



RESIDENTIAL PROPERTY PRICE INDEX

2013 Q2

The negative trend in residential property prices continued during the second quarter of 2013

- The residential property price index (houses and apartments) recorded a larger quarterly decrease in the second quarter of 2013 than in the previous quarter.
- House prices in the district of Famagusta and apartment prices in the districts of Limassol and Nicosia fell more than in the previous quarter.
- House prices in the districts of Paphos and Larnaca declined marginally (by 0,9% and 1,1%, respectively) compared with the previous quarter.

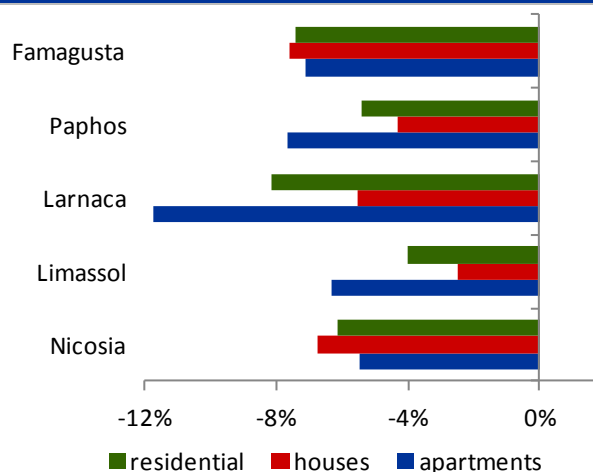
Overview	2012 Q3	2012 Q4	2013 Q1	2013 Q2
Quarterly index (2010 Q1=100)	89,5	88,6	87,2	85,0
Quarterly change	-1,1%	-0,9%	-1,6%	-2,6%
Annual change	-5,6%	-4,8%	-5,4%	-6,1%

Main results of the residential property price indices

In the second quarter of 2013, the residential property price index recorded a larger quarterly decline (2,6%) than in the previous quarter (1,6%), reflecting larger quarterly declines in both house and apartment prices. In parallel, for the fourth consecutive quarter apartment prices recorded a larger quarterly decline (3,2%) than house prices (2,1%) (Chart 2).

As regards developments by district, the largest quarterly fall in residential prices was recorded in the district of Famagusta (7,7%), while the smallest

CHART 1 Annual percentage change by district and by type of property, 2013 Q1

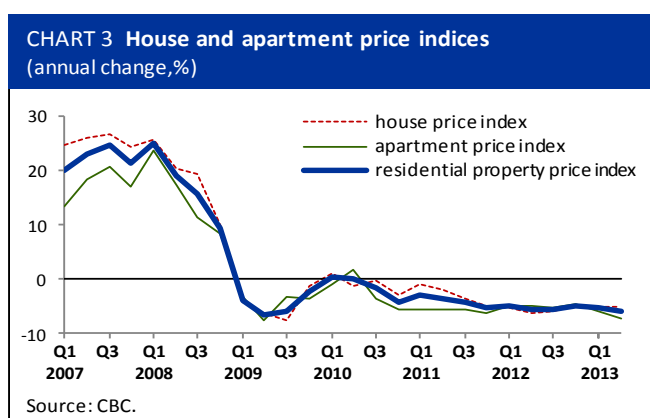
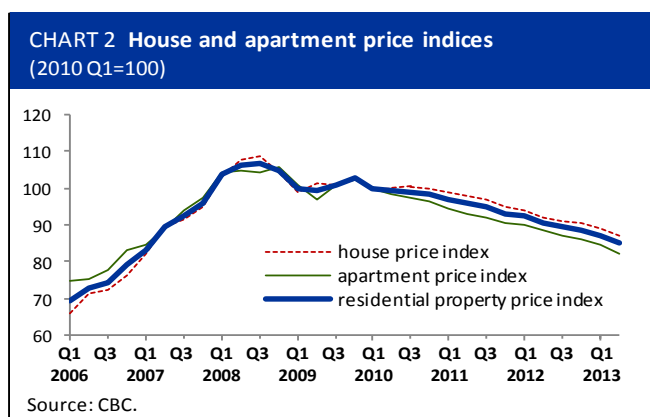


Source: CBC.

decreases were recorded in the districts of Larnaca and Paphos (1,6% and 2,0%, respectively). More specifically, during the second quarter of 2013, house and apartment prices in the district of Famagusta fell by 9,4% and 4,5%, respectively. House and apartment prices in the district of Limassol were 1,3% and 4,2%, respectively, lower than the previous quarter. House and apartment prices in Nicosia recorded quarterly decreases of 1,9% and 2,2%, respectively. Residential property prices in the district of Larnaca recorded a lower decrease in the second quarter of 2013 than in the first quarter of 2013. Specifically, house prices recorded a modest quarterly decrease of 0,9% (compared with 1,9% in the previous quarter), while apartment prices recorded a decrease of 2,3% (compared with 5,6% in the previous quarter).

On a year-on-year basis, the residential property price index fell by 6,1% in the second quarter of 2013 (after an annual fall of 5,4% in the first quarter of 2013), reflecting annual decreases of 5,0% and 7,3%

in house and apartment prices, respectively (**Chart 3**).

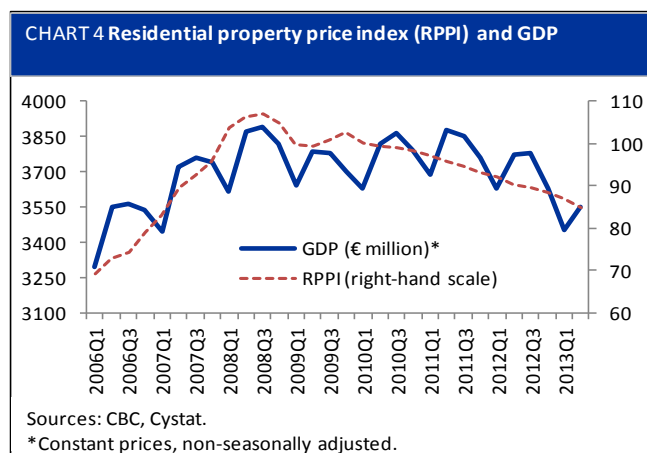


The largest annual decreases during the quarter under review were recorded in house prices in the district of Famagusta (7,6%) and in apartment prices in the district of Larnaca (11,7%). The smallest annual decreases were recorded in apartment prices in the district of Nicosia (5,5%) and in house prices in the district of Limassol (2,5%) (**Chart 1**). Apartment prices in the districts of Limassol, Paphos and Famagusta, recorded annual decreases of 6,3%, 7,6% and 7,1%, respectively, while house prices in the districts of Nicosia, Larnaca and Paphos fell by 6,7%, 5,5% and 4,3%, respectively.

Overall, apartment and house price indices in all districts, except Larnaca, fell at a higher annual rate in the second quarter of 2013 than in the preceding quarter. As regards the annual rates of decrease in recent quarters, two distinct trends have been noted: on the one hand, the rates of annual decreases in residential property prices in the district of Paphos tend to become smaller, showing some signs of stabilisation; on the other hand, the rates of annual decreases in all other districts tend to become larger.

Other indicators

A comparison of GDP with the residential property price index of the CBC shows that the two series follow a similar trend (**Chart 4**). In the period 2006-2008 both series were on an upward trend, whereas in the period 2011-2013 they recorded a downward trend. This suggests that the recovery in residential property prices will come along with the stabilisation and growth of the economy.



According to data from the Department of Lands and Surveys, the number of sales contracts in the second quarter of 2013 was smaller than in the second quarter of 2012 in every district, including the district of Paphos, where in the previous quarter the number of sales contracts increased (**Chart 5**). Specifically, the number of sales contracts with Cypriot and foreign buyers recorded an annual decrease of 63,4% and 44,3%, respectively, during the quarter under review. Paphos recorded the smallest annual fall in the number of sales contracts, for both Cypriot (51,4%) and foreign buyers (18,8%). The district of Paphos seems to continue to attract foreign buyers, as the number of sales contracts with foreign buyers during the first two quarters of 2013, was roughly the same as the total of all the other districts together. However, in the district of Nicosia, a significant decrease in residential property demand, from both Cypriot and foreign investors, was recorded.

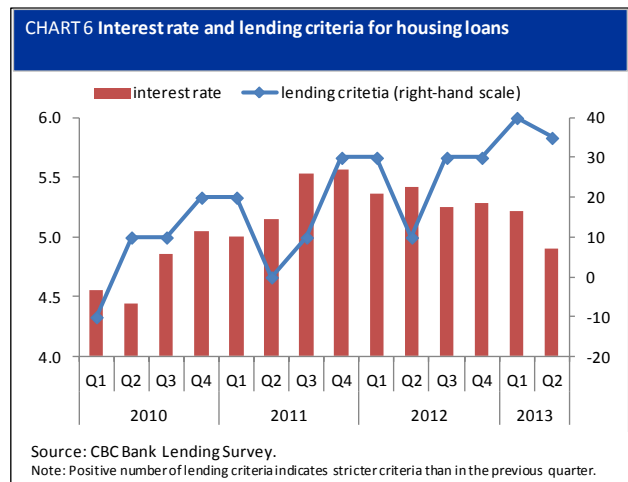
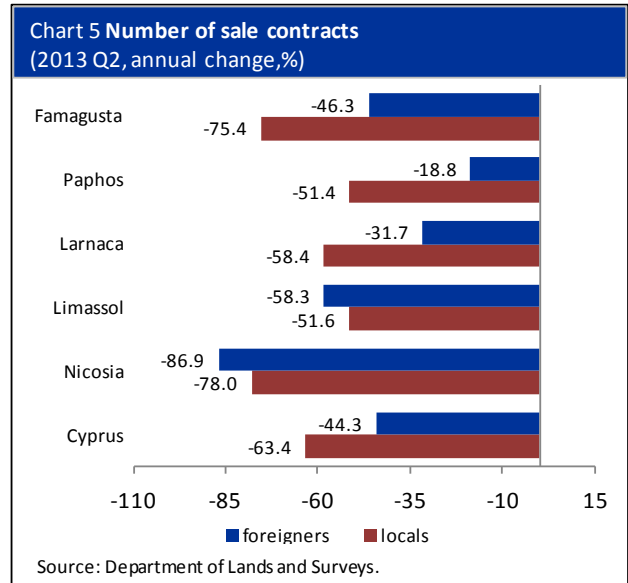
The low demand for immovable property, as portrayed in the data of the Department of Lands and Surveys since 2012, contracted even further during the second quarter of 2013, following the Eurogroup decisions of last March. This contraction is attributed to the negative climate that continues to prevail in the economy, the limited access to bank

financing – due to lack of bank liquidity and stricter lending criteria – and also to the imposition of temporary restrictions on transactions and the haircut of deposits in the two largest Cypriot banks.

Although interest rates on housing loans declined slightly compared with the previous quarter (from 5.2% to 5.0%) (Chart 6), stricter lending criteria continued to restrict the access of households to housing loans. According to the CBC Bank Lending Survey, during the second quarter of 2013, credit institutions continued to adopt stricter lending criteria for housing loans to households.

With regard to the construction sector, data from the Statistical Service of Cyprus (Cystat) show that local sales of cement fell at an annual rate of 37,1% in the second quarter of 2013, while registering a small increase (1,5%) compared with the previous quarter. In addition, the building sentiment indicator for Cyprus, published in the Joint Harmonised European Union Business and Consumer Surveys (BCS), became more negative during the second quarter of 2013 compared with the first quarter of the year, averaging -66,73 and -61,4, respectively.

As regards the prospects for the construction sector, the available data show that the recession will continue in the near future. Specifically, according to data from the Statistical Service of Cyprus (Cystat), the number of building permits issued for residential buildings (which is a leading indicator of construction activity), recorded an annual decrease of 18,9% during the second quarter of 2013, compared with 19% during the previous quarter. Furthermore, according to the BCS, during the second quarter of 2013 the index of intention to build or purchase a home in the next 12 months remained at significantly negative levels (-94,7), more negative than the level of the previous quarter (-90,9). The index of employment expectations in the construction sector in the next three months was also more negative during the second quarter of 2013 (averaging -43,7) than in the preceding quarter (averaging -35,2). In addition, the index of property price expectations in the next three months recorded a more negative value in the second quarter of 2013 (averaging -57,9, compared with -35,3 in the first quarter of 2013).



In conclusion, during the second quarter of 2013, under the weight of the deepening recession and the measures imposed on the financial sector, residential property prices continued to fall, even in districts that showed signs of stabilisation in previous quarters. After the completion of the recapitalization of credit institutions and the return to more normal lending conditions, the negative trend in residential property prices is expected to be arrested.

TABLE 1 Residential property price indices by type and by district
(quarterly data, 2010 Q1 = 100)

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 Q1	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Q2	98,6	100,0	99,2	99,5	99,3	99,6	98,5	99,4
Q3	97,3	100,4	99,9	98,0	98,3	99,7	99,1	99,1
Q4	96,5	99,9	99,9	97,5	97,4	97,8	97,8	98,5
2011 Q1	94,4	99,0	99,6	95,7	95,9	95,5	93,0	97,1
Q2	93,0	98,0	99,3	94,3	94,0	92,2	93,4	95,9
Q3	92,0	96,7	98,6	93,6	92,6	89,9	90,8	94,8
Q4	90,5	94,9	97,4	92,2	90,6	87,4	88,9	93,1
2012 Q1	89,9	93,8	96,5	91,9	89,0	85,6	88,2	92,2
Q2	88,4	91,8	95,0	90,3	86,3	85,1	84,6	90,4
Q3	87,3	90,9	94,0	89,8	85,2	82,7	84,9	89,5
Q4	86,2	90,3	92,9	89,7	83,5	81,8	84,6	88,6
2013 Q1	84,6	89,1	91,0	88,8	80,5	82,1	84,8	87,2
Q2	81,9	87,2	89,1	86,7	79,2	80,5	78,3	85,0

Source: CBC.

TABLE 2 Apartment and house price indices by district
(quarterly data, 2010 Q1 = 100)

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 Q1	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
Q2	98,8	99,2	97,9	97,5	100,4	99,6	99,7	100,8	101,7	97,7
Q3	99,1	96,0	95,9	97,1	95,5	100,6	99,2	100,8	102,1	101,7
Q4	99,4	95,8	94,7	93,3	92,6	100,2	98,5	99,9	101,9	101,1
2011 Q1	99,5	93,3	91,3	87,6	86,5	99,7	97,1	99,4	102,4	97,9
Q2	99,4	91,9	89,8	84,0	83,4	99,2	95,6	97,3	99,5	101,1
Q3	99,1	91,8	88,0	80,3	80,7	98,2	94,5	96,1	98,6	96,9
Q4	97,9	90,2	85,8	78,8	81,8	97,0	93,2	94,5	95,9	92,7
2012 Q1	96,4	90,5	85,4	78,7	79,5	96,5	92,5	91,9	92,5	92,3
Q2	95,3	88,6	83,0	78,2	76,6	94,7	91,1	88,7	92,1	88,2
Q3	95,4	87,3	81,1	75,5	75,8	92,9	91,0	88,0	90,1	89,1
Q4	93,5	86,7	79,4	75,1	75,4	92,4	91,3	86,1	88,2	89,1
2013 Q1	92,1	86,6	75,0	74,3	74,5	90,0	90,0	84,5	89,1	90,0
Q2	90,1	83,0	73,3	72,2	71,2	88,3	88,8	83,8	88,1	81,5

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 of the Statistics Department at the Central Bank of Cyprus (CBC).

Data from 2006 to 2009 were collected retrospectively from a number of credit institutions. The data for the period after 2009 are collected by the CBC from the member banks of the Association of Cyprus Banks (Bank of Cyprus, Cyprus Popular Bank, 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 a standardised form, through an online data submission platform.

The partnered credit institutions receive the relevant information from more than 95 independent property surveyor offices for the purpose of 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). Until the fourth quarter of 2012, the two indices were weighted using the quarterly number of observations (valuations). Since the first quarter of 2013, the weighting method has changed and the index is calculated by using the number of observations of the last four quarters. In the same manner, the aggregate house and apartment indices are the weighted sum of the house and apartment price indices by district, weighted by the number of observations of the last four quarters. As a result, the CBC residential property price indices for the period 2010 Q1 onwards have been revised.

The hedonic methodology is employed for the construction of the indices. In case where 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 www.centralbank.gov.cy.

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