



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

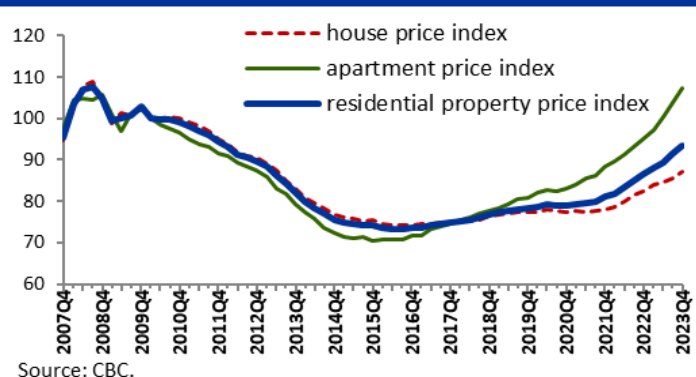
2023 Q4

Continued increase in residential property prices is recorded in 2023Q4, driven, mainly, by the increases in apartment prices.

- In 2023Q4, the Residential Property Price Index (RPPI) of the Central Bank of Cyprus (CBC)¹ (houses and apartments) continued its upward trend, both on an annual and a quarterly basis (Table 1).
- According to data from the Department of Lands and Surveys (DLS), in 2023Q4 the total number of sales contracts deposited at DLS's district offices, which concern all types of properties, recorded a decelerated increase on an annual basis. This increased demand for real estate stems from local buyers, while a decrease in the number of sales contracts deposited by foreign buyers was observed. Moreover, compared with 2022, a decrease in the number of foreign companies registered through the Business Facilitation Unit, under the "Strategy for Attracting Businesses for Activities or/and Expansion of their Activities in Cyprus" (headquartering policy), was noted.
- From the demand side, according to data of comparable sales from DLS, in 2023, the total value and volume of transactions of residential properties (houses and apartments) recorded a small decrease compared with 2022. This can be attributed to the continuous increase in housing loan mortgage rates, also recorded in 2023Q4, and to the decrease in the approval of new housing loans in 2023 compared with 2022. In addition, a relatively larger demand in apartments compared with houses is still recorded. This is driven by the turn of buyers towards smaller properties, as reflected in the decreased square meters per residential unit for which building permit was approved.
- From the supply side, according to market participants, supply is limited compared with the high levels of demand. This seems to be a significant factor contributing to the increase in RPPI. However, the increase in the number of residential units, for which building permits have been approved during 2023, in combination with the fact that there is already a significant number of projects under construction, is expected to increase the supply of residential properties in the medium-term, which is expected to alleviate the aforementioned pressures for price increases.

Table 1 Overview	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Residential property price index (2010 Q1=100)	88,1	89,4	91,4	93,5
Quarterly change	2,1%	1,5%	2,2%	2,3%
Annual Change	7,7%	7,4%	7,6%	8,3%
(a) Property price index Houses (2010Q1=100)	83,9	84,5	85,6	87,2
Quarterly change	1,7%	0,7%	1,4%	1,8%
Annual change	6,6%	5,6%	4,9%	5,7%
(b) Property price index Apartments (2010Q1=100)	97,3	100,3	103,9	107,2
Quarterly change	2,3%	3,1%	3,6%	3,2%
Annual change	8,4%	10,1%	11,5%	12,7%

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



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):

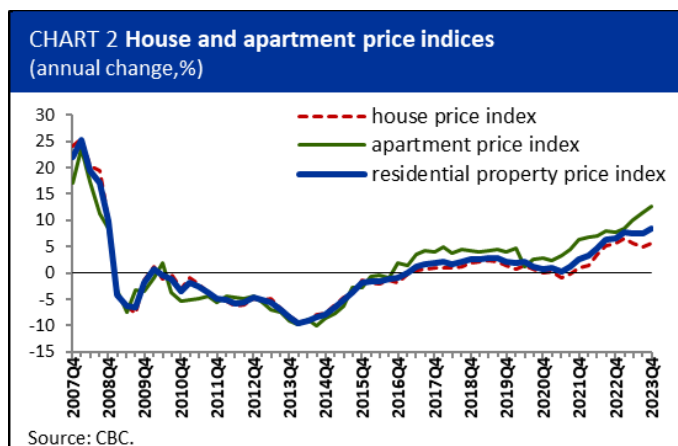
https://www.centralbank.cy/images/media/pdf/Methodology_EN_la_test.pdf). Therefore, it is likely that there will be a short lag in fully capturing the pass-through of developments in the Index's turning

1. Changes in the residential property price index (RPPI)

The **RPPI** (houses and apartments) recorded a quarterly increase of 2,3% in 2023Q4, compared with an increase of 2,2% in 2023Q3.

Compared with the previous quarter, the increase in the RPPI in 2023Q4 is driven by a 1,8% increase in house prices, and by a 3,2% increase in apartment prices (**Chart 1, p. 1, Table 1, p.1**).

On an annual basis, the RPPI recorded an increase of 8,3% in 2023Q4 compared with 7,6% in 2023Q3. In the quarter under review, apartment prices recorded an annual increase of 12,7%, while house prices increased by 5,7% (**Chart 2, Table 1, p.1**).



The increase in housing loan mortgage rates due to ECB's tightening monetary policy, has increased the borrowing cost for existing and potentially new customers of domestic financial institutions, affecting the demand for new housing loans in 2023. This development seems to have affected the demand for residential properties, as reflected in the data of comparable sales of DLS, with the total value and the number of transactions of residential properties during 2023 recording decreases compared with 2022. A decrease is also recorded in the number of foreign companies registered through the Business Facilitation Unit, under the headquartering policy, compared with 2022, when they led to a significant increase in property demand. The aforementioned trend is verified by the decrease, on an annual basis, in the

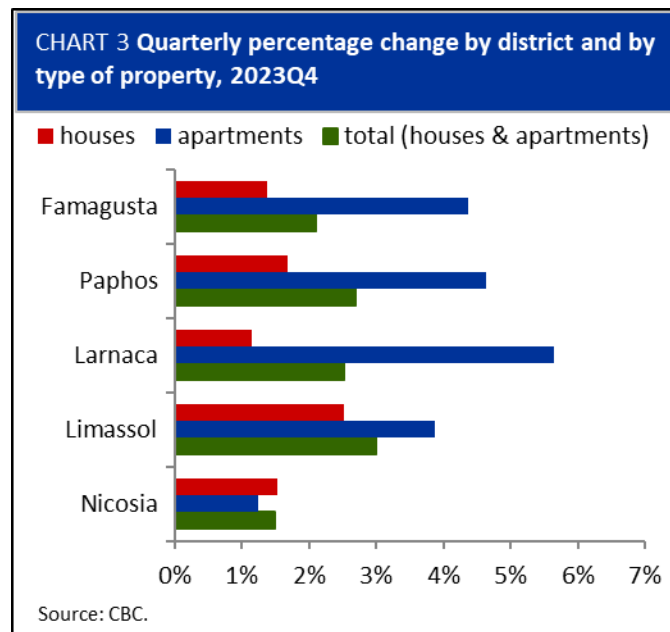
points, with respect to both time and the magnitude of the change in market course.

CBC Residential Property Price Index – 2023Q4

number of sales contracts deposited by foreign buyers during 2023Q4.

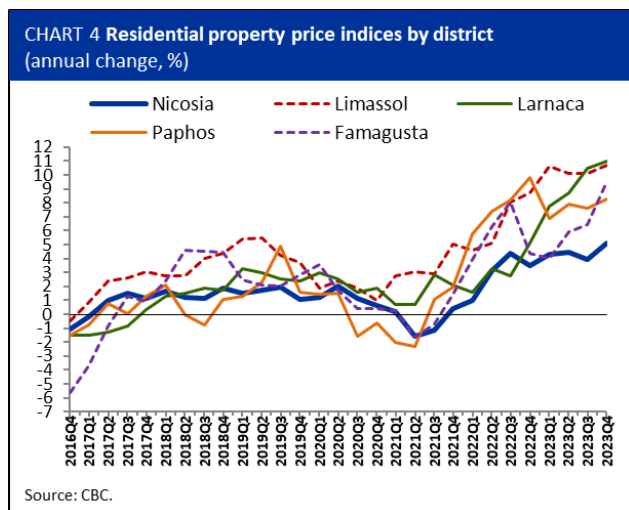
2. Price changes by district

In 2023Q4, **residential property prices** recorded increases on a quarterly basis, in all districts for a fourth consecutive quarter. Specifically, RPPI in Nicosia increased by 1,5%, in Limassol by 3%, in Larnaca by 2,5%, in Paphos by 2,7% and in Famagusta by 2,1% (**Chart 3, Table 5, p. 7**).



Regarding the annual changes in the price indices of individual districts, RPPI recorded increases in all districts. Specifically, in Nicosia residential property prices increased by 5,1%, in Limassol by 10,7%, in Larnaca by 11%, in Paphos by 8,3% and in Famagusta by 9,5% (**Chart 4 p.3, Table 4, p.7**).

On a quarterly basis, **house prices** recorded increases in all districts. In particular, house prices increased in Nicosia by 1,5%, in Limassol by 2,5%, in Larnaca by 1,2%, in Paphos by 1,7%, and in Famagusta by 1,4%. On an annual basis, house prices recorded an increase in all districts too. Specifically, house prices in Nicosia, Limassol, Larnaca, Paphos and Famagusta increased by 5%, 6,5%, 7,7%, 2,6% and 10,9%, respectively.



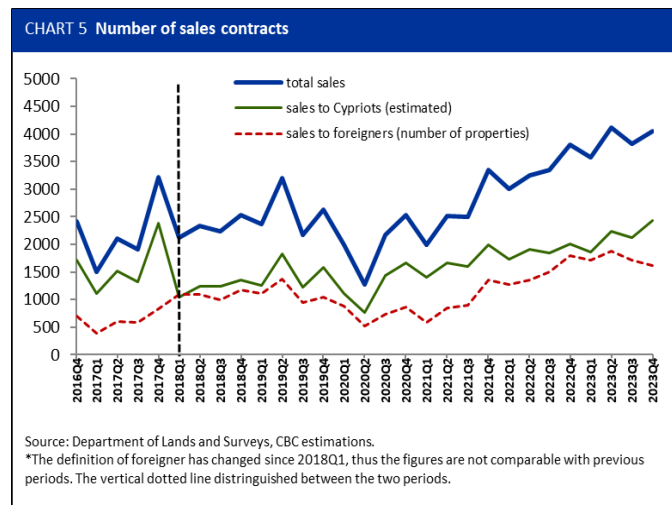
Apartment prices increased in all districts on a quarterly basis. In particular, apartment prices increased in Nicosia by 1,3%, in Limassol by 3,9%, in Larnaca by 5,7%, in Paphos by 4,6% and in Famagusta by 4,4%. On an annual basis, apartment prices recorded an increase in all districts. Specifically, in 2023Q4 apartment prices increased in Nicosia by 5,7%, in Limassol by 15,2%, in Larnaca by 17,2%, in Paphos by 22,2% and in Famagusta by 6,5%, compared with the respective quarter in 2022.

3. Other market indicators

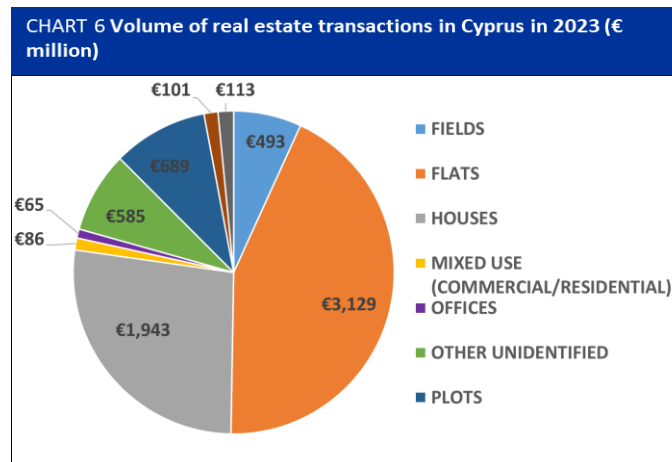
The upward dynamics of demand along with the limited supply of residential properties in the market are reflected in various real estate indicators in 2023Q4. Furthermore, stabilisation in the construction cost is still observed after the significant increases over the last years.

According to the data published by the DLS, in 2023Q4, **sales contracts, which** concern all types of properties, recorded a decelerated increase of 6,6% on an annual basis (4.048 compared with 3.799 in 2022Q4) reflecting the increased demand for real estate (**Chart 5**). The aforementioned deceleration is not yet reflected in RPPI, which, due to the fact that it is calculated on the basis of market valuations, incorporates the developments on the real transactions with a relative time lag. The increase in the sales contracts stems from local buyers, who continue to account for the market's largest share. In particular, in the quarter under review,

the number of properties sold to local buyers registered an increase of 21,5% on an annual basis (2.437 compared with 2.005 in 2022Q4, **Chart 5**), while the number of properties sold to foreign buyers decreased by 10,2% on an annual basis (1.611 compared with 1.794 in 2022Q4, **Chart 5**). The increase in local buyers is attributed, among other things, to buy-to-let investments.



The demand for residential properties is also reflected in the data of “**comparable sales**” sent to CBC by DLS. In 2023, more than 70% of the total value of transactions concerns residential properties with the apartment transactions to be significantly higher in value compared with transactions of houses (**Chart 6**). Land transactions (fields and plots) are the second largest category of transactions following residential properties, accounting for, though, a smaller share of the real estate

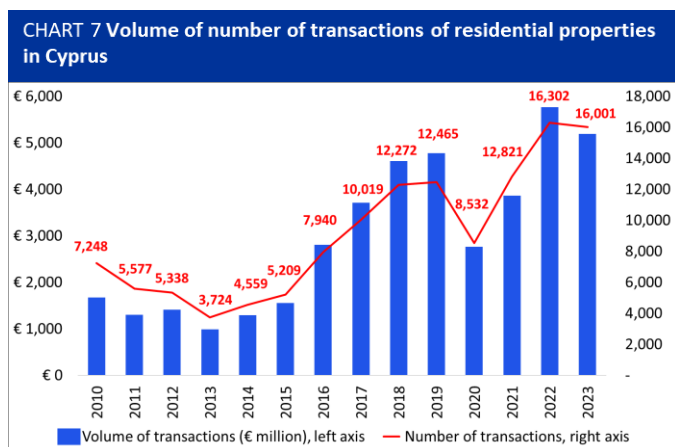


² The current analysis is based on data of comparable sales of DLS, which include sales and contracts of sales. The presented data of comparable sales

do not include transactions related to Debt for Asset Swaps or transactions for which not enough information is recorded in the submissions by DLS.

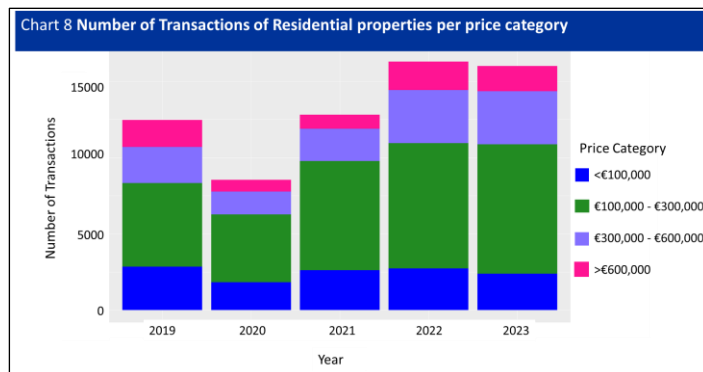
market (16% of the total value of transactions, **Chart 6, p.3**).

In 2022 and 2023 the total value and volume of transactions of residential properties exceeded the 2019 levels, reflecting the demand dynamic (**Chart 7**). The decrease in the total value and the number of transactions of residential properties during 2023 compared with 2022 (by 10% and 1,8%, respectively) probably reflects the developments of the headquartering policy. In particular, while in 2022 the registrations of foreign companies through the Business Facilitation Unit amounted to 1.640, in 2023 there was a decrease with the number of registrations of foreign companies reaching 286³. Such data match the aforementioned annual decrease in the number of properties sold to foreign buyers, recorded in 2023Q4 (**Chart 5, p. 3**).

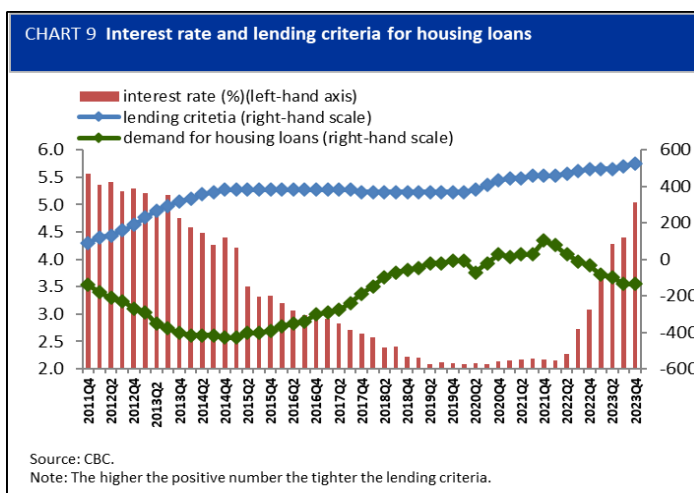


It is worth noting that, from 2019 and onwards, 50% of the number of residential properties transacted were valued between €100,000 and €300,000 (**Chart 8**), on average, something which confirms that **the majority of the transactions concerns medium valued residential properties**. Moreover, a decrease in the percentage of high-end transactions of residential properties (the value of which is greater than €600,000) is observed from 2019 compared with 2023, and it is no longer greater than 10% of the total number of transactions.

CBC Residential Property Price Index – 2023Q4



The increase in the **housing-loans mortgage rates**, due to ECB's tightening monetary policy, has increased the borrowing cost for both existing and potentially new customers of domestic financial institutions. This development has brought a decrease in the demand for new housing loans. According to CBC's latest *Monetary and Financial Statistics publication*⁴, new housing loans in 2023 significantly decreased by 13,76% on an annual basis (€1.015,7 million compared with €1177,9 in 2022). In addition, according to the same source, the mortgage-loan rate⁵ in 2023Q4, averaged at 5,04%, compared with 4,4% in 2023Q3 and 3,07% in the respective period of 2022 (**Chart 9**). Moreover, according to CBC's *Bank Lending Survey*⁶, **lending criteria** have tightened compared with the previous quarter, while the same survey confirms that the interest for loans has been stabilised in 2023Q4 (**Chart 9**), even though this interest does not automatically translate to loan granting.



According to the latest available data published by the Statistical Service of Cyprus (CYSTAT), **the number of**

³ Data from the Ministry of Finance, February 2024.

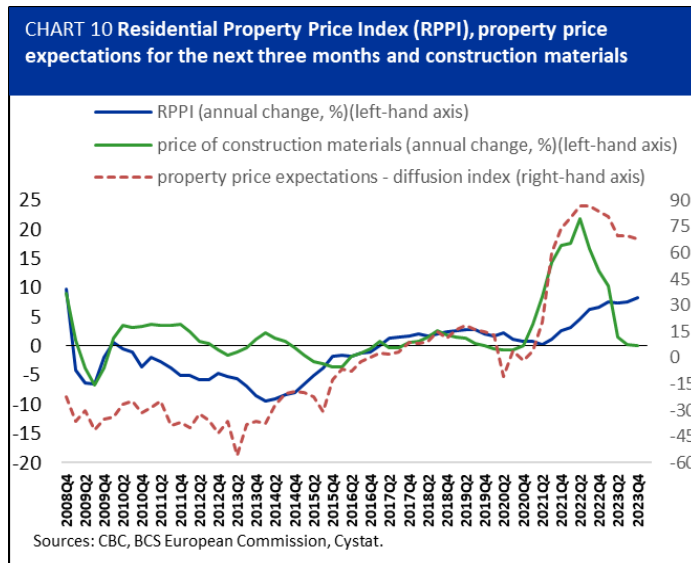
⁴ <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

⁵ Floating rate and up to one year fixed.

⁶ <https://www.centralbank.cy/el/publications/surveys/bank-lending-survey>

residential units for which building permits have been approved, which is a leading indicator of construction activity, recorded an increase of 12,2% in 2023, from 9.842 units in 2022 to 11.041 in 2023. However, the number of building permits approved for residential buildings in 2023 decreased by 5,5%. This was due to the fact that there was a significant increase in the permits for buildings with multiple units, i.e. blocks of apartments, as a result of the already existing increased demand for apartments. Thus, it is expected that there will be a gradual increase in the supply of residential units in the medium-term. Indicatively, according to data from the *Business and Consumer Surveys (BCS)* of the European Commission, the **index of construction activity** for the previous 3 months recorded a small increase in 2023Q4 (0,7%) compared with 2023Q3 (-5,8%).

The **price index of construction materials**, published by CYPSTAT, recorded a small increase in December 2023. On an annual basis, since 2022Q2, decelerating increases in the price index of construction materials were recorded, reaching 0,1% in 2023Q4 (**Chart 10**). The trend of the aforementioned index points towards further stabilisation in the prices of the construction materials in the near future or even decreases from the previously recorded high levels that were triggered by geopolitical developments and the supply chain disruptions.



According to the BCS of the European Commission, in 2023Q4, property price expectations over the next three months were on a downwards trend over the last

quarters, suggesting a smaller consensus among survey participants regarding increases in property prices in the next three months (**Chart 10**). Specifically, property price expectations for the next three months averaged at 68 in 2023Q4, recording for a sixth consecutive quarter, a decrease compared with the historically high levels attained in 2022Q2. It appears that the majority of the survey participants expect that the property prices will continue to increase, as opposed to the remaining participants that expect either stabilisation or decrease, even though the percentage of the former has been reduced compared with previous quarters.

4. Conclusion

In 2023Q4, residential property prices continued their upward trend, despite the small decrease in the demand for residential properties, as reflected in DLS data of comparable sales. With the increase in mortgage rates to have significantly affected the demand for new housing loans, the demand from foreigners to be normalising, the supply of residential properties to be increasing and the prices of construction materials to be stabilising, RPPI is expected to record a more restrained increases in the short term.

TABLE 2 Residential property price indices by type and by district

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
2023	Q1	97,3	83,9	82,0	100,5	79,3	86,5	78,8	88,1
	Q2	100,3	84,5	83,3	101,9	81,5	88,8	80,4	89,4
	Q3	103,9	85,6	83,9	104,9	83,8	90,9	82,6	91,4
	Q4	107,2	87,2	85,1	108,1	85,9	93,4	84,4	93,5

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
2023	Q1	89,9	115,8	86,3	84,8	71,2	78,5	92,7	76,9	87,3	81,0
	Q2	91,1	120,5	89,8	90,3	72,9	79,9	92,3	78,2	88,1	82,5
	Q3	92,5	125,3	92,5	95,0	71,7	80,2	93,6	80,1	89,0	86,1
	Q4	93,7	130,2	97,7	99,4	74,9	81,4	96,0	81,0	90,5	87,3

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
(year on year change, %)

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	-	7,4	3,9	3,0	6,6	3,2	7,8	5,7	5,2
2023	Q1	8,4	6,6	4,3	10,6	7,7	6,8	4,0	7,7
	Q2	10,1	5,6	4,4	10,1	8,7	7,9	5,9	7,4
	Q3	11,5	4,9	3,9	10,1	10,5	7,6	6,4	7,6
	Q4	12,7	5,7	5,1	10,7	11,0	8,3	9,5	8,3

Source: CBC

*The annual figures are calculated as the annual change of the average of the four quarters of each year.

Table 5 Apartment and house price indices by district
(quarter on quarter change, %)

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
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
2023	Q1	1,4	2,4	3,5	4,3	1,2	1,3	2,8	2,2	-1,1	2,9
2023	Q2	1,4	4,0	4,1	6,5	2,5	1,8	-0,4	1,7	0,9	1,9
2023	Q3	1,5	4,0	2,9	5,2	-1,7	0,3	1,4	2,5	1,1	4,3
2023	Q4	1,3	3,9	5,7	4,6	4,4	1,5	2,5	1,2	1,7	1,4

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 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, Ancoria Bank and Eurobank) and the Cyprus Asset Management Company in standardised form, through an online data submission platform.

The partnered credit institutions receive the relevant information from property surveyors in relation to mortgage lending, loan restructures and property revaluations. The valuations come from more than 100 property survey offices all over Cyprus, contributing in the impartiality of the indices. 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. 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 observations of the last four quarters in each respective district. This change in the weighting method was suggested by the IMF as part of an evaluation exercise of the RPPI, in the context of the implementation of the Memorandum of Understanding. 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 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.

Furthermore, in 2019Q1 the indices have been revised from 2017Q1 onwards, due to the removal of certain observations from the sample. These observations have been examined and assessed to not reflect the open market value. In this way the consistency in the construction of the indices is ensured, according to the international standards. The aforementioned changes did not altered significantly the indices or particularly 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

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

For further information or/and clarifications please contact the Real Estate Unit of CBC at RealEstate@centralbank.cy.