



# CENTRAL BANK OF CYPRUS

EUROSYSTEM

## RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2020 Q2

**Residential property prices continued to record small increases despite the uncertainty due to the Covid-19 pandemic**

- The Residential Property Price Index (RPPI)<sup>1</sup> continued to record small increases in 2020Q2 amid growing market uncertainty. The RPPI recorded a quarterly increase of 0,9% compared with 0,4% in 2020Q1.
- The quarterly increase in house prices in 2020 Q2 was marginally higher than the respective increase in apartment prices.
- The results of the Business and Consumer Surveys are indicative of the uncertainty that exists in the market. Results show that the experts participating in the Surveys expected a decrease in property prices for 2020Q2 and an increase in 2020Q3.
- The house price index produced by the Cyprus Statistical Service (CYSTAT) and the RPPI of the Central Bank of Cyprus (CBC) have recorded a similar trend on a quarterly basis, with an increase of 0,3% and 0,9%, respectively. However, on an annual basis the trend of the two indices is different due to the base effect, relating to the impact of the adoption, by the two indices, of the stricter criteria in the Cyprus Investment Program (CIP) on May 2019.

Overview	2019 Q3	2019 Q4	2020 Q1	2020 Q2
Residential property price index (2010 Q1=100)	78,1	78,3	78,6	79,4
Quarterly change	0,7%	0,3%	0,4%	0,9%
Annual Change	2,8%	2,2%	1,8%	2,2%
(a) Property price index Houses (2010Q1=100)	77,2	77,4	77,4	78,1
Quarterly change	0,3%	0,2%	0%	1%
Annual change	2,2%	1,5%	0,8%	1,5%
(b) Property price index apartments (2010Q1=100)	80,5	80,9	82,0	82,7
Quarterly change	1,5%	0,5%	1,4%	0,8%
Annual change	4,4%	4,1%	4,6%	4,3%

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



<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 capturing turning points in the market with respect to both time and the magnitude of the recovery.

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

The RPPI (houses and apartments) continued its upward trend, recording an annual increase of 0,9% in 2020Q2 compared with 0,4% in 2020Q1. House prices recorded an increase of 1% compared with a stabilization in the previous quarter, while apartment prices increased by 0,8% compared with 1,4% in the previous quarter (**Chart 1**).

The deceleration observed in the increase of the apartment price index is possibly due to the decrease in demand from foreign investors as a result of the stricter criteria adopted by the Cyprus Investment Program (CIP), as well as the impact of the covid-19 pandemic and the associated “lockdown”, which intensified uncertainty. On the other hand, the annual increase in house prices is mainly attributed to the increase in prices in Nicosia. This is possibly due to the fact that Cypriots invest more in the local property market, either for home ownership or for investment purposes. Currently, investing in real estate offers higher returns than other investments or bank deposits.

House and apartment price indices registered an annual increase of 1,5% and 4,3%, respectively, in 2020 Q2 compared with 0,8% and 4,6%, respectively, in 2020 Q1 (**Chart 2**).

The corresponding CYPSTAT house price index registered an increase of 0,3% and an annual decrease of 2,9% in 2020Q2. On a quarterly basis, this trend is not substantially different from the CBC’s index. Differences recorded on an annual basis mainly reflect the base effect from the different paths recorded by the two indices in the previous year, as explained in the corresponding 2019 report. In particular, the annual increase of 8,4% recorded by the CYPSTAT index in 2019 Q2, compared with an increase of 2,8% recorded by the CBC index in the same quarter, is probably due to the fact that foreign investors rushed to buy real estate property in view of the stricter criteria that would have been adopted by the CIP in May 2019. This seems to have had a more direct effect on CYPSTAT index than on the CBC's RPPI.

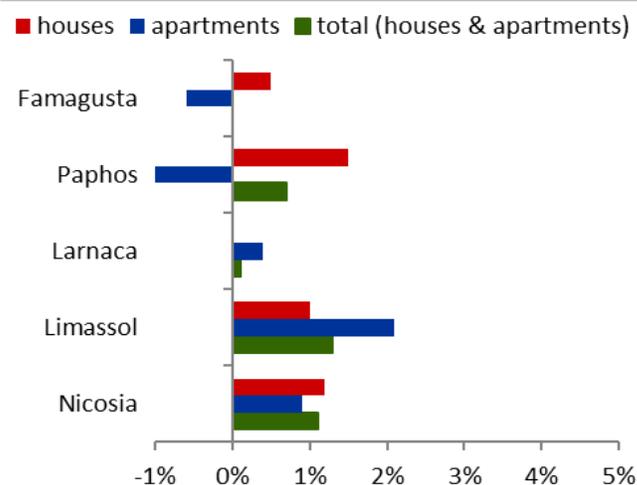
With regards to the property valuations during the restrictive measures taken by governments around the world due to COVID19, the relevant guidelines provided by TEGOVA<sup>2</sup> and RICS<sup>3</sup> intended to address the growing

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



Source: CBC.

CHART 3 Quarterly percentage change by district and by type of property, 2020Q2



Source: CBC.

uncertainty as well as the practical problems encountered as a result of the pandemic. For example, valuers were given the opportunity, during the “lockdown” and other restrictive measures, to carry out valuations based on information that existed before the outbreak of the pandemic. Therefore, we expect that any impact on the CBC Index will likely be visible at a later stage.

It is also worth mentioning, that according to Eurostat, house prices in euro area countries increased by 5% on an annual basis in 2020 Q2, reflecting a broader trend in house prices at a European level.

### Price changes by district

On a quarterly basis, residential property prices increased in all districts, as was the case in the previous

<sup>2</sup> <https://www.tegova.org/en/p5e78ef30d01d7>

<sup>3</sup> <https://www.rics.org/eu/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/>

two quarters, with the exception of Famagusta, which remained stable. Residential property prices registered quarterly increases in Limassol by 1,3%, in Nicosia by 1,1%, in Paphos by 0,7% and in Larnaca by 0,1% (**Chart 3, page 3**).

On an annual basis the RPPI increased in all districts. Residential property prices increased by 2,6% in Larnaca, 2,4% in Limassol, 2,0% in Nicosia, 1,7% in Famagusta and 1,5% in Paphos (**Chart 4**).

On a quarterly basis house prices increased in all districts with the exception of Larnaca, where they remained stable. Increases were recorded in Paphos by 1,5%, in Nicosia by 1,2%, in Limassol by 1% and in Famagusta by 0,5%. On an annual basis, house prices increased also in all districts. Specifically, house prices in Famagusta increased by 3%, in Larnaca by 2,2%, in Nicosia by 1,9%, in Paphos by 0,6% and in Limassol by 0,4%.

Apartment prices on a quarterly basis registered increases in Limassol, Nicosia and Larnaca of 2,1%, 0,9% and 0,4% respectively, while Paphos and Famagusta registered decreases of 1,7% and 0,6%, respectively. On an annual basis an increase was exhibited in all districts, with the exception of Famagusta where a decrease of 0,1% was registered. Increases of 8,2% were recorded in Limassol, 3,4%, in Larnaca, 2,6% in Nicosia and 2,4% in Paphos.

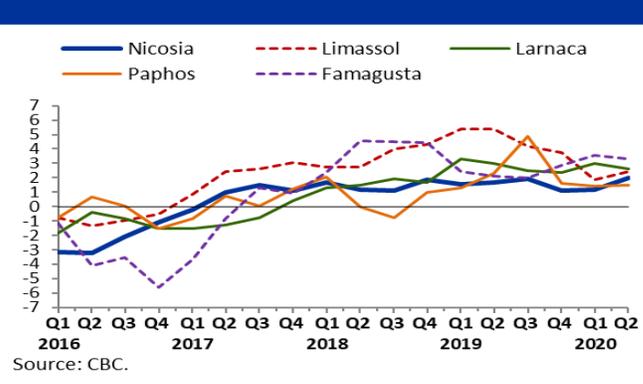
The small increases observed in house prices in 2020Q2, may be due to demand from local buyers, who, in the period before the outbreak of the pandemic, returned to the property market either for home ownership or investment purposes. On the other hand, demand from foreign investors began to decline after the adoption of stricter CIP criteria in May 2019. Furthermore, the uncertainty due to the pandemic in 2020, urged to further postponement of some of their investments or other projects.

### Other market indicators

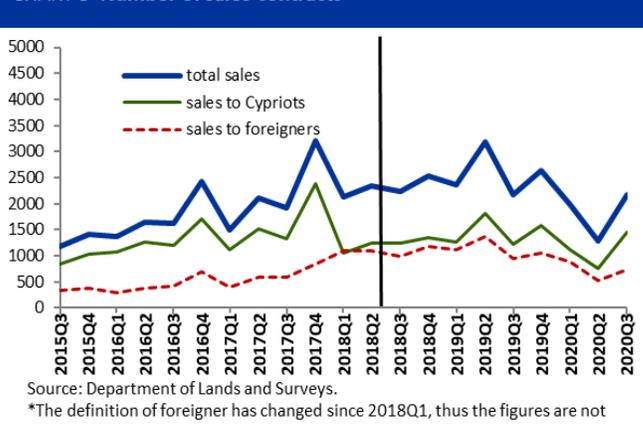
In 2020 Q2 other relevant property market indicators have either been distorted or strongly affected by the pandemic related restrictive measures. This limits the possibility of drawing conclusions on the medium-term trend, while the same difficulty exists in drawing conclusions, as expected, to statistical data of sectors other than the real estate market (e.g. tourism).

Specifically according to data published by Cystat, construction activity (category building) recorded an

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



**CHART 5 Number of sales contracts**



annual decrease of 25,3% in 2020Q2, registering a decrease for the second consecutive quarter following consecutive annual increases. This decrease in construction activity was expected, since it was inevitably affected by the restrictive measures imposed by the government in 2020Q2 due to the pandemic.

According to the Department of Lands and Surveys (DLS), sales contracts for real estate in 2020Q3 have recorded an annual decrease of 0,2% compared with a decrease of 2,7% in the same period in 2019. Demand from foreign investors dropped by -23,2% while demand from local buyers increased by 17,6%. The decrease in foreign investment was expected because of the restrictive measures and also because of the stricter CIP criteria applied in 2019. On the other hand, the significant increase in investment by locals may confirm the perception that the small increases observed in residential property prices stem from the local market, particularly from Nicosia which traditionally relies on purchases by locals (**Chart 5**).

As a result of the restrictive measures, unemployment increased in 2020Q2 and 2020Q3.

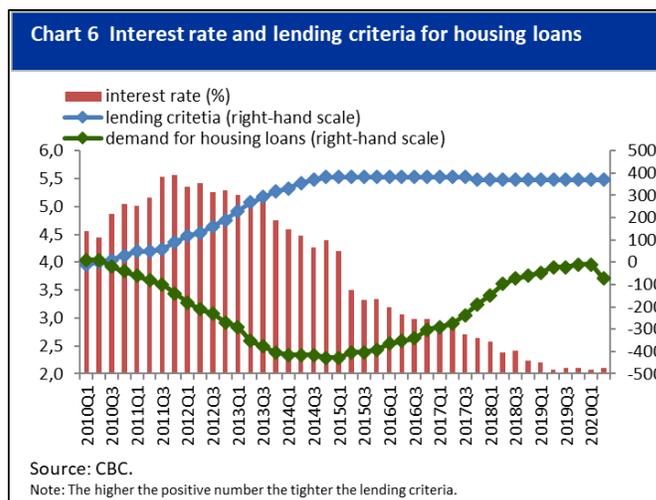
Specifically, according to CYPSTAT, the number of unemployed people in the construction sector averaged to 1,576 and 1,606 persons in 2020Q2 and 2020Q3, respectively, compared with 1,282 persons in 2020 Q1.

Authorised building permits for all types of real estate, which are considered to be a leading indicator of construction activity, recorded a considerable annual decrease of 7,1% in the first six months of 2020, compared with the same period in 2019. The number of authorised building permits for residential properties was 3.153 in the first six months of 2020, compared with 3.393 in the same period of 2019, partly being affected by the “lockdown”.

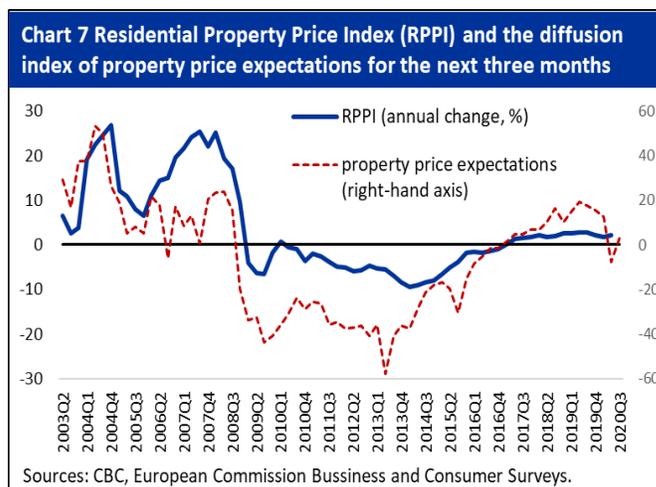
According to CBC’s Monetary and Financial Statistics<sup>4</sup>, the interest rate for housing loans<sup>5</sup> averaged 2,10% in 2020Q2 compared with 2,08% in 2020Q1. It still remains at a very low level compared with available historic data. (Chart 6). This chart also shows the recent decrease in demand for housing loans as recorded by the Bank Lending Survey.

According to Business and Consumer Surveys (BCS), the sector shows an increase after the decline registered in the previous quarter for the first time after several quarters of a continuous upward trend. Property price expectations for the next three months averaged at 3 in 2020Q3, compared with -7,67 in 2020 Q2 (Chart 7). At the same time, the index of employment expectations in the next three months in the construction sector decreased to an average of -1,43 in 2020Q3 compared with 2,83 in 2020Q2, registering a negative sign for the first time after 2016Q2.

In conclusion, it appears that the problems the property market is facing continued to exist in 2020Q2, particularly with regard to decreased purchases by foreign investors, possibly due to the stricter criteria in the CIP and the impact of the Covid-19. On the other hand, the property market appears to rely mainly on



domestic demand since there was a recovery from local



buyers returning to the market after the first shock of the pandemic, perhaps as a result of the incentives given by the government in this direction.

The situation remains unclear, since the extent of the pandemic is uncertain and, if it lasts for an extended period of time, it may continue to affect property prices negatively. In addition, the government's recent decision to end the CIP permanently from 1 November 2020 will, affect property prices negatively.

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

<sup>5</sup> 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	-	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	Q1	82,0	77,4	77,7	84,5	72,0	78,1	72,7	78,6
	Q2	82,7	78,1	78,6	85,6	72,1	78,7	72,6	79,4

Source: CBC.

\*The annual data for the years between 2006 and 2018 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, 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	Q1	81,4	94,9	70,8	71,9	62,2	76,2	80,8	72,4	80,7	75,4
	Q2	82,1	96,9	71,1	70,7	61,8	77,2	81,6	72,4	81,9	75,8

Source: CBC.

\*The annual data for the years between 2010 and 2018 are calculated as the average of the four quarters of each respective year.

**Table 3 Residential property price indices by type and by district**  
(annual 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	
2007	-	17,4	25,3	18,9	22,1	27,3	8,3	32,1	23,3
2008	-	14,8	18,6	17,9	22,5	13,8	9,1	17,9	17,6
2009	-	-4,4	-4,9	-4,0	-6,2	-1,9	1,8	-1,9	-4,7
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	Q1	4,6	0,8	1,2	1,9	3,0	1,4	3,6	1,8
	Q2	4,3	1,5	2,0	2,4	2,6	1,5	1,7	2,2

Source: CBC.

\*The annual data for the years between 2007 and 2018 are calculated as the annual change between the average level of the index for the four quarters of each respective year and the previous year.

**Table 4 Apartment and house price indices by district**  
(quarterly data, %)

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
2018	Q1	0,8	1,5	-0,4	3,6	0,7	0,5	0,2	-0,6	0,3	1,7
2018	Q2	0,1	1,9	2,1	-0,2	3,2	0,1	0,3	0,3	-0,2	1,9
2018	Q3	0,5	2,9	2,7	-0,2	3,4	0,1	1,3	0,6	-1,7	0,5
2018	Q4	0,8	1,3	0,6	0,5	1,1	0,9	1,2	0,1	2,6	-0,7
2019	Q1	-0,1	1,1	3,8	1,7	-1,1	0,5	1,6	0,4	0,1	-0,3
2019	Q2	0,6	1,8	2,0	0,2	1,9	0,1	0,3	0,1	0,9	1,6
2019	Q3	0,7	2,4	1,7	2,9	0,5	0,4	0,1	0,1	0,6	1,0
2019	Q4	0,3	2,1	-0,2	-3,0	-0,5	0,1	0,4	0,3	-0,9	1,0
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

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 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 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](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](http://www.centralbank.gov.cy/ngcontent.cfm?a_id=11836&lang=en)