



RESIDENTIAL PROPERTY PRICE INDEX

2012 Q3

Moderate reduction of residential property prices in 2012Q3

- Residential property prices (houses and apartments) recorded smaller reductions in the third quarter of 2012 in almost all districts, compared with the previous quarter.
- The largest quarterly reductions in house and apartment prices were recorded in the district of Paphos (2,2% and 3,5%, respectively). However, the level of residential property prices in Paphos remains relatively stable compared to the beginning of the year.
- Relative stabilisation of house prices was observed in Famagusta and Limassol (1% and -0,1%, respectively) as well as of apartment prices in Nicosia (0,1%) during the third quarter of 2012.

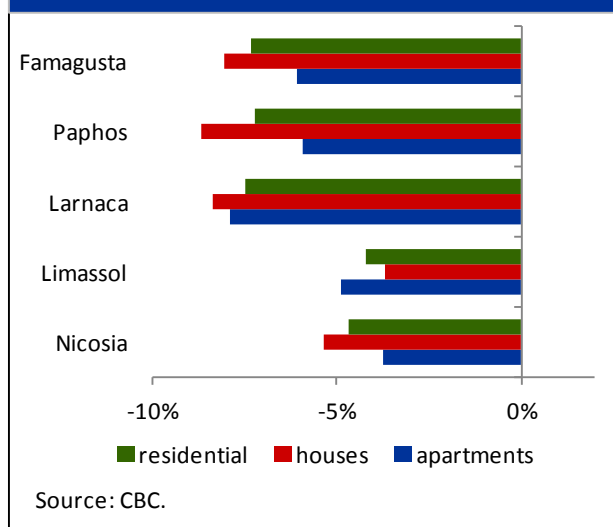
Overview	2012 Q2	2012 Q3
Quarterly Index (2010Q1=100)	90,3	89,3
Quarterly change	-2%	-1,2%
Annual change	-5,9%	-5,8%

Residential property price indices results

As indicated above, during the third quarter of 2012 residential property prices recorded a reduction of 1,2% compared with the second quarter of 2012. This decrease was slightly smaller compared with the respective quarterly change recorded in the second quarter of 2012, possibly reflecting the fact that, amid the climate of economic uncertainty that prevails in the market, the dynamics of demand and supply remained broadly unaltered.

After five consecutive quarters in which house prices exhibited larger increases than apartment

CHART 1 Annual percentage change by district and by type of property, 2012Q3

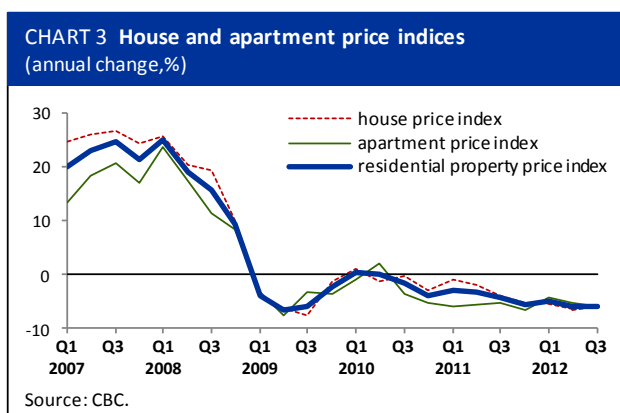
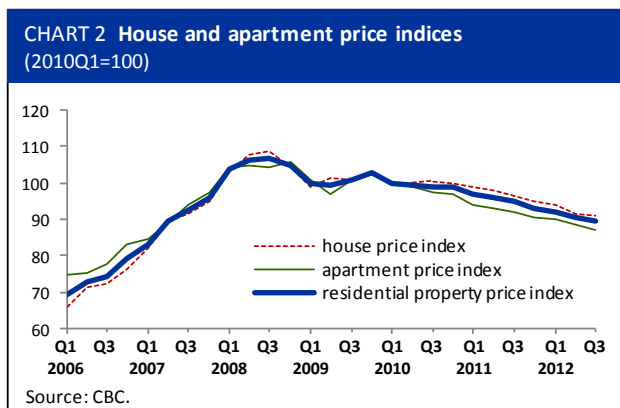


prices, the picture has reverted during the third quarter of 2012. Specifically, apartment prices recorded a quarterly decrease of 1,8%, compared with a 0,9% decrease in house prices. A similar picture was exhibited in the individual districts as well, with the exception of Nicosia where apartment prices stabilised during the third quarter of 2012 compared with the previous quarter.

The largest quarterly reduction in residential property prices was recorded in the district of Paphos, where residential property prices have remained relatively stable since the beginning of the year. Specifically, during the quarter under examination apartment and house prices in the district of Paphos recorded decreases of 3,5% and 2,2%, respectively.

On the other hand, house prices in Famagusta (1%) and Limassol (-0,1%) as well as apartment prices in Nicosia (0,1%), stabilised during the third quarter of 2012. While apartment prices in Nicosia exhibited reductions in the previous three consecutive

quarters, they stabilised during the third quarter of 2012, possibly due to the low level of transactions activity.



Compared with the third quarter of 2011, residential property prices in Cyprus declined by 5,8%, reflecting annual declines in the prices of apartments and houses of 5,8% and 5,9%, respectively.

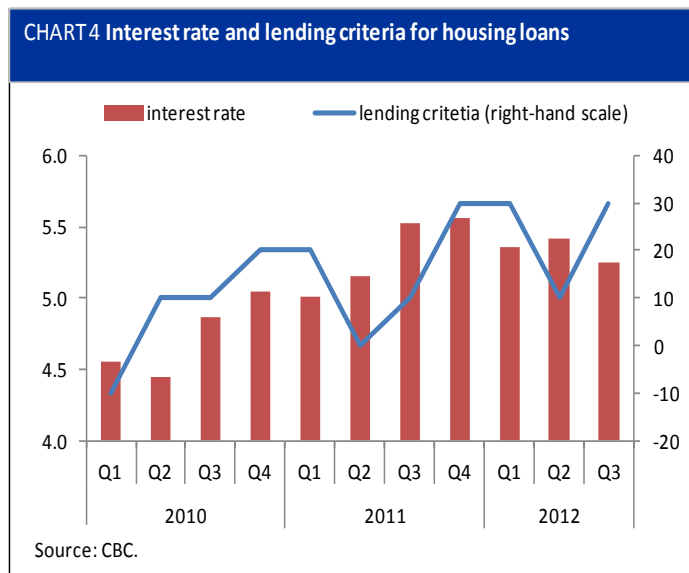
The smallest annual declines in apartment and house prices for the third quarter of 2012 were recorded in the districts of Limassol (3,7%) and Nicosia (3,7%), respectively, while the largest were recorded in the districts of Paphos (8,7%) and Larnaca (7,9%), respectively.

Despite the fact that both apartment and house price indices presented annual declines in all districts, certain areas exhibited deceleration in the annual rate of reduction. Specifically, apartment prices in Paphos and Famagusta and house prices in Limassol exhibited deceleration in the rates of annual decline during the last 6 quarters, something which may be due to the destocking observed in the market, which in turn leads to a gradual reduction in the supply of new housing.

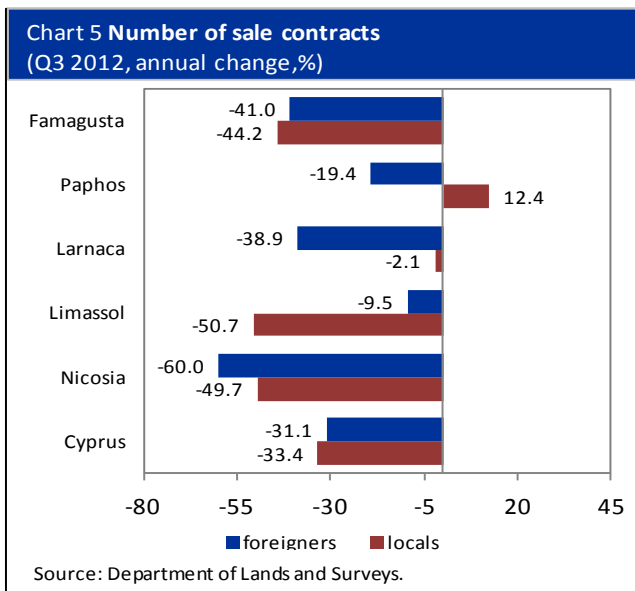
Developments of other real estate sector indicators

As shown by various indicators of the real estate sector, the lack of liquidity in the market along with the negative economic climate and uncertainty kept the demand for properties during the third quarter of 2012 at low levels. Specifically, as shown in **Chart 4**, the lending criteria for housing loans, published in the CBC's Bank Lending Survey, were tightened in the third quarter of 2012, compared with the previous quarter. This, combined with higher mortgage interest rates¹ compared with rates in the respective quarter of 2011, rendered the access to credit from prospective buyers more difficult. As a result, demand for immovable property for the quarter under examination was low, as seen by the annual decline in the total number of sales contracts (33%). As regards the transactions by district, these have recorded annual declines for all districts (for both local and foreign buyers), with the exception of the district of Paphos where demand from local buyers recorded an annual increase (**Chart 5**, p. 3).

The downturn in the construction sector continued during the third quarter of 2012. According to data from the Cyprus Statistical Service (Cystat), local sales of cement exhibited annual decline of 29%, while according to preliminary results of Cystat the gross fixed capital formation for the construction of dwellings (constant prices, seasonally adjusted data) recorded an annual decline of 20,8%.



¹ Floating rate and up to one year initial rate fixation.



However, it is worth noting that prices of construction materials stabilised, as shown by the price index of construction materials published by Cystat, which recorded an annual marginal decline of 0,4%.

As regards the short-term prospects of the sector, it is expected that the reduction in the currently available housing stock will continue, since the construction market is expected to continue to operate at low level. This is indicated by the continued negative trend of building permits for

dwellings, a leading indicator for future construction activity, in the third quarter of 2012 (annual decline of 15,9%).

Additionally, according to the Business and Consumer Survey contacted by the European Commission, the index of intention to build or purchase a home in the next 12 months remained at very low levels during the quarter under review (-91,6 compared with -90,6 in the previous quarter), while the building sentiment indicator worsened (-33 from -31,3 in the previous quarter). Furthermore, the index of employment expectations in the construction sector for the next three months remained at negative levels (-40,1 compared to -34,3 in the previous quarter), while the index of price expectations in the next three months remained relatively constant at negative levels (-36,3 compared to -36,9 in the second quarter of 2012).

Based on the above negative developments, coupled with the uncertainty regarding the imminent changes in the immovable property tax, the prospects for short-term revival of the market are not considered as good. However, the recent rise in interest from foreign investors for the acquisition of property, primarily for permanent residence purposes, provides a window of hope.

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

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	
2008 Q1	104,4	103,2	103,0	99,7	103,6	99,7	102,9	103,8
Q2	104,6	107,9	104,3	103,5	104,9	99,9	100,6	106,4
Q3	104,4	108,9	106,9	103,2	104,3	102,5	113,4	106,9
Q4	105,8	104,3	104,4	106,6	100,0	102,4	108,9	105,0
2009 Q1	100,9	98,8	99,7	95,6	99,4	103,7	108,3	99,7
Q2	96,8	101,2	100,8	93,7	99,3	104,1	106,0	99,4
Q3	101,0	100,6	101,1	96,7	103,4	102,6	101,1	100,8
Q4	102,1	103,0	100,2	101,5	103,0	101,6	102,3	102,7
2010 Q1	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Q2	98,6	100,0	99,2	99,5	99,5	99,9	98,6	99,4
Q3	97,3	100,4	99,9	98,0	98,4	99,8	98,2	99,0
Q4	96,7	99,9	99,9	97,6	97,9	98,3	98,4	98,7
2011 Q1	94,0	99,1	99,6	95,6	96,1	94,7	92,5	96,9
Q2	93,2	98,0	99,3	94,4	93,9	92,4	94,3	96,0
Q3	92,2	96,5	98,6	93,7	92,4	89,6	91,8	94,8
Q4	90,4	94,7	97,4	92,3	90,4	87,3	90,1	93,1
2012 Q1	89,9	93,7	96,5	91,8	89,4	84,7	87,9	92,1
Q2	88,4	91,6	95,0	90,3	86,4	85,7	83,9	90,3
Q3	86,8	90,8	94,0	89,7	85,5	83,1	85,0	89,3

Source: CBC.

TABLE 2 Apartment and house price indices by district
(quarterly data, 2010Q1 = 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 Q1	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Q2	98,8	99,2	97,9	97,5	100,4	99,6	99,7	100,8	101,7	97,7
Q3	99,1	96,0	95,9	97,1	95,5	100,6	99,2	100,8	102,1	101,7
Q4	99,4	95,8	94,7	93,3	92,6	100,2	98,5	99,9	101,9	101,1
2011 Q1	99,5	93,3	91,3	87,6	86,5	99,7	97,1	99,4	102,4	97,9
Q2	99,4	91,9	89,8	84,0	83,4	99,2	95,6	97,3	99,5	101,1
Q3	99,1	91,8	88,0	80,3	80,7	98,2	94,5	96,1	98,6	96,9
Q4	97,9	90,2	85,8	78,8	81,8	97,0	93,2	94,5	95,9	92,7
2012 Q1	96,4	90,5	85,4	78,7	79,5	96,5	92,5	91,9	92,5	92,3
Q2	95,3	88,6	83,0	78,2	76,6	94,7	91,1	88,7	92,1	88,2
Q3	95,4	87,3	81,1	75,5	75,8	92,9	91,0	88,0	90,1	89,1

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 of the Economic Research Department at the Central Bank of Cyprus (CBC).

Data from 2006 to 2009 were collected retrospectively from a number of monetary financial institutions. The data for the period after 2009 are collected by the CBC from the member banks of the Association of Cyprus Banks (Bank Of Cyprus, Marfin Popular Bank, Hellenic Bank, Alpha Bank, Emporiki Bank, National Bank of Greece, Piraeus Bank, USB Bank, Cyprus Development Bank, Societe Generale and Eurobank) and the Cooperative Central Bank in a standardised form, through an online data submission platform.

The partnered banks receive the relevant information from independent property surveyors for the purpose of granting mortgage loans. 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 RPPI is calculated as the weighted sum of the two by type sub-indices (house and apartment price indices), using the quarterly number of observations as weights. In the same manner, the aggregate houses and apartment indices are the weighted sum of the by district houses and apartments price indices.

The results of the indices have been revised in the current report, as a result of the resubmissions of data to the CBC by the contracting banks. Hence, the availability of a larger sample of data enabled the improvement of the filtering techniques for the data and of the functional forms of the regressions.

In constructing the indices the hedonic methodology was employed. Further details about the methodology and other relevant information are available on the CBC website, www.centralbank.gov.cy.

The current report is available at: http://www.centralbank.gov.cy/nqcontent.cfm?a_id=11836&lang=en