



CENTRAL BANK OF CYPRUS

EUROSYSTEM

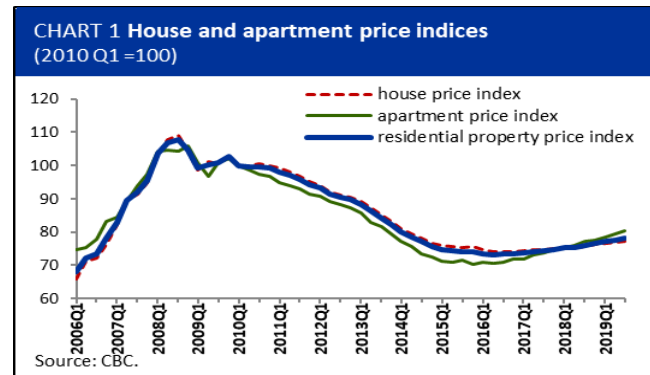
RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2019 Q3

Residential property prices continued with an upward trend and with variations according to the type of property and district

- The RPPI¹ continued with the upward trend in all districts both for apartments and houses and recorded a quarterly increase of 0,7% in 2019Q3. The sub-indices for apartments and houses recorded a quarterly increase of 1,5% and 0,3%, respectively.
- The RPPI increased by 2,8% on an annual basis in 2019Q3. More specifically an annual increase was recorded both in apartments (4,4%) and houses (2,2%). The largest increase in house prices was recorded in Paphos (4,3%) and in apartment prices in Larnaca (8,3%).
- Variations in price increases according to the type of property (houses and apartments) and the district also continued. Significant increases continued to be recorded in the prices of apartments in Larnaca (8,3%) and Limassol (6,8%) while a large increase of 5,3% was also observed in Paphos.
- As mentioned in the Report of the previous quarter, the increases in the price of apartments were mainly registered in the coastal areas of Larnaca and Limassol and may be partly due to foreign demand for real estate under the Cyprus Investment Program (CIP)² and the permanent residence permits³.
- In the second half of 2019, demand from foreigners registered a sharp decrease due to the CIP's stricter criteria in May 2019. This is expected to contain upward pressures in the real estate sector in 2020.

OVERVIEW	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Quarterly Index (2010Q1=100)	76,7	77,2	77,6	78,1
Quarterly change	0,9%	0,7%	0,5%	0,7%
Annual change	2,5%	2,7%	2,8%	2,8%



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_1atest.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.

² Through CIP, foreign investors can invest, inter alia, in the real estate market for a minimum of € 2m to acquire Cypriot citizenship.

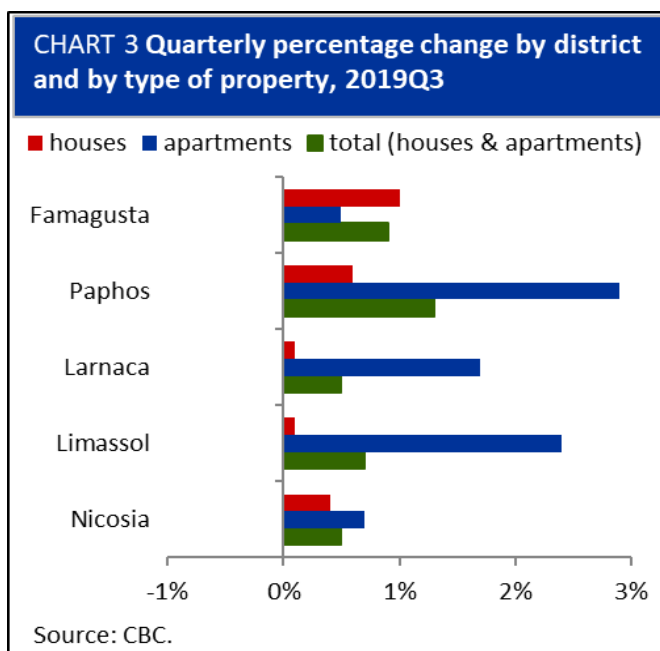
³ Foreign investors can acquire a permanent residence permit in Cyprus by, inter alia, investing at least €300,000 in a home purchase.

Residential property price indices

The RPPI (houses and apartments) continued its upward trend, recording a quarterly increase of 0,7% in 2019Q3. House and apartment price indices registered a quarterly increase of 0,3% and 1,5%, respectively. (Chart 1)

Residential property prices recorded an increase of 2,8% on an annual basis in 2019Q3. House and apartment prices registered an annual increase of 2,2% and 4,4%, respectively, in 2019Q3 (Chart 2).

As in the previous quarter, apartment prices seem to recover faster than house prices, probably, due to the increase in demand by foreigners under the CIP and the permanent residence permit scheme.



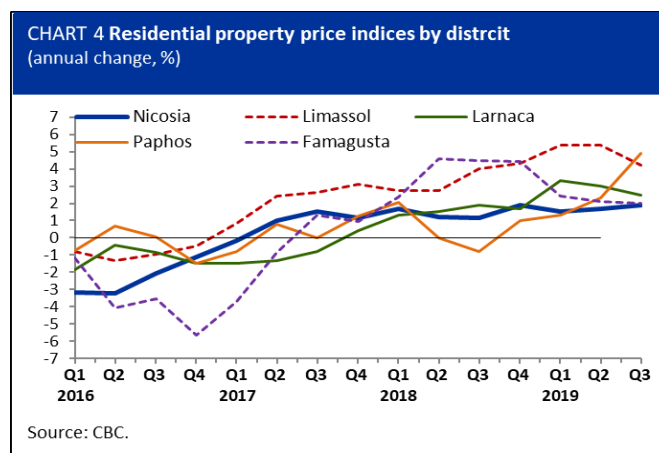
It should be noted that demand due to the CIP has begun to decline since 2019Q2, following the change in the programme criteria in May 2019, affecting the future developments in the real estate market.

In the third quarter of 2019, the corresponding house price index of the Cyprus Statistical Service (CYSTAT) recorded an annual increase of 2,3%, which is close to that recorded by CBC (2,8%).

Price changes by district

On a quarterly basis, residential property prices continued the previous two quarters trend and increased in all districts. Specifically, residential property prices increased by 1,3% in Paphos, 0,9% in

Famagusta, 0,7% in Limassol and 0,5% in Nicosia and Larnaca (Chart 3). As regards annual changes in the RPPI by district, an increase was also recorded in all districts (4,9% in Paphos, 4,2 in Limassol, 2,5% in Larnaca, 2,0% in Famagusta, 1,9% in Nicosia) (Chart 4).

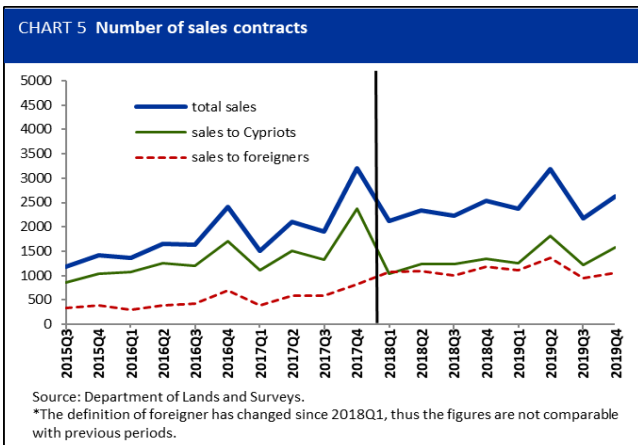


House prices in Famagusta, Paphos and Nicosia registered quarterly increases of 1,0%, 0,6%, 0,4%, respectively, and 0,1% in Larnaca and Limassol. On an annual basis, house prices recorded an increase in all districts of the order of 4,3%. in Paphos, 3,2%, in Limassol, 2,0% in Nicosia, 1,7% in Famagusta, and 0,8% in Larnaca.

Apartment prices registered quarterly increases in Famagusta by 2,9%, in Limassol by 2,4%, in Larnaca by 1,7%, in Nicosia by 0,7% and in Paphos by 0,5%. On an annual basis, apartment prices recorded increases in all districts for the sixth consecutive quarter. The largest increase, of 8,3%, was registered in Larnaca, while prices in Limassol increased by 6,5%, in Paphos by 5,3%, in Famagusta by 2,3% and in Nicosia by 2,1%.

As noted in previous reports, specific coastal areas in Limassol, and more recently in Larnaca exhibited significant price increases, particularly for apartments. According to a more detailed analysis of the available CBC data, apartment prices, in the coastal areas of Limassol recorded a cumulative increase between 17% - 28% in the period 2015 - 2018 (depending on the area selected). The corresponding increases in apartment prices for the same period in the rest of Limassol ranged only between 3% - 7%. The significant price increases in the coastal areas started to spread in other areas of the district mainly in 2019, where apartment prices increased by approximately 6,4% in about a year, compared to a 10% increase in the same period in coastal areas. In Larnaca, the increase in apartment prices on the main coastal front of the city was between 13% - 25% (depending on the area) for the period 2017

- 2019, with most of the increases occurring in 2019. For the entire district of Larnaca, the average annual increase in apartment prices for the same period was 4,1%.



Other market indicators

The ongoing increase in residential property price indices, which continued in 2019Q3, is broadly consistent with other real estate and economic indicators, such as the number of sales contracts which serves as an important indicator for studying and drawing conclusions during this period.

According to the Department of Lands and Surveys (DLS), sales contracts for real estate have recorded an annual increase of 3,7% in 2019Q4, following a significant increase of 24,4% in the first half of 2019 and a small decrease of 2,7% in 2019Q3 (Chart 6). This exhibited increase in 2019Q4 is due to the increase in sales contracts by local buyers (16,5%) as demand from foreign buyers decreased by 11% (Chart 5). The decrease in demand from foreign buyers could be due to the CIP’s stricter criteria that apply since May 2019. The largest decreases in foreign demand were recorded in Limassol (30,9%), in Paphos (25,4%) and in Larnaca. (5,1%). These districts also hold the largest market share in foreign buyers.

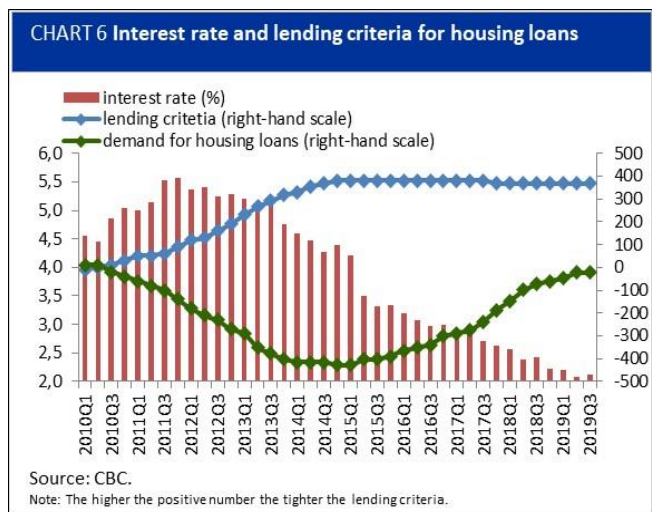
However, due to the large increase (24,3%) recorded in 2019Q2 in sales contracts of foreign buyers in Cyprus, the data for the whole of 2019 show an increase in sales contracts by 2,7%. The lower demand by foreign buyers in the second half of 2019 indicates an uncertainty in the course of the real estate sector in 2020 and turns the attention to the domestic market, which seemed to have a more positive course in 2019 than in previous years. Specifically, sales contracts of

local buyers recorded an increase of 20,7% in 2019 compared to 2018.

According to data published by the Statistical Service of Cyprus (CYSTAT), the construction activity (category buildings) recorded an annual increase of 14,8% in 2019Q3. Despite the consecutive annual increases of the index of production in construction, the level of the index is still lower than the historically high levels recorded before the financial crisis.

The ongoing recovery of the construction sector is also reflected by the reduction in unemployment in the sector. According to CYSTAT, unemployment in construction continued to decrease reaching an average of 1.220 individuals in 2019Q4 compared with 1.785 in 2018Q4.

Authorised building permits for all types of real estate, which are considered to be a leading indicator of construction activity, recorded a considerable annual increase of 10% in the first ten months of 2019. For the same period the number of building permits for residential properties was 4.216, corresponding to an



annual increase of 13,9% compared with the first ten months of 2018.

According to Business Consumer Surveys (BCS), property prices in the coming quarters are expected to continue the upward trend. Property price expectations in the next three months averaged at 17,1 in 2019Q4, compared with 10,3 in 2018Q4. At the same time, the index of employment expectations in the next three months in the construction sector reached an average of 11,2 in 2019Q4, compared with 17,1 and 2,5 in the corresponding period of 2018 and 2017, respectively.

Finally, according to the CBC's Monetary and Financial Statistics⁴, the interest rate for housing loans⁵ averaged 2,11% in 2019Q3 compared with 2,08% in 2019Q2, registering a marginal increase. However, it still remains at a very low level compared with available historic data. **(Chart 6, page3)**. According to the CBC's Bank Lending Survey⁶, the demand for housing loans by households remained unchanged **(Chart 6, page 3)** in 2019Q3.

In conclusion, the aggregated Residential Property Price Index and the relevant sub-indices for houses and apartments in Cyprus continue the upward annual trend since 2017. The fact that the annual increases are

stronger in last quarters of 2019 shows that the real estate market has moved from a stage of recovery to a stage of development. However, the monitoring of areas that register large increases is important, as these are mostly driven by foreign demand, a trend that appears to be changing after the first half of 2019. Therefore, the need for close monitoring of developments in specific areas as well as the trends in the domestic and foreign market is imperative.

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>

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	Q1	78,4	76,7	76,8	82,9	69,9	77,0	70,2	77,2		
	Q2	79,3	77,0	77,0	83,6	70,3	77,5	71,4	77,6		
	Q3	80,5	77,2	77,4	84,1	70,7	78,5	72,0	78,1		

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, 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	Q1	79,6	88,0	67,4	68,9	60,8	75,6	81,0	70,7	80,7	72,4
	Q2	80,0	89,6	68,8	69,1	61,9	75,7	81,2	70,8	81,4	73,6
	Q3	80,6	91,7	69,9	71,1	62,2	76,0	81,3	70,9	81,9	74,3

Source: CBC.

*The annual data for the years between 2010 and 2017 are calculated as the average of the four quarters of each representative 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	Q1	4,0	2,1	1,5	5,4	3,3	1,3	2,4	2,7
	Q2	4,3	2,3	1,7	5,4	3,0	2,3	2,1	2,8
	Q3	4,4	2,2	1,9	4,2	2,5	4,9	2,0	2,8

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 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

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

The current report is available at http://www.centralbank.gov.cy/ngcontent.cfm?a_id=11836&lang=en