



## CENTRAL BANK OF CYPRUS

EUROSYSTEM

# RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

## 2016Q2

### Marginal decrease in residential property prices amid signs of future positive developments

- Residential property prices recorded a marginal decrease at a decelerating rate in 2016Q2, thus remaining on their path towards stabilisation. At the same time, other market indicators suggest positive future developments.
- The RPPI (houses and apartments) recorded a smaller decline (0,5%) in 2016Q2 compared with the previous quarter (0,8%). Both apartment and house prices decreased on a quarterly basis by 0,2% and 0,6%, respectively.
- On an annual basis, residential property prices declined by 1,7% in 2016Q2. Apartment prices in Limassol, Paphos and house prices in Paphos recorded annual increases (0,2%, 3,3% and 0,4%, respectively), while the rest of sub-indices recorded decreases.
- Other relevant indicators of the property market have exhibited positive developments. For example, construction activity continued to increase. At the same time, low interest rates, stable lending criteria and the incentive schemes offered by the government, such as the reduced transfer fees and the permanent residence permits, have supported the increased demand for properties.

Overview	2015 Q3	2015 Q4	2016 Q1	2016 Q2
Quarterly index (2010Q1=100)	74,2	74,2	73,6	73,2
Quarterly change	-0,3%	0,0%	-0,8%	-0,5%
Annual change	-3,7%	-1,8%	-1,6%	-1,7%

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



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



### Residential property price indices

The RPPI recorded a marginal decrease of 0,5% on a quarterly basis in 2016Q2, which was smaller compared with the previous quarter (0,8%). Both apartment and house prices recorded small quarterly decreases of 0,2% and 0,6%, respectively (**Chart 1**). The small fluctuations of the RPPI observed in the last

few quarters reflects the trend for price stabilisation and/or the reversal of the negative trend<sup>1</sup>.

On an annual basis, the RPPI declined by 1,7% in 2016Q2, compared with an annual decline of 5,1% in 2015Q2. Both house and apartment prices declined on an annual basis, by 2,1% and 0,4%, respectively, compared with annual reductions of 4,6% and 6,3%, respectively, in the respective quarter of 2015 (**Chart 2**).

### Price changes by district

Residential property prices in Famagusta registered the largest quarterly decline (2,9%) for a second consecutive quarter. Quarterly decreases were also registered in Nicosia (0,6%) and Limassol (0,5%). In contrast, Larnaca and Paphos recorded marginal increases of 0,4% and 0,1%, respectively.

For the fourth consecutive quarter the largest annual decline in residential property prices was registered in Nicosia (3,2%), while the smallest was registered in Larnaca (0,4%) (**Chart 3**). Annual decreases in RPPI were also registered in Limassol (1,3%) and Famagusta (4,1%). Paphos was the only district where residential property prices registered an annual increase (0,7%), the first increase following seven years of consecutive decreases.

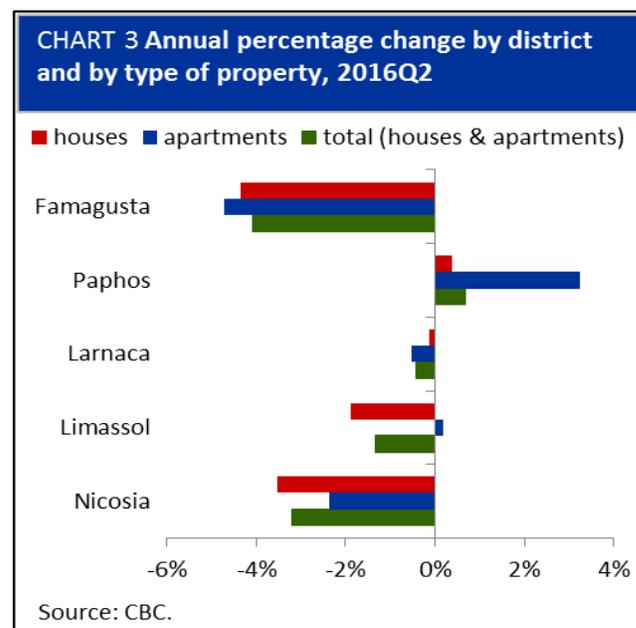
As regards apartment prices by district, Larnaca registered a quarterly increase of 1%. Apartment prices in Nicosia decreased by 0,2%, in Limassol by 1,6%, in Paphos by 0,9% and in Famagusta by 2,8%.

On an annual basis, apartment prices in Limassol and Paphos increased for a second consecutive quarter by 0,2% and 3,3%, respectively (**Chart 3**). On the other hand, apartment prices in Nicosia, Larnaca and Famagusta recorded an annual decrease of 2,4%, 0,5% and 4,7%, respectively.

As regards house prices, all districts recorded a quarterly decline in 2016Q2 except Paphos, which recorded an increase of 0,6%. Specifically, house prices in Nicosia recorded a quarterly decrease of

0,8%, in Limassol 0,6%, in Larnaca 0,1% and in Famagusta 3%.

On an annual basis, house prices in Paphos recorded the first increase (0,4%) after five years of consecutive annual decreases. On the other hand, house prices decreased in Nicosia (3,5%), in Limassol (1,9%), in Larnaca (0,1%) and Famagusta (4,4%) (**Chart 3**).



### Comparison with other residential property price indices

According to the international literature there are various acceptable methods of constructing a residential property price index for a country. Although the results between different indices may differ, the trend is usually similar. The difference in the results are due to, *inter alia*, the methodology, the weighting of the sub-indices, the areas covered and the size of the sample. Differences can be observed between the available residential property price indices in Cyprus, as is the case in other countries, e.g. the Land Registry, Nationwide and Halifax in the UK<sup>2</sup>.

<sup>1</sup> We expect a stabilisation in residential property prices to be shown in the CBC RPPI with a delay, due to the smoothing on the coefficients of the hedonic regressions, which is an integral part of the construction method of the indices. Statistical calculations based on alternative methods of estimating the indices show stabilisation in prices, which is expected to be more evident in the indices

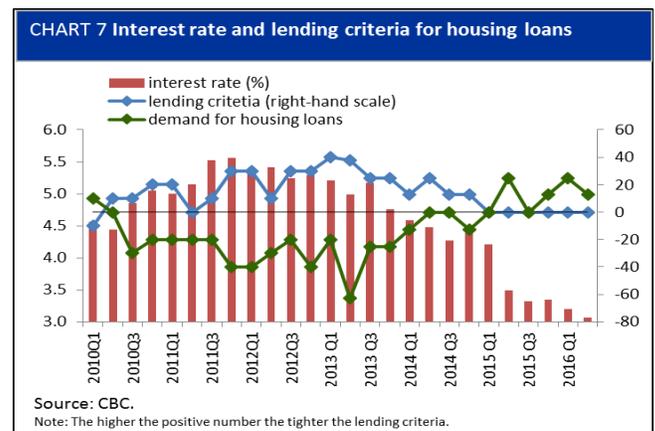
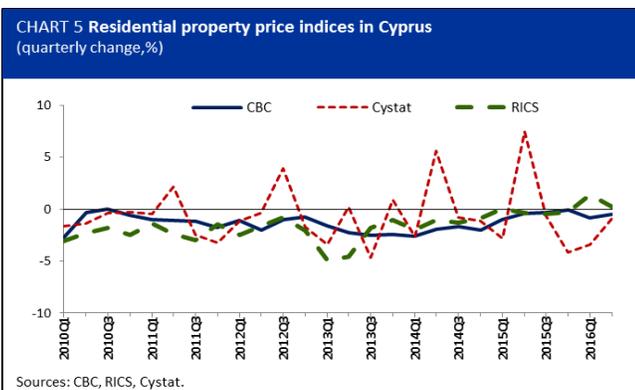
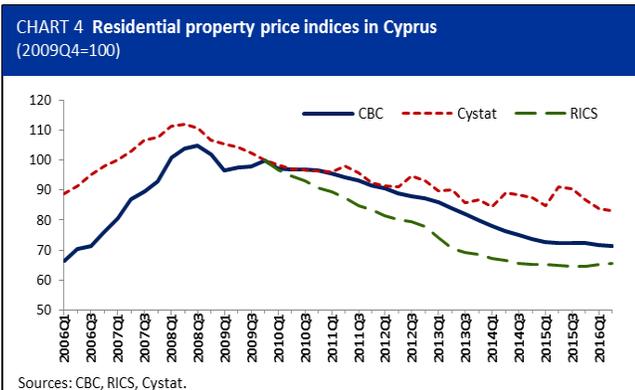
of the next quarters, possibly recording soon small increases in some districts.

<sup>2</sup> More details can be found in the "FAQ: Residential Property Price Indices" of the CBC, available at: [http://www.centralbank.gov.cy/media/pdf\\_gr/FAQonRPIs\\_2014\\_GR.pdf](http://www.centralbank.gov.cy/media/pdf_gr/FAQonRPIs_2014_GR.pdf)

In **Chart 4** we present a comparison of the indices prepared for the Cypriot market by the CBC, the Cyprus Statistical Service (Cystat)<sup>3</sup> and RICS<sup>4</sup> for the period 2006 – 2016. Data for the RICS index are available from 2009Q4. The quarterly changes of the indices are shown in **Chart 5**, where one can observe that despite the broadly similar trend that the three indices follow, the magnitude of the fluctuations differs. For example the Cystat index is more volatile from 2011 onwards, even recording quarterly increases in some quarters. In contrast, the CBC and the RICS indices recorded decelerating decreases in the same period, presenting signs of stabilisation. The RICS index has recorded small quarterly increases since 2016Q1.

As regards the Cystat index, the fact that it is constructed from data of actual transactions, which declined significantly during the economic crisis, makes the index prone to sample bias. In addition, it is noted in the latest Cystat house price index results that from 2015 there is a break in the series due to a replacement of a proxy variable with actual data. As a result the affected annual growth rates are not

comparable. It is also noted that according to Cystat the results are provisional and subject to revisions.



**Other market indicators**

According to data from the Department of Lands and Surveys, in 2016Q2 the total number of sales contracts (locals and foreigners) recorded an annual increase of 31,6%, reaching similar levels as in 2011. The number of sales contracts with Cypriot buyers registered an annual increase of 45,4%, while sales to foreign buyers increased by 0,5% (**Chart 6**). It is noted that a part of these large increases is due to the debt-to-asset agreements between banks and borrowers.

As regards construction activity, according to data from Cystat it continued to increase in 2016Q2. Specifically, in the quarter under review the index of production in construction and the local sales of cement recorded annual increases of 10,9% and 25%, respectively.

<sup>3</sup>[http://www.mof.gov.cy/mof/cystat/statistics.nsf/economy\\_finance\\_15main\\_en/economy\\_finance\\_15main\\_en?OpenForm&sub=5&sel=2](http://www.mof.gov.cy/mof/cystat/statistics.nsf/economy_finance_15main_en/economy_finance_15main_en?OpenForm&sub=5&sel=2)

<sup>4</sup> <http://www.rics.org/cy/knowledge/market-analysis/rics-cyprus-property-price-index/>

According to the CBC's *Monetary and Financial Statistics*, the interest rate for housing loans<sup>5</sup> continued to decline in 2016Q2. It was on average 3,1% in 2016Q2 compared with 3,5% in 2015Q2 (**Chart 7**). This reduction is favourable to both existing and prospective borrowers. In addition, according to the CBC's *Bank Lending Survey*, the demand for housing loans by households increased for the third consecutive quarter, while the lending criteria for housing loans remained unchanged (**Chart 7**).

The prospects for the real estate market are more positive than one year ago according to the European Commission's Business and Consumer Survey. Specifically, the index of employment expectations in the construction sector recorded an average of -0,3 in 2016Q2 compared with -4,1 in the same quarter of the previous year. The index of expectations for real estate prices was less negative, recording an average of -5,7 in 2016Q2 compared with -19,6 in 2015Q2. In addition, the building sentiment indicator was on average -28,9, similar to the levels seen in late 2008 when the global financial crisis begun, and

significantly improved compared with the respective quarter of 2015 (-45,3). The improvement of the above sentiment indicators reflects the gradual restoration of confidence in the Cypriot property market.

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<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	Q1	71,4	76,0	77,0	76,5	69,1	75,7	70,2	74,8
	Q2	70,9	75,7	76,5	76,4	68,4	74,7	70,3	74,5
	Q3	71,5	75,2	75,5	76,3	68,8	75,4	69,2	74,2
	Q4	70,4	75,6	75,1	76,3	68,7	75,7	70,8	74,2
2016	Q1	70,8	74,6	74,5	75,9	67,8	75,1	69,4	73,6
	Q2	70,7	74,2	74,1	75,3	68,1	75,2	67,4	73,2

Source: CBC.

\*The annual data for the years between 2006 and 2014 are calculated as the simple 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	Q1	78,3	72,9	60,4	64,8	60,6	76,4	77,8	72,0	79,7	72,1
	Q2	76,8	73,7	61,4	63,7	60,1	76,4	77,3	71,1	78,7	72,2
	Q3	76,3	75,3	61,6	64,6	59,2	75,2	76,6	71,9	78,9	70,8
	Q4	75,1	74,3	60,6	63,8	61,3	75,2	77,0	72,5	80,0	72,2
2016	Q1	75,1	75,0	60,5	66,4	59,0	74,3	76,2	71,1	78,5	71,1
	Q2	75,0	73,8	61,1	65,8	57,3	73,7	75,8	71,0	79,0	69,1

Source: CBC.

\*The annual data for the years between 2006 and 2014 are calculated as the simple 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](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)