



RESIDENTIAL PROPERTY PRICE INDEX

2012 Q4

Main developments in residential property prices during 2012Q4

- Residential property prices (houses and apartments) recorded a smaller reduction in the fourth quarter of 2012, compared with the previous quarter.
- Larger reductions in apartment prices were recorded in the district of Nicosia and in house prices in Larnaca, compared to the previous quarter.
- Relative stabilisation of apartment prices was observed in Paphos (-0,6%), Limassol (-0,6%) and Famagusta (-0,5%). House prices also stabilised in Limassol and Famagusta (0,3%) and (0,01%), respectively.

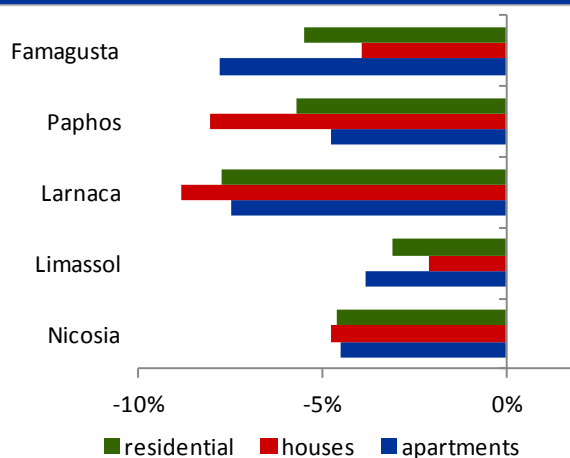
Overview	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Quarterly Index (Q1 2010=100)	92,1	90,3	89,3	88,6
Quarterly change	-1,0%	-2,0%	-1,2%	-0,8%
Annual change	-4,9%	-5,9%	-5,8%	-4,8%

Main results of the residential property price index

During the fourth quarter of 2012, residential property prices recorded a reduction of 0,8% compared with the third quarter of 2012. As shown in the table above, the decrease was smaller compared with the decrease of 1,2% recorded in the third quarter of 2012. Furthermore, it is worth mentioning that during the last two quarters of 2012 the rates of decline of residential property prices have decelerated, both on a quarterly and annual basis.

As regards apartment and house price indices in Cyprus, these recorded reductions in the fourth

CHART 1 Annual percentage change by district and by type of property, 2012Q4



Source: CBC.

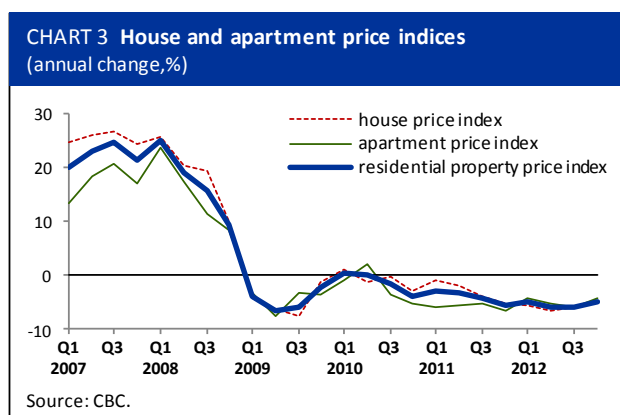
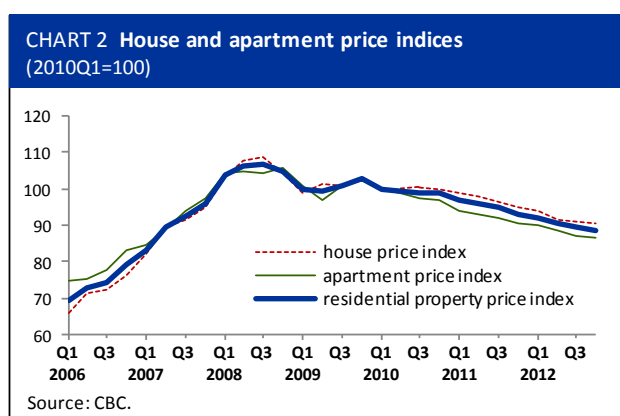
quarter of 2012 of 0,5% and 0,6%, respectively. The prices of both types of property are currently around the same level as at the beginning of 2007 (**Chart 2**).

In terms of districts, the largest decline in residential property prices was recorded in Larnaca (2,5%), while prices in Famagusta remained relatively stable (0,2%). More specifically, during the quarter under review, both apartment and house prices registered a decrease of 2,1%¹ in the district of Larnaca. In contrast, in the district of Famagusta quarterly prices of houses and apartments remained relatively stable and fell marginally by 0,01% and -0,5% respectively. Similarly, in the district of Limassol, a relative stabilisation was observed in the prices of apartments (-0,6%) and houses (0,3%). On

¹ The difference in the decline rates between the residential property price index (2,5%) and the apartment and house price indices (2,1%) for the district of Larnaca stems from the fact that the weightings of the two by type of property indices vary in each quarter.

the other hand, apartment prices in Nicosia exhibited a larger quarterly decline (2,0%) compared with those of houses (0,6%) during the fourth quarter of 2012. Finally, as regards property prices in the district of Paphos, apartment prices were relatively stable (-0,6%) compared to the previous quarter, while house prices recorded a quarterly decline of 2,1%.

Compared with the fourth quarter of 2011, residential property prices in Cyprus declined by 4,8%, as a result of annual declines in the prices of apartments and houses of 4,7% and 4,4%, respectively (**Chart 3**).



During the fourth quarter of 2012, the smallest annual declines, in both apartment and house prices, were recorded in the district of Limassol (2,1%) and (3,8%), respectively. On the other hand, the largest annual decreases in the fourth quarter of 2012 were recorded in house prices in Larnaca (8,8%) and in apartment prices in Famagusta (7,8%) (**Chart 1**).

In summary, both house and apartment price indices recorded annual reductions in all districts.

However, certain areas exhibited a deceleration in the annual rate of reduction. For example, the rate of annual reduction in apartment prices in the district of Paphos presented a deceleration for the sixth consecutive quarter (since the third quarter of 2011), which shows a trend towards price stabilisation in the specific market, most probably due to the increased interest from foreigners. In addition, in the district of Limassol the rate of annual reductions in the prices of both houses and apartments also exhibited a deceleration. In contrast, apartment prices in Nicosia recorded acceleration in the annual rate of reductions.

Developments of other real estate sector indicators

The continued uncertainty with respect to the developments in the economy has had a negative direct and indirect impact on the real estate market. These negative effects on the sector coupled with the constrained liquidity provided by local Monetary Financial Institutions (MFIs), forced investors and potential buyers to refrain from entering into transactions and adopting a wait-and-see approach. All the above developments are supported by data from the Department of Lands and Surveys, which indicate that annual reductions in the total number of sales contracts were recorded in all districts, with the exception of the district of Paphos. Also, as shown in **Chart 4**, the total number of sales to local buyers recorded a reduction on an annual basis, in all districts, during the quarter under examination. On the other hand, the number of sales to foreigners displayed an annual increase in all districts, which can be seen as a positive development, even though these occurred from a low base. Furthermore, the observed increase in sales to foreigners is mainly due to the recent implementation of the new process for granting immigration permits to applicants who are residents of other countries (outside the EU) and invest in Cyprus.

Potential buyers of immovable property in Cyprus have been experiencing more difficulties in terms of borrowing from local MFIs than in the past which is reflected in the CBC's Bank Lending Survey. According to this survey, lending criteria for housing loans were tightened in the fourth quarter of 2012 compared with the previous quarter. At the same time, interest rates for housing loans remained at relatively high levels (**Chart 5**).

As a result of the constrained access to financing and the limited demand for properties, the downturn in the construction sector continued during the fourth quarter of 2012, as indicated by the annual decline of 30% in the local sales of cement. In addition, the building sentiment indicator, which is published in the Business and Consumer Surveys (BCS) conducted by the European Commission, remained at highly negative levels in the fourth quarter of 2012. Specifically, it recorded on average -59,4 in the quarter under examination and -63,4 in the previous quarter.

As regards the short-term prospects of the construction sector, relevant data show that construction activity is expected to remain at low levels. Specifically, according to the Statistical Service of Cyprus, the number of building permits issued for residential buildings, which is a leading indicator of construction activity, recorded an annual decrease of 9,4% in the fourth quarter of 2012. Also, according to the European Commission's BCS, during the quarter under review the index of intention to build or purchase a home in the next 12 months remained negative (-89,6), even though it was less negative compared with the previous quarter of 2012 (-91,6). In addition, the index of employment expectations in the construction sector for the next three months was also less negative in the fourth quarter of 2012 compared with the third quarter of 2012 (-34,4 compared to -40,1), while the index of price expectations in the next three months moved to more negative levels (-41,1 compared with -36,3) in the third quarter of 2012.

In conclusion, despite the increased interest from foreign investors for the acquisition of property in Cyprus during the quarter under examination, the prevailing economic uncertainty and limited bank liquidity prevented the market from exhibiting any signs of recovery. As a result, residential property prices continued to decrease in the fourth quarter of 2012.

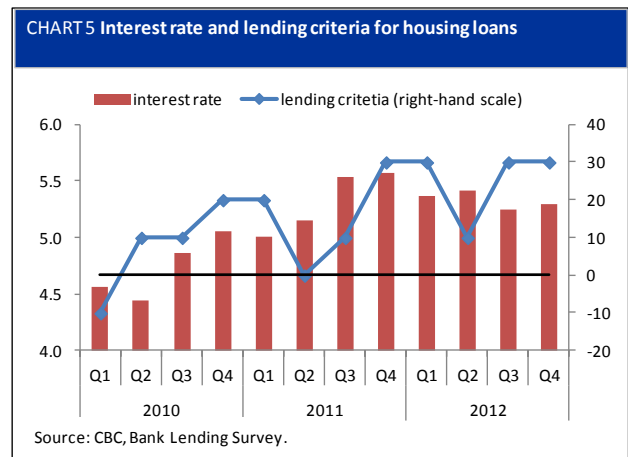
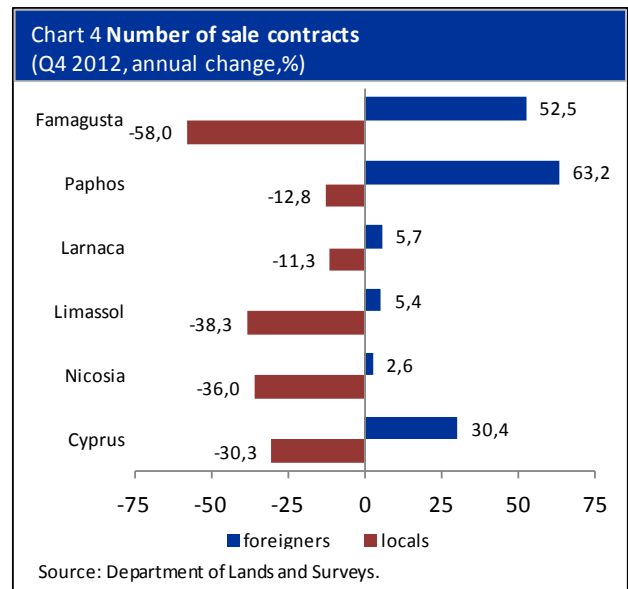


TABLE 1 Residential property price indices by type and by district
(quarterly data, 2010Q1 = 100)

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	
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
Q4	86,4	90,3	92,9	89,5	83,3	82,3	85,2	88,6

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
Q4	93,5	86,7	79,4	75,1	75,4	92,4	91,3	86,1	88,2	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 Statistics 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