



# CENTRAL BANK OF CYPRUS

EUROSYSTEM

## RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

### 2015Q2

### Marginal quarterly decrease of residential property prices in 2015Q2

- The deceleration of the quarterly decreases in the RPPI intensified in 2015Q2.
- On a quarterly basis, the RPPI (houses and apartments) recorded a marginal decrease of 0,4% in 2015Q2. House prices and apartment prices recorded quarterly decreases of 0,4% and 0,6%, respectively.
- On an annual basis, the RPPI recorded a decrease of 5% in 2015Q2, exhibiting smaller decelerating rates for the fifth consecutive quarter.
- The broad economy has exhibited signs of recovery with GDP recording positive growth rates in 2015, while the demand for properties continues to record positive annual changes. These developments are expected to support the stabilisation of residential property prices.

Overview	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Quarterly index (2010 Q1=100)	77,1	75,6	74,8	74,5
Quarterly change	-1,7%	-2,0%	-1,0%	-0,4%
Annual change	-8,4%	-8,0%	-6,5%	-5,0%

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

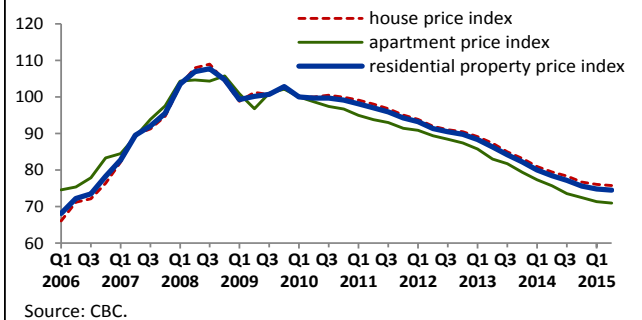
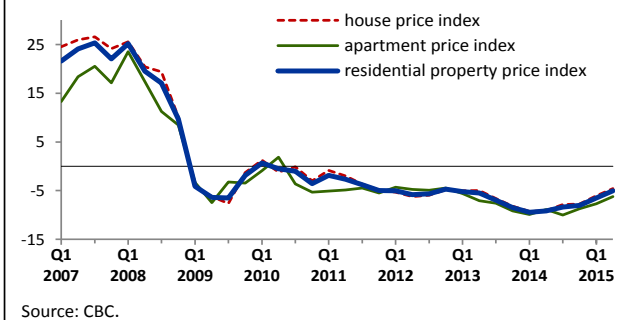


CHART 2 House and apartment price indices (annual change,%)



### Residential property price indices

On a quarterly basis the RPPI recorded a marginal decrease of 0,4% in 2015Q2, exhibiting intensified deceleration of the decreases. Provided that this trend and the improvement of the conditions in the broad economy continue, prices are expected to stabilise. House and apartment prices decreased by 0,4% and 0,6%, respectively, compared with 0,8% and 1,5%, respectively, in the previous quarter (**Chart 1**). It is worth noting that the quarterly decreases in both house and apartment prices are the smallest in the last five years. Under the current circumstances, residential property prices are expected to stabilise around the average price levels of 2006, the year in

which the over-lending for housing (as measured by the outstanding amount of housing loans) began, leading eventually to the overheating of the sector. The enactment of the foreclosures law in May 2015 is expected to contribute to the financial soundness of the banks and, in general, to the normalisation of conditions in the broad economy. The implementation of the foreclosures law is not expected to substantially affect immovable property prices. The main aim is to put pressure on strategic defaulters who can but choose not to service their mortgage, and to resolve old cases that have been pending for years in the courts.

On an annual basis, the RPPI declined by 5% in the quarter under examination, compared with a decline of 6,5% in 2015Q1. House prices declined by 4,6% on an annual basis and apartment prices by 6,2%, compared with annual declines of 6% and 7,7%, respectively, in 2015Q1 (**Chart 2**). **Chart 2** shows the deceleration of the annual decreases since 2014Q1.

### Price changes by district

The RPPI (houses and apartments) recorded the largest quarterly decline in the district of Paphos (1,3%). Residential property prices declined on a quarterly basis by 0,6% in Nicosia, 0,2% in Limassol and 1% in Larnaca. In contrast, residential property prices increased marginally on a quarterly basis by 0,1% for the second consecutive quarter.

The largest annual decline in the RPPI was recorded in Larnaca (6,3%), while Famagusta had the smallest decline (1,7%) (**Chart 3**). In addition, the RPPI recorded annual declines in the district of Nicosia (5,7%), Limassol (4,3%) and Paphos (3,8%). The trend in all districts for lower annual decreases compared with previous quarters was observed in 2015Q2 as well.

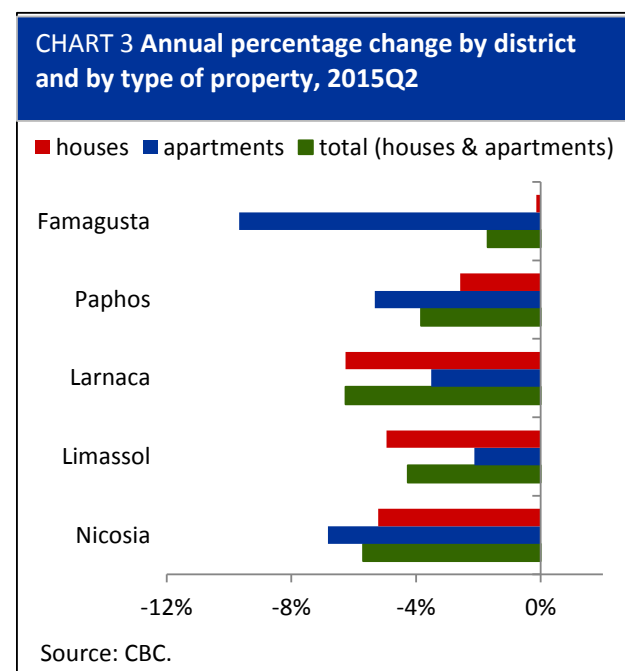
As regards house prices, the largest quarterly decrease during 2015Q2 was recorded in the district of Larnaca (1,3%). House prices in Limassol and Paphos declined on a quarterly basis by 0,7% and 1,2%, respectively, whilst house prices in Nicosia stabilised. House prices in Famagusta recorded a marginal increase of 0,2%.

The largest annual decline in house prices during the quarter under examination was recorded in the district of Larnaca (6,3%), while the smallest decline was recorded in the district of Famagusta (0,1%) (**Chart 3**). House prices in the districts of Nicosia,

Limassol and Paphos exhibited annual declines of 5,2%, 4,9% and 2,6%, respectively. House prices in all districts, except Paphos, exhibited smaller annual declines.

The largest quarterly decline in apartment prices during 2015Q2 was recorded in the district of Nicosia (2%), while the smallest was in the district of Limassol (0,8%). Apartment prices in Paphos and Famagusta recorded a quarterly decrease of 1,7% and 0,7%, respectively. Apartment prices in the districts of Limassol and Larnaca recorded quarterly increases of 1,1% and 1,7%, respectively.

The largest annual decline in apartment prices during the quarter under review was recorded in the district of Famagusta (9,7%), while the smallest was in the district of Limassol (2,1%) (**Chart 3**). Apartment prices in the districts of Nicosia, Larnaca and Paphos were lower on an annual basis by 6,8%, 3,5% and 5,3%, respectively.

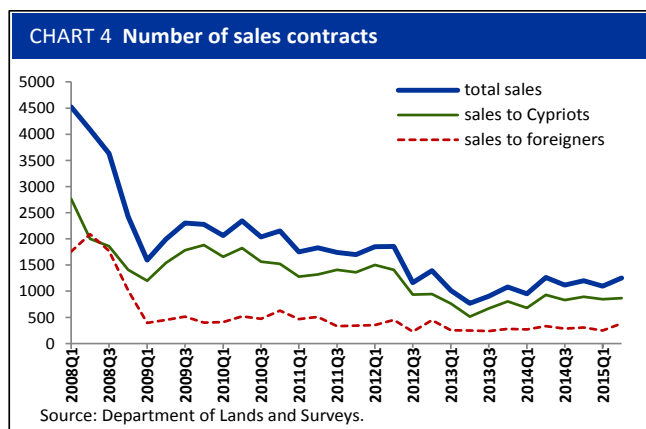


### Other market indicators

According to data published by the Department of Lands and Surveys, the total number of sale contracts (for both Cypriot and foreign buyers) recorded an annual decrease of 1,2% in 2015Q2 compared with an annual increase of 15,8% in the previous quarter. The decrease is attributed to the annual decline in sale contracts in May 2015, which was mainly due to the fact that the local prospective buyers postponed the purchase of properties in anticipation of the

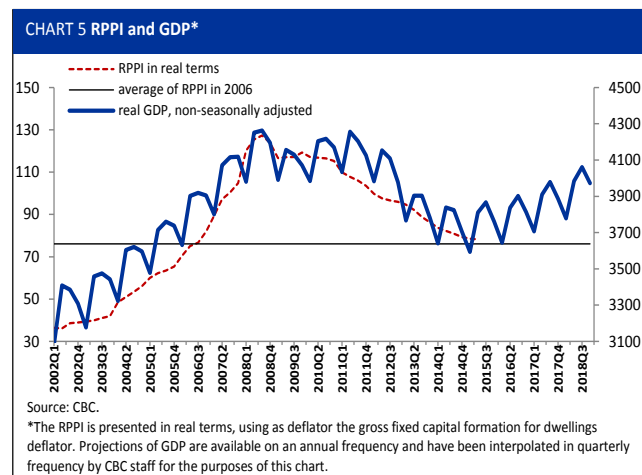
enactment of the law which provides for reduced transfer fees and other incentives for buyers. Hence, demand for properties by Cypriot buyers recorded an annual decrease of 7,2%, while sales to foreign buyers recorded an annual increase of 15,6% (Chart 4). The only district that exhibited annual increase in the total number of sales contracts in 2015Q2 was Larnaca (24,2%). The rest of the districts recorded annual decreases, mainly due to lower demand from locals for the reasons explained above.

According to CBC data, the total outstanding amount of housing loans recorded an annual decrease for the tenth consecutive quarter. Specifically, this amount fell on an annual basis by 2,3% in June 2015, reaching the levels of 2010Q1.



As regards the construction sector, the first signs of recovery were observed after several years of recession. Specifically, local sales of cement recorded an annual increase in 2015Q2 (9,8%), the first increase since 2008Q4 when the consecutive decreases in local sales of cement started. Another interesting fact is the

strong positive correlation between the RPPI and GDP. **Chart 5** depicts the two time series, along with the projections of the IMF<sup>1</sup> for GDP until 2018. Provided that the positive correlation between the two series continues, we would expect the RPPI in the medium term to stabilise and probably exhibit signs of recovery in some districts.



According to data from the Business and Consumer Surveys of the European Commission, during 2015Q2 the index of intention to build or purchase a home in the next 12 months recorded an average of -86,9, which is less negative compared with the previous quarter (-95,4). The same trend was recorded by the index of employment expectations in the construction sector, which recorded its highest level since 2008 (on average -6), when the negative expectations started. The index of property price expectations for the next three months in the construction sector recorded on average -22,7.

<sup>1</sup> IMF Country Report 15/155, June 2015

**TABLE 1 Residential property price indices by type and by district**  
 (quarterly data, 2010 Q1 = 100)

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	
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	Q1	85,7	89,2	90,6	89,3	82,3	85,9	87,7	88,4
	Q2	83,0	87,3	88,8	87,5	81,2	84,6	80,1	86,3
	Q3	81,7	85,0	86,8	85,5	78,2	82,4	77,3	84,2
	Q4	79,3	83,1	84,9	83,6	76,3	80,2	75,0	82,1
2014	Q1	77,3	80,9	82,7	81,4	74,5	78,2	72,8	80,0
	Q2	75,6	79,4	81,2	79,8	72,9	77,6	71,5	78,4
	Q3	73,6	78,3	79,6	79,4	70,9	77,3	70,3	77,1
	Q4	72,4	76,6	77,7	77,5	70,0	76,6	69,8	75,6
2015	Q1	71,4	76,0	77,0	76,5	69,1	75,7	70,2	74,8
	Q2	70,9	75,7	76,5	76,4	68,4	74,7	70,3	74,5

Source: CBC.

\*The annual data for the years between 2006 and 2012 are calculated as the simple average of the four quarters of each respective year.

**TABLE 2 Apartment and house price indices by district**  
 (quarterly data, 2010 Q1 = 100)

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	100,1	99,4	100,1	99,4	100,4	101,4	100,1
2011	-	99,0	91,8	88,7	98,5	95,1	98,5	95,1	96,8	99,1	97,2
2012	-	95,2	88,3	82,2	94,1	91,5	94,1	91,5	88,7	90,7	89,7
2013	Q1	92,1	86,6	75,0	74,3	74,5	90,0	90,0	84,5	89,1	90,0
	Q2	90,1	83,0	73,3	72,2	71,2	88,3	88,8	83,8	88,1	81,5
	Q3	88,0	81,8	70,5	71,9	69,9	86,3	86,6	80,7	85,4	78,4
	Q4	85,9	79,8	67,9	68,4	71,6	84,5	84,7	79,3	84,1	75,6
2014	Q1	83,5	76,9	65,6	69,2	69,7	82,4	82,8	77,3	81,0	73,3
	Q2	82,4	75,3	63,6	67,3	66,6	80,7	81,3	75,8	80,8	72,3
	Q3	80,6	74,0	62,9	66,4	62,4	79,2	81,2	73,4	80,8	71,7
	Q4	79,3	73,4	62,9	65,8	57,6	77,1	78,9	72,4	80,2	71,9
2015	Q1	78,3	72,9	60,4	64,8	60,6	76,4	77,8	72,0	79,7	72,1
	Q2	76,8	73,7	61,4	63,7	60,1	76,4	77,3	71,1	78,7	72,2

Source: CBC.

\*The annual data for the years between 2010 and 2012 are calculated as the simple average of the four quarters of each respective year.

**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 are collected by the CBC from the member banks of the Association of Cyprus Banks (Bank of Cyprus, Hellenic Bank, Alpha Bank, Emporiki Bank, National Bank of Greece, Piraeus Bank, USB Bank, Cyprus Development Bank, Société Générale and Eurobank) and the Cooperative Central Bank 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 publications of the report, 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 of the aggregated indices 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)