



# CENTRAL BANK OF CYPRUS

EUROSYSTEM

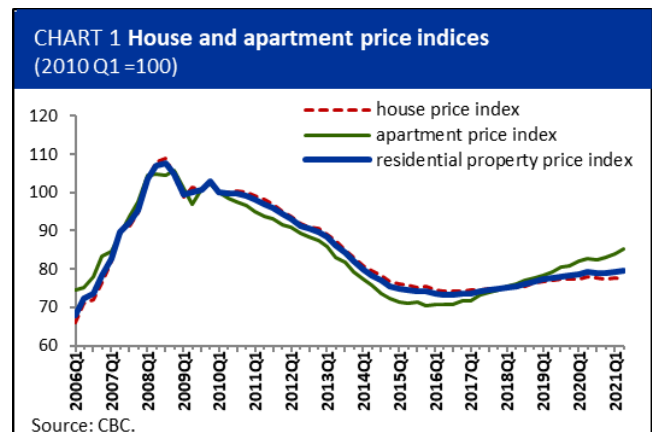
## RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

### 2021 Q2

Deceleration in the increases of the Residential Property Price Index (RPPI), both quarterly and annually, as a result of a small decrease in house prices and an increase in apartment prices.

- The increase in the RPPI (apartments and houses)<sup>1</sup> recorded a deceleration in 2021Q2. Specifically, the RPPI recorded a quarterly increase of 0,3% compared with 0,5% in 2021Q1. On an annual basis, an increase of 0,2% was recorded, compared with an increase of 0,9% in 2021Q1.
- House prices displayed a different picture than apartment prices, with the former recording reductions, while apartment prices recorded increases. More specifically, house prices decreased both on a quarterly and on an annual basis, by 0,3% and 1%, respectively. On the contrary, apartment prices increased by 1,3% on a quarterly basis and by 3% on an annual basis. This trend prevails in all districts with the exception of Limassol, which records increases in house prices. In Paphos, an annual decrease is registered in both house and apartment prices. The increase in apartment prices reflects, among other things, the ongoing preference of local buyers and investors for apartments rather than for houses in most districts of Cyprus.
- Cypriot buyers invest more in smaller houses and apartments in all districts, providing support to prices. This is partly due to the fact that part of the population's savings ends up in the purchase of real estate, either for the purpose of home ownership or for investment. The increase in the cost of construction materials also seems to have contributed in maintaining the price level. At the same time, demand for real estate from foreign investors shows signs of stabilisation, as recorded in the sales contracts, which according to market experts is mainly due to the promotion of investments and the program for obtaining a permanent residence permit in Cyprus.

Overview	2020 Q3	2020 Q4	2021 Q1	2021 Q2
<b>Residential property price index (2010 Q1=100)</b>	79,1	78,9	79,3	79,5
<b>Quarterly change</b>	-0,4%	-0,2%	0,5%	0,3%
<b>Annual Change</b>	1,2%	0,8%	0,9%	0,2%
<b>(a) Property price index Houses (2010Q1=100)</b>	77,8	77,3	77,5	77,3
<b>Quarterly change</b>	-0,5%	-0,5%	0,2%	-0,3%
<b>Annual change</b>	0,7%	-0,1%	0,2%	-1,0%
<b>(b) Property price index apartments (2010Q1=100)</b>	82,5	83,1	84,1	85,2
<b>Quarterly change</b>	-0,2%	0,7%	1,2%	1,3%
<b>Annual change</b>	2,5%	2,7%	2,5%	3,0%



<sup>1</sup> 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):

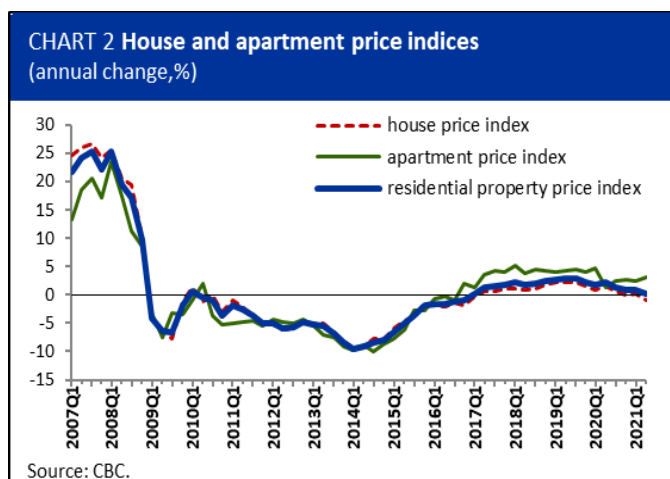
[https://www.centralbank.cy/images/media/pdf/Methodology\\_EN\\_latest.pdf](https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf)). Therefore, it is likely that there will be a short lag in capturing turning points in the market with respect to both time and the magnitude of the recovery.

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

The RPPI (houses and apartments) recorded a quarterly deceleration in 2021Q2. More specifically, the RPPI registered a quarterly increase of 0,3% in 2021Q2, compared with 0,5% in 2021Q1.

The increase in the RPPI is mainly due to the 1,3% increase in apartment prices, compared with the previous quarter, while house prices decreased by 0,3% during the same period (Chart 1, p. 1).

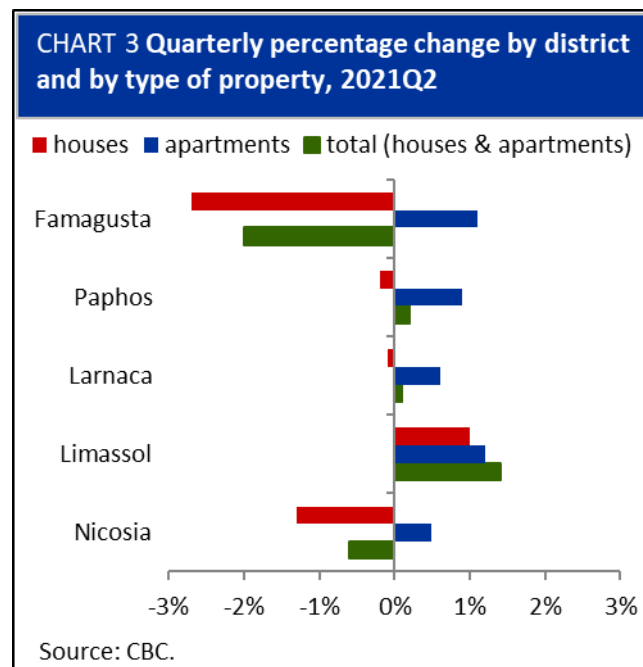
On an annual basis, a 0,2% deceleration is recorded in 2021Q2 compared with 0,9% in 2021Q1. Apartment prices during the quarter under review recorded an annual increase of 3%, while house prices decreased by 1%. (Chart 2).



About a year after the termination of the CIP and amid the ongoing pandemic, it is evident that domestic demand contributes to the growth of the sector. The state scheme for partial subsidisation of interest rates on housing loans for the purchase of household's main residence has played an important role in this development. Furthermore, the environment of low interest rates on deposits in banking institutions, as well as, the fact that a significant part of the population has increased its savings due to the pandemic and restrictive measures (thus increasing their financial ability to proceed with investments in the housing sector) also contributed in the same direction.

### Price changes by district

In 2021Q2, the RPPI recorded increases on a quarterly basis in Limassol, Larnaca and Paphos, while residential property prices decreased in Famagusta and Nicosia. In particular, residential prices in Limassol increased by 1,4%, in Larnaca by 0,1% and in Paphos by 0,2%. On the other hand, residential prices in Famagusta decreased by 2% and in Nicosia by 0,6% (Chart 3).

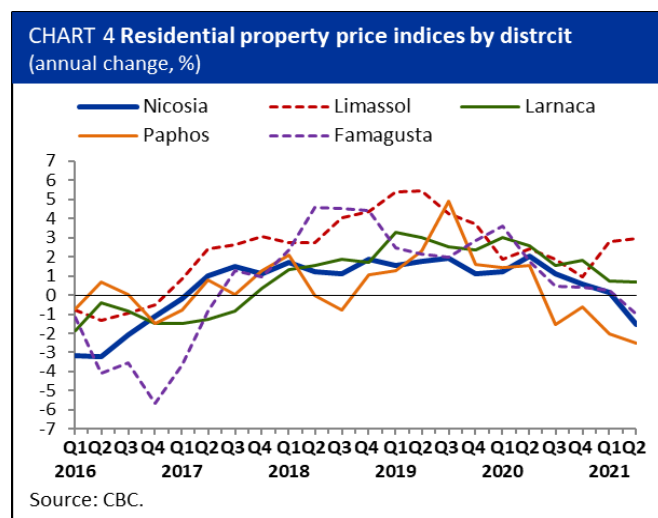


On an annual basis, the RPPI by district recorded increases only in Limassol and Larnaca and decreases in all other districts. Specifically, in Limassol, residential property prices increased by 2,9% and in Larnaca by 0,7%. In Paphos, prices continued their downward trend, decreasing by 2,5% on an annual basis. The same trend was registered in Famagusta and Nicosia with prices decreasing by 1,7% and 1,6%, respectively. (Chart 4, p. 3).

On a quarterly basis, house prices fell in all districts, except in Limassol. In particular, residential property prices in Nicosia, Larnaca, Paphos and Famagusta, decreased by 1,3%, 0,1%, 0,2% and 2,7%, respectively. On the other hand, house prices in Limassol increased by 1%. On an annual basis, house prices fell in all districts except in Limassol, recording a 2,7% increase.

Specifically, house prices in Nicosia decreased by 3,4%, in Larnaca by 0,9%, in Paphos by 3,3% and in Famagusta by 3,3%.

Apartment prices recorded quarterly increases in all districts. In particular, apartment prices in Nicosia increased by 0,5%, in Limassol by 1,2%, in Larnaca by 0,6%, in Paphos by 0,9% and in Famagusta by 1,1%<sup>2</sup>. Similarly, on an annual basis, apartment prices recorded an increase in all districts with the exception of Paphos for the fourth consecutive quarter, where prices decreased by 0,4% compared with 2021Q1. Indicatively, in Nicosia apartment prices increased by 1,9%, in Limassol by 2,5% and in Famagusta by 4,9%. In Larnaca, apartment prices registered a substantial increase on an annual basis by 6,1%, continuing the upward trend since 2018.



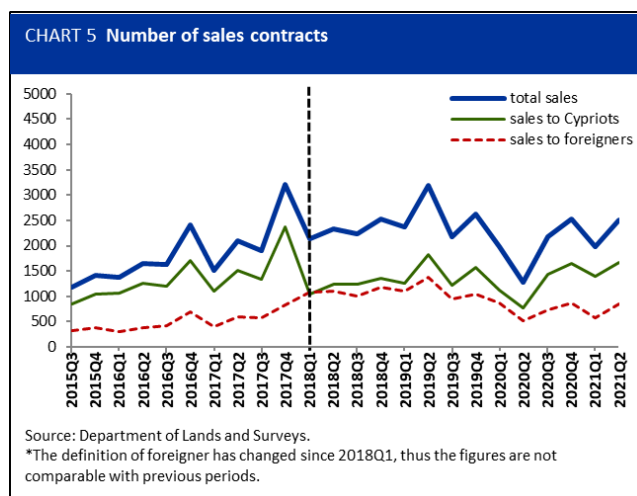
In this quarter, as well as in the previous one, domestic demand supported the residential real estate sector. In addition, the relative stabilisation in demand from foreign investors may be followed by a recovery in the future, along with the gradual decay of the pandemic. The annual increase in prices observed in Larnaca is probably due to the increased activity that occurs in the district in recent quarters, reflecting the demand from foreign investors within the program for obtaining a permanent residence permit in Cyprus.

The demand from foreign investors may also be partly due to the promotion of international headquartering by the state, which concerns investors who relocate their headquarters in Cyprus and, thus, purchase offices and apartments for their staff. This has increased the purchase of apartments in certain areas such as Nicosia and Limassol.

<sup>2</sup> For the quarter under review, the apartment price index for Famagusta was calculated as the average of the price change based on the hedonic regression and the simple average.

## Other market indicators

The increasing interest of local buyers in real estate and the support they provide to the market as well as the modest increase in the activity of foreign investors in the market, are verified by various real estate and economic indicators, such as sales contracts.

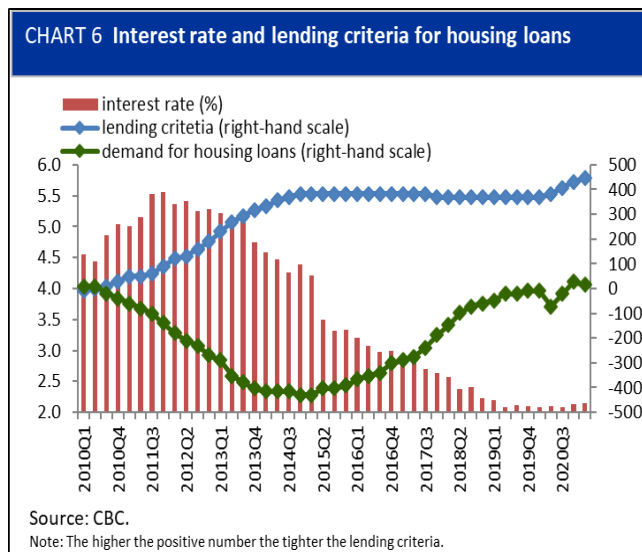


According to the most recent data published by the Department of Lands and Surveys (DLS), sales contracts for real estate for the first six months of the year have recorded an annual increase of 37,6% (although from a low base), compared with a decrease of 41,2% in the same period in 2020. Specifically, demand from local buyers increased by 62,8%, while there was also a small increase of 3,5% in demand from foreign buyers. (Chart 5). The measures promoted by the state regarding the "international headquartering", as well as the program for obtaining a permanent residence permit in Cyprus helped to stabilise the demand from foreign investors.

According to the CBC's Monetary and Financial Statistics<sup>3</sup>, new housing loans in the first six months of 2021 increased by 69,8% compared with the corresponding period of 2020 (€520,1 million compared with € 306,3 million in the first six months of 2020). According to the same statistics, the interest rate of new housing loans<sup>4</sup> in 2021Q1 averaged at 2,15% compared with 2,13% in 2020Q4 and has remained at historically low levels since data are available (Chart 6). The same Chart confirms the aforementioned continued increase in demand for

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

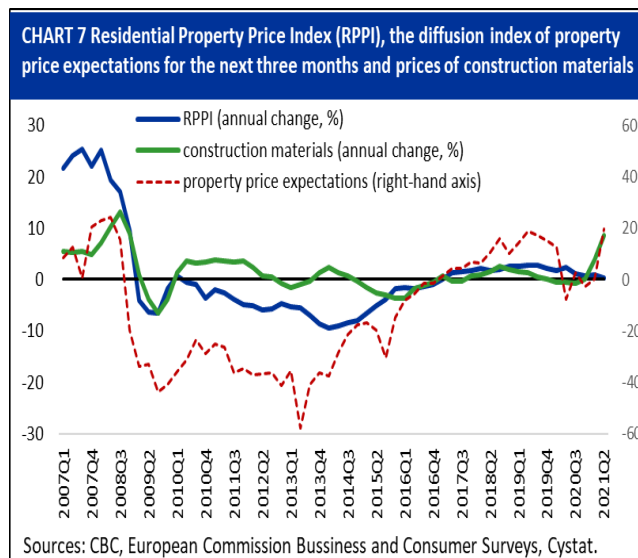
<sup>4</sup> Floating rate and up to one year fixed.



housing loans, as recorded by the July 2021<sup>5</sup> Bank Lending Survey, which shows that demand for housing loans increased in 2021Q2, despite the fact that the financing criteria remain at particularly strict levels.

According to CYPSTAT, the number of authorised building permits for residential properties, which is a leading indicator to construction activity, recorded an increase of 22,6% on an annual basis in 2021Q2, compared with 2020Q2. An increase was also observed during the period under review in both the area and the value per square meter of the licensed dwellings. Indicatively, the value per square meter of the licensed houses increased from €1,07/sq.m. in 2020Q2 to €1,09/sq.m. in 2021Q2. The average area per residential property licensed in 2021Q2 increased to 194 sq.m. in relation to 182 sq.m. in 2020Q2, but still remains at lower levels than in the years before the pandemic.

In addition, the price index of construction materials, published by CYPSTAT, recorded increases in the last three quarters (**Chart 7**). In particular, prices of construction materials in 2021Q2 recorded an annual increase of 8,5%, which was the highest since 2008Q4, thus playing an important role in maintaining the price level in terms of cost and independently from demand level. Whether this increase has a negative effect on demand and therefore an adverse effect on prices is something that will become clear in the future quarters.



According to Business and Consumer Surveys (BCS) in 2021Q2, the real estate sector continues to register increases. (**Chart 7**) Property price expectations for the next three months averaged 19,67 in 2021Q2, compared with -7,80 in 2020Q2, returning to 2019 levels. At the same time, the index of employment expectations for the next three months in the construction sector increased and reached 0,83 after three consecutive quarters with negative sign.

In conclusion, the residential property price index in Cyprus continues to record an upward trend, albeit a slowdown. The special circumstances and increased uncertainty that characterise the current period make the close monitoring and evaluation of the developments in the real estate sector important. The volatile factors that should be assessed on an ongoing basis include, inter alia, epidemiological developments and external demand prospects and developments in relation to the existing effort to sell real estate from the portfolios of banks and credit acquiring companies to the market.

<sup>5</sup> <https://www.centralbank.cy/en/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	-	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	
	Q2	85,2	77,3	77,4	88,1	72,6	76,7	71,4	79,5	

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
	Q2	83,7	99,3	75,5	70,4	64,9	74,5	83,8	71,7	79,2	73,3

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
	Q2	3,0	-1,0	-1,6	2,9	0,7	-2,5	-1,7	0,2

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
2021	Q2	0,5	1,2	0,6	0,9	1,1	-1,3	1,0	-0,1	-0,2	-2,7

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, RCB Bank 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)