



CENTRAL BANK OF CYPRUS

EUROSYSTEM

RESIDENTIAL PROPERTY PRICE INDEX (RPPI)

2020 Q1

Moderate increase in property prices amid increased uncertainty due to the Covid-19 pandemic

- The RPPI¹ continued its upward trend, albeit with a small deceleration compared with previous quarters. It recorded an annual increase of 1,8% compared with 2,2% in 2019Q4 and 2,8% in 2019Q3.
- The increase in house prices was smaller compared to the increase in apartment prices.
- The contained RPPI increase was due to the decrease in demand for real estate from both foreign investors and Cypriot buyers. In addition to the stricter criteria in the Cyprus Investment Program (CIP)² since mid-last year the impact of the pandemic covid-19 added to the uncertainty in the sector.
- Indicative of the uncertainty that exists in the market, which was expected to intensify in the near future, are the large fluctuations recorded by various relevant indicators. For example, Business and Consumer Surveys for the months of April, May and June 2020 show that the experts participating in the Survey expected a decrease in property prices in the following three months. However, the same index in July 2020 recorded positive property price expectations for the next three months.

Overview	2019 Q2	2019 Q3	2019 Q4	2020 Q1
Residential property price index (2010 Q1=100)	77,6	78,1	78,3	78,6
Quarterly change	0,5%	0,7%	0,3%	0,4%
Annual Change	2,8%	2,8%	2,2%	1,8%
(a) Property price index Houses (2010Q1=100)	77,0	77,2	77,4	77,4
Quarterly change	0,3%	0,3%	0,2%	0%
Annual change	2,3%	2,2%	1,5%	0,8%
(b) Property price index apartments (2010Q1=100)	79,3	80,5	80,9	82,0
Quarterly change	1,1%	1,5%	0,5%	1,4%
Annual change	4,3%	4,4%	4,1%	4,6%

Changes of the residential property price index (RPPI)

The RPPI (houses and apartments) continued its upward trend, albeit at a decelerated rate, recording an annual increase of 1,8% in 2020Q1 compared with 2,2% in 2019Q4. The deceleration observed in the increase of the RPPI is mainly due to the decrease in demand from both foreign investors and Cypriot buyers. In addition to the stricter criteria in the Cyprus Investment Program (CIP) since mid-last year, the impact of the covid-19 pandemic added to the uncertainty in the sector.

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.

House and apartment price indices registered an annual increase of 0,8% and 4,6%, respectively, in 2020Q1 compared with 1,5% and 4,1%, respectively, in 2019Q4 (**Chart 1**). The deceleration in the RPPI during the quarter under review seems to be driven by the smaller annual increases in house prices. This may be due, among other things, to the relatively lower demand from both foreign investors and local buyers, as well as the fact that houses are found in both urban and rural areas. In contrast, apartments are mainly located in the central locations of each district and therefore are more resistant to price pressures.

Residential property prices recorded an increase of 0,4% on a quarterly basis in 2020Q1 compared with 0,3% in 2019Q4. House prices registered an increase of 1,4% compared with 0,5% in the previous quarter and apartment prices remained stable compared with 0,2% increase in 2019Q4 (**Chart 2**).

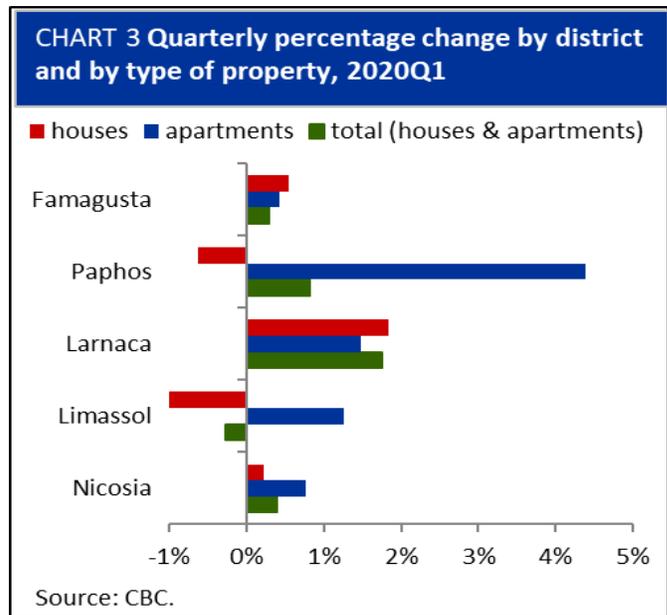
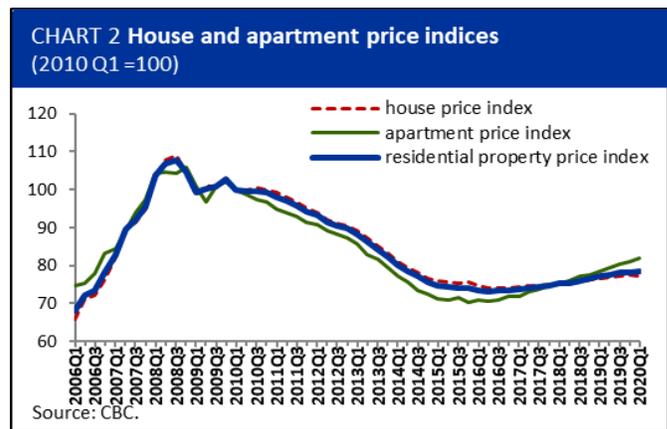
The house price index of the Cyprus Statistical Service (Cystat) recorded a quarterly increase of 2,5% and an annual increase of 1,1% in 2020Q1. The differences in the results of Cystat index and CBC RPPI are due, among other things, to the different methodologies used by each index, which lead to broadly similar but not identical results.

Price changes by district

On a quarterly basis, residential property prices increased in all districts as was the case in the previous two quarters, with the exception, however, of Limassol, which registered a quarterly decrease of 0,3%. Quarterly increase in residential prices was registered in Larnaca by 1,7%, in Paphos by 0,8%, in Nicosia by 0,4% and in Famagusta by 0,3% (**Chart 3**).

On an annual basis the RPPI increased in all districts. Residential property prices increased by 3,6% in Famagusta, 3,0% in Larnaca, 1,9% in Limassol, 1,4% in Paphos and 1,2% in Nicosia (**Chart 4**).

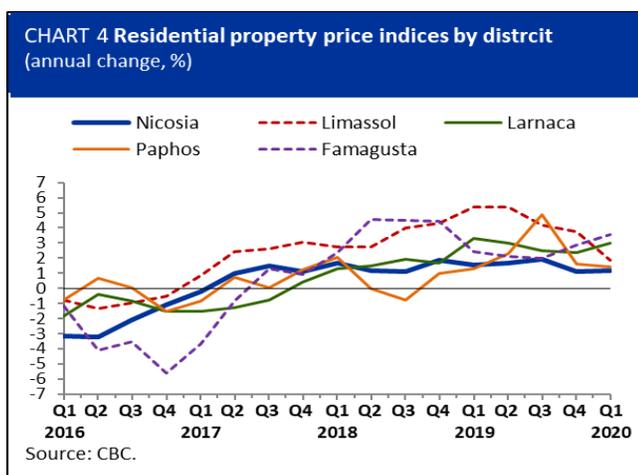
On a quarterly basis house prices decreased in Limassol and Paphos by 1% and 0,6%, respectively. Increases were recorded in Larnaca (1,8%), in Famagusta (0,6%) and in Nicosia (0,2%). On an annual basis, house prices decreased in Limassol by 0,2% and increased in all other districts except in Paphos, where house prices stabilised. Specifically, house prices in Famagusta increased by 4,1%, in Larnaca by 2,4% and in Nicosia by 0,8%.



Apartment prices on an annual basis registered for the eighth consecutive quarter an increase in all districts albeit with a deceleration recorded in Larnaca. Specifically, an increase of 5,0% was registered in Larnaca compared with 7,4% in 2019Q4. In Limassol an increase of 7,9% was recorded compared with 7,6% in 2019Q4, in Paphos 4,3% compared with 1,6%, in Famagusta 2,4% compared with 0,8% and in Nicosia

2,3% compared with 1,5%. On a quarterly basis, an increase of 4,4% was registered in Paphos, 1,5% in Larnaca, 1,3% in Limassol, 0,8% in Nicosia and 0,4% in Famagusta.

The deceleration observed in the increase in residential property prices could be mainly driven by the decrease in the demand for real estate by both foreign investors and local buyers. The decreased demand by foreign investors reflects mainly the stricter criteria imposed in the CIP in May 2019. The consequences of the pandemic Covid-19 were also added to the sector's challenges. While Cypriot buyers appeared to have given significant support to the property market in the previous quarter, domestic demand decreased in the quarter under examination due to the uncertainty caused by the pandemic which led to postponement of part of scheduled investments or other projects.



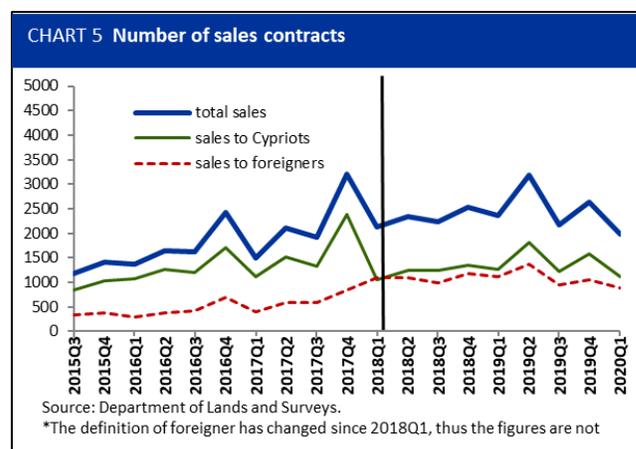
Other market indicators

The deceleration in the ongoing increase in residential property price indices observed in 2020Q1, is broadly consistent with other real estate and economic indicators.

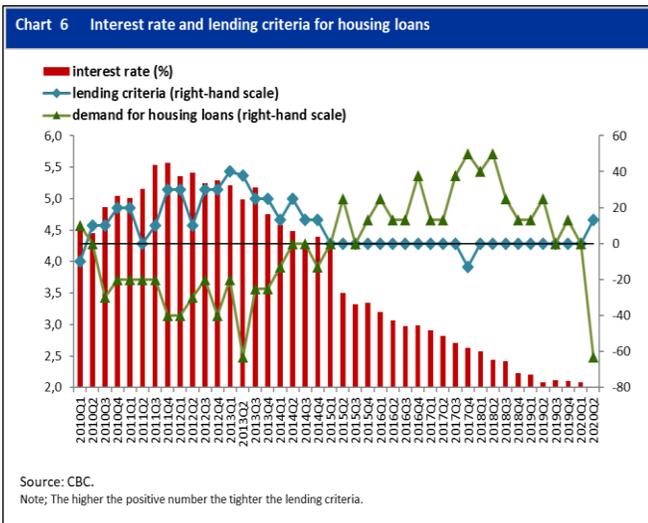
Specifically, according to the Department of Lands and Surveys (DLS), sales contracts for real estate in the period January-February 2020 have recorded an annual decrease of 7,5% compared with an increase of 17,6% in the same period in 2019. The demand from foreign investors dropped by -10,9% while the demand from local buyers dropped by -4,4%. This indicates that the negative course of demand had already begun before the outbreak of the coronavirus (**Chart 5**).

In the first half of 2020 sales contracts decreased by 41,2% compared with an increase of 24,4% in the first

half of 2019. This significant decrease is due to the demand by foreign investors but also by local buyers since the sales contracts filed in the first half of 2020 from both categories showed an annual decrease of 44% and 38,9%, respectively, compared to an increase of 13,5% and 34,8%, respectively, in the first half of 2019 (**Chart 5**). This downward trend, which continued to be recorded in foreign investors' sales contracts, is partly due to the application of stricter criteria in the CIP since May 2019, but mainly, due to the effects of the pandemic which also influenced Cypriot buyers' sales contracts. Specifically, the effects on the economy by the restrictive measures implemented in the country due to the coronavirus pandemic, including the shutdown of airports that prevented interested foreign investors from visiting Cyprus, began in mid-March. The reduced demand of all local and foreign buyers (-59,9%) in the second quarter of 2020 indicates the impact of the restrictive measures for the spread of the pandemic in the real estate sector.



According to data published by Cystat, construction activity (category buildings) recorded an annual increase of 0,5% in 2020Q1 registering a significant slowdown compared with previous annual increases. The construction activity seems to have inevitably been affected by the restrictive measures due to the pandemic. This slowdown is expected to be even more pronounced in the second quarter of 2020 where the restrictive measures continued for a longer period.



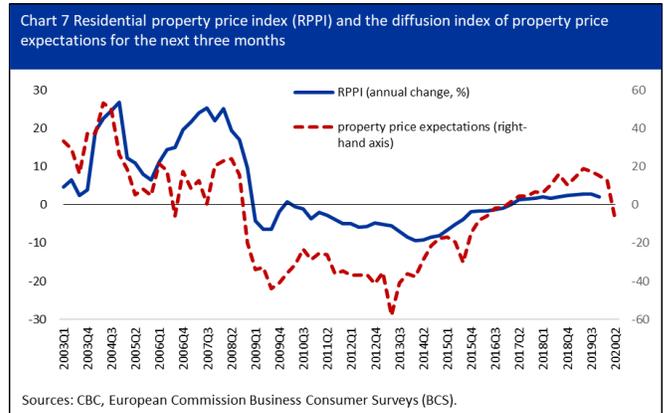
In 2020Q2 unemployment in the construction sector increased by 7,6% for the first time since 2014Q1, due to the restrictive measures. Specifically, according to Cystat, the number of unemployed workers in construction reached an average of 1.576 in 2020Q2 compared to 1.465 in 2019Q2.

Authorised building permits for all types of real estate, which are considered to be a leading indicator of construction activity, recorded a considerable annual decrease of 5,6% in 2020Q1 compared with 2019Q1. The number of authorised building permits for residential properties was 1.101 in 2020Q1 compared with 1.166 in the same quarter of 2019.

According to CBC’s Monetary and Financial Statistics³, the interest rate for housing loans⁴ averaged 2,08% in 2020Q1 compared with 2,10% in 2019Q4. It still remains at a very low level compared with available historic data. (Chart 6). According to the CBC’s Bank Lending Survey⁵, demand for housing loans by households registered a significant decrease compared to previous quarters. Based on the same survey, lending criteria in 2020Q2 became stricter after several quarters that remained stable (Chart 6).

According to Business and Consumer Surveys (BCS), the sector shows the first signs of deceleration in 2020Q1, after several quarters of a continuous upward

trend. Property price expectations in the next three months averaged at -7,8 in 2020Q2, compared with 19 in 2019Q2 (Chart 7). It is noted that the index, which records the views and expectations of 120 entrepreneurs in the construction sector, was negative in all three months of the second quarter. At the same time, the index of employment expectations in the next three months in the construction sector decreased to an average 2,8 in 2020Q2 compared with 11,9 in 2019Q2.



In conclusion, RPPI continued its upward trend albeit with a slight deceleration, despite the fact that the sector faces significant problems that affect the demand for real estate by both foreign investors (due to the stricter criteria in CIP and the impact of covid-19) and local buyers (due to the effect of the pandemic). The real estate market in the period under consideration is mainly supported by local buyers, while the extent to which they will be affected by the pandemic is still unknown. The measures announced by the government to support households and businesses and the CBC’s measures to facilitate borrowers are expected to ease the effects of the pandemic by increasing demand and recovering economic activity in the future. This will also help the real estate sector to recover from its low levels of activity during the pandemic period. The situation, of course, remains uncertain.

³ <https://www.centralbank.cy/el/publications/monetary-and-financial-statistics>

⁴ Floating rate and up to one year fixed.

⁵ <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	Residences by type			Residences by district				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	-	78,8	77,1	77,2	83,8	70,4	77,6	71,5	77,8
2020	Q1	82,0	77,4	77,7	84,5	72,0	78,1	72,7	78,6

Source: CBC.

*The annual data for the years between 2006 and 2018 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	Apartments					Houses				
		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	-	80,3	90,8	69,0	69,5	61,7	75,9	81,3	70,9	81,3	73,8
2020	Q1	81,4	94,9	70,8	71,9	62,2	76,2	80,8	72,4	80,7	75,4

Source: CBC.

*The annual data for the years between 2010 and 2018 are calculated as the average of the four quarters of each respective 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	-	4,2	2,0	1,6	4,7	2,8	2,5	2,3	2,6
2020	Q1	4,6	0,8	1,2	1,9	3,0	1,4	3,6	1,8

Source: CBC.

*The annual data for the years between 2007 and 2018 are calculated as the annual change between the average level of the index for the four quarters of each respective year and the previous 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
2019	Q4	0,3	2,1	-0,2	-3,0	-0,5	0,1	0,4	0,3	-0,9	1,0
2020	Q1	0,8	1,3	1,5	4,4	0,4	0,2	-1,0	1,8	-0,6	0,6

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