



CENTRAL BANK OF CYPRUS

EUROSYSTEM

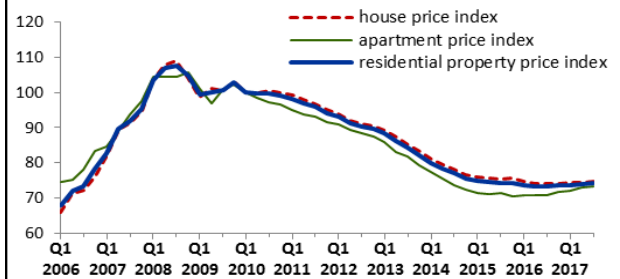
RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2017Q3

The Residential Property Price Index continued to recover

- The RPPI (houses and apartments) increased by 0,4% in 2017Q3¹, its fifth consecutive quarterly increase. Increases of 0,5% and 0,3% were also recorded in the apartment price index and the house price index, respectively. Sub-indices recorded quarterly increases in all districts, with the exception of the apartment price indices in Famagusta and the house price index in Paphos.
- On an annual basis, the RPPI increased by 1,4%. The majority of the aggregate indices and sub-indices recorded annual increases, with the largest being in the districts of Nicosia and Limassol.
- The prospects of the real estate sector are favourable. Building permits and demand for housing loans continue to record increases, while construction activity continues to recover. However, the problem of non-performing exposures remains a serious impediment to the full recovery of the sector, while the extent of the effect of the VAT imposed on land transactions as from 2018 is still uncertain.

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



Source: CBC.

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



Source: CBC.

Overview	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Quarterly index (2010Q1=100)	73,5	73,7	74,1	74,3
Quarterly change	0,3%	0,3%	0,5%	0,4%
Annual change	-0,9%	0,2%	1,1%	1,4%

¹ The reader is reminded that the construction of the CBC RPPI is based on appraisals data and on a statistical method that is widely used in the literature for this purpose, which incorporates to some extent past developments in current results using smoothed regression coefficients (see methodology report:

https://www.centralbank.cy/images/media/pdf/Metodology_EN_latest.pdf). As a result, it is possible that the RPPI may delay in capturing turning points in the market, both with respect to time and to the magnitude of the recovery in the market.

Residential property price indices

The RPPI (houses and apartments) continues its gradual recovery which began in 2016Q3, recording a quarterly increase of 0,4% in 2017Q3. Apartment and house price indices registered quarterly increases of 0,5% and 0,3%, respectively (**Chart 1**). These were the fifth and third consecutive quarterly increases in apartment and house prices, respectively.

On an annual basis, the RPPI accelerated increasing by 1,4% in 2017Q3 compared with 1,1% in the previous quarter. This reflects an annual increase of 3,7% in apartment prices and a smaller increase of 0,7% in house prices (**Chart 2**).

The continued increases in residential property prices in combination with other relevant indicators, which are presented in the next section, confirm the steady recovery of the sector. Downside risks for the sector include the high level of non-performing loans and the implementation of the harmonising law for VAT on land. Nevertheless, the expected sustainable growth in the broad economy is expected to provide support to the sector.

Price changes by district

Residential property prices recorded quarterly increases in all districts except Paphos, where a 0,8% decrease was recorded. Specifically, an increase of 0,4% was recorded in Nicosia, 0,6% in Limassol, 1% in Larnaca and 1,1% in Famagusta (**Chart 3**). As regards annual changes in the RPPI by district, the largest increase was recorded, for a second consecutive quarter, in Limassol (2,6%). The RPPI recorded increases of 1,3% and 1,6% in Nicosia and Famagusta, respectively. In contrast, the RPPI decreased on an annual basis by 0,7% in Larnaca and by 0,8% in Paphos (**Chart 4**).

Apartment prices increased on a quarterly basis in all districts, except in Famagusta, where a marginal decrease of 0,4% was recorded. Apartment prices increased by 0,5% in Nicosia and Limassol, by 1,8% in Larnaca and by 0,8% in Paphos.

A similar trend was observed in house prices as well where a quarterly increase was recorded in all districts except Paphos. House prices decreased by 0,9% in Paphos, while they increased by 0,3% in Nicosia, 0,6% in Limassol, 0,5% in Larnaca and 1% in Famagusta.

CHART 3 Residential property price indices by district (quarterly change, %)

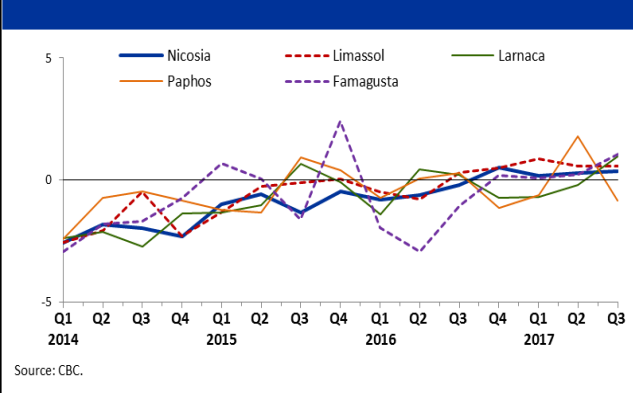
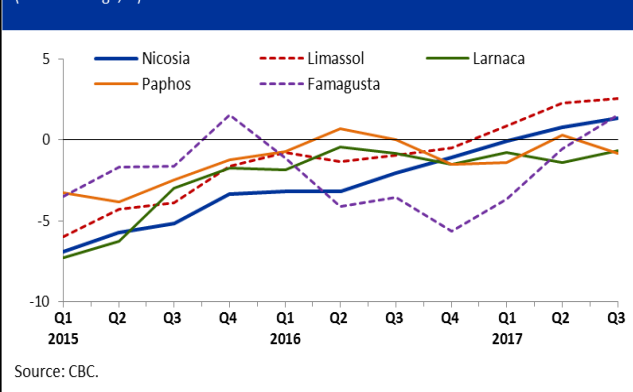


CHART 4 Residential property price indices by district (annual change, %)



With the exception of Paphos, apartment prices recorded annual increases in all districts for a second consecutive quarter. Paphos recorded an annual decrease of 3,9%. Apartment prices increased on an annual basis by 3,6% in Nicosia, 6,4% in Limassol, 2,5% in Larnaca and 1,4% in Famagusta. The increases in the districts of Nicosia, Limassol and Larnaca were larger than those observed in the previous quarter.

House prices increased on an annual basis by 0,2% in Nicosia, 1,3% in Limassol, 0,9% in Paphos and 1,8% in Famagusta.

Other market indicators

The recovery of the RPPI is in line with other positive indications in the sector. The index of production in construction, which is published by Cystat, recorded an annual increase of 12,8% in 2017Q3. Despite the increase, the index is still at levels similar to 2013Q3.

According to data published by the Department of Lands and Surveys, the total number of sales contracts recorded an annual increase of 17,2% in 2017Q3 (**Chart 5**). The number of sales contracts by domestic

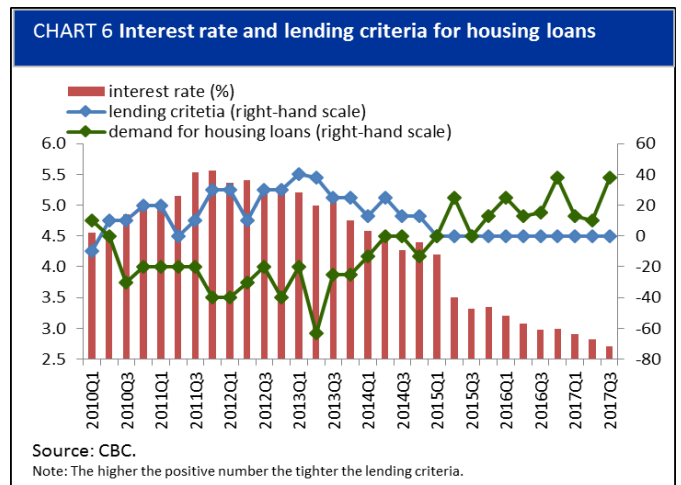
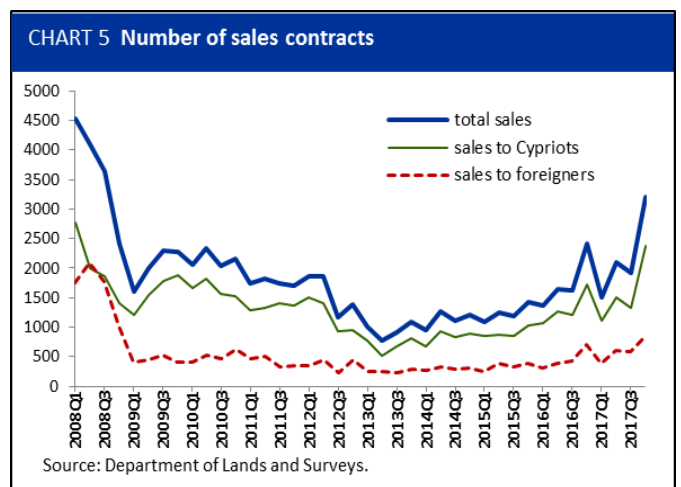
residents registered an annual increase of 10% in 2017Q3, reaching 1.328 contracts, while sales to foreigners increased, albeit from a low base, by 37,6%, reaching 585 contracts.

According to the CBC’s *Monetary and Financial Statistics*, the interest rate for housing loans² recorded a historical low, averaging 2,7% in 2017Q3 (Chart 6). The CBC’s *Bank Lending Survey* shows that the demand for housing loans by households increased for the eighth consecutive quarter in 2017Q3. At the same time, the lending criteria for housing loans remained unchanged (Chart 6).

The prospects of the real estate sector are favourable. Authorised building permits, which are considered to be a leading indicator for future construction activity, increased by 9,4% in 2017Q3 on an annual basis. 72% of total building permits referred to residential buildings, 17% to non-residential (out of which 1% were accounted for by offices), 6% to division of plots and the remaining 5% to civil engineer projects and construction of roads.

Furthermore, sales contracts recorded an increase of 32,7% in 2017Q4. The large increase observed, mainly in December, was primarily due to the imposition of VAT on land transactions from 2018 onwards, although the provisions of the relevant law have not been fully clarified yet.

In addition, according to the European Commission’s *Business and Consumer Surveys* 36,1% of the participants responded that they face no restrictions regarding their building activity of their company in 2017Q4, up from 11,3% in 2016Q4. In addition, 47,4% of the participants replied that insufficient demand is restricting their building activity, compared with 59,6% in 2016Q4. The index of employment expectations in the construction sector reached an average of 0,2 in 2017Q4, compared with -22 in 2013Q4 at the height of the crisis. In addition, the index of expectations for real estate prices was, on average, 6,9 in 2017Q4 compared with -1,4 in the respective quarter of 2016.



² 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	-	71,0	75,6	76,0	76,4	68,7	75,3	70,1	74,4
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
	Q4	71,7	74,2	74,3	75,9	67,7	74,5	66,8	73,5
2017	Q1	71,9	74,4	74,5	76,6	67,2	74,1	66,9	73,7
	Q2	73,0	74,5	74,7	77,1	67,1	75,4	67,0	74,1
	Q3	73,4	74,7	74,9	77,5	67,8	74,8	67,7	74,3

Source: CBC.

*The annual data for the years between 2006 and 2015 are calculated as the 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	-	76,6	74,0	61,0	64,2	60,3	75,8	77,2	71,9	79,3	71,8
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
	Q4	75,3	75,5	62,3	65,2	57,4	73,9	76,1	69,9	78,8	68,9
2017	Q1	75,3	76,6	62,3	64,3	57,4	74,1	76,6	69,3	78,8	69,0
	Q2	77,0	78,3	61,6	63,7	58,6	73,7	76,6	69,3	80,8	69,0
	Q3	77,3	78,7	62,7	64,2	58,3	73,9	77,1	69,7	80,1	69,7

Source: CBC.

*The annual data for the years between 2006 and 2015 are calculated as the 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