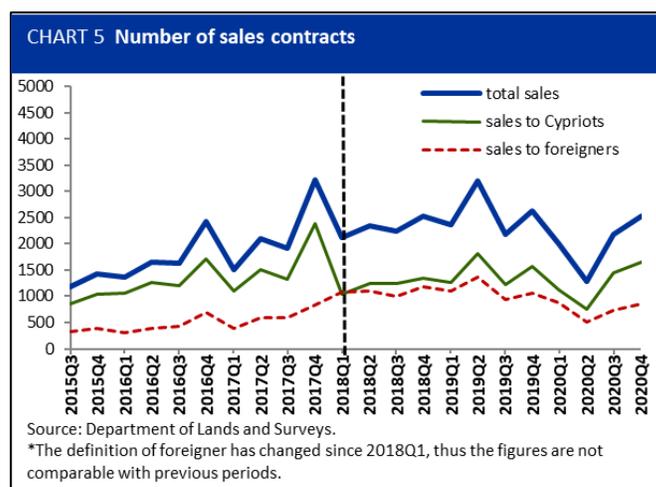
Despite the overall uncertainty that prevails in the real estate market due to the pandemic, residential prices recorded relatively small decreases in the quarter under review. This is mainly driven by demand from domestic buyers especially in Nicosia, which historically depends on local investors. The fact that in 2020Q4 the number of sales contracts by local buyers recorded an increase on an annual basis compared with 2019Q4, is indicative of the support that local buyers provide to the real estate sector, as demand from abroad has been

considerably reduced due to the pandemic and other reasons mentioned above.

### Other market indicators

The interest of local buyers in real estate and the support they provide to the market appears to be verified by various real estate and economic indicators, such as sales contracts.

According to the most recent data published by the Department of Lands and Surveys (DLS), sales contracts for real estate in 2020Q4 have recorded an annual decrease of 4% compared with an increase of 3,7% in 2019Q4. Demand from foreign investors dropped by 17,6%, while demand from local buyers increased by 5% (Chart 5). Furthermore, the share of local buyers as a percentage of total transactions increased from 53% in 2018 and 57% in 2019 to 63% in 2020.

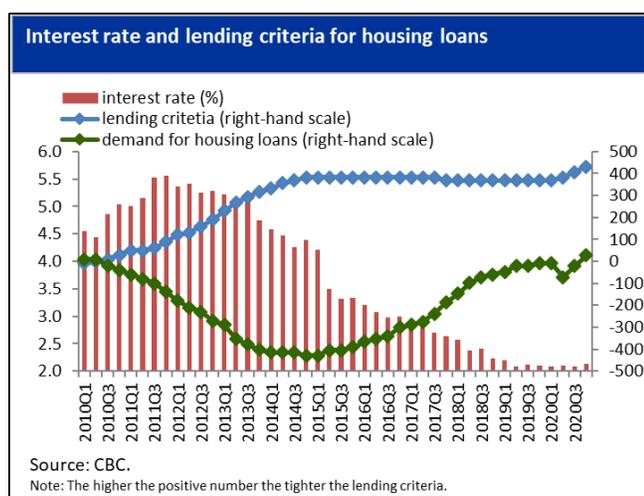


The decrease in purchases from foreigners was expected due to both the measures adopted to contain the pandemic, as well as the termination of the Cyprus Investment Program (CIP) in November 2020. On the other hand, while in the first half of 2020 sales by locals were significantly reduced, in the second half of 2020 they recorded an increase of 65%, compared with the first half of the year. This reinforces the view that the incentive given by the state's partial subsidisation of interest rates for housing loans seems to have positively affected Cypriots to enter the real estate market (Chart 5).

According to the CBC's Monetary Statistics, new housing loans in 2020 stood at €783,2 million compared with €876,4 million in 2019, due to the reduced demand in the first half of the year. However, following the state's partial subsidisation of interest rates for housing loans, an annual increase of 27,8%

was recorded in 2020Q4 compared with 2019Q4 (€265 millions in 2020Q4 compared with €207 millions in 2019Q4) as well as a quarterly increase of 25% (€211,9 millions in 2020Q3). The above data reinforce the fact that the government's scheme for partial subsidisation of interest rates for housing loans supported demand from locals.

According to CBC's Monetary and Financial Statistics<sup>1</sup>, the interest rate for housing loans<sup>2</sup> averaged to 2,13% in 2020Q4 compared with 2,08% in 2020Q3. It still remains at a very low level compared with available historical data. (Chart 6). The chart also shows the continuing increase in demand for housing loans in 2020Q4 compared with the previous quarter, as recorded by the Bank Lending Survey in January 2021. This is in line with CBC's Monetary Statistics historical data.



The number of authorised building permits for residential properties, which is considered to be a leading indicator to construction activity, recorded a decrease of 4,4% on an annual basis in 2020Q4. The decrease is mainly due to the reduction recorded in October 2020, when the number of authorised building permits decreased by 10,9% compared with the same period in 2019. Decreases were also recorded in both

the total area and the value per square meter of authorised residential properties in 2020Q4. Indicatively, the value per square meter of authorised dwellings decreased from € 1,18 / sq.m. in 2019Q4 to € 1,10 / sq.m. in 2020Q4. Furthermore, the area per permit issued in 2020Q4 decreased to 389 sq.m. compared with 416 sq.m. in 2019Q4.

According to Business and Consumer Surveys (BCS) in 2020Q4, the real estate sector shows a decrease, following the increase recorded in 2020Q3. Property price expectations for the next three months averaged -2,77 in 2020Q4, compared with 2,67 in 2020Q3. At the same time, the index of employment expectations for the next three months in the construction sector decreased for a second consecutive quarter, to an average of -3,17 in 2020Q4 compared with -1,43 in 2020Q3.

In conclusion, the containment measures imposed in 2020 due to the pandemic, as well as the termination of the CIP, had, inevitably, negative effects on real estate transactions. Despite the decline in foreign investor demand, it appears that transactions by local investors have supported the real estate market. In the second half of 2020, the state's interest rate subsidy on housing loans contributed to support demand and economic activity in the real estate sector. Local demand has offset to some extent the impact of the pandemic, as reflected by the decline in foreign investor demand.

<sup>1</sup> <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

<sup>2</sup> 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	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	-	78,8	77,1	77,2	83,8	70,4	77,6	71,5	77,8
2020	-	82,6	77,6	78,1	85,3	72,0	77,8	72,6	79,0

Source: CBC.

\*The annual index between 2006 and 2020 is calculated as the average of the four quarters of each 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	-	80,3	90,8	69,0	69,5	61,7	75,9	81,3	70,9	81,3	73,8
2020	-	82,2	96,3	71,9	70,0	62,0	76,4	81,5	72,0	80,9	75,7

Source: CBC.

\*The annual index between 2006 and 2020 is calculated as the average of the four quarters of each year.

Table 3 Residential property price indices by type and by district

(y-o-y, %)

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	
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	-	4,2	2,0	1,6	4,7	2,8	2,5	2,3	2,6
2020	-	3,5	0,7	1,2	1,8	2,2	0,2	1,5	1,5

Source: CBC.

\*The annual index between 2006 and 2020 is calculated as the average of the four quarters of each year.

Table 4 Apartment and house price indices by district

(q-o-q, %)

Year	Quarter	<u>Apartments</u>					<u>Houses</u>				
		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
2020	Q1	0,8	1,3	1,5	4,4	0,4	0,2	-1,0	1,8	-0,6	0,6
2020	Q2	0,9	2,1	0,4	-1,7	-0,6	1,2	1,0	0,0	1,5	0,5
2020	Q3	0,3	-0,6	1,3	-2,2	-0,3	-0,8	0,4	-1,0	-1,6	0,0
2020	Q4	0,6	0,7	2,2	-1,3	1,0	-1,0	-0,4	-0,1	0,0	0,0

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](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](http://www.centralbank.gov.cy/ngcontent.cfm?a_id=11836&lang=en)