



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2017Q4

The residential property price index is on an upward trend

- The RPPI (houses and apartments) increased by 0,4% in 2017Q4. Increases of 0,9% and 0,2% were recorded in the apartment price index and the house price index, respectively. Sub- indices either increased or stabilised in all districts on a quarterly basis.
- The RPPI increased by 1,5% on an annual basis in 2017Q4. All RPPI by district sub-indices have recorded an increase, with the largest being in Limassol (2,9%) and the lowest in Larnaca (0,5%).
- According to relevant economic indicators, the gradual recovery in the real estate sector is based on economic fundamentals. Real estate transactions, building permits, the demand for housing loans and confidence indicators have recorded increases while construction activity continued the upward trend in a low-interest rate environment. Non-performing loans, especially those for the acquisition of primary residences, remain the most significant challenge of the sector.



Overview	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Quarterly index (2010Q1=100)	73,7	74,1	74,3	74,6
Quarterly change	0,3%	0,5%	0,4%	0,4%
Annual change	0,2%	1,1%	1,4%	1,5%

¹ The CBC RPPI is calculated on the basis of the market valuations of the prices of real estate and statistical methodology widely used in the international literature and takes partial account of developments in previous quarters through smoothed regression coefficients (see relevant methodology:

https://www.centralbank.cy/images/media/pdf/Metodology_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.

Residential property price indices

The RPPI (houses and apartments) continues its recovery which began in 2016Q3, recording a quarterly increase of 0,4% in 2017Q4. Apartment and house indices registered quarterly increases of 0,9% and 0,2%, respectively (**Chart 1**). These were the sixth and fourth consecutive quarterly increases in apartment and house prices, respectively.

House prices recorded an increase of 1,5% on an annual basis in 2017Q4 compared with 1,4% in the previous quarter. This reflects an annual increase of 3,3% and 0,9% in apartment and house prices respectively (**Chart 2**).

The gradual recovery observed in the real estate sector is based on economic fundamentals. Real estate transactions, building permits, demand for housing loans and confidence continue to increase while construction activity continues to recover. The fact that the real estate market offers attractive returns amid a low interest environment is another factor driving the recovery. Meanwhile, the level of non-performing loans, especially for the acquisition of primary residences, remains the most significant challenge of the sector.

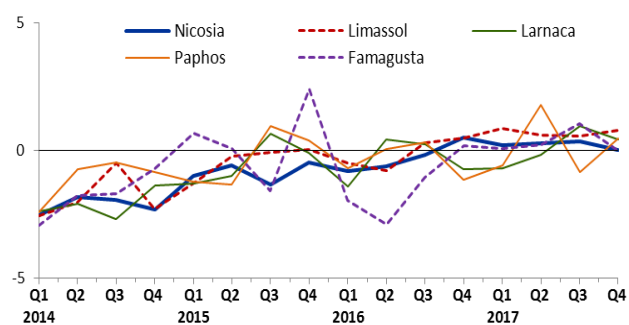
Prices changes by district

Residential property prices recorded either a quarterly increase or stabilised in all districts, for the first time since 2008Q1. Specifically, an increase of 0,8% was recorded in Limassol, 0,4% in Larnaca and 0,5% in Paphos, while prices stabilised in Nicosia and Famagusta (**Chart 3**). As regards annual changes in the RPPI by district, increases were recorded in all districts for the first time since 2008Q4. Specifically residential property prices increased by 2,9% in Limassol, 0,8% in Nicosia, 0,5% in Larnaca, 0,8% in Paphos and 1,4% in Famagusta (**Chart 4**).

Apartment prices registered the largest quarterly increase in Paphos (2,2%) and the largest decrease in Famagusta (1,9%). In Nicosia and Limassol they recorded a quarterly increase of 0,3% and 2%, respectively, while in Larnaca a decrease of 0,2%.

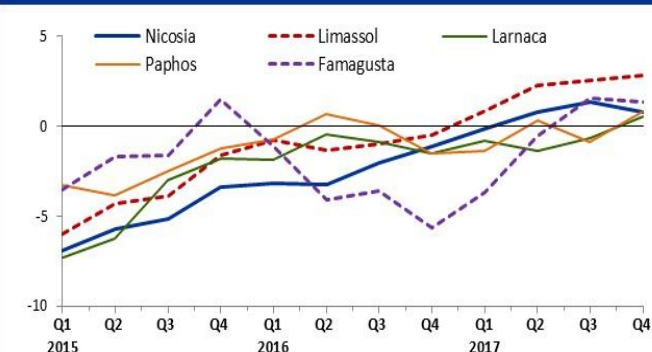
House prices in the districts of Limassol, Larnaca and Famagusta recorded quarterly increases of 0,3%,

CHART 3 Residential property price indices by district (quarterly change, %)



Source: CBC.

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



Source: CBC.

0,7% and 1%, respectively, while they decreased marginally by 0,1% and 0,6% in Nicosia and Paphos, respectively.

Apartment prices increased on an annual basis in all districts except Famagusta, where a marginal decrease of 0,4% was recorded. The annual increase in apartment prices was 3% in Nicosia, 6,3% in Limassol, 0,4% in Larnaca and 0,6% in Paphos. In Limassol a significant price recovery, especially in apartments², has been recorded.

² Sales of luxury homes, usually for acquiring Cyprus residency, are not financed by the local banking system, therefore they are not included in the sample for the construction of the CBC real estate price index.

Nevertheless, these sales have an indirect effect on the market which can be attributed to the continuing recovery in house prices (and especially apartments) in Limassol.

Annual house prices decreased by 0,2% in Nicosia, while they increased by 1,6% in Limassol, 0,3% in Larnaca, 1,1% in Paphos and 2,2% in Famagusta.

Other market indicators

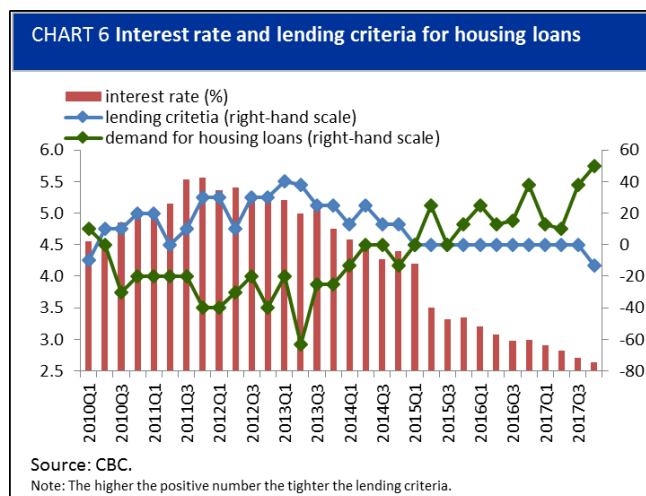
The real estate sector in Cyprus is showing clear signs of recovery from the historical low levels it reached during the financial crisis.

According to data published by the Department of Lands and Surveys, the total number of sales contracts recorded an annual increase of 32,7% in 2017Q4. (**Chart 5**). The number of sales contracts by domestic residents registered an annual increase of 38,6% in 2017Q4, reaching 2.379 contracts, while sales to foreigners increased by 18,3%, reaching 832 contracts. These large increases, recorded mainly in December, were largely due to the fact that as of 2018 onwards value added tax will be imposed on land, even though the provisions of the relevant law have not yet been fully clarified.

According to the CBC's *Monetary and Financial Statistics* the interest rate for housing loans³ averaged at 2,6% in 2017Q4, continuing the downward trend over the past five years (**Chart 6**). The CBC *Bank Lending Survey* shows that the demand for housing loans by households in 2017Q4 recorded the largest positive change since 2008, when data began to be compiled. At the same time, the housing lending criteria have become marginally less restrictive, following eleven consecutive quarters in which they remained unchanged (**Chart 6**).

In addition, according to data of the Cyprus Statistical Service (Cystat) unemployment in the construction sector dropped to 2.410 individuals in 2017Q4 from 3.689 in 2016Q4.

As the challenges faced by the real estate sector are being effectively managed, the positive prospects for the real estate market are expected to continue and improve. Authorised building permits, which are considered to be a leading indicator for (made this correction before) building activity, recorded a small annual increase of 0,3% in 2017Q4. The number of building permits for residential properties was 1.526,



corresponding to an increase of 36% compared with 2016Q4.

In addition, according to the European Commission's *Business and Consumer Surveys* employment expectations for the next three months in the construction sector averaged 7 for the period January – February 2018, compared with 4,8 in the same period of 2017. Furthermore, property price expectations for the next three months for the same period of 2018 averaged 5,2 compared with 0,3 in the same period of 2017.

³ 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	Q1	71,9	74,4	74,5	76,6	67,2	74,1	66,9	73,7
	Q2	73,0	74,5	74,7	77,1	67,1	75,4	67,0	74,1
	Q3	73,4	74,7	74,9	77,5	67,8	74,8	67,7	74,3
	Q4	74,1	74,8	74,9	78,1	68,1	75,1	67,7	74,6

Source: CBC.

*The annual data for the years between 2006 and 2015 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 data, 2010Q1 = 100)

Year*	Quarter	<u>Flats</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	100,1	99,4	100,1	99,4	100,4	101,4	100,1
2011	-	99,0	91,8	88,7	98,5	95,1	98,5	95,1	96,8	99,1	97,2
2012	-	95,2	88,3	82,2	94,1	91,5	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	Q1	75,3	76,6	62,3	64,3	57,4	74,1	76,6	69,3	78,8	69,0
	Q2	77,0	78,3	61,6	63,7	58,6	73,7	76,6	69,3	80,8	69,0
	Q3	77,3	78,7	62,7	64,2	58,3	73,9	77,1	69,7	80,1	69,7
	Q4	77,5	80,3	62,6	65,6	57,2	73,8	77,3	70,1	79,6	70,4

Source: CBC.

*The annual data for the years between 2006 and 2015 are calculated as the average of the four quarters of each respective year.

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, Emporiki Bank, National Bank of Greece, Piraeus Bank, USB Bank, Cyprus Development Bank, Société Générale and Eurobank) and the Cooperative Central Bank 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