



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2019 Q1

The residential property price index continues its upward trend

- The RPPI¹ (houses and apartments) recorded a quarterly increase of 0,7% in 2019Q1. The apartment and house price indices recorded a quarterly increase of 0,9% and 0,6% respectively.
- The RPPI increased by 2,7% on an annual basis in 2019Q1. All RPPI district sub-indices have recorded annual increases. The largest annual increase in house prices was recorded in Limassol (4,5%). The largest increase in apartment prices was recorded for the first time in Larnaca (9,5%), followed by Limassol (7,3%).
- According to data from the Department of Land and Surveys, the increase in demand for houses and apartments continued, driven by both local and foreign buyers. Purchases by foreigners are funded mainly from own sources, and to a lesser extent from borrowing.
- The above results are based on the updated CBC Residential Price Index which was revised in order to maintain its representativeness. Changes in the index over the period covered by the revision (i.e. from 2017Q1 onwards), were minor.

OVERVIEW	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Quarterly Index (2010Q1=100)	75,5	76,0	76,7	77,2
Quarterly change	0,4%	0,7%	0,9%	0,7%
Annual change	1,7%	2,1%	2,5%	2,7%



¹ The CBC RPPI is calculated on the basis of market valuations of real estate prices and a statistical methodology widely used in the international literature. It takes partial account of developments in previous quarters through smoothed regression coefficients (see relevant methodology:

https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf). Therefore, it is likely that there will be a short lag in capturing turning points in the market with respect to both time and the magnitude of the recovery.

Residential property price indices

The RPPI (houses and apartments) continued its upward trend, recording a quarterly increase of 0,8% in 2019Q1. House and apartment price indices registered a quarterly increase of 0,6% and 0,9% respectively. (Chart 1)

Residential property prices recorded an increase of 2,7% on an annual basis in 2019Q1. House and apartment prices registered an annual increase of 2,1% and 3,9%, respectively, in 2019Q1 (Chart 2).

The increased demand for residential properties both for housing and investment purposes, financed by foreign investment and domestic lending contribute to the recovery of residential property prices. Apartment prices recover faster than house prices, probably due to the fact that apartments, in general, offer higher returns as an investment than houses (according to RICS² data). Also, many buyers, such as new households, seem to prefer apartments over houses in order to stay close to city centers.

It is evident that fluctuations in property prices are quite heterogeneous both between districts but also between regions within the same district. Foreign investment, which appears to be concentrated in specific areas, plays an important role in these fluctuations and supports price recovery.

As noted in the previous quarter's report, the Residential Property Price Index and sub-indices have been revised, based on the general periodic revisions made to similar indices. The previous revision of CBC's RPPI took place in 2015 (Residential Property Price Index Report 2015Q1, CBC). Developments in the second half of 2018 indicated the need to revise the Index in order to maintain its representativeness. More specifically, these developments include: the sale of the Cooperative Bank to Hellenic Bank, the establishment and operation of the Cyprus Asset Management Company (KEDIPES), as well as changes in the legal framework governing the management of non-performing loans in July of 2018. As a consequence of these developments, there has been, among other things, a significant increase in the number of valuations of real estate properties for the purpose of speeding up the settlement processes of NPEs. This

	Aggregate RPPI	Revised Aggregate RPPI	RPPI Nicosia	Revised RPPI Nicosia	RPPI Limassol	Revised RPPI Limassol
2017Q1	0.2	0.1	-0.1	-0.2	0.9	0.8
2017Q2	1.1	1.3	0.8	1.0	2.3	2.4
2017Q3	1.4	1.6	1.3	1.5	2.6	2.6
2017Q4	1.5	1.8	0.8	1.1	2.9	3.1
2018Q1	1.8	2.1	1.2	1.7	2.7	2.8
2018Q2	1.7	1.7	1.2	1.2	2.8	2.7
2018Q3	1.6	2.1	0.7	1.1	3.6	4.0
2018Q4	1.5	2.5	1.0	1.9	3.4	4.3
	RPPI Larnaca	Revised RPPI Larnaca	RPPI Paphos	Revised RPPI Paphos	RPPI Famagusta	Revised RPPI Famagusta
2017Q1	-0.8	-1.5	-1.4	-0.8	-3.7	-3.7
2017Q2	-1.4	-1.3	0.3	0.8	-0.6	-0.9
2017Q3	-0.7	-0.8	-0.8	0.0	1.6	1.3
2017Q4	0.5	0.4	0.8	1.3	1.4	0.9
2018Q1	1.1	1.3	2.0	2.1	2.9	2.4
2018Q2	2.2	1.5	0.0	0.0	3.8	4.6
2018Q3	1.6	1.9	0.1	-0.8	4.1	4.5
2018Q4	0.9	1.7	0.0	1.0	3.7	4.4

increases the probability that in a number of cases the estimated value of the property does not reflect its market value. Therefore, these observations are excluded from the sample in order to comply with the existing methodology of constructing the Index in line with international standards. These standards are set by both the Royal Institute of Chartered Surveyors (RICS³) and the European Group of Valuers' Associations (TEGOVA⁴), and indicate that valuations should reflect market values.

In the context of revising the indices and changing the sample of observations, the coefficients of the hedonic regressions for the period from 2017Q1 onwards were reassessed. As shown in Table 1, the revised aggregate RPPI in 2017 and 2018 does not appear to differ significantly from the Index as calculated so far. Changes in sub-indices annual growth rates are in all cases less than +/- 1pp. Overall, the revised RPPI in 2017 and 2018 appears to be on average 0,3 percentage points higher than before the revision.

² Available at <https://www.rics.org/eu/news-insight/research/market-surveys/cyprus-property-price-indices/>

³ <https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/red-book/>

⁴ <https://www.tegova.org/en/p4912ae3909e49>

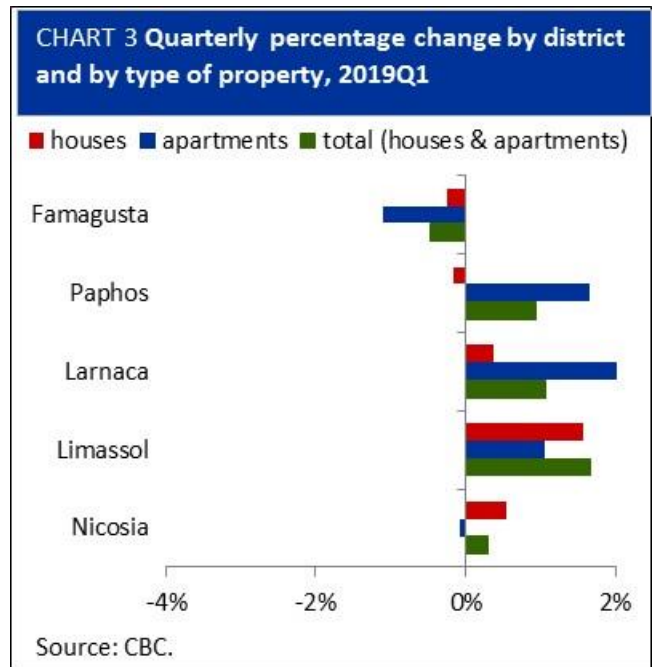
Price changes by district

On a quarterly basis, residential property prices increased in all districts with the exception of Famagusta, where a marginal decrease was recorded. Specifically, residential property prices increased by 1,5% in Limassol, 1,1% in Larnaca, 1% in Paphos and 0,3% in Nicosia, while there was a small reduction of 0,4% in Famagusta (**Chart 3**). As regards annual changes in the RPPI by district, an increase was recorded in all districts and in particular 5,4% in Limassol, 3,2% in Larnaca, 2,4% in Ammochostos, 1,5% in Nicosia and 1,3% in Paphos (**Chart 4**).

House prices in Limassol, Nicosia, Larnaca and Paphos registered quarterly increases of 1,6%, 0,5%, 0,4% and 0,1%, respectively. In Famagusta they registered a marginal decrease of 0,3%. On an annual basis, house prices recorded an increase in all districts (4,5% in Limassol, 1,7% in Nicosia, 1,5% in Famagusta, 1,4% in Larnaca and 0,7% in Paphos).

Apartment prices registered quarterly increases of 3,8% in Larnaca, in Paphos 1,7% and 1,1% in Limassol. In Famagusta they registered a quarterly decrease of 1,1%, while they remained almost stable (-0,1%) in Nicosia. On an annual basis, apartment prices also recorded increases in all districts. The largest increase was registered in Larnaca (9,5%) and Limassol (7,3%). Apartment prices recorded an annual increase of 6,7% in Famagusta, 1,8% in Paphos and 1,3% in Nicosia.

It is important to note that the annual increases in apartment prices in Limassol remain high, although they exhibit a slight deceleration. Similar high increases in apartment prices are now recorded in Larnaca as well as, according to CBC internal analysis are concentrated in specific touristic areas (as is also the case in Limassol). The aforementioned areas seem to attract ongoing activity related to the Cyprus Investment Program (CIP), as well as the permanent residence permit program. It is noted that the construction of luxurious properties, which are being constructed to satisfy the demand for the CIP, are financed by the domestic banking system only to a limited extent. As a result, the majority of these properties are not included in the sample used for the construction of CBC indices, which is based on valuation data submitted by banks. However, these sales appear to have an indirect but significant effect on specific areas of Larnaca, as was the case in Limassol, to which the accelerated increase in apartment prices can be attributed. This trend is supported by the acceleration in rent increases in Larnaca. According to



data from the Royal Institute of Chartered Surveyors (RICS) Cyprus, the rents in Larnaca have seen significant increases since 2018, even though they have been stagnant for a long time.

Other market indicators

The increases in residential property prices that was registered in 2019Q1 is in line with other real estate and economic indicators.

The increased demand for properties is reflected in the data published by the Department of Lands and Surveys (DLS), which indicate that the total number of

sales contracts in 2019Q2 recorded an annual increase of 36,4% (**Chart 5**). Demand for real estate property increased by both local and foreign buyers (47,2% and 25,7%, respectively). The significant increase in demand for real estate by local buyers that was registered in 2019Q1, is observed both in growth and in absolute terms (1.718 locals compared to 1.476 foreigners).

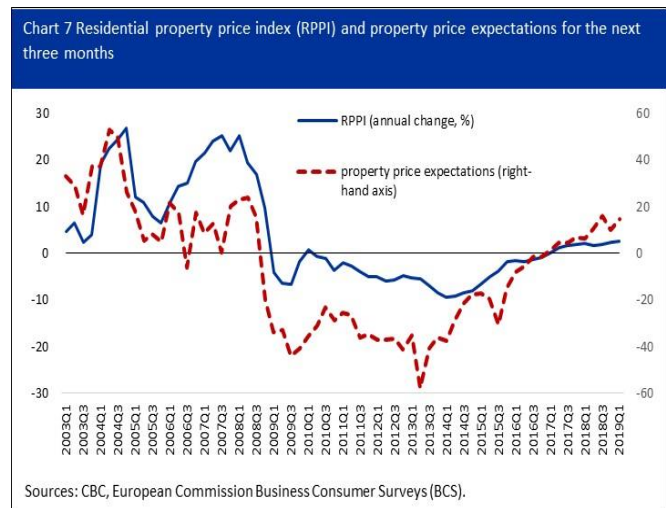
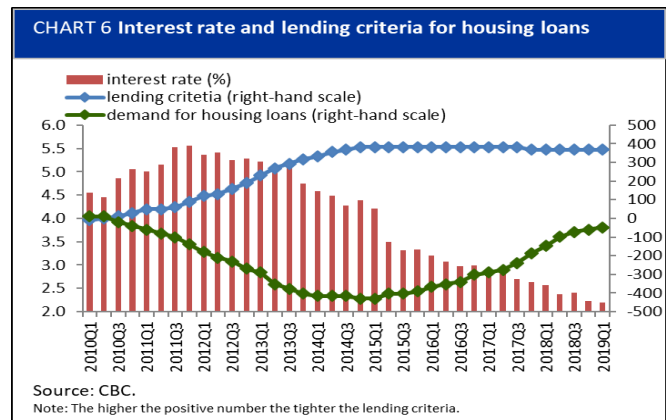
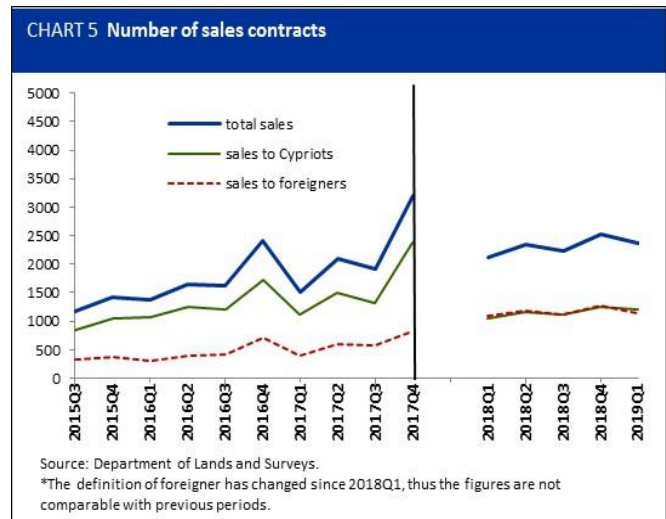
According to data published by the Statistical Service of Cyprus (CYSTAT) the construction activity (category buildings) recorded an annual increase of 20,1% in 2019Q1. Despite the consecutive annual increases, the level of the index of production is still lower than the historically high levels recorded before the financial crisis of 2013.

The ongoing recovery of the construction sector is also reflected in the reduction in unemployment in the sector. According to CYSTAT, unemployment in construction continued to decrease reaching an average of 1.465 in 2019Q2 compared with 2.048 in 2018Q2.

According to the CBC’s *Monetary and Financial Statistics*⁵, the interest rate for housing loans⁶ registered a marginal decrease and averaged 2,2% in 2019Q1, compared with 2,23% in 2018Q4, still being at historically low levels (**Chart 6**). According to the CBC’s *Bank Lending Survey*⁷, the demand for housing loans by households continued to increase (**Chart 7**) in 2019Q1. According to the *CBC Monetary and Financial Statistics* new housing loans have slightly increased to €235 million in 2019Q2, compared with 2018Q2.

According to the relative economic indicators, the prospects for the real estate market remain positive. Authorised building permits for all types of real estate, which are considered to be a leading indicator of building activity, recorded a considerable annual increase of 8,6% in the first five months of the year. The number of building permits for residential properties was 2.067, which corresponds to an increase of 16,2% compared with the first five months of 2018.

According to Business Consumer Survey (BCS), property prices in the coming quarters are expected to continue the upward trend. Property price expectations in the next three months averaged at 14,5 in 2019Q1, compared with 6,4 in 2018Q1. At the same time, the index of employment expectations in the next three



months in the construction sector reached an average of 9,2 in 2019Q1, compared with 6,5 and 3,4 in the corresponding period of 2018 and 2017, respectively.

In conclusion, the residential property price index in Cyprus continued to increase in 2019Q1 along with the

⁵ <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

⁶ Floating rate and up to one year fixed.

⁷ <https://www.centralbank.cy/el/publications/surveys/bank-lending-survey>

recovery of various macroeconomic indicators and the economy as a whole. However, close monitoring of the sector and its developments is needed, especially with regard to NPEs.

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	-	71,0	74,3	74,2	75,7	67,9	75,1	67,6	73,4
2017	-	73,1	74,6	74,8	77,3	67,6	74,9	67,3	74,2
2018	Q1	74,8	75,1	75,4	78,6	68,0	75,6	68,8	75,0
	Q2	75,3	75,3	75,5	79,2	68,6	75,4	69,6	75,3
	Q3	76,3	75,3	75,5	80,3	68,8	74,8	70,5	75,6
	Q4	76,5	75,4	75,7	80,7	68,7	75,1	70,2	75,7
2019	Q1	78,4	76,7	76,8	82,9	69,9	77,0	70,2	77,2

Source: CBC.

*The annual data for the years between 2006 and 2017 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	-	75,0	74,6	61,3	66,0	57,8	73,9	76,1	70,8	78,9	69,4
2017	-	76,8	78,5	62,3	64,5	57,9	79,9	76,9	69,6	79,8	69,5
2018	Q1	78,1	81,9	61,7	67,3	57,6	74,2	77,5	70,2	79,7	71,7
	Q2	78,2	83,1	63,0	67,2	59,4	74,3	77,8	70,5	79,9	72,1
	Q3	78,3	85,5	64,4	67,6	61,2	74,2	78,3	70,4	78,5	72,8
	Q4	78,7	86,3	64,5	68,1	61,4	74,4	78,8	70,2	79,5	72,1
2019	Q1	79,6	88,0	67,4	68,9	60,8	75,6	81,0	70,7	80,7	72,4

Source: CBC.

*The annual data for the years between 2010 and 2017 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/ngcontent.cfm?a_id=11836&lang=en