



# CENTRAL BANK OF CYPRUS

EUROSYSTEM

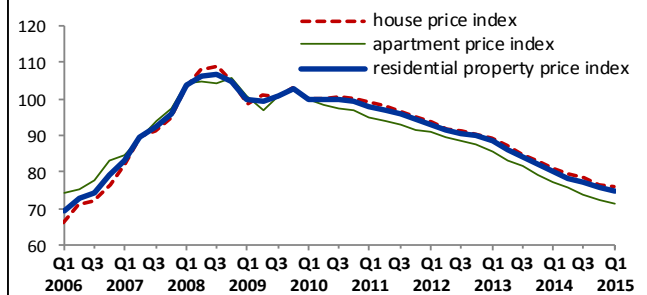
## RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

### 2015 Q1

### Small quarterly decrease of residential property prices in the first quarter of 2015

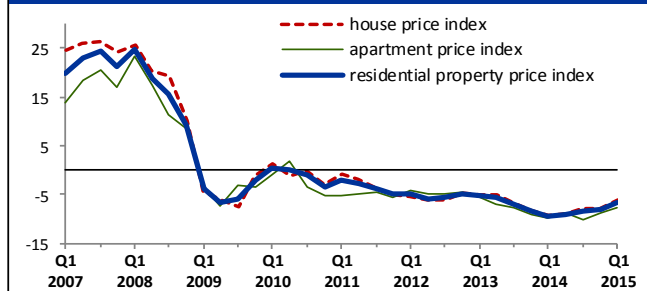
- The RPPI<sup>1</sup> (houses and apartments) recorded a smaller decrease (1%) during 2015Q1 compared with the previous quarter (2%). House and apartment prices decreased by 0,8% and 1,5%, respectively.
- The quarterly decrease of the RPPI was the smallest observed since 2012Q4, when the acceleration of the declining prices started.
- On an annual basis, the RPPI declined by 6,5% during 2015Q1, compared with 8% in the previous quarter.
- Lower annual decreases were recorded in all districts compared with the previous quarter, which may indicate that the correction in prices could be coming close to its end.

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



Source: CBC.

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



Source: CBC.

### Residential property price indices

In 2015Q1, the RPPI recorded a quarterly decrease of 1%, the smallest decrease since 2012Q4, when the acceleration of the declining prices started. House and apartment prices decreased by 0,8% and 1,5%, respectively, compared with 2,1% and 1,5%, respectively, in the previous quarter (**Chart 1**). As depicted in **Chart 1**, the RPPI returned to the average price levels of 2006, the year in which the over-lending for housing (as measured by the outstanding amount

Overview	2014 Q2	2014 Q3	2014 Q4	2015 Q1
Quarterly index (2010 Q1=100)	78,4	77,1	75,6	74,8
Quarterly change	-2,0%	-1,7%	-2,0%	-1,0%
Annual change	-9,1%	-8,4%	-8,0%	-6,5%

<sup>1</sup> The data in this report refer to the revised series of the RPPIs. For more information please see the “Notes” on page 5.

of housing loans) started, leading eventually to the overheating of the sector.

On an annual basis, the RPPI declined by 6,5%, compared with a decline of 8% in 2014Q4. House prices declined by 6% on an annual basis and apartment prices by 7,7%, compared with annual declines of 7,8% and 8,7%, respectively, in 2014Q4.

### Price changes by district

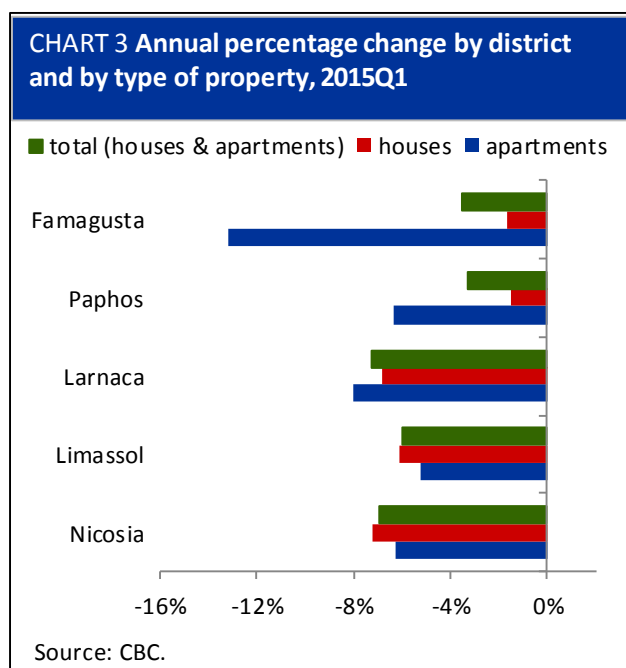
The RPPI (houses and apartments) recorded the largest quarterly decline in the districts of Larnaca and Limassol (1,3%), while prices in Famagusta increased on a quarterly basis by 0,7%. Residential property prices declined on a quarterly basis by 1% in Nicosia, and 1,2% in Paphos.

The largest annual decline in the RPPI was recorded in Larnaca (7,3%), while Paphos had the smallest decline (3,3%). In addition, the RPPI recorded annual declines in the district of Nicosia (6,9%), Limassol (6%) and Famagusta (3,5%). The continuing trend observed in in all districts for lower annual decreases compared with previous quarters, may indicate that the correction in prices could be coming close to its end.

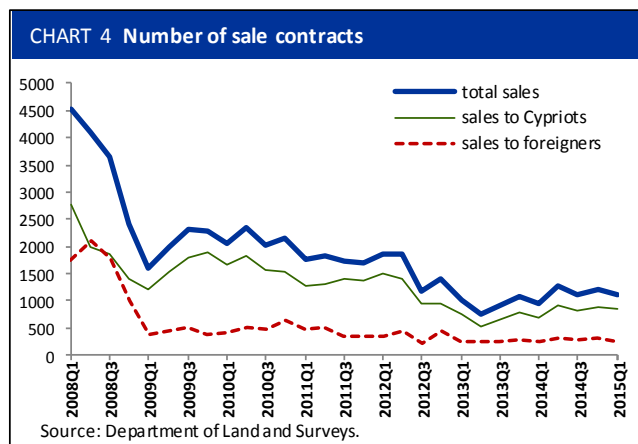
The largest annual decline in house prices during 2015Q1 was recorded in the districts of Nicosia (7,2%), while the smallest decline was recorded in the district of Paphos (1,5%) (**Chart 3**). House prices in the districts of Limassol, Larnaca and Famagusta exhibited annual declines of 6,1%, 6,8% and 1,7%, respectively.

The largest quarterly decline in apartment prices during 2015Q1 was recorded in the district of Larnaca (4,1%), while the smallest was in the district of Limassol (0,8%). Apartment prices in Famagusta recorded a quarterly increase of 5,1%, which is probably due to seasonality. Apartment prices in the districts of Nicosia and Paphos were lower by 1,2% and 1,6%, respectively, compared with 2014Q4.

The largest annual decline in apartment prices during the quarter under review was recorded in the district of Famagusta (13,2%) (**Chart 3**). The smallest annual decline in apartment prices was recorded in the district of Limassol (5,2%). Apartment prices in the districts of Nicosia, Larnaca and Paphos were lower on an annual basis by 6,2%, 8% and 6,3%, respectively.



As regards house prices, the largest quarterly decrease was recorded in the district of Limassol (1,4%), the smallest in the district of Larnaca (0,5%), while Famagusta recorded a marginal increase (0,2%) for a second consecutive quarter. House prices in Nicosia and Paphos declined on a quarterly basis by 0,9% and 0,6, respectively.



### Other market indicators

According to data published by the Department of Lands and Surveys, the total number of sale contracts (for both Cypriot and foreign buyers) recorded an annual increase of 15,8% in 2015Q1 compared with an annual increase of 10,7% in the previous quarter. The largest part of the demand for properties comes from Cypriot buyers, for who an annual increase of 24,7% was recorded in the number of sales during 2015Q1, while sales to foreign buyers recorded an annual decrease of 6,7% (**Chart 4**). The largest annual increase in the total number of sales contracts was recorded in the district of Larnaca (49,7%). Sales also

increased on an annual basis in the district of Limassol (28%), while they remained stable in the district of Famagusta and decreased in the districts of Nicosia and Paphos by 3,9% and 2,3%, respectively.

According to CBC data, the deleveraging in the real estate sector continues, since the outstanding amount of housing loans recorded an annual decrease for the ninth consecutive quarter. Specifically, this amount fell on an annual basis by 2,6% in March 2015. The same trend was recorded in the sub-categories of housing loans to residents and non-residents.

As regards the construction sector, local sales of cement recorded a smaller annual decline for 2015Q1 (12%), compared with 2014Q1 (20,7%). Local sales of cement also reached their lowest level (97.155 tonnes) since 2002, when data started to be published. At the same time, unemployment in the construction sector fell on an annual basis by 18,6% in March 2015, owing to the fact that foreign workers who used to work in the construction sector migrated

abroad. This is also reflected in the number of employees in the construction sector (full-time equivalent), which in the last available quarter (2014Q4) reached the lowest level (21.020) since 2000, when data started to be published.

According to data from the Business and Consumer Surveys of the European Commission, during 2015Q1, the index of intention to build or purchase a home in the next 12 months recorded an average of -95, the most negative level since 2002 when data started to become available. In contrast, the index of property price expectations for the next three months in the construction sector recorded on average a less negative number (-17) compared with the previous quarter (-17,6). The same trend was recorded by the index of employment expectations in the construction sector, which recorded a less negative number (on average -7,7) compared with the previous quarter (-11,5).

**TABLE 1 Residential property price indices by type and by district**  
(quarterly data, 2010 Q1 = 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	Q1	90,8	93,9	96,5	92,1	90,3	89,2	90,5	93,2
	Q2	89,3	91,9	94,9	90,6	87,4	88,9	86,6	91,3
	Q3	88,4	91,0	93,6	90,3	86,6	86,7	87,2	90,4
	Q4	87,3	90,5	92,7	90,3	84,8	85,4	87,1	89,8
2013	Q1	85,7	89,2	90,6	89,3	82,3	85,9	87,7	88,4
	Q2	83,0	87,3	88,8	87,5	81,2	84,6	80,1	86,3
	Q3	81,7	85,0	86,8	85,5	78,2	82,4	77,3	84,2
	Q4	79,3	83,1	84,9	83,6	76,3	80,2	75,0	82,1
2014	Q1	77,3	80,9	82,7	81,4	74,5	78,2	72,8	80,0
	Q2	75,6	79,4	81,2	79,8	72,9	77,6	71,5	78,4
	Q3	73,6	78,3	79,6	79,4	70,9	77,3	70,3	77,1
	Q4	72,4	76,6	77,7	77,5	70,0	76,6	69,8	75,6
2015	Q1	71,4	76,0	77,0	76,5	69,1	75,7	70,2	74,8

Source: CBC.

\*The annual data for the years between 2006 and 2011 are calculated as the simple average of the four quarters of each respective year.

**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	-	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	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
	Q3	88,0	81,8	70,5	71,9	69,9	86,3	86,6	80,7	85,4	78,4
	Q4	85,9	79,8	67,9	68,4	71,6	84,5	84,7	79,3	84,1	75,6
2014	Q1	83,5	76,9	65,6	69,2	69,7	82,4	82,8	77,3	81,0	73,3
	Q2	82,4	75,3	63,6	67,3	66,6	80,7	81,3	75,8	80,8	72,3
	Q3	80,6	74,0	62,9	66,4	62,4	79,2	81,2	73,4	80,8	71,7
	Q4	79,3	73,4	62,9	65,8	57,6	77,1	78,9	72,4	80,2	71,9
2015	Q1	78,3	72,9	60,4	64,8	60,6	76,4	77,8	72,0	79,7	72,1

Source: CBC.

\*The annual data for the years between 2010 and 2012 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 are 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 publications of the report, 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 of the aggregated indices 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)