



# CENTRAL BANK OF CYPRUS

EUROSYSTEM

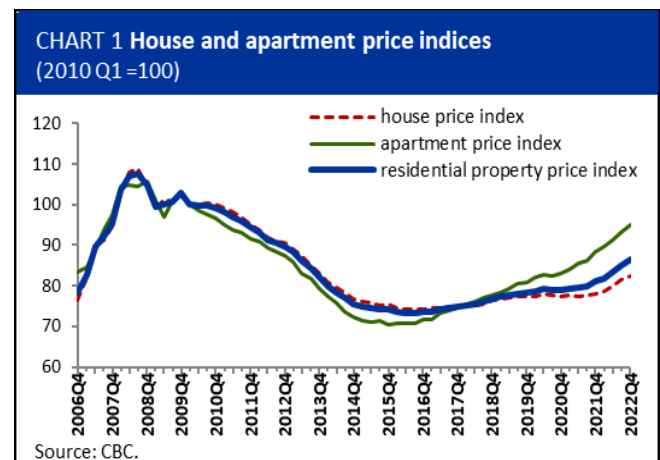
## RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

### 2022 Q4

Residential property prices continued their upward trend in 2022Q4, due to increased construction cost and increased demand.

- The Residential Property Price Index (RPPI) of the Central Bank of Cyprus (CBC)<sup>1</sup> (apartments and houses) recorded both quarterly and annual growth in 2022Q4. The ongoing increases in residential property prices are mainly due to the increased, albeit decelerating, constructions costs and the increase in demand in the real estate market.
- The annual increase in RPPI in Limassol, Paphos and Larnaca registered an acceleration, which possibly relates to the concentration of foreign demand for real estate in the aforementioned cities.
- The increased demand in the real estate market is also reflected in the sales contracts data of the Department of Lands and Surveys (DLS) which continued the upward trend in 2022Q4. They even approached the 2019Q2 level, which was the historically highest level of the last decade.
- Construction activity in 2022Q4 continued to fluctuate at negative levels, possibly due to the ongoing increase in construction costs.
- The increase in the ECB official interest rates, and the consequent decrease in the demand for housing loans, do not seem to have affected the demand for real estate property significantly, until now.

Table 1 Overview	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Residential property price index (2010 Q1=100)	81,9	83,2	85,0	86,3
Quarterly change	1,1%	1,7%	2,1%	1,6%
Annual Change	3,2%	4,7%	6,3%	6,6%
<b>(a) Property price index Houses (2010Q1=100)</b>				
Quarterly change	0,7%	1,7%	2,0%	1,1%
Annual change	1,5%	3,5%	5,2%	5,6%
<b>(b) Property price index Apartments (2010Q1=100)</b>				
Quarterly change	1,7%	1,5%	2,2%	2,1%
Annual change	6,8%	7,0%	8,0%	7,7%



<sup>1</sup> 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:

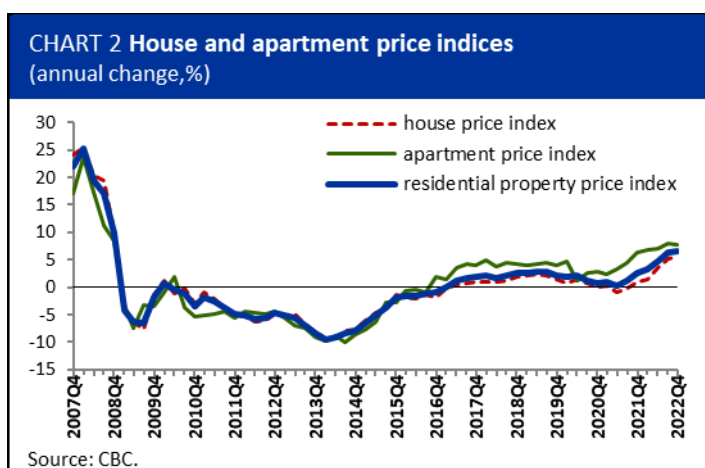
[https://www.centralbank.cy/images/media/pdf/Methodology\\_EN\\_latest.pdf](https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf)). Therefore, it is likely that there will be a short lag in fully capturing the pass-through of developments in the Index's turning points, with respect to both time and the magnitude of the change in market course.

### Changes in the residential property price index (RPPI)

The RPPI (houses and apartments) recorded a quarterly increase of 1,6% in 2022Q4, compared with 2,1% in 2022Q3.

The increase in the RPPI is driven by 2,1% increase in apartment prices, compared with the previous quarter, and by 1,1% increase in house prices in the same period (**Table 1, Chart 1, p. 1**).

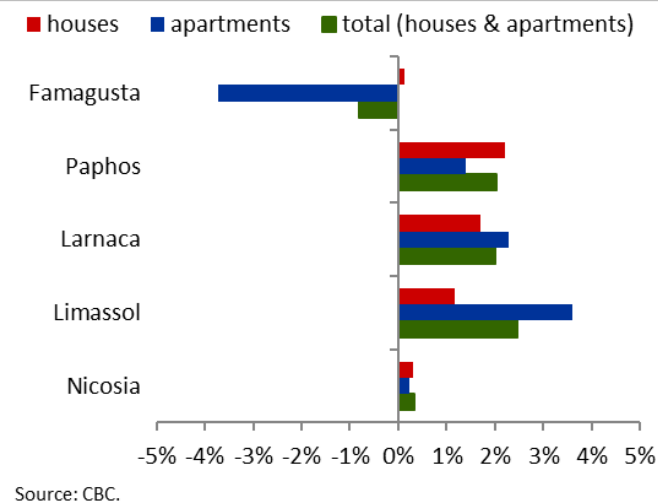
On an annual basis, RPPI recorded an increase of 6,6% in 2022Q4 compared with 6,3% in 2022Q3. During the quarter under review, apartment prices recorded an annual increase of 7,7%, while house prices increased by 5,6% (**Table 1, Chart, 2 p.1**).



The real estate market in Cyprus registers an upward trend, with the increase in the residential property prices having continued in 2022Q4. The increase in prices, which is reflected both in the prices of apartments and houses, as in previous quarters, is mainly due to the increased construction costs. The ongoing increase in demand from both foreign and local investors, which is evident from the DLS data, also contributes to the price increases. The increase in the ECB's official interest rates and the consequent increase in lending rates that continued during 2022Q4 do not appear to have affected the demand for real estate to a considerable extent. It is noted that the demand for rental properties is constantly increasing due to the continued influx of foreigners to Cyprus who are looking for accommodation. The most important boost to the housing demand seems to be given by the descent of foreigners to Cyprus looking for accommodation within the context of headquartering policy. According to data from the Ministry of Energy, Commerce and Industry, more

than a thousand foreign companies have registered in 2022 in the context of headquartering policy. The companies attracted in this context are mainly active in the technology sector and are mainly concentrated in Limassol and Paphos, while increased activity has recently been observed in Larnaca as well.

**CHART 3 Quarterly percentage change by district and by type of property, 2022Q4**



### Price changes by district

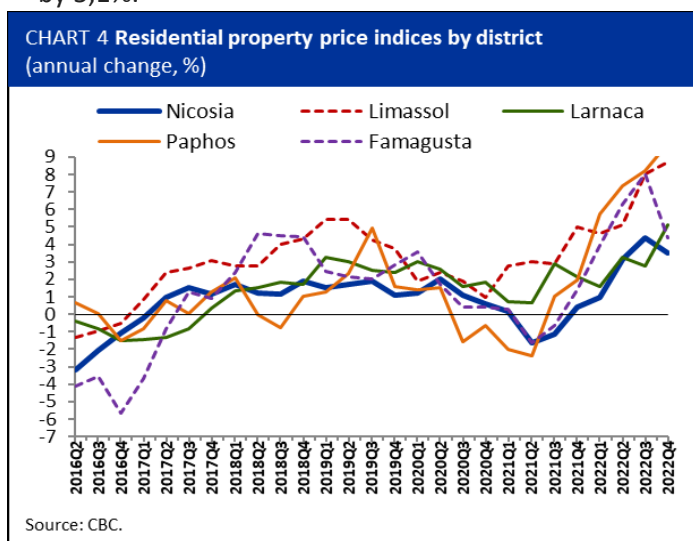
In 2022Q3, the RPPI recorded quarterly increases in all districts except in Famagusta. Specifically, RPPI in Nicosia increased by 0,3%, in Limassol by 2,5%, in Larnaca by 2%, in Paphos by 2% while in Famagusta a decrease of 0,8% was registered (**Chart 3, Table 4, p. 5**).

As far as annual changes in the price indices of individual districts are concerned, the RPPI recorded increases in all districts. Specifically, in Nicosia residential property prices increased by 3,5%, in Limassol by 8,7%, in Larnaca by 5,1%, in Paphos by 9,8% and in Famagusta by 4,4% (**Chart 4, p.3, Table 4, p.5**). On an annual basis, an acceleration in the growth rate of apartment and house prices in Limassol, Larnaca and Paphos was recorded, probably related to the demand for accommodation created in the context of headquartering policy. On the contrary, deceleration in the rate of demand growth was registered in Nicosia and Famagusta.

On a quarterly basis, house prices recorded increases in all districts. In particular, house prices increased in Nicosia by 0,3%, in Limassol by 1,2%, in Larnaca by 1,7%, in Paphos by 2,2% and in Famagusta marginally by 0,1%. On an annual basis, house prices

also recorded an increase in all districts. House prices in Nicosia, Limassol, Larnaca, Paphos and Famagusta increased by 2,9%, 7,1%, 3,3%, 10,4% and 4,2%, respectively.

Apartment prices increased in all districts except Famagusta, on a quarterly basis. In particular, apartment prices increased in Nicosia by 0,2%, in Limassol by 3,6%, in Larnaca by 2,3%, in Paphos by 1,4% while in Famagusta a decrease of 3,7% was recorded. On an annual basis, apartment prices recorded an increase in all districts for a sixth consecutive quarter. Specifically, in Nicosia apartment prices increased by 4,3%, in Limassol by 9,3%, in Larnaca by 9,4%, in Paphos by 8,6% and in Famagusta by 5,1%.

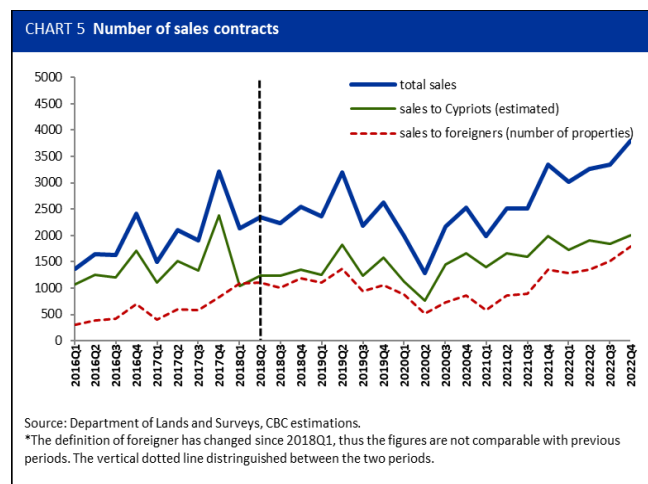


### Other market indicators

The dynamics in the real estate market in 2022Q4, such as, the increased demand from buyers, the rising construction cost and prices, as well as the limited supply, are reflected in various indicators of the real estate sector.

According to the latest data published by the Department of Lands and Surveys (DLS), in 2022Q4, the number of sale contracts continued to increase, with a rate of 13,6% on an annual basis (3.799 compared with 3.344) reflecting the increased demand for real estate (**Chart 5**). In addition, in the quarter under review, demand from foreign buyers recorded an annual increase of 32,7% (1.794 compared with 1.352, **Chart 5**), stemming from an

increase in transactions from non-EU residents. Overall, in 2022 the number of sales contracts increased by 29,6% compared with 29,9% in the previous year. The increase in local buyers reached 12,4% while in foreign investors an increase of 60,6% was recorded.

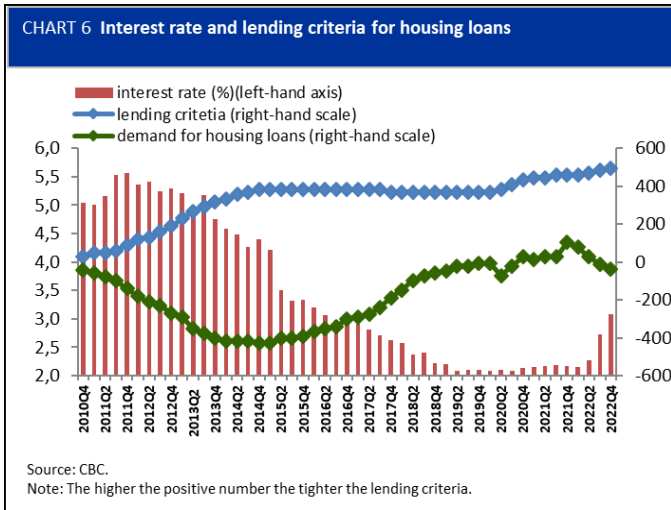


The increase in the sales contracts from foreign investors is mainly attributed, inter-alia, to the headquartering policy, which, based on market data, attracted approximately about one thousand foreign companies. These companies originate mainly from Russia, Israel, Ukraine, United Kingdom, Lebanon and Belarus.

At the same time, the rise in ECB base rates and the subsequent increase in the borrowing cost do not seem to have significantly affected the demand for real estate but, on the other hand, have affected the demand for new housing loans. According to CBC's *Monetary and Financial Statistics publication*<sup>2</sup>, new loans for the purchase of housing in 2022Q4 decreased by 25,2% on an annual basis (€245,5 million in 2022Q4 compared with €328 million in 2021Q4). According to the same source, the interest rate on new housing loans<sup>3</sup> in 2022Q4 continued to increase, averaging at 3,07%, compared with 2,72% in 2022Q3 (**Chart 6, p.4**). Further increases in lending rates are expected in the future (given the ECB rate hikes). According to the Bank Lending Survey, lending

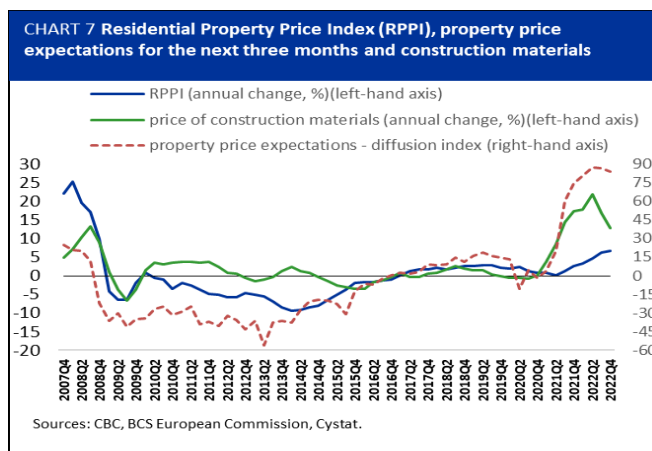
<sup>2</sup> <https://www.centralbank.cy/el/publications/monetary-andfinancial-statistics>

<sup>3</sup> Floating rate and up to one year fixed.



criteria tightened compared with the previous quarter<sup>4</sup> while the same survey confirms the decrease in demand for loans (Chart 6).

According to data from the Statistical Service of Cyprus (Cystat), for the period January – November 2022, the number of residential units for which building permits have been approved, which is a leading indicator of construction activity, registered an annual decrease of 8%. According to data from the Business and Consumer Surveys (BCS) of the European Commission, the index of construction activity in the previous three months registered less negative levels in 2022Q4, reaching -13,1 compared with the previous two quarters (15,3 and -23,5). Nevertheless, it still remains at negative levels, reflecting the negative course of construction activity.



The price index of construction materials, published by CYSTAT, recorded an increase for the ninth consecutive quarter, albeit at decelerating pace (Chart 7). In 2022Q4, the prices of construction materials recorded an annual increase of 12,9% compared with 16,7% in 2022Q3.

According to Business and Consumer Surveys (BCS) of the European Commission, in 2022Q4, property prices are expected to continue their upward trend (Chart 7). In particular, property price expectations for the next three months averaged at high positive levels (83,5) in 2022Q4, recording for a second consecutive quarter a slight decline from the historically high levels reached in 2022Q2. The index of expectations for employment in the real estate sector in the next three months is not expected to change in the 2022Q4 after reaching 0, compared to negative levels in the previous three quarters (-2,6 in 2022Q3, -1 in 2022Q2 and -0,4 in 2022Q1).

**Conclusion**

In 2022Q4, real estate prices continued their upward trend mainly due to the increased construction costs and increased demand for real estate. The rate of increase in residential prices accelerated in Limassol, Larnaca and Paphos, districts in which the highest demand in real estate from foreigners was also recorded, possibly in the context of headquartering policy. Although inflationary pressures and the increase in ECB official interest rates have not so far affected the demand in the real estate market to a substantial extent, a further reduction in the demand for housing loans is expected. Construction activity is expected to continue its negative trend, which may maintain the upward trend in residential prices.

<sup>4</sup><https://www.centralbank.cy/el/publications/surveys/banklending-survey>

**TABLE 2 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		
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	-	73,4	74,6	74,9	77,4	67,4	75,3	67,2	74,3	
2018	-	76,6	75,6	76,0	80,1	68,5	75,7	69,9	75,8	
2019	-	78,8	77,1	77,2	83,8	70,4	77,6	71,5	77,8	
2020	-	82,6	77,6	78,1	85,3	72,0	77,8	72,6	79,0	
2021	-	85,9	77,6	77,7	88,2	73,1	77,5	72,5	80,0	
2022	-	92,3	80,7	80,0	94,1	75,5	83,5	76,6	84,1	

Source: CBC.

\*The annual index is calculated as the average of the four quarters of each year.

**TABLE 3 Apartment and house price indices by district**

(annual and quarterly, 2010Q1 = 100)

Year*	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	-	99,3	97,8	97,1	97,0	97,1	100,1	99,4	100,4	101,4	100,1
2011	-	99,0	91,8	88,7	82,7	83,1	98,5	95,1	96,8	99,1	97,2
2012	-	95,2	88,3	82,2	76,9	76,8	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	-	77,0	78,6	61,8	64,2	57,4	73,9	76,9	69,5	80,2	69,4
2018	-	78,9	84,6	63,5	67,6	59,5	74,6	78,4	70,1	79,8	72,4
2019	-	80,3	90,8	69,0	69,5	61,7	75,9	81,3	70,9	81,3	73,8
2020	-	82,2	96,3	71,9	70,0	62,0	76,4	81,5	72,0	80,9	75,7
2021	-	84,0	100,2	75,7	71,7	65,2	74,9	83,6	72,4	79,7	74,5
2022	-	87,6	108,2	80,3	79,0	71,0	76,6	87,7	73,9	85,3	77,8

Source: CBC.

\*The annual index is calculated as the average of the four quarters of each year.

**Table 4 Residential property price indices by type and by district**  
(y-o-y, %)

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	
2010	-	-2,0	-0,8	-0,6	2,1	-1,8	-2,6	-4,7	-1,1
2011	-	-5,0	-2,9	-1,3	-4,6	-4,6	-4,9	-5,1	-3,3
2012	-	-4,6	-5,6	-4,3	-3,8	-8,1	-8,2	-6,9	-5,3
2013	-	-7,3	-6,2	-7,0	-4,8	-8,9	-4,8	-8,9	-6,5
2014	-	-9,4	-8,5	-8,5	-8,0	-9,3	-7,0	-11,2	-8,8
2015	-	-4,9	-4,0	-5,3	-4,0	-4,6	-2,7	-1,4	-4,3
2016	-	-0,1	-1,8	-2,4	-0,9	-1,2	-0,4	-3,6	-1,4
2017	-	3,3	0,5	0,9	2,2	-0,8	0,3	-0,6	1,2
2018	-	4,4	1,2	1,5	3,5	1,6	0,6	4,0	2,1
2019	-	4,2	2,0	1,6	4,7	2,8	2,5	2,3	2,6
2020	-	3,5	0,7	1,2	1,8	2,2	0,2	1,5	1,5
2021	-	4,1	0,0	-0,5	3,4	1,6	-0,4	-0,2	1,2
2022	Q1	6,8	1,5	1,0	4,6	1,6	5,7	3,9	3,2
	Q2	7,0	3,5	3,1	5,1	3,3	7,4	6,3	4,7
	Q3	8,0	5,2	4,4	8,0	2,8	8,2	8,0	6,3
	Q4	7,7	5,6	3,5	8,7	5,1	9,8	4,4	6,6

Source: CBC.

\*The annual index is calculated as the average of the four quarters of each year.

**Table 5 Apartment and house price indices by district**  
(q-o-q, %)

Year	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
2020	Q1	0,8	1,3	1,5	4,4	0,4	0,2	-1,0	1,8	-0,6	0,6
2020	Q2	0,9	2,1	0,4	-1,7	-0,6	1,2	1,0	0,0	1,5	0,5
2020	Q3	0,3	-0,6	1,3	-2,2	-0,3	-0,8	0,4	-1,0	-1,6	0,0
2020	Q4	0,6	0,7	2,2	-1,3	1,0	-1,0	-0,4	-0,1	0,0	0,0
2021	Q1	0,5	1,1	1,9	2,2	3,0	-0,4	1,6	0,3	-1,5	-0,6
2021	Q2	0,5	1,2	0,6	0,9	1,1	-1,3	1,0	-0,1	-0,2	-2,7
2021	Q3	0,7	0,8	0,7	1,7	-0,2	-0,3	-0,3	2,1	1,5	0,7
2021	Q4	0,8	3,4	0,3	4,5	3,4	1,4	0,7	-0,5	-0,6	2,3
2022	Q1	1,3	1,4	0,8	2,7	3,9	0,1	0,6	-0,2	3,3	2,1
2022	Q2	1,6	0,8	3,5	1,0	2,5	1,2	2,3	1,1	1,9	-0,4
2022	Q3	1,1	3,2	2,6	3,3	2,6	1,3	2,8	0,6	2,6	2,3
2022	Q4	0,2	3,6	2,3	1,4	-3,7	0,3	1,2	1,7	2,2	0,1

Πηγή: KTK.

**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, National Bank of Greece, Astro Bank, Cyprus Development Bank, Société Générale, RCB Bank and Eurobank) and the Cyprus Asset Management Company in standardised form, through an online data submission platform. It is noted that data from other credit acquiring companies are currently not collected.

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 [https://www.centralbank.cy/images/media/pdf/Methodology\\_EN\\_latest.pdf](https://www.centralbank.cy/images/media/pdf/Methodology_EN_latest.pdf)

The current report is available at <https://www.centralbank.cy/en/publications/residential-property-price-indices>