



CENTRAL BANK OF CYPRUS

EUROSYSTEM

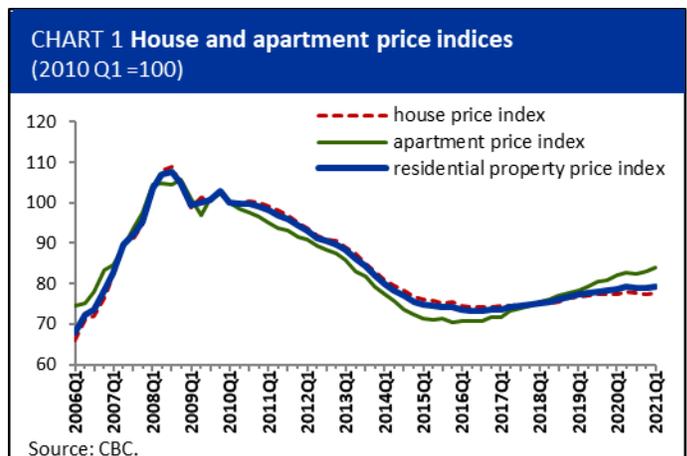
RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2021 Q1

Rebound of the RPPI on quarterly basis after two consecutive quarters of negative growth.

- The Residential Property Price Index (RPPI – apartments and houses)¹ recorded a quarterly increase in 2021Q1, after two consecutive quarters of negative growth. More specifically the RPPI recorded a quarterly increase of 0,5% compared with a decrease of 0,2% in 2020Q4. On an annual basis, an increase of 0,9% was recorded compared with an increase of 0,8% in 2020Q4.
- House prices recorded a quarterly increase of 0,2% compared with a quarterly increase of 1,2% in apartment prices. Similarly, on an annual basis, house prices increased marginally by 0,2%, while apartment prices increased by 2,5%, compared with 2020Q1. The increase observed in prices by type of residential property reflects the shift in preferences of buyers and investors towards flats instead of houses in most districts, while in Limassol and Larnaca, demand for small houses is higher.
- According to real estate market professionals, in most districts there is higher demand from domestic buyers, mainly for apartments and houses of smaller size and value, than in the past. This is attributed, among others, to buyers who intend to take advantage of the government’s interest rate subsidization on loans for the purchase of household’s main residence, buyers who purchase holiday homes or investors who purchase buy-to-let properties. On the other hand, interest in luxury, coastal real estate has been reduced due to the termination of the CIP.

Overview	2020 Q2	2020 Q3	2020 Q4	2021 Q1
Residential property price index (2010 Q1=100)	79,4	79,1	78,9	79,3
Quarterly change	0,9%	-0,4%	-0,2%	0,5%
Annual Change	2,2%	1,2%	0,8%	0,9%
(a) Property price index Houses (2010Q1=100)	78,1	77,8	77,3	77,5
Quarterly change	1%	-0,5%	-0,5%	0,2%
Annual change	1,5%	0,7%	-0,1%	0,2%
(b) Property price index apartments (2010Q1=100)	82,7	82,5	83,1	84,1
Quarterly change	0,8%	-0,2%	0,7%	1,2%
Annual change	4,3%	2,5%	2,7%	2,5%



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:

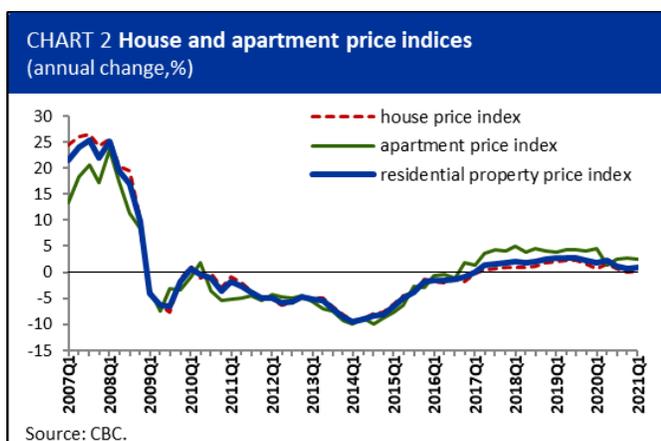
https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf). Therefore, it is likely that there will be a short lag in capturing turning points in the market with respect to both time and the magnitude of the recovery.

Changes of the residential property price index (RPPI)

The RPPI (houses and apartments) recorded an increase in 2021Q1, after two consecutive quarters of negative growth. The RPPI registered a quarterly increase of 0,5% in 2021Q1, compared with a decrease of 0,2% in 2020Q4.

The rebound of the RPPI is mainly due to the 1,2% increase in apartment prices, compared with the previous quarter. At the same time, house prices increased marginally by 0,2% (Chart 1, p. 1).

On an annual basis, there is stabilization in the growth of the RPPI, with residential prices increasing by 0,9% in 2021Q1 compared with 0,8% in 2020Q4. The difference between the two RPPI sub-indices by type of property persists. Specifically, house prices during the quarter under review recorded a small increase of 0,2%, while apartment prices increased by 2,5%, but continued to decelerate (Chart 2).



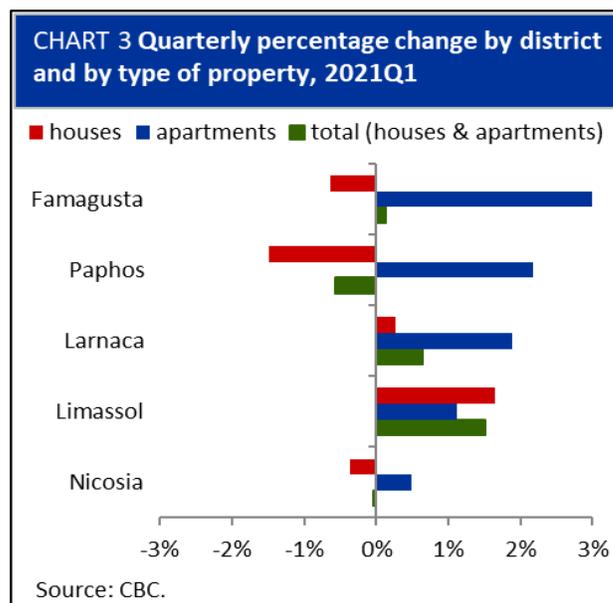
Since the beginning of the pandemic, the real estate market goes through a period of adjustment, which is due, inter-alia, to the shift in the preferences of buyers and investors towards apartments or smaller and cheaper houses. Domestic demand, which proved to be particularly resilient during the pandemic, was supported by the government's scheme for partial subsidization of interest rates on housing loans for the purchase of household's main residence. This helped to contain reductions in property prices due to lower demand during the pandemic and in many cases even contributed to small increases in property prices.

Price changes by district

In 2021Q1, the RPPI recorded increases on a quarterly basis in Limassol, Larnaca and Famagusta,

while residential property prices decreased in Paphos and remained stable in Nicosia. In particular, residential prices in Limassol increased by 1,5%, in Larnaca by 0,6% and in Famagusta by 0,1%. On the other hand, residential prices in Paphos decreased by 0,6% (Chart 3).

On an annual basis, the RPPI by district recorded

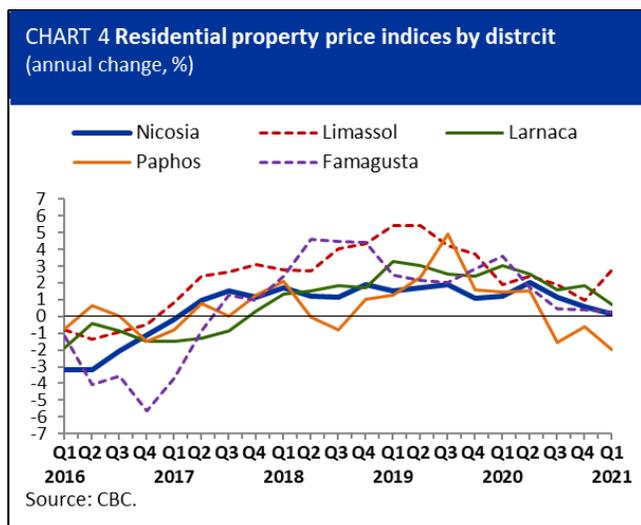


increases in all districts except in Paphos. More specifically, in Nicosia residential prices increased by 0,2%, in Famagusta by 0,3% and in Larnaca by 0,7%. A significant increase was recorded in Limassol, where the residential price index increased by 2,8% compared with 2020Q1. On the contrary, residential property prices in Paphos continued their downward trend, decreasing by 2% on an annual basis (Chart 4, p. 3).

On a quarterly basis, house prices fell in all districts except in Limassol and Larnaca. In particular, residential property prices in Nicosia, Paphos and Famagusta, decreased by 0,4%, 1,5% and 0,6%, respectively. On the other hand, house prices in Limassol and Larnaca increased by 1,6% and 0,3% respectively. On an annual basis, house prices fell in all districts except in Limassol, where they rose by 2,7%. Specifically, house prices in Nicosia decreased by 0,9%, in Larnaca by 0,8% and in Paphos by 1,6%. In Famagusta prices fell only marginally, by 0,1%.

Apartment prices recorded quarterly increases in all districts, after four consecutive quarters. In particular, apartment prices in Nicosia increased by 0,5%, in Limassol by 1,1%, in Larnaca by 1,9%, in Paphos by 2,2% and in Famagusta by 3%. Similarly, on an annual basis, apartment prices recorded an increase in all districts

with the exception of Paphos, where prices decreased by 3% compared with 2020Q1. Indicatively, in Nicosia apartment prices increased by 2,2% and in Famagusta by 3,2%. In Limassol, apartment prices increased by 3,4% compared with an increase of 3,5% recorded in 2020Q4. In Larnaca, there was a significant increase in apartment prices on an annual basis as well, with prices increasing by 6% compared with an increase of 5,6% recorded in 2020Q4.

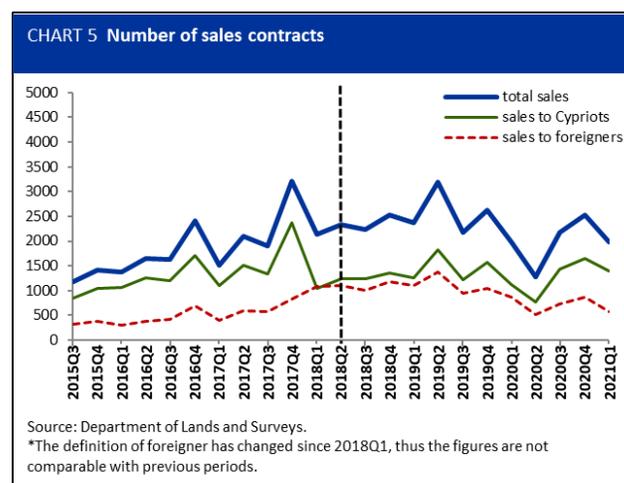


This quarter, similar to the previous one and despite the uncertainty induced by the pandemic, residential property prices continue to register increases or relatively small decreases. As discussed in previous reports, this is mainly due to the demand from local buyers. Specifically, apart from Nicosia, which historically depends on local investors, there is an increasing interest, according to real estate market professionals, in purchasing holiday homes in coastal areas and specifically in Famagusta. On the other hand, demand from local buyers does not appear to be sufficient to offset the decline in demand from foreign buyers and investors in Paphos, which is reflected in the downward trend in house prices in the district.

Other market indicators

The declining interest of local buyers in real estate and the lower 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 2021Q1 have recorded a small annual decrease of 0,3% compared with a decrease of 15,8% in 2020Q1. Demand from foreign investors dropped by 33%, while demand from local buyers increased by 25,2% (**Chart 5**). Furthermore, the share of local buyers as a percentage of total transactions increased from 56,1% in 2020Q1 to 70,5% in 2021Q1. The decrease in purchases from foreigners was expected both due to the measures adopted to contain the pandemic, as well as the termination of the Cyprus Investment Program (CIP) in November 2020.

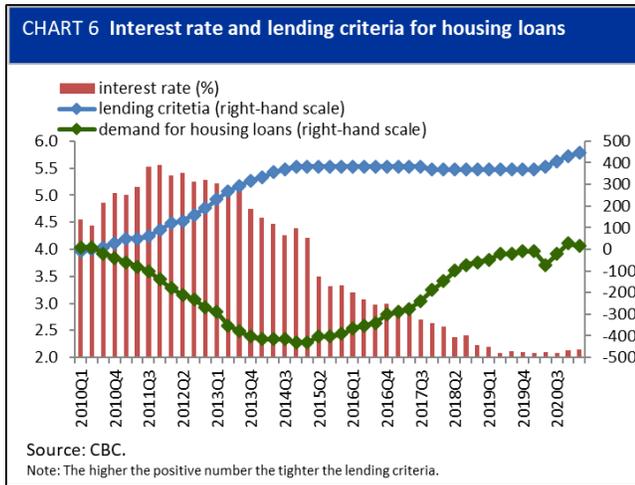


According to the CBC's Monetary and Financial Statistics², new housing loans in 2021Q1 compared with the corresponding quarter of 2020 increased by 38,5% (€ 228,2 million in 2021Q1 compared with € 164,8 million in 2020Q1). In contrast, new housing loans in 2021Q1 compared with 2020Q4 decreased by 13,9% in the quarter under review (€ 228,2 million compared with €265,0 million in 2020Q4).

According to CBC's Monetary and Financial Statistics, the interest rate for housing loans³ averaged to 2,15% in 2021Q1 compared with 2,13% in 2020Q4. 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.

² <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

³ Floating rate and up to one year fixed.



The number of authorised building permits for residential properties, which is a leading indicator to construction activity, recorded an increase of 1,8% on an annual basis in the first two months of 2021. Small decreases were also recorded in both the total area and the value per square meter of authorised residential properties in the period under review. Indicatively, the value per square meter of authorised dwellings decreased from € 1,05 / sq.m. in the first two months of 2020 to € 1,01 / sq.m. in the corresponding period of 2021. Furthermore, the area per permit issued in the first two months of 2021 decreased to 313 sq.m. compared with 322 sq.m. in the first two months of 2020.

According to Business and Consumer Surveys (BCS) in 2020Q4, the real estate sector shows a significant increase, following the decrease recorded in 2020Q4. Property price expectations for the next three months averaged 0,23 in 2021Q1, compared with -2,77 in 2020Q4. At the same time, the index of employment expectations for the next three months in the construction sector decreased for a third consecutive quarter, to an average of -3,87 in 2021Q1 compared with -3,17 in 2020Q4.

In conclusion, despite the restrictive measures imposed in 2021Q1 due to the pandemic, as well as the termination of the CIP, the real estate market exhibits resilience. Higher demand from local buyers, partly due to the state’s interest rate subsidy on housing loans, appears to offset the decline in foreign demand. Local buyers show a preference for apartments or smaller and less expensive houses, which is reflected in the price increases observed for these types of properties, across all districts.

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
2021	Q1	84,1	77,5	77,9	86,8	72,5	76,5	72,9	79,3

Source: CBC.

*The annual index 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
2021	Q1	83,2	98,1	75,0	69,8	64,2	75,5	83,0	71,8	79,4	75,3

Source: CBC.

*The annual index 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
2021	Q1	2,5	0,2	0,2	2,8	0,7	-2,0	0,3	0,9

Source: CBC.

*The annual index 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
2021	Q1	0,5	1,1	1,9	2,2	3,0	-0,4	1,6	0,3	-1,5	-0,6

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/ngcontent.cfm?a_id=11836&lang=en