



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX

2014 Q4

Lower rate of decrease of residential property prices in the fourth quarter of 2014

- The residential property price index (houses and apartments) recorded a quarterly decrease of 1,8% during 2014Q4. House prices recorded a rate of decline of 2,1%, while apartment prices declined by 1,5%.
- On an annual basis, the residential property price index declined by 8,2% during 2014Q4, compared with 8,9% in the previous quarter.
- All districts apart from Famagusta recorded a smaller annual decline compared with the previous quarter.
- The lower rate of decrease of prices led the residential property price index to return to around the price levels of 2006, when the over-borrowing in housing loans started.

Overview	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Quarterly index (2010 Q1=100)	78,8	77,2	75,7	74,3
Quarterly change	-2,7%	-2,0%	-2,0%	-1,8%
Annual change	-9,7%	-9,1%	-8,9%	-8,2%

Residential property price indices

In the fourth quarter of 2014, the residential property price index (RPPI) recorded a decline of 1,8%, the smallest decline of the last seven quarters. House and apartment prices declined by 2,1% and 1,5%, respectively, compared with 1,4% and 2,7%, respectively, in the previous quarter (**Chart 1**). As depicted in **Chart 1**, the RPPI returned to the average price levels of 2006, the year in which the over-

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

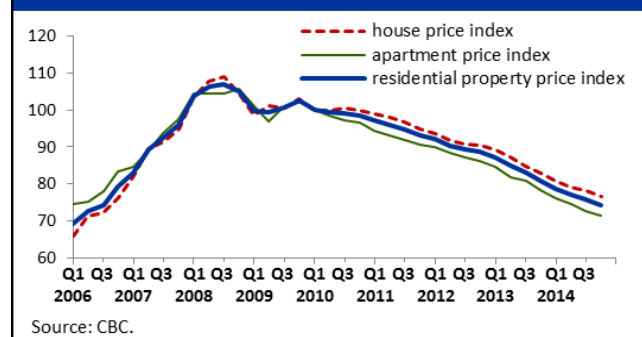
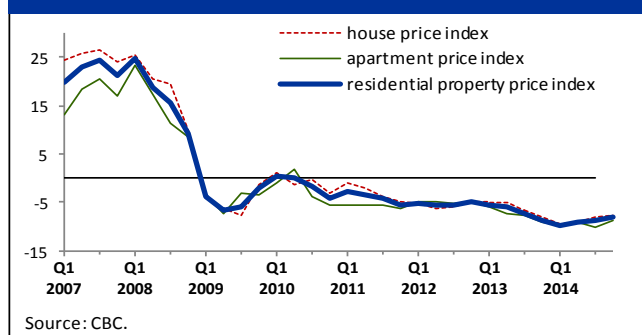


CHART 2 House and apartment price indices (annual change,%)



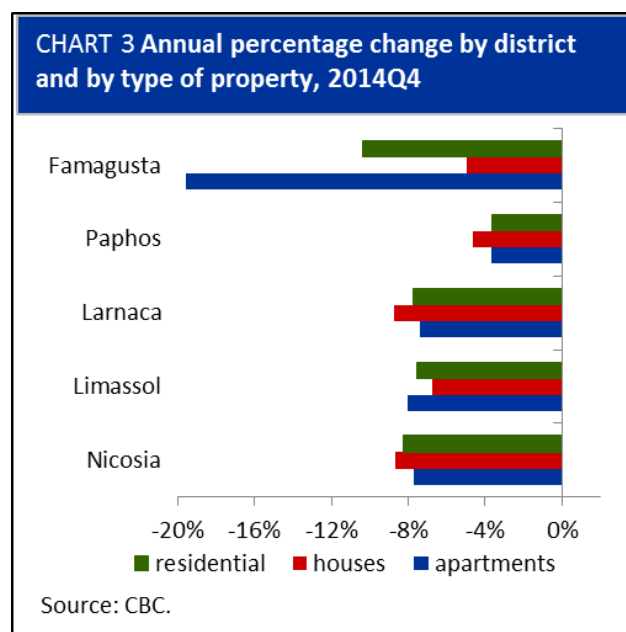
borrowing in housing loans started, leading eventually to the overheating of the sector.

On an annual basis, the RPPI declined by 8,2%, compared with a decline of 8,9% in 2014Q3. House prices declined by 7,8% on an annual basis and apartment prices by 8,6%, compared with annual declines of 7,9% and 10%, respectively, in 2014Q3.

Price changes by district

The RPPI (houses and apartments) recorded the largest quarterly decline in the district of Famagusta (2,6%) and the smallest decline in the district of Paphos (0,6%). Residential property prices declined on a quarterly basis by 2,1% in Nicosia, 2% in Limassol and 1% in Larnaca.

The largest annual decline in the RPPI was recorded in Famagusta (10,4%), while Paphos had the smallest decline of 3,7%. In addition, the RPPI recorded annual declines in the district of Nicosia (8,2%), Limassol (7,5%) and Larnaca (7,7%).



As regards house prices, the largest quarterly decrease was recorded in the district of Limassol (2,8%), while the smallest in the district of Paphos (0,7%). House prices in Famagusta recorded a marginal increase on a quarterly basis (0,2%), while in Nicosia prices declined by 2,6% and in Larnaca by 1,4%.

The largest annual decline in house prices during 2014Q4 was recorded in the districts of Nicosia and Larnaca (8,7%), while the smallest annual decline was recorded in the district of Paphos (4,7%) (**Chart 3**). House prices in the districts of Limassol and Famagusta exhibited annual declines of 6,8% and 4,9%, respectively.

The largest quarterly decline in apartment prices during 2014Q4 was recorded in the district of Famagusta (7,7%), while the smallest was in the district of Limassol (0,7%). Apartment prices in Larnaca recorded a marginal quarterly increase of 0,1%. Apartment prices in the districts of Nicosia and Paphos were lower by 1,6% and 0,9%, respectively, compared with the previous quarter.

The largest annual decline in apartment prices during the quarter under review was recorded in the district of Famagusta (19,5%) (**Chart 3**). The smallest annual

declines in apartment prices was recorded in the district of Paphos (3,7%). Apartment prices in the districts of Nicosia, Limassol and Larnaca were lower on an annual basis by 7,7%, 8% and 7,4%, 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) in Cyprus, recorded an increase of 10,7% in 2014Q4 compared with 2013Q4. An annual increase of 11,1% was recorded in the number of sales to Cypriot buyers, while sales to foreign buyers recorded an annual increase of 9,6% (**Chart 4**). Apart from Nicosia, all other districts recorded increases in the total number of sale contracts compared with 2013Q4.

According to CBC data, the deleveraging in the real estate sector continues, albeit at a slower pace. The total amount of outstanding housing loans in Cyprus decreased on an annual basis by 2,8% in December 2014, compared with an annual decrease of 4,8% in December 2013. The same trend was exhibited in the sub-categories of the outstanding amount of housing loans to residents and non-residents.

As regards the construction sector, local sales of cement recorded a smaller annual decline for the 2014Q4 (8,3%), compared with the 2013Q4 (13,7%). However, the building sentiment indicator for Cyprus, as published in the Joint Harmonised European Union

Business and Consumer Surveys (BCS)¹, recorded a lower level in the quarter under review (on average -50,3) compared with the previous quarter (on average -47,5), albeit at a less negative level compared with the 2013Q4 (on average -54,9).

According to data from the BCS, during 2014Q4, the index of intention to build or purchase a home in the next 12 months recorded an average of -94,6 compared with an average of -92,5 in the previous quarter. In contrast, the index of property price expectations in the next three months in the construction sector recorded on average a less negative number (-17,5) compared with the previous quarter (-21,4). While the index of employment expectations in the construction sector recorded higher negative levels (on average -11,5) compared with the previous quarter (-9,3), it was less negative compared with 2013Q4 (-22).

¹ The reported indices of the European Commission are revised regularly. As a result, there might be a marginal change in the figures of previous reports.

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	73,9
2007	-	91,2	89,5	88,8	84,3	90,7	92,7	90,3	90,2
2008	-	104,8	106,1	104,7	103,3	103,2	101,1	106,5	105,5
2009	-	100,2	100,9	100,5	96,9	101,3	103,0	104,4	100,6
2010	-	98,1	100,1	99,8	98,7	98,8	99,3	98,9	99,2
2011	-	92,5	97,2	98,7	93,9	93,3	91,3	91,5	95,2
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
	Q4	78,3	82,9	85,1	83,0	74,0	76,0	74,3	80,9
2014	Q1	76,2	80,7	82,9	80,6	72,1	75,2	72,2	78,8
	Q2	74,6	79,3	81,5	78,8	70,6	74,2	70,4	77,2
	Q3	72,6	78,1	79,8	78,2	69,0	73,7	68,3	75,7
	Q4	71,5	76,5	78,2	76,7	68,4	73,2	66,6	74,3

Source: CBC.

*The annual data for the years between 2006 and 2011 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	
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
	Q4	86,0	80,0	67,7	68,4	71,6	84,4	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	80,9	72,3
	Q3	80,6	74,0	62,8	66,4	62,4	79,2	81,2	73,4	80,7	71,7
	Q4	79,3	73,4	62,9	65,8	57,6	77,1	78,9	72,4	80,2	71,9

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 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). Since the first quarter of 2013, the weighting method has changed and the index is calculated by using the number of observations (valuations) of the last four quarters, in order to provide a more representative allocation between houses and apartments in the Cypriot housing market. Until the fourth quarter of 2012, the two indices were weighted using the quarterly number of observations. 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 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

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