



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2016Q3

Residential property prices continued to stabilise in 2016Q3

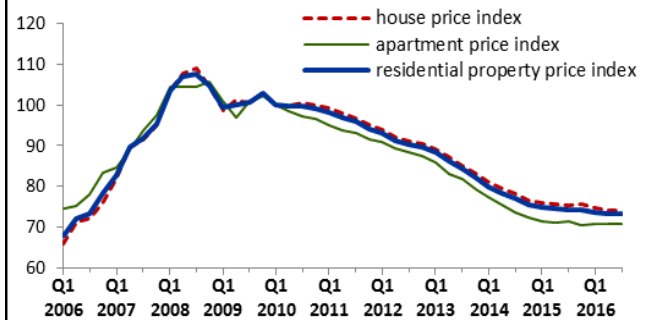
- The Residential Property Price Index (RPPI) recorded a marginal increase (0,1%) in 2016Q3 compared with the previous quarter, its first since 2009, reflecting increases in both apartment and house prices.
- In three out of five districts residential property prices recorded a small quarterly increase.
- Residential property prices declined by 1,3% on an annual basis in 2016Q3, the smallest decline since 2010Q4. Residential property prices remained stable on an annual basis in Paphos and decreased in all other districts.
- As the economy recovers further and confidence returns, the real estate market will continue to stabilise and, possibly, exhibit small increases.

Overview	2015 Q4	2016 Q1	2016 Q2	2016 Q3
Quarterly index (2010Q1=100)	74,2	73,6	73,2	73,3
Quarterly change	0,0%	-0,8%	-0,5%	0,1%
Annual change	-1,8%	-1,6%	-1,7%	-1,3%

Residential property price indices

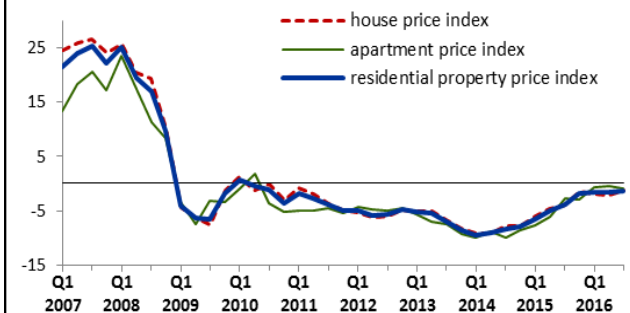
The RPPI recorded a marginal increase of 0,1% on a quarterly basis in 2016Q3, the first increase since 2009. Both apartment and house prices recorded small quarterly increases of 0,1% (**Chart 1**). The small

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



Source: CBC.

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



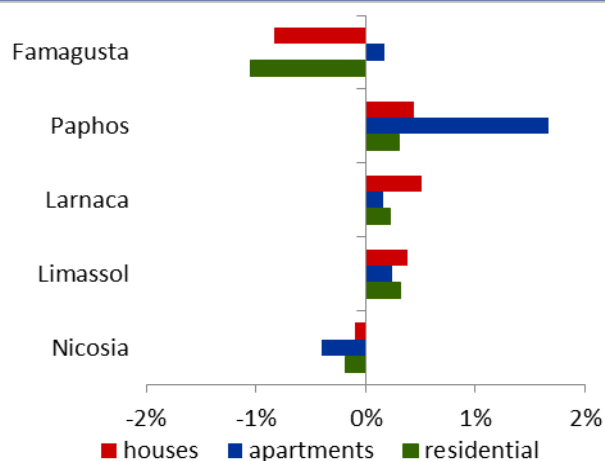
Source: CBC.

increase of the RPPI reflects the trend for price stabilisation in the property market.

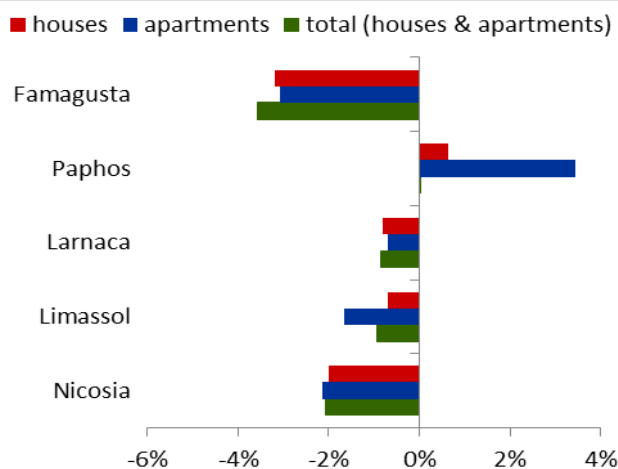
The RPPI declined by 1,3% in 2016Q3 on an annual basis, compared with an annual decline of 3,7% in 2015Q3. Both house and apartment prices declined by 1,3% and 1%, respectively, on an annual basis in 2016Q3 compared with annual reductions of 3,9% and 2,8% in 2015Q3 (**Chart 2**).

Price changes by district

Residential property prices registered quarterly increases in Limassol (0,3%), Larnaca (0,2%) and

CHART 3 Quarterly percentage change by district and by type of property, 2016Q3

Source: CBC.

CHART 4 Annual percentage change by district and by type of property, 2016Q3

Source: CBC.

Paphos (0,3%) in 2016Q3. In contrast, residential property prices in Nicosia and Famagusta continued to decrease on a quarterly basis (0,2% and 1,1%, respectively) (**Chart 3**).

All districts, except Paphos, recorded annual decreases, albeit smaller ones than in previous quarters. Specifically, residential property prices in Paphos stabilised on an annual basis in 2016Q3, while

they decreased in Nicosia (2,1%), Limassol (0,9%), Larnaca (0,9%) and Famagusta (3,6%).

As regards apartment prices, all districts recorded a quarterly increase in 2016Q3 except Nicosia, which recorded a decrease of 0,4%. Specifically, apartment prices recorded a quarterly increase of 0,2% in Limassol, Larnaca and Famagusta and 1,7% in Paphos.

Apartment prices in Paphos increased by 3,4% on an annual basis. In contrast, apartment prices decreased by 2,2% in Nicosia 1,7% in Limassol, 0,7% in Larnaca and 3,1% in Famagusta (**Chart 4**).

As regards house prices, they increased on a quarterly basis by 0,4%, 0,5% and 0,4 % in the districts of Limassol, Larnaca and Paphos, respectively. In contrast, they decreased in Nicosia and Famagusta by 0,1% and 0,8%, respectively.

House prices in Paphos increased by 0,6% on an annual basis in 2016Q3. In contrast, they decreased by 2% in Nicosia, 0,7% in Limassol, 0,8% in Larnaca and 3,2% in Famagusta (**Chart 4**).

Comparison with other residential property price indices

In the 2016Q2 RPPI report other residential property indices which are available for the Cyprus market were briefly presented. In **Chart 5** we present the results of these indices, namely the CBC RPPI index, the Cyprus Statistical Service (Cystat)¹ house price index and the RICS² residential property index. Data for the RICS index are available since 2009Q4. **Chart 6** depicts the quarterly changes of the above indices. All three indices record quarterly increases in 2016Q3.

Other market indicators

Despite the challenges faced by the construction sector, real estate indicators show an improvement in the real estate sector. According to data from the Department of Lands and Surveys, in 2016Q3 the total number of sales contracts (locals and foreigners) recorded an annual increase of 38,1%, thus continuing the recovery which began in 2014. The number of sales contracts with Cypriot buyers registered an annual increase of 41,7%, while sales to

¹http://www.mof.gov.cy/mof/cystat/statistics.nsf/economy_finance_15main_en/economy_finance_15main_en?OpenForm&sub=5&sel=2

<http://www.rics.org/cy/knowledge/market-analysis/rics-cyprus-property-price-index/>

² <http://www.rics.org/cy/knowledge/market-analysis/rics-cyprus-property-price-index/>

CHART 5 Residential property price indices in Cyprus (2009Q4=100)

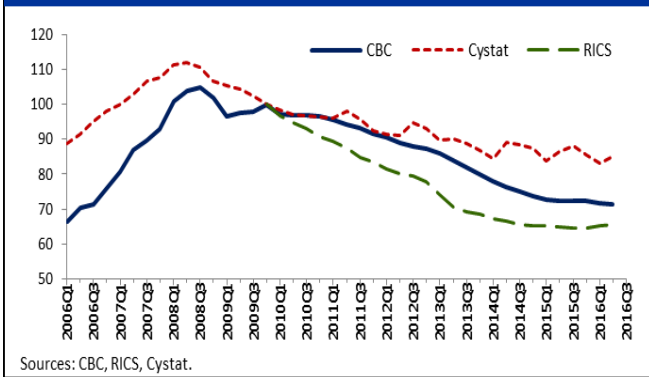
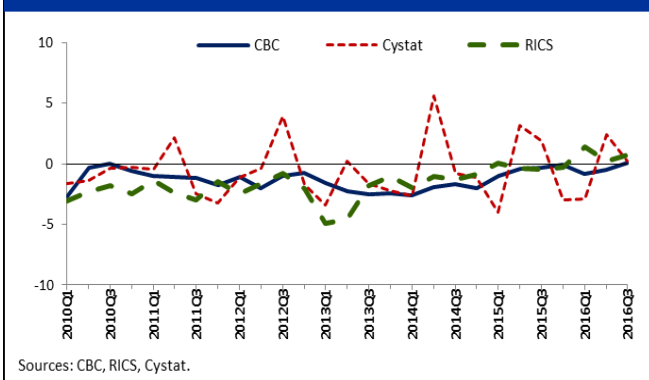


CHART 6 Residential property price indices in Cyprus (quarterly change,%)



foreign buyers increased by 28,8% (Chart 7). It is noted that a part of these large increases is due to the debt-to-asset agreements between banks and borrowers as well as to the fact that sales had reached historical low levels and hence there has been a base effect

As regards construction activity, according to data from Cystat, it continued to increase in 2016Q3. Specifically, in the quarter under review the local sales of cement recorded annual increases of 27%, while an increase of 7,7% was recorded in building permits.

According to the CBC’s *Monetary and Financial Statistics*, the interest rate for housing loans³ continued to decline in 2016Q3. It was on average 3% in 2016Q2 compared with 3,3% in 2015Q3 (Chart 8). In addition, according to the CBC’s *Bank Lending Survey*, the demand for housing loans by households increased in 2016Q3, a clear indication of the revival of the sector, while the lending criteria for housing loans remained unchanged (Chart 8). The increase recorded in the demand for new housing loans is also

confirmed by CBC data, registering a significant increase in 2016Q3, albeit from a very low base.

The prospects for the real estate market are more positive than one year ago according to the European Commission’s Business and Consumer Survey. Specifically, the index of employment expectations in the construction sector reached an average of 0,8 in 2016Q3 compared with -6,8 in the same quarter of the previous year. The index of expectations for real estate prices improved significantly. It was less negative compared with the levels seen in late 2008, recording an average of -1,6 in 2016Q3 compared with -30,3 in 2015Q3. In addition, the building sentiment indicator was on average -26,8, significantly higher than the -41,5 recorded in 2015Q3. The improvement of the above sentiment indicators reflects the gradual restoration of confidence in the Cypriot property market. Provided that the challenges faced by the real estate sector are tackled properly, then the conditions in the sector are expected to improve further.

CHART 7 Number of sales contracts

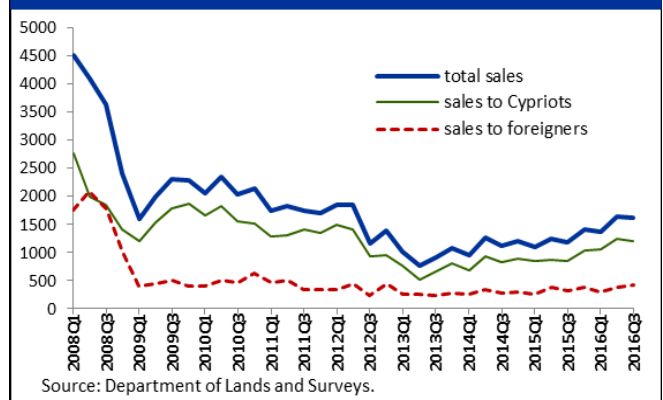
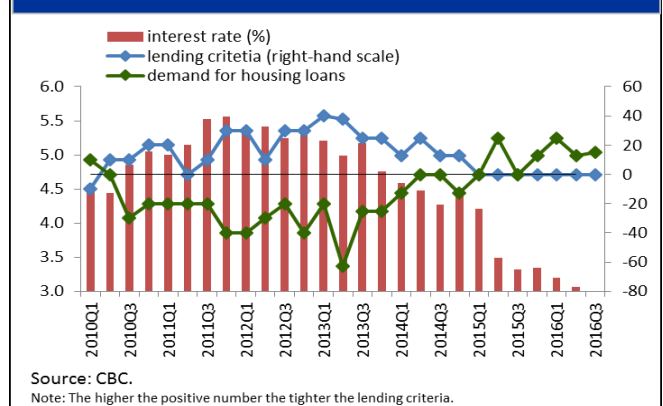


CHART 8 Interest rate and lending criteria for housing loans



³ Floating rate and up to one year fixed.

Table 1 Residential property price indices by type and by district
(annual and quarterly data, 2010Q1 = 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	-	82,5	86,1	87,8	86,5	79,5	83,3	80,0	85,2
2014	-	74,7	78,8	80,3	79,5	72,1	77,4	71,1	77,8
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
	Q3	71,5	75,2	75,5	76,3	68,8	75,4	69,2	74,2
	Q4	70,4	75,6	75,1	76,3	68,7	75,7	70,8	74,2
2016	Q1	70,8	74,6	74,5	75,9	67,8	75,1	69,4	73,6
	Q2	70,7	74,2	74,1	75,3	68,1	75,2	67,4	73,2
	Q3	70,8	74,2	73,9	75,6	68,2	75,4	66,7	73,3

Source: CBC.

*The annual data for the years between 2006 and 2014 are calculated as the simple average of the four quarters of each respective year.

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

Year*	Quarter	<u>Flats</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	-	89,0	82,8	71,7	71,7	71,8	87,3	87,5	82,1	86,7	81,4
2014	-	81,5	74,9	63,8	67,2	64,1	79,8	81,1	74,7	80,7	72,3
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
	Q3	76,3	75,3	61,6	64,6	59,2	75,2	76,6	71,9	78,9	70,8
	Q4	75,1	74,3	60,6	63,8	61,3	75,2	77,0	72,5	80,0	72,2
2016	Q1	75,1	75,0	60,5	66,4	59,0	74,3	76,2	71,1	78,5	71,1
	Q2	75,0	73,8	61,1	65,8	57,3	73,7	75,8	71,0	79,0	69,1
	Q3	74,7	74,0	61,2	66,9	57,4	73,7	76,1	71,4	79,4	68,5

Source: CBC.

*The annual data for the years between 2006 and 2014 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 have been 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 reports, 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 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

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