



RESIDENTIAL PROPERTY PRICE INDEX

2013 Q3

Residential property prices continued on a negative trend during the third quarter of 2013

- The residential property price index (houses and apartments) recorded a slightly smaller quarterly decrease in the third quarter of 2013 than in the previous quarter.
- House prices in the district of Famagusta and apartment prices in the district of Larnaca recorded the largest quarterly decreases (3,8% and 3,7%, respectively).
- Apartment prices in the district of Paphos remained relatively stable (-0,4%), while apartment prices in Nicosia and Limassol decreased by 2,4% and 1,4%, respectively, compared with the previous quarter.

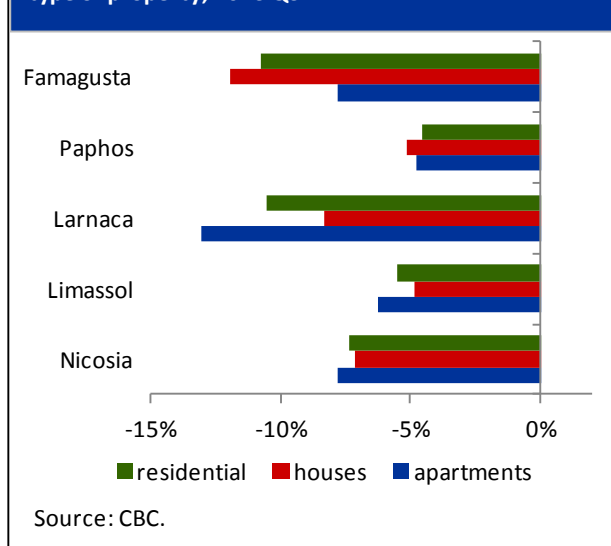
Overview	2012 Q4	2013 Q1	2013 Q2	2013 Q3
Quarterly index (2010 Q1=100)	88,6	87,2	85,0	83,0
Quarterly change	-0,9%	-1,6%	-2,6%	-2,3%
Annual change	-4,8%	-5,4%	-6,1%	-7,2%

Main results of the residential property price indices

In the third quarter of 2013, the residential property price index recorded a slightly smaller quarterly decline (2,3%) than in the previous quarter (2,6%). Apartment prices fell less than the previous quarter (1,5% compared with 3,2%), while house prices fell more (2,7% compared with 2,1%) (**Chart 2**). For the first time after four consecutive quarters, house prices recorded a larger quarterly decline than apartment prices.

As regards developments by district, the largest quarterly fall in residential prices was recorded in the

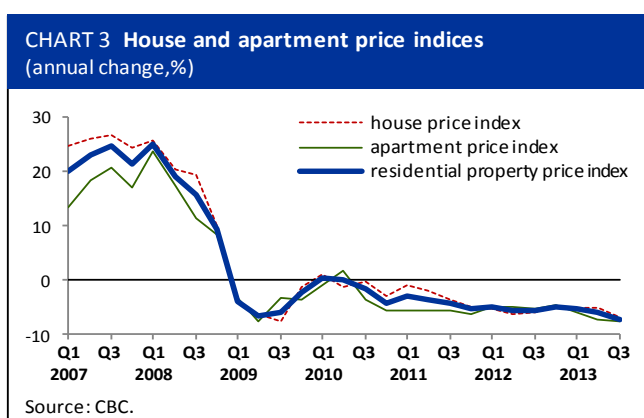
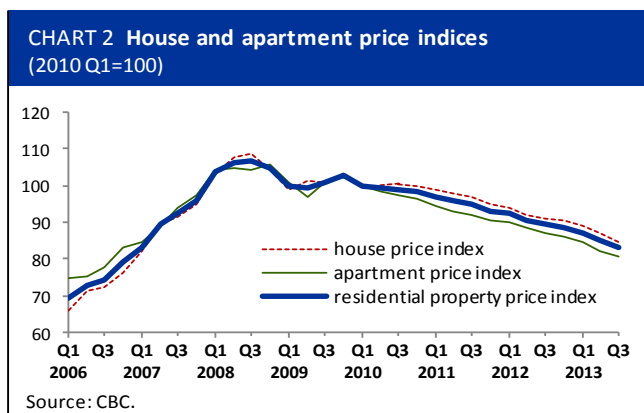
CHART 1 Annual percentage change by district and by type of property, 2013 Q3



district of Larnaca (3,7%), while the smallest decrease was recorded in the district of Paphos (0,4%). The largest decrease in house prices was recorded in the district of Famagusta (3,8%), and the smallest in the district of Nicosia (2,3%). However, in the district of Nicosia both house and apartment prices recorded larger quarterly decreases than in the previous quarter. More specifically, during the third quarter of 2013 house and apartment prices in the district of Nicosia declined by 2,3% and 2,4%, respectively, compared with the previous quarter. The corresponding quarterly reductions during the second quarter of 2013 were 1,9% and 2,2%, respectively. House and apartment prices in Limassol recorded quarterly decreases of 2,5% and 1,4%, respectively, while house and apartment prices in Famagusta recorded quarterly decreases of 3,8% and 1,7%, respectively.

On a year-on-year basis, the residential property price index fell by 7,2% in the third quarter of 2013 (after an annual fall of 6,1% in the second quarter of

2013), reflecting annual decreases of 6,7% and 7,5% in house and apartment prices, respectively (**Chart 3**).



The largest annual decreases during the quarter under review were recorded in house prices in the district of Famagusta (11,9%) and in apartment prices in the district of Larnaca (13,0%). The smallest annual decreases were recorded in apartment prices in the district of Paphos (4,8%) and in house prices in the district of Limassol (4,8%) (**Chart 1**). Apartment prices in the districts of Nicosia, Limassol and Famagusta, recorded annual decreases of 7,8%, 6,3% and 7,8%, respectively, while house prices in the districts of Nicosia, Larnaca and Paphos fell by 7,1%, 8,3% and 5,1%, respectively.

Overall, in the third quarter of 2013 apartment and house price indices fell at a higher rate than in the third quarter of 2013, continuing the trend observed in the preceding quarter. However, compared with previous years, residential property prices in certain districts show signs of stabilisation of the annual rate of decrease. Specifically, the annual rates of decrease in apartment prices in the district of Famagusta and house prices in the district of Larnaca have remained relatively stable since mid-

2012. In addition, the annual rates of decrease in both house and apartment prices in Paphos are declining, as residential property prices in this district are already below the levels of 2006. Thus, Paphos might be the first district where residential property prices will stabilise.

Other indicators

According to data from the Department of Lands and Surveys, the total number of sales contracts in the third quarter of 2013 recorded annual decreases in every district, except Nicosia (**Chart 4**). Specifically, the number of sales contracts with Cypriot buyers recorded an annual decrease of 28,5%, while the number of sales contracts with foreign buyers recorded an annual increase of 2,6%, mainly as a result of base effects. As regards transactions by district, the total number of sales contracts in Famagusta recorded the largest annual decrease (53,1%), while in Nicosia the respective number increased by 4,0%, reflecting mainly demand by foreigners. It is worth mentioning that during the quarter under review, in the district of Famagusta there were only six deposited sales contracts with foreign buyers.

Households continued to have limited access to housing loans during the third quarter of 2013, as indicated by the CBC Bank Lending Survey (**Chart 5**). According to this survey, during the quarter under review credit institutions continued to adopt stricter lending criteria for housing loans to households, albeit to a smaller extent than in the two preceding quarters. Furthermore, interest rates on housing loans (floating rate and up to one year fixed) increased from an average of 5,0% in the second quarter to an average of 5,4% in the third quarter.

As regards the construction sector, the picture remained negative. According to data from the Statistical Service of Cyprus (Cystat), local sales of cement fell at an annual rate of 36,0% during the third quarter of 2013. In addition, the building sentiment indicator for Cyprus, as published in the Joint Harmonised European Union Business and Consumer Surveys (BCS), remained at very negative levels, averaging -62,1 in the quarter under review. Furthermore, profit margins in the construction sector have been narrowing during the last few years as prices of construction materials have not decreased to the same extent as residential property prices (**Chart 6**).

Prospects of a rebound in the construction sector still seem weak. Specifically, according to data from Cystat, the number of building permits issued for residential buildings (which is a leading indicator of construction activity) recorded an annual decrease of 12,0% during the third quarter of 2013. However, according to the BCS, during the third quarter of 2013 the index of intention to build or purchase a home in the next 12 months was less negative (-88,6) than in the previous quarter (-94,7). The index of property price expectations in the construction sector in the next three months was also less negative during the third quarter of 2013 (averaging -40,8) than in the preceding quarter (averaging -57,9). The index of employment expectations in the next three months remained at negative levels (averaging -34,6).

To recapitulate, residential property prices continued to fall during the third quarter of 2013, as rising unemployment and the prolonged lack of liquidity and confidence prevented a rebound of the property market.

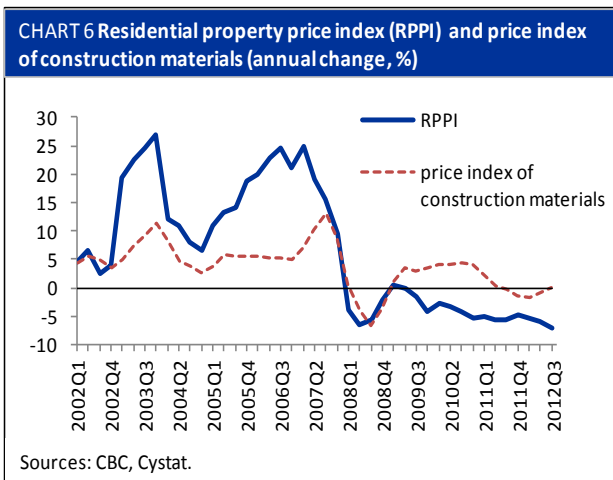
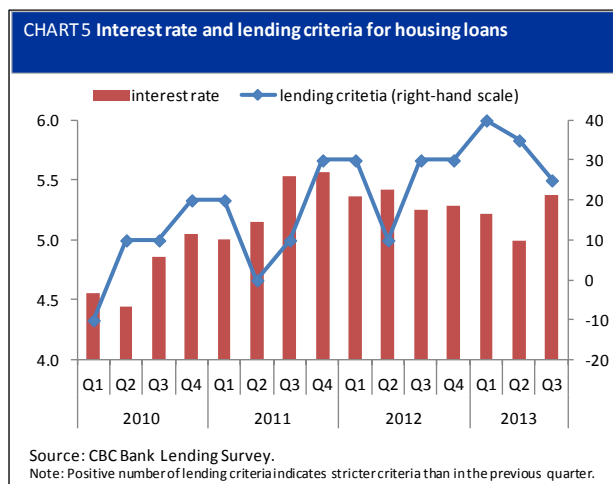
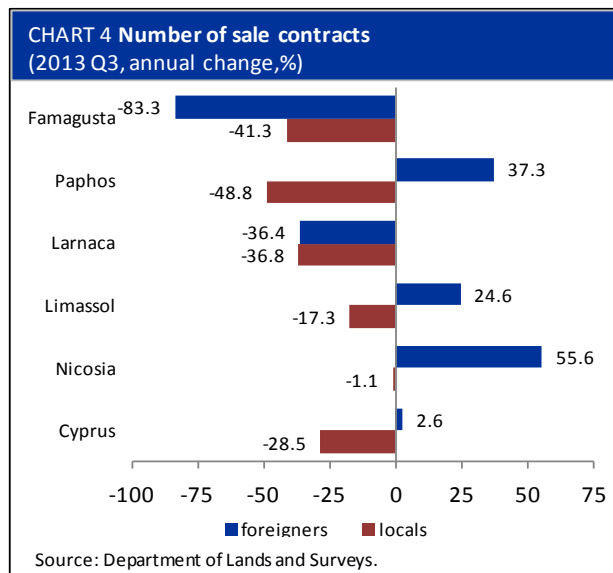


TABLE 1 Residential property price indices by type and by district
(quarterly data, 2010 Q1 = 100)

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	
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	99,3	99,6	98,5	99,4
Q3	97,3	100,4	99,9	98,0	98,3	99,7	99,1	99,1
Q4	96,5	99,9	99,9	97,5	97,4	97,8	97,8	98,5
2011 Q1	94,4	99,0	99,6	95,7	95,9	95,5	93,0	97,1
Q2	93,0	98,0	99,3	94,3	94,0	92,2	93,4	95,9
Q3	92,0	96,7	98,6	93,6	92,6	89,9	90,8	94,8
Q4	90,5	94,9	97,4	92,2	90,6	87,4	88,9	93,1
2012 Q1	89,9	93,8	96,5	91,9	89,0	85,6	88,2	92,2
Q2	88,4	91,8	95,0	90,3	86,3	85,1	84,6	90,4
Q3	87,3	90,9	94,0	89,8	85,2	82,7	84,9	89,5
Q4	86,2	90,3	92,9	89,7	83,5	81,8	84,6	88,6
2013 Q1	84,6	89,1	91,0	88,8	80,5	82,1	84,8	87,2
Q2	81,9	87,2	89,1	86,7	79,2	80,5	78,3	85,0
Q3	80,7	84,8	87,1	84,8	76,2	79,0	75,8	83,0

Source: CBC.

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 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
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

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 credit 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, Cyprus Popular Bank, 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 a standardised form, through an online data submission platform.

The partnered credit institutions receive the relevant information from more than 95 independent property surveyor offices for the purpose of 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). Until the fourth quarter of 2012, the two indices were weighted using the quarterly number of observations (valuations). Since the first quarter of 2013, the weighting method has changed and the index is calculated by using the number of observations of the last four quarters. In the same manner, the aggregate house and apartment indices are the weighted sum of the house and apartment price indices by district, weighted by the number of observations of the last four quarters. As a result, the CBC residential property price indices for the period 2010 Q1 onwards have been revised.

The hedonic methodology is employed for the construction of the indices. In case where 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 www.centralbank.gov.cy.

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