



CENTRAL BANK OF CYPRUS

EUROSYSTEM

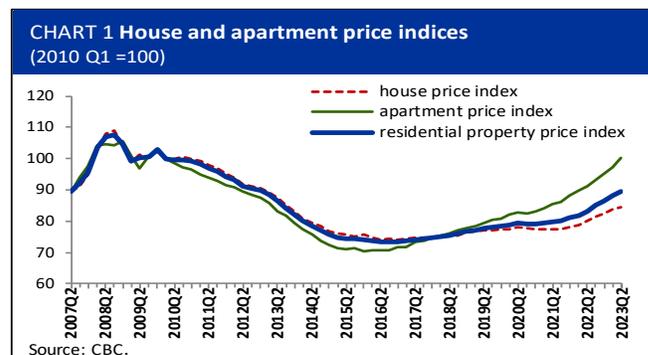
RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2023 Q2

Residential property prices in Cyprus continued recording significant increases in 2023Q2, particularly in the market of apartments, mainly due to increased demand.

- In 2023Q2, the Residential Property Price Index (RPPI) of the Central Bank of Cyprus (CBC)¹ (apartments and houses) continued recording increases, both on an annual and a quarterly basis, compared with the respective changes in the preceding quarters (Table 1). The increases recorded concern all RPPIs in all districts.
- As reflected in the sales contracts data of the Department of Lands and Surveys (DLS), in 2023Q2 the number of transactions in the real estate market recorded an increase on an annual basis. The number of sales contracts during the period under review reached its maximum level over the past fifteen years. Local buyers account for the largest share of transactions, while foreign buyers attained the biggest annual increase in sales contracts.
- Increased demand, in combination with limited supply of new residences, seems to be the main factor contributing to the increase in RPPI during 2023Q2, as was the case in the preceding quarters. The increased demand from foreigners is mainly due to the “headquartering policy”, as well as the increased number of students and other investors in the real estate market. The increased local demand seems to be mainly due to buy-to-let investments.
- Up until 2023Q2, the increase in ECB’s base rates and the consequent reduction in mortgage loan demand do not appear to have affected domestic demand for real estate to a substantial extent, as it continues to register growth.

Table 1 Overview	2022 Q3	2022 Q4	2023 Q1	2023 Q2
Residential property price index (2010 Q1=100)	85,0	86,3	88,1	89,4
Quarterly change	2,1%	1,6%	2,1%	1,5%
Annual Change	6,3%	6,6%	7,7%	7,4%
(a) Property price index Houses (2010Q1=100)	81,6	82,5	83,9	84,5
Quarterly change	2,0%	1,1%	1,7%	0,7%
Annual change	5,2%	5,6%	6,6%	5,6%
(b) Property price index Apartments (2010Q1=100)	93,2	95,1	97,3	100,3
Quarterly change	2,2%	2,1%	2,3%	3,1%
Annual change	8,0%	7,7%	8,4%	10,1%



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 fully capturing the pass-through of developments in the Index’s turning points, with respect to both time and the magnitude of the change in market course.

1. Changes in the residential property price index (RPPI)

The RPPI (houses and apartments) recorded a quarterly increase of 1,5% in 2023Q2, compared with the increase of 2,1% in 2023Q1.

Compared with the previous quarter, the increase in the RPPI in 2023Q2 is driven by a 3,1% increase in apartment prices, and by a 0,7% increase in house prices (Chart 1, p. 1, Table 1, p.1).

On an annual basis, the RPPI recorded an increase of 7,4% in 2023Q2 compared with 7,7% in 2023Q1. In the quarter under review, apartment prices recorded an annual increase of 10,1%, while house prices increased by 5,6% (Chart 2, Table 1, p.1).

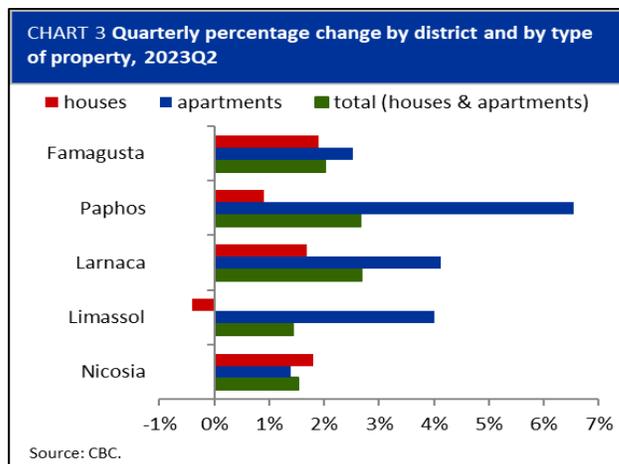


During 2023Q2, increased RPPI is mainly driven by increased demand in the real estate market. According to DLS’s sales contracts data, demand appears to be strong, with the number of sales contracts reaching the highest level of the past 15 years attaining 4.115. The annual increase in sales contracts mainly stems from foreign buyers due to, among others, the Strategy for Attracting Businesses for Activities or/and Expansion of their Activities in Cyprus (headquartering policy). The local demand for real estate is still robust, which, despite continuous increases in housing loan rates, due to ECB’s monetary policy, does not seem to have been affected to a significant extent in 2023Q2. With the construction cost stabilising in 2023, the increases in residential property prices are mainly driven by

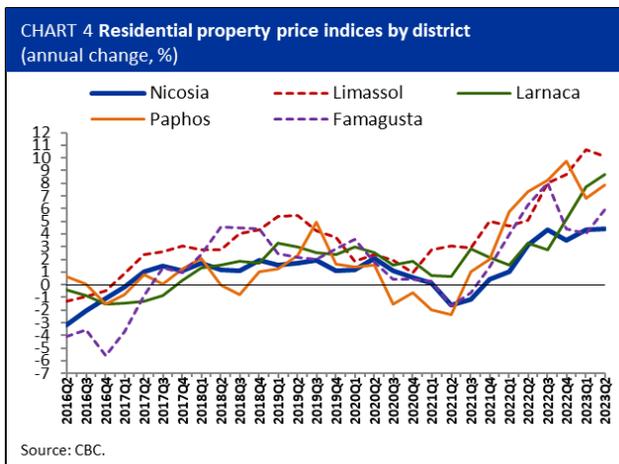
increased demand in combination with the restrained supply.

2. Price changes by district

In 2023Q2, the RPPI recorded quarterly increases in all districts. Specifically, RPPI in Nicosia increased by 1,5%, in Limassol by 1,4%, in Larnaca by 2,7%, in Paphos by 2,7% and in Famagusta by 2,0% (Chart 3, Table 5, p. 7).



Regarding the annual changes in the price indices of individual districts, RPPI recorded increases in all districts for the seventh consecutive quarter. Specifically, in Nicosia residential property prices increased by 4,4%, in Limassol by 10,1%, in Larnaca by 8,7%, in Paphos by 7,9% and in Famagusta by 5,9% (Chart 4, Table 4, p.7). RPPIs in all districts record an acceleration with the exception of Limassol, although it continues to record steadily high growth rates. The



relatively high rate of increase in residential prices that has been registered in coastal cities might be related to the demand from foreigners due to the headquartering policy.

On a quarterly basis, house prices recorded increases in all districts, except Limassol which recorded a marginal decrease. In particular, house prices increased in Nicosia by 1,8%, in Larnaca by 1,7%, in Paphos by 0,9%, and in Famagusta by 1,9%, while in Limassol they have decreased by 0,4%. On an annual basis, house prices recorded an increase in all districts. Specifically, house prices in Nicosia, Limassol, Larnaca, Paphos and Famagusta increased by 4,8%, 6,5%, 6,3%, 4,7% and 7,4%, respectively.

Apartment prices increased in all districts on a quarterly basis. In particular, apartment prices increased in Nicosia by 1,4%, in Limassol by 4%, in Larnaca by 4,1%, in Paphos by 6,5% and in Famagusta by 2,5%. On an annual basis, apartment prices recorded an increase in all districts for an eighth consecutive quarter. Specifically, in 2023Q2 apartment prices increased in Nicosia by 4,2%, in Limassol by 13,9%, in Larnaca by 13,1%, in Paphos by 16,3% and in Famagusta by 2,5%, compared with the respective quarter in 2022.

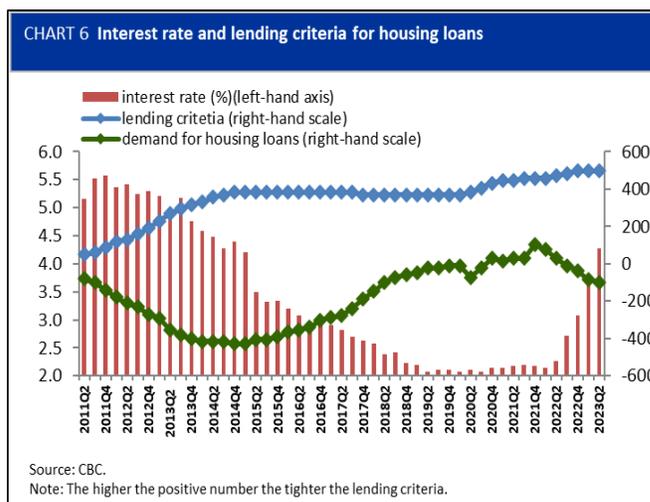
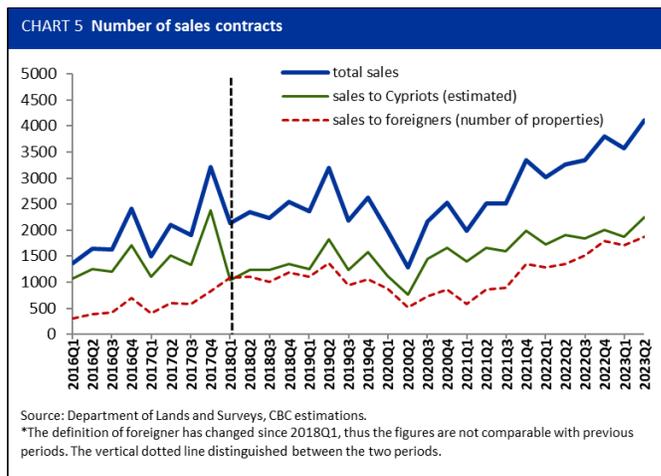
3. Other market indicators

The upward dynamics of demand are reflected in various real estate indicators in 2023Q2, while building permits reflect the limited supply of residential properties in the market. In addition, a continuous correction in construction cost is observed.

According to the latest data published by the DLS, in 2023Q2, the growth rate of sales contracts recorded an acceleration, with an increase of 26,5% on an annual basis (4.115 compared with 3.254 in 2022Q2) reflecting the increased demand for real estate (Chart 5). The aforementioned acceleration in the sales contracts mainly stems from foreign buyers, while local buyers continue to account for the market’s largest share. In particular, in the quarter under review, the number of properties sold to foreign buyers registered an increase of 38,5% on an annual basis (1.871 compared with 1.351 in 2022Q2, Chart 5), while the number of properties sold to local

buyers increased by 17,9% on an annual basis (2.244 compared with 1.903 in 2022Q2, Chart 5). This increase in sales contracts to foreign buyers can be mainly attributed to the headquartering policy, which attracts foreign professionals from countries such as Israel, Ukraine, United Kingdom, Lebanon and Belarus, while the corresponding increase in local buyers is attributed to buy-to-let investments, among other things.

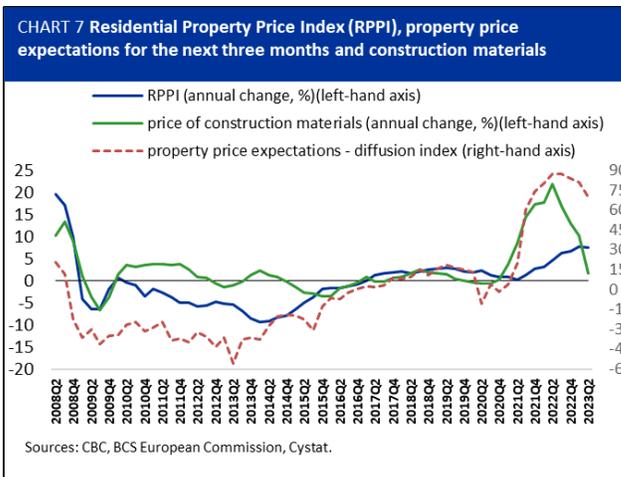
As expected, ECB’s tightening monetary policy has led to an increase in the mortgage-loan rates, increasing the borrowing cost for both existing and potentially new customers of domestic financial institutions. This has affected the demand for new housing loans. According to CBC’s *Monetary and*



*Financial Statistics publication*², new housing loans in 2023Q2 decreased by 2,9% on an annual basis (€248,7 million in 2023Q2 compared with €256,1 million in 2022Q2). According to the same source, the mortgage-loan rate³ in 2023Q2 continued to increase, averaging at 4,28%, compared with 3,74% in 2023Q1 and 2,27% one year before i.e. in 2022Q2 (**Chart 6, p.3**). According to the Bank Lending Survey⁴, lending criteria have tightened compared with the previous quarter, while the same survey confirms the continued decrease in demand for loans (**Chart 6, p.3**). The aforementioned developments do not appear to have affected the overall real estate demand up until 2023Q2.

According to the latest available data published by the Statistical Service of Cyprus (CYSTAT), the number of residential units for which building permits have been approved, which is a leading indicator of construction activity, recorded a decrease of 13%, down from 906 in April-May 2022 to 788 in the corresponding period of 2023. The number of units for which building permits have been approved recorded decreases, on an annual basis, indicating the contained supply, which is expected to be sustained in the future. According to data from the Business and Consumer Surveys (BCS) of the European Commission, the index of construction for the last 3 months stands at less negative levels during 2023Q2 (-1,8) compared with the previous two quarters (-7,7 and -13,0 in 2023Q1 and the 2022Q4, respectively), still indicating the contained supply of real estate in the market.

The price index of construction materials, published by CYSTAT, records consecutive decreases on a monthly basis during the past four months, up until June 2023, possibly following the international trend of price decreases in the main construction materials, albeit with a relative time lag. On an annual basis, since 2022Q2, decelerating increases in the price index of construction materials are recorded, reaching 1,6% 2023Q2 (**Chart 7**). The trend of the aforementioned index points out to further stabilization in the prices of the construction materials in the near future.



According to the BCS of the European Commission, in 2023Q2, the consensus estimate among survey participants is that property prices will continue to increase in the next three months (**Chart 7**). Specifically, property price expectations for the next three months averaged at 69,9 in 2023Q2, recording for a fourth consecutive quarter a decrease compared with the historically high levels attained in 2022Q2. It appears that the majority of the survey participants expect that the property prices will continue to increase, as opposed to the remaining participants that expect either stabilization or decrease, even though the percentage of the former has been reduced compared to previous quarters. Furthermore, a minor decrease is expected in the employment prospects in the construction sector over the next few months, as the employment expectations in the real estate sector for the next three months has slightly decreased reaching -2,9 on average, in 2023Q2.

4. Conclusion

During 2023Q2, residential prices continued to trend upwards at an accelerated rate, as a result of the significant demand for real estate, stemming from both local and foreign buyers. With the domestic demand remaining at high levels, despite the increase in housing loan mortgage rates and the consequent decrease in the mortgage-loans due to ECB's single monetary policy, and with the demand from foreigners recording significant increases due to the headquartering policy, the number of sales contracts

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

³ Floating rate and up to one year fixed.

⁴ <https://www.centralbank.cy/el/publications/surveys/banklending-survey>

reached the highest number over the past 15 years. With the prices of construction materials recording decreases on a monthly basis and stabilising, the increases in residential prices mostly reflect the significant increased demand and contained supply.

TABLE 2 Residential property price indices by type and by district

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	
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	-	85,9	77,6	77,7	88,2	73,1	77,5	72,5	80,0
2022	-	92,3	80,7	80,0	94,1	75,5	83,5	76,6	84,1
2023	Q1	97,3	83,9	82,0	100,5	79,3	86,5	78,8	88,1
2023	Q2	100,3	84,5	83,3	101,9	81,5	88,8	80,4	89,4

Source: CBC.

*The annual index is calculated as the average of the four quarters of each year.

TABLE 3 Apartment and house price indices by district
(annual and quarterly, 2010Q1 = 100)

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
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	-	84,0	100,2	75,7	71,7	65,2	74,9	83,6	72,4	79,7	74,5
2022	-	87,6	108,2	80,3	79,0	71,0	76,6	87,7	73,9	85,3	77,8
2023	Q1	89,9	115,8	86,3	84,8	71,2	78,5	92,7	76,9	87,3	81,0
2023	Q2	91,1	120,5	89,8	90,3	72,9	79,9	92,3	78,2	88,1	82,5

Source: CBC.

*The annual index is calculated as the average of the four quarters of each year.

Table 4 Residential property price indices by type and by district
(year on year change, %)

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	
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	-	4,1	0,0	-0,5	3,4	1,6	-0,4	-0,2	1,2
2022	-	7,4	3,9	3,0	6,6	3,2	7,8	5,7	5,2
2023	Q1	8,4	6,6	4,3	10,6	7,7	6,8	4,0	7,7
2023	Q2	10,1	5,6	4,4	10,1	8,7	7,9	5,9	7,4

Source: CBC.

*The annual figures are calculated as the annual change of the average of the four quarters of each year.

Table 5 Apartment and house price indices by district
(quarter on quarter change, %)

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
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
2021	Q3	0,7	0,8	0,7	1,7	-0,2	-0,3	-0,3	2,1	1,5	0,7
2021	Q4	0,8	3,4	0,3	4,5	3,4	1,4	0,7	-0,5	-0,6	2,3
2022	Q1	1,3	1,4	0,8	2,7	3,9	0,1	0,6	-0,2	3,3	2,1
2022	Q2	1,6	0,8	3,5	1,0	2,5	1,2	2,3	1,1	1,9	-0,4
2022	Q3	1,1	3,2	2,6	3,3	2,6	1,3	2,8	0,6	2,6	2,3
2022	Q4	0,2	3,6	2,3	1,4	-3,7	0,3	1,2	1,7	2,2	0,1
2023	Q1	1,4	2,4	3,5	4,3	1,2	1,3	2,8	2,2	-1,1	2,9
2023	Q2	1,4	4,0	4,1	6,5	2,5	1,8	-0,4	1,7	0,9	1,9

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, Ancoria Bank and Eurobank) and the Cyprus Asset Management Company in standardised form, through an online data submission platform. It is noted that data from other credit acquiring companies are currently not collected.

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.

Furthermore, in 2019Q1 the indices have been revised from 2017Q1 onwards, due to the removal of certain observations from the sample. These observations have been examined and assessed to not reflect the open market value. In this way the consistency in the construction of the indices is ensured, according to the international standards. The aforementioned changes did not alter significantly the indices or particularly their growth rates.

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 https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf

The current report is available at <https://www.centralbank.cy/en/publications/residential-property-price-indices>

For further information or/and clarifications please contact the Real Estate Unit of CBC at RealEstate@centralbank.cy.