



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2022 Q1

Continued increases in residential property prices in 2022Q1, supported mainly by the apartments market.

- The Residential Property Price Index (RPPI) of the Central Bank of Cyprus (CBC)¹ (apartments and houses) continued its upward trend in 2022Q1, recording a quarterly increase of 1,1% compared with 1,3% in the 2021Q4. On an annual basis the index recorded an increase of 3,2% compared with 2,6% in the previous quarter.
- The increases in residential prices stem mainly from the apartments market and, to a lesser extent, from the houses market. In particular, house prices increased by 1,5% on an annual basis, while on a quarterly basis they recorded an increase of 0,7%, whereas apartment prices increased by 6,8% on an annual basis and by 1,7% on a quarterly basis. Apartment prices continued to accelerate on an annual basis in all districts, as also observed over the previous quarters, reflecting the preference of domestic buyers and investors towards apartments over houses. House prices recorded smaller increases in all districts, except in Nicosia, in which a marginal decrease of 0,2% was recorded.
- The recovery of the real estate market in 2022Q1 has been supported mainly by domestic demand, while leading indicators have started showing evidence of moderation in construction activity. The war in Ukraine has increased inflationary pressures, with a significant impact on the construction cost, while the increase in the cost of borrowing, due to possible increase in interest rates, could negatively affect the real estate market. The extent to which the demand in the real estate market will be affected, through the decrease in consumers' disposable income, will depend on a number of factors, such as the duration of the war and the sanctions, as well as the course of the pandemic.

Table 1 Overview	2021 Q2	2021 Q3	2021 Q4	2022 Q1
Residential property price index (2010 Q1=100)	79,5	80,0	81,0	81,9
Quarterly change	0,3%	0,6%	1,3%	1,1%
Annual Change	0,2%	1,2%	2,6%	3,2%
(a) Property price index Houses (2010Q1=100)	77,3	77,6	78,1	78,7
Quarterly change	-0,3%	0,3%	0,7%	0,7%
Annual change	-1,1%	-0,3%	1,0%	1,5%
(b) Property price index apartments (2010Q1=100)	85,2	86,3	88,3	89,8
Quarterly change	1,3%	1,3%	2,4%	1,7%
Annual change	3,0%	4,5%	6,3%	6,8%

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_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 in the residential property price index (RPPI)

The RPPI (houses and apartments) recorded a quarterly increase of 1,1% in 2022Q1, compared with 1,3% in 2021Q4.

The increase in the RPPI is mainly due to the 1,7% increase in apartment prices, compared with the previous quarter, while house prices increased by 0,7% during the same period (Table 1, Chart 1, p. 1).

On an annual basis, RPPI recorded a 3,2% increase in 2022Q1 compared with 2,6% in 2021Q4. During the quarter under review, apartment prices recorded an annual increase of 6,8%, while house prices increased by 1,5% (Table 1, p.1, Chart 2).

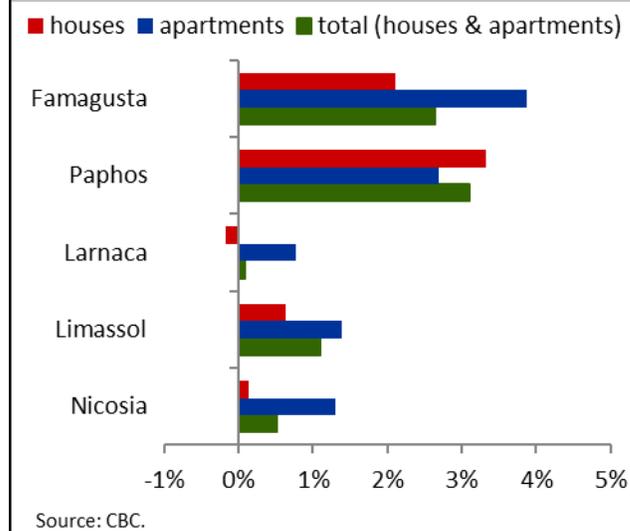


The interest rates on mortgage loans remained at low levels in 2022Q1, maintaining, for the time being, the favorable financing conditions. The preference of domestic buyers for apartments and small houses for residential purposes supports the current path of residential prices. At the same time, additional impetus in the market is given by investors in the real estate, mainly through the purchase of apartments for buy-to-let purposes. The arrival of a significant number of Ukrainian refugees and Russians to Cyprus contributes to the preservation of high rents.

At the same time, the recovery of demand from foreign investors has been significant, following the drop that has been observed due to the termination of CIP and the pandemic outbreak. The increased foreign demand for luxury properties supports the construction sector. This has been observed in the context of the “Strategy for Attracting Businesses for

² This strategy refers to a series of actions and reforms aiming at attracting foreign investments and talent from abroad.

CHART 3 Quarterly percentage change by district and by type of property, 2022Q1



Activities or/and Expansion of their Activities in Cyprus²” (international headquartering) that leads to the attraction of “highly skilled” foreign professionals.

Price changes by district

In 2022Q1, the RPPI recorded quarterly increases in all districts. Specifically, RPPI in Nicosia increased by 0,5%, in Limassol by 1,1%, in Larnaca by 0,1%, in Paphos by 3,1% and in Famagusta by 2,6% (Chart 3, Table 4, p. 7).

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 1,0%, in Limassol by 4,6%, in Larnaca by 1,6%, in Paphos by 5,7% and in Famagusta by 3,9% (Chart 4, p.3, Table 4, p.7).

On a quarterly basis, house prices recorded a marginal change in Nicosia, Limassol and Larnaca and increased in Paphos and Famagusta. In particular, in Nicosia and Limassol house prices increased by 0,1% and 0,6%, respectively, while in Larnaca they decreased by 0,2%. In Paphos and Famagusta, house prices have increased by 3,3% and 2,1%, respectively. On an annual basis, house prices recorded an increase

in all districts, except in Nicosia where they decreased by 0,2%. House prices in Limassol, Larnaca, Paphos and Famagusta increased by 2,1%, 1,3%, 4% and 2,4%, respectively.

Apartment prices increased in all districts on a quarterly basis. In particular, in Nicosia, apartment prices increased by 1,3%, in Limassol by 1,4%, in Larnaca by 0,8%, in Paphos by 2,7% and in Famagusta by 3,9%. The rise in apartment prices in all districts has been recorded on an annual basis as well. Specifically, in Nicosia apartment prices increased by 3,4%, in Limassol by 6,9%, in Larnaca by 2,4%, in Paphos by 10,2% and in Famagusta by 8,3%.

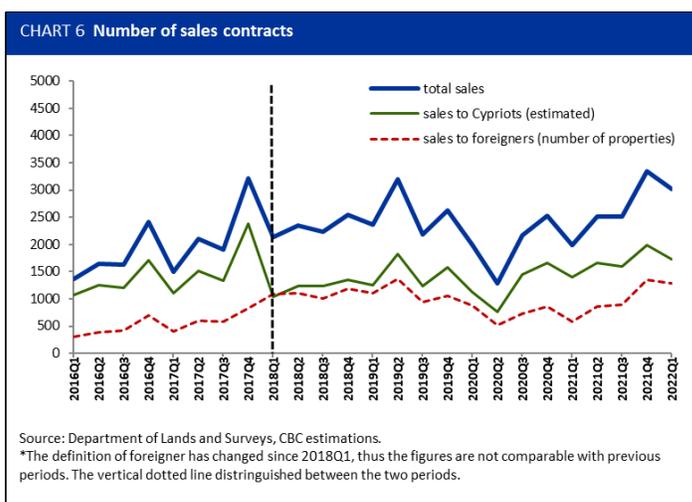
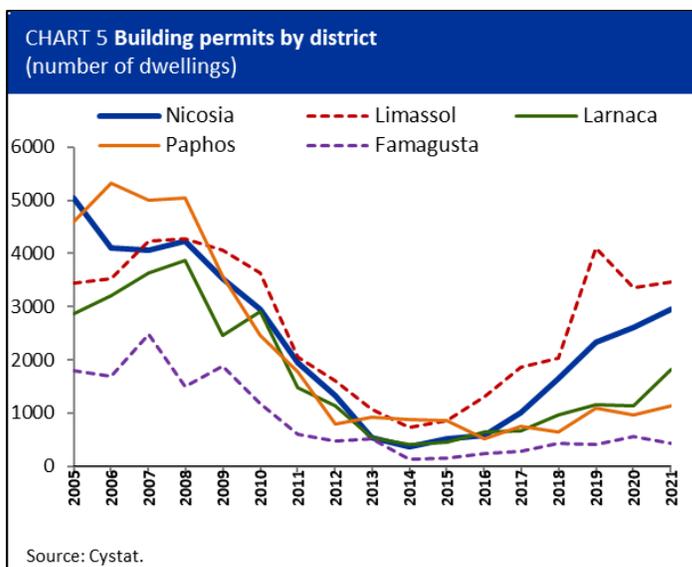
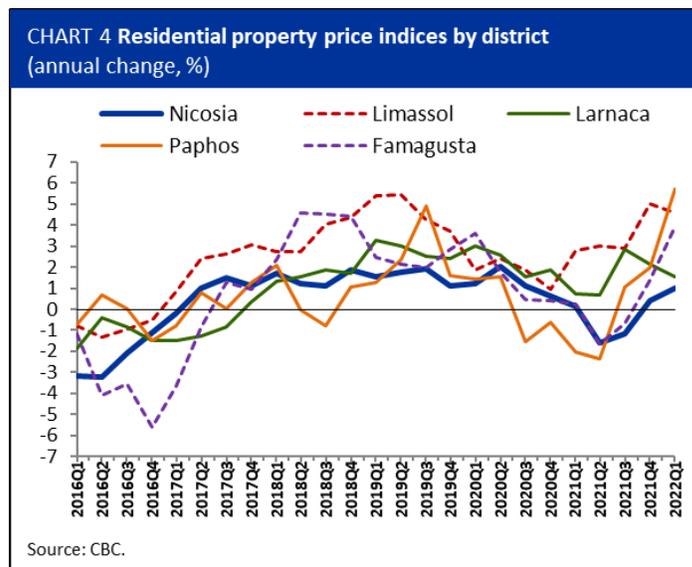
The significant increases in apartment prices that have been recorded in Paphos and Famagusta can be attributed to the delayed recovery of the real estate sector in these districts relative to the other districts. In particular, during the pandemic, apartment prices in other districts had even been recording increases on an annual basis, while in Paphos and Famagusta prolonged decreases were recorded. This could be explained by their heavy reliance on tourism, which implied that they were disproportionately impacted. At the same time, in Paphos and Famagusta, the number of building permits, which is a leading indicator of future construction activity, remained close to historically low levels since 2013 (Chart 5), compared with other districts. The limited construction activity, together with the correction in demand, induces shortages in the residential market, which in turn creates upward pressures on prices.

Domestic demand continues to support the sustained increase in residential property prices. At the same time, both the observed increase in the demand from foreign investors as well as the rising construction cost could become determinant factors at the future path of residential property prices.

Other market indicators

The dynamics in the real estate market, i.e. the strong interest of domestic buyers, the developments induced by foreign investors, as well as the increasing construction cost, are all reflected in various indicators of the real estate sector.

According to the latest data published by the Department of Lands and Surveys (DLS), in 2022Q1, the number of sale contracts recorded an annual increase of 51,6% (3.009 compared with 1.985)



compared with the marginal decrease recorded over the corresponding period in 2021. In addition, in the quarter under review, demand from domestic buyers recorded an annual increase of 23,8% (1.732

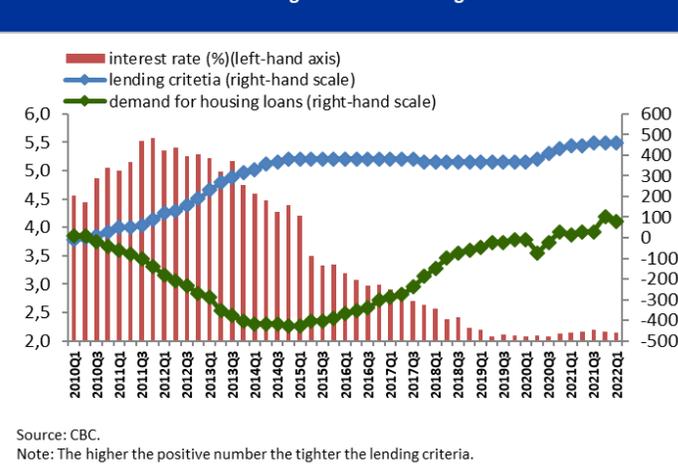
compared with 1.399) while foreign investors' demand increased by 117,9% (1.277 compared with 586) (**Chart 6, p.3**).

The new tax reliefs promoted by the state in the context of international headquartering, through the submission of the relevant bill at the Parliament, which enables the attraction of foreign professionals, together with their families, are expected to strengthen further the demand for luxury properties, both for purchase and rental purposes. The efforts aiming to attract the settlement of companies' headquarters offices, mainly high-tech companies, in Cyprus have already succeeded, as shown by the aforementioned increase in the demand from foreign investors. Apart from enhancing the demand for office spaces, the relocation of foreign companies in Cyprus increases the demand for residential units, as a number of their staff will relocate to Cyprus for a longer term.

According to unofficial estimates from the real estate market experts, a growing interest to relocate to Cyprus has been expressed lately by companies and individuals originating mainly from geopolitically unstable areas, further promoting Cyprus as an established business hub. The war in Ukraine might induce businessmen and investors from Russia and Ukraine to search for alternative headquarters abroad, thus boosting demand for real estate properties in Cyprus. Cyprus could be an attractive destination for them due to the favourable investment environment, the aforementioned tax reliefs and the existing trade relationships with the two countries.

According to CBC's *Monetary and Financial Statistics*³, in 2022Q1 pure new housing loans increased by 91,6% and 33,4% on an annual and quarterly basis, respectively (€437,5 million in 2022Q1 compared with €228,3 million in 2021Q1 and €328 million in 2021Q4). According to the same source, the interest rate on new housing loans⁴ in 2022Q1 averaged at 2,15%, remaining constant compared with 2021Q1, being at historically low levels since data are available (**Chart 7**). According to the Bank Lending Survey, lending criteria remained stable at the same strict levels compared with 2021Q4⁵. The increase in pure new housing loans that has been recorded in 2022Q1, might reflect the tendency of existing

CHART 7 Interest rate and lending criteria for housing loans



borrowers to extend their credit line in order to cover the increased construction costs, as they have adversely developed over the recent quarters.

The price index of construction materials, published by CYPSTAT, recorded increases in the last six quarters (**Chart 8, p.5**). In 2022Q1, the prices of construction materials recorded an annual increase of 17,7%, with the largest increases mainly recorded in minerals, as reflected by the annual increase of 46% and 38% in structural steel and iron bars, respectively. The large increase in the price of construction materials and the disruptions in supply chains have driven the price of new properties up and affected the pace of renovation projects. The inflationary pressures linked to the recent war conflicts in Ukraine have increased the costs of businesses in the construction sector, which are expected to squeeze their profits, in order to cope with the developments, while at the same time, part of the increased costs could be passed on to the prices of new residential properties.

According to Business and Consumer Surveys (BCS) of the European Commission, in 2022Q1, the real estate sector continues to register increases (**Chart 8, p.5**). In particular, property price expectations for the next three months averaged at 80,3 in 2022Q1, compared with 3,7 in 2021Q1, reaching historical high levels. Leading indicators relating to construction activity have started showing some signs of weakening. Specifically, the index of construction activity of BCS has reached -14, -19 and -33 in February, March and April, respectively, compared with -8 in January. The index of employment expectations in the construction sector for the next three months fluctuated at negative levels in

³ [Central Bank of Cyprus - Monetary and Financial Statistics](#)

⁴ Floating rate and up to one year fixed.

⁵ [Central Bank of Cyprus - Bank Lending Survey](#)

March and April compared with positive levels in the preceding months, while the index of confidence in the construction sector has deteriorated over the same period.

Furthermore, the real estate market is affected by the geopolitical developments through the possible postponement of the implementation of investment plans and direct foreign investments, mainly due to the prevailing uncertainty. Such a development could compress the housing supply in the medium term. At the same time, in case of prolonged inflationary pressures, there might be a shift towards more safe investments, such as real estate investments, so as to avoid the erosion of households’ wealth, to the extent possible.

In conclusion, the real estate market is expected to continue facing challenges. The instability and increased uncertainty of the last two years, triggered by the pandemic, the disruption of international supply chains and the increase in the construction costs, coupled with the war effects, are expected to negatively impact the course of the construction activity, while at the same time, drive prices in the real estate properties up. The gradual enhancement of foreign and domestic investments, the launch and acceleration of important infrastructure projects and the tourism dynamics can support demand.

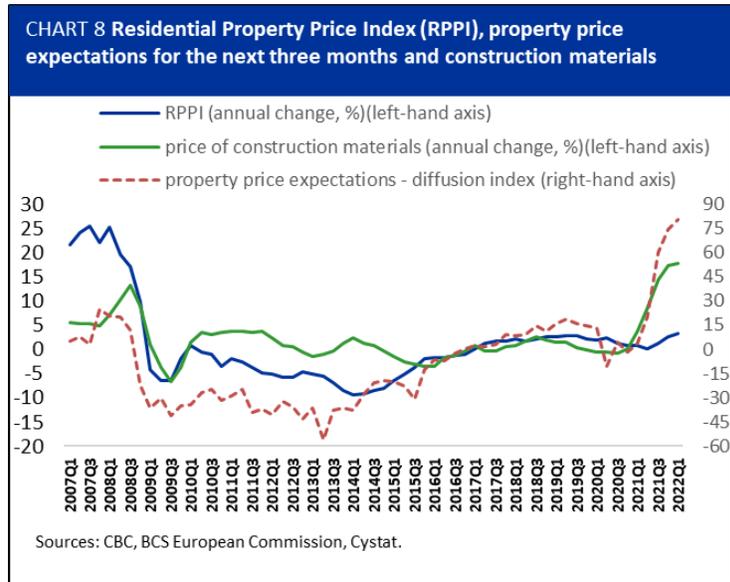


TABLE 2 Residential property price indices by type and by district

(annual and quarterly data, 2010Q1 = 100)

Year*	Quarter	Residences by type			Residences by district					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	Q1	89,8	78,7	78,6	90,8	73,7	80,9	75,7	81,9	

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	Apartments					Houses				
		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	Q1	86,1	104,9	76,8	76,9	69,5	75,4	84,7	72,7	82,6	77,1

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

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
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
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	3,4	6,9	2,4	10,2	8,3	-0,2	2,1	1,3	4,0	2,4

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.

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

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