CENTRAL BANK OF CYPRUS

EUROSYSTEM

HOUSE PRICE INDEX

3the 2023 quarter

Housing prices in Cyprus continued their upward trend during the third quarter of 2023, especially in apartments.

• During the third quarter of 2023 the Central Bank of Cyprus (CBC) House Price Index (CPI)1 (houses and apartments) continued to record, both on an annual and quarterly basis, increases compared to previous quarters (Table 1).

• According to the sales document data of the Department of Cadastre and Land Surveying (DRC), the number of transactions in the real estate market in the third quarter of 2023 continued to record an increase on a year-on-year basis. The increased demand comes from both domestic buyers (among others for rental purposes (buy-to-let)) as well as foreign buyers mainly within the framework of the "Strategy for Attracting Companies to Activate and/or Expand their Activities in Cyprus" (headquartering policy) and other investments.

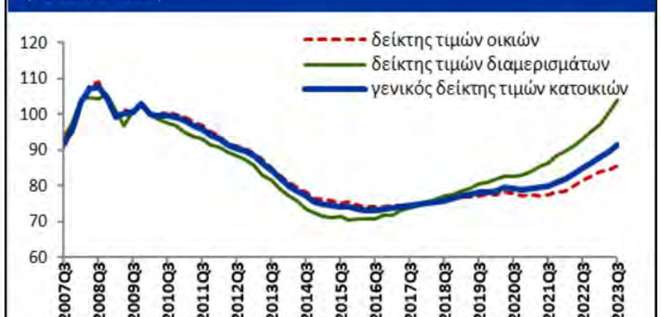
• Regarding construction activity, the number of residential buildings for which building permits were approved registered a decrease in the period January-August 2023 compared to the corresponding period in 2022. The continuation of this trend seems to be related to the continued increased construction costs but also lending.

• Based on the above, the increased demand, in relation to the limited supply of new properties on the market, appears to be the most important factor contributing to the increase in the CPI in its third quarter 2023, as in previous quarters.

• Until the third quarter of 2023, the increase in key European Central Bank (ECB) interest rates and the cost of borrowing for housing purposes as well as the consequent reduction in mortgage demand do not appear to have affected domestic real estate demand to a substantial extent, which continues to remain on an upward trajectory.

TABLE 1 **Summary**	Q4 2022	Q1 2023	Q2 2023	Q3 2023
1. House Price Index (1st Quarter 2010=100)	**86.3**	**88.1**	**89.4**	**91.4**
Quarterly change	1.6%	2.1%	1.5%	2.2%
Annual change	6.6%	7.7%	7.4%	7.6%
1.(a) House Price Index (1st Quarter 2010=100)	**82.5**	**83.9**	**84.5**	**85.6**
Quarterly change	1.1%	1.7%	0.7%	1.4%
Annual change	5.6%	6.6%	5.6%	4.9%
1.(b) Apartment Price Index (1st Quarter 2010=100)	**95.1**	**97.3**	**100.3**	**103.9**
Quarterly change	2.1%	2.3%	3.1%	3.6%
Annual change	7.7%	8.4%	10.1%	11.5%

ΔΙΑΓΡΑΜΜΑ 1 **Δείκτες τιμών οικιών και διαμερισμάτων** (2010 Q1 =100)



Πηγή: ΚΤΚ.

1 The CPI of the CBC is calculated on the basis of estimates of real estate market prices, with a statistical methodology that is widely used in the international literature and partially takes into account the developments of the previous quarters, through normalized regression coefficients methodology: (see relevant https://www.centralbank.cy/images/media/pdf_el/Methodology_GR__.pdf). Therefore, there is likely to be a small relative time lag in fully reflecting the developments at turning points of the Index, in the time point but also in the intensity of the change in the course of the market.

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1. Changes in the general housing price index

The **CPI** (houses and apartments) by the third quarter of 2023 registered a growth of 2.2% compared to a growth of 1.5% in the previous quarter.

The rise in the CPI during the third quarter of 2023 compared to the previous quarter comes from a 1.4% increase in house prices and a 3.6% increase in apartment prices. **(Chart 1, p.1, Table 1, p.1).**

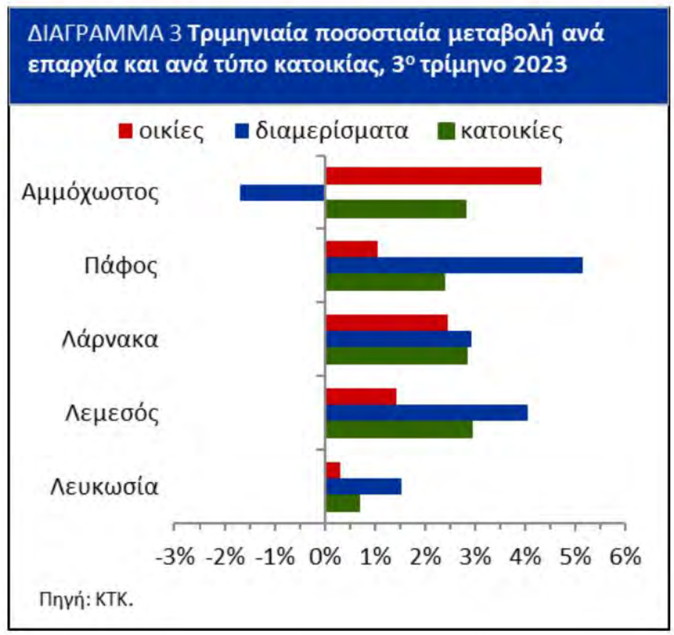
On a year-over-year basis, house prices rose 7.6% in the third quarter of 2023, compared to 7.4% in the second quarter of 2023. The apartment prices recorded an increase 11.5% and of houses 4.9% **(Chart 2, Table 1, p.1)** during the quarter under review.

The **increased demand for real estate** in relation to insufficient supply seems to be the major factor contributing to CPI growth in the third quarter of 2023. According to data from the CPI sales documents, demand still remains at high levels. The annual increase in sales documents comes both from foreign buyers, due, among other things, to the "Strategy for Attracting Companies to Activate and/or Expand their Activities in Cyprus" (headquartering policy), and from domestic demand

real estate. The domestic market, despite continued rises in mortgage rates as a result of the ECB's tight monetary policy on funding conditions, does not appear to have been materially affected until the third quarter of 2023. With construction costs on track stabilization in 2023 after the significant increases that preceded it, the increases in house prices result mainly from increased demand combined with subdued supply.

2. Price changes by province

Housing prices on a quarterly basis saw an increase in all provinces for the third time consecutive quarter and during the third quarter of 2023. Specifically, an increase of 0.7% was recorded in Nicosia, 2.9% in Limassol, 2.8% in Larnaca, 2.4% in Paphos and 2.8% in Famagusta. **(Chart 3, Table 5, p.** 7).



In terms of annual changes in CPI by province, an increase was recorded in all provinces as well. Specifically, in Nicosia house prices increased by 3.9%, in Limassol by 10.1%, in Larnaca by 10.5%, in Paphos by 7.6% and in Famagusta by 6.4% **(Chart 4, p.3, Table 4, p.7).**

The relatively high growth rate of house prices in the coastal provinces seems to stems from the demand from foreign buyers and investors mainly in the context of headquarters policy.

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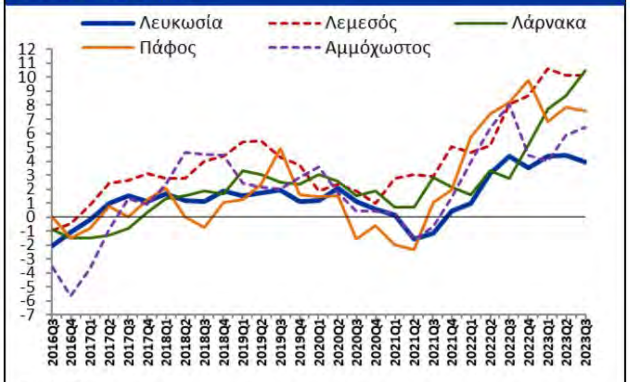
ΔΙΑΓΡΑΜΜΑ 4 **Δείκτες τιμών κατοικιών ανά επαρχία**
(ετήσια μεταβολή, %)



Πηγή: ΚΤΚ.

House prices, on a quarterly basis, recorded increases in all provinces. Specifically, in Nicosia they increased by 0.3%, in Limassol by 1.4%, in Larnaca by 2.5%, in Paphos by 1.1% and in Famagusta by 4.3%. On a year-over-year basis, house prices also recorded growth in all provinces. Specifically, house prices in Nicosia, Limassol, Larnaca, Paphos and Famagusta increased by 3.8%, 5.1%, 8.3%, 3.1% and 9.5%, respectively.

Apartment prices on a quarterly basis recorded an increase in all provinces except Famagusta where a decrease was recorded. Specifically, they increased by 1.5% in Nicosia, 4.0% in Limassol, 2.9% in Larnaca, 5.2% in Paphos and a decrease of 1.7% in Famagusta. On an annual basis, the prices of of apartments increased in all provinces except Famagusta. Specifically, in the third quarter of 2023, in Nicosia they increased by 4.6%, in Limassol by 14.9%, in Larnaca by 13.4%, in Paphos by 18.5%, while in Famagusta a decrease of 1.8% was recorded, compared to the corresponding quarter of 2022. It is noted that the available number of observations for the apartments in Famagusta is the smallest of all the provinces, therefore the specific index shows greater variability.

3. Changes in other relevant indicators and elements

Indicators related to the real estate market they continue to capture its dynamics demand during the third quarter of 2023 as well as the limited supply of residential properties at the market. In addition, construction costs continue to stabilize, after the big increases that preceded it.

According to data from TKKH, the **stores documents** registered an increase of 14.4% on an annual basis in the third quarter of 2023 (3,830 compared to 3,347 in the third quarter of 2022), reflecting increased demand for real estate **(Chart** 5). This increase in sales documents came from from both foreign and domestic buyers, with domestic buyers still accounting for the largest share of the market. Specifically, during the quarter under review, there was an increase of 13.7% on an annual basis in the number of properties sold to foreign buyers (1,712 compared to 1,506 in the third quarter of 2022, **Chart** 5), while the no properties sold to domestic buyers increased by 15% year-on-year (2,118 compared to 1,841 in the third quarter of 2022, **Chart 5).** Demand from foreign buyers is mainly attributed to the headquarters policy, which attracts foreign professionals from countries such as Israel, Ukraine, the United Kingdom, Lebanon, and Belarus, while the demand from domestic buyers is due, among other things, to investments for rental purposes (buy -to-let).

ΔΙΑΓΡΑΜΜΑ 5 **Αριθμός πωλητήριων εγγράφων**

Πηγή: Τμήμα Κτηματολογίου και Χωρομετρίας, υπολογισμοί ΚΤΚ.
*Από το 2018Q1 έχει αλλάξει ο ορισμός του αλλοδαπού, ως εκ τούτου τα στοιχεία είναι μη-συγκρίσιμα με προηγούμενες περιόδους. Η διακεκομμένη γραμμή χωρίζει τις δύο περιόδους.

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As expected, the single restrictive monetary policy of the ECB has led to an increase in **mortgage interest rates,** thus increasing the cost of borrowing for existing and potential new customers of domestic financial institutions. This fact has affected the demand for new mortgages. According to the latter

Monetary and Financial Statistics of KTK2 , the new loans for the purchase of a residence for the period January – September 2023 decreased significantly by 20% on an annual basis (€746.2 million compared to €932.4 million in the corresponding period of 2022). Also, according to the same statistics, the home loan rate3 averaged 4.4% in the third quarter of 2023 compared to 4.3% in the second quarter of 2023 and 2.7% the corresponding period of 2022 **(Chart** 6). Also, according to the latest *CBC Bank Grants Survey4* , **funding criteria** became more stringent compared to the previous quarter, while the same survey confirms the continued decline in demand for loans **(Chart** 6). However, the aforementioned developments do not appear to have a substantial negative impact on overall real estate demand until the third quarter of 2023.

ΔΙΑΓΡΑΜΜΑ 6 **Επιτόκιο, κριτήρια παραχώρησης και ζήτηση στεγαστικών δανείων**

Πηγή: ΚΤΚ.
Σημείωση: Αύξηση στα σωρευτικά κριτήρια χρηματοδότησης/ζήτηση για δάνεια σημαίνει αυστηρότερα κριτήρια/μεγαλύτερη ζήτηση.

ΔΙΑΓΡΑΜΜΑ 7 **Δείκτης Τιμών Κατοικιών (ΔΤΚ), προσδοκίες τιμών ακινήτων για τους επόμενους τρεις μήνες και κατασκευαστικά υλικά**

Πηγές: ΚΤΚ, ΕΟΣ Ευρωπαϊκής Επιτροπής, ΣΥΚ.

From the figures so far available from the Cyprus Statistical Service (CYC), the **number of residential buildings for which building permits were approved,** and which is a preliminary indication of construction activity, recorded a 7.4% decrease from 3900 in the January-September period of 2022 to 3610 in the corresponding period of 2023. Year-on-year decreases in the number of residential buildings for which a building permit is issued have been observed since the first quarter of 2022, demonstrating the restrained supply, which is expected to continue in the coming months due to increased construction costs of financing residential buildings.

and

Specifically, according to data from *the Economic Situation Surveys (ESS)* of the European Commission, **an indicator of construction activity** during the previous three months, recorded a deterioration during the third quarter of 2023 (-6.4%) compared to the second quarter of 2023 (-1.8%) indicating the limited supply of real estate in the market.

The **price index of construction materials,** which is published by SYK, records consecutive monthly declines over the past seven months, up to and including September of 2023, following with a time lag, the international trend of reductions in the prices of basic construction materials. On an annual basis,

[2] https://www.centralbank.cy/el/publications/monetary-and-financial-statistics

[3] Floating rate and initial determination period up to one year.

[4] https://www.centralbank.cy/el/publications/surveys/bank-lending-survey

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slow increases in the price index of construction materials are observed from the second quarter of 2022 reaching 0.2% in the third quarter of 2023 **(Chart 7, p.4).** The trend of this index foreshadows further stabilization in the prices of construction materials in the near future or reductions from the high levels that preceded it due to geopolitical developments.

According to the EOS of the European Commission, during the third quarter of 2023, the convergence of opinions among survey participants on increases in real estate prices in Cyprus in the next three months **(Chart 7, p.4).** Specifically, the index of home price expectations over the next three months averaged 69.7 in the third quarter of 2023, recording a fifth consecutive quarter of decline from the all-time highs of

second quarter of 2022. It thus becomes clear that the a majority of the participants in said surveys expect that the increases in real estate prices will continue compared to those who expect either a stabilization or a decrease, although the percentage of the former has decreased compared to the previous quarters. In addition, based on the performance of the construction sector analyzed earlier, a marginal decline in employment prospects in the construction sector is expected in the coming months. In particular, the index of expectations for employment in the real estate sector in the next three months recorded a slight deterioration

reaching -2.8 on average in the third quarter of 2023.

4. Concluding remarks

During the third quarter of 2023, house prices continued their upward trend, mainly as a result of increased demand for property, coming from both domestic and foreign buyers. With domestic demand remaining at relatively high levels despite the

rise in housing interest rates and the consequent reduction in housing loans, and with demand from foreigners registering significant increases mainly due to the headquarters policy, the

number of sales documents continues to register an increase. With construction material prices continuing to stabilize at record highs due to geopolitical developments and a decline in new residential construction for which

building permits were approved, the increases in housing prices mainly reflect the significant increase in demand in relation to the restrained supply of residential buildings.

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TABLE 2 House price indices by type and by province

Year*	Quarter	Residences by type		Residences by province				General House Price Index
		Apartments Houses 98.2		L/sia L/sos L/ka Paphos Am/stos				
2010	-	100.1 93.3 97.2 89.0		99.9	99.0 99.5 100.3 94.4 94.9		99.5	99.6
2011	-	91.8 82.5 86.1 74.7		98.6	90.8 87.3 86.5	95.4	94.4	96.3
2012	-	78.8		94.4	79.5 79.5 72.1	87.5	87.9	91.2
2013	-			87.8		83.3	80.0	85.2
2014	-			80.3		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	-	82.6	77.6	78.1	85.3 72.0	77.8	72.6	79.0
2021	-	85.9	77.6	77.7	88.2 73.1 80.0	77.5	72.5	80.0
2022	-	92.3	80.7	94.1 75.5 82.0 100.5 79.3		83.5	76.6	84.1
2023	Q1	97.3	83.9	83.3 101.9 81.5 83.9		86.5	78.8	88.1
	Q2	100.3	84.5	104.9 83.8		88.8	80.4	89.4
	Q3	103.9	85.6			90.9	82.6	91.4

Source: KTK.

*Annual figures are calculated as the average of the four quarters of the corresponding year.

TABLE 3 Apartment and House Price Indices by Province (annual and quarterly data, 2010Q1 = 100)

Year*	Quarter	Apartments			Houses				
		City City City City Paphos City 97.0 82.7 76.9 71.7 67.2			L/sia L/sos L/ka Paphos Am/stos				
2010	-	99.3 97.8 97.1 99.0 91.8	64.2	97.1	100.1 99.4 100.4 101.4 98.5 95.1 96.8				100.1
2011	-	88.7 95.2 88.3 82.2 89.0	66.0	83.1	99.1 94.1 91.5 88.7 90.7 87.3 87.5				97.2
2012	-	82.8 71.7 81.5 74.9 63.8	64.2	76.8	82.1 86.7 79, 8 81.1 74.7 80.7 75.8				89.7
2013	-	76.6 74, 0 61.0 75.0 74.6	67.6	71.8	77.2 71.9 79.3 73.9 76.1 70.8 78.9				81.4
2014	-	61.3 77.0 78.6 61.8 78.9	69.5	64.1	73.9 76.9 69.5 80.2 74.6 78 ,4 70.1				72.3
2015	-	84.6 63.5 80.3 90.8 69.0	70.0	60.3	79.8 75.9 81.3 70.9 81.3 76.4 81.5				71.8
2016	-	82.2 96.3 71.9 84 ,0 100.2	71 .7	57.8	72.0 80.9				69.4
2017	-	75.7 87.6 108.2 80.3 89.9	79.0	57.4					69.4
2018	-	115.8 86.3 91.1 120.5	84.8	59.5					72.4
2019	-	89.8 92.5 125.3 92.5	90.3	61.7					73.8
2020	-		95.0	62.0					75.7
2021	-			65.2	74.9	83.6	72.4	79.7	74.5
2022	-			71.0	76.6	87.7	73.9	85.3	77.8
2023	Q1			71.2	78.5	92.7	76.9	87.3	81.0
	Q2			72.9	79.9	92.3	78.2	88.1	82.5
	Q3			71.7	80.2	93.6	80.1	89.0	86.1

Source: KTK.

*Annual figures are calculated as the average of the four quarters of the corresponding year.

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TABLE 4 **Housing price indices by type and by province** (annual change, %)

Year*	Quarter	Residences by type: Apartments	Houses	Residences by province: L/sia	L/sos	L/ka	Pafos	Am/stos	General House Price Index
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	-	3.5	0.7	1.2	1.8	2.2	0.2	1.5	1.5
2021	-	4.1	0.0	-0.5	3.4	1.6	-0.4	-0.2	1.2
2022	-	7.4	3.9	3.0	6.6	3.2	7.8	5.7	5.2
2023	Q1	8.4	6.6	4.3	10.6	7.7	6.8	4.0	7.7
	Q2	10.1	5.6	4.4	10.1	8.7	7.9	5.9	7.4
	Q3	11.5	4.9	3.9	10.1	10.5	7.6	6.4	7.6

Source: KTK.

*For the annual data, the annual changes of the average of the four quarters of the corresponding year are recorded.

TABLE 5 **Apartment and house price indices by province** (quarterly change, %)

Year Quarter	Apartments: L/sia	L/sos	L/s	Paphos	Mon/sts	Houses: L/sia	L/sos	L/ka	Paphos	Am/stos
2021 Q1	0.5	1.1	1.9	2.2	3.0	-0.4	1.6	0.3	-0.6	-1.5
2021 Q2	0.5	1.2	0.6	0.9	1.1	-1.3	1.0	-0.1	-0.2	-2.7
2021 Q3	0.7	0.8	0.7	1.7	-0.2	-0.3	-0.3	2.1	1.5	0.7
2021 Q4	0.8	3.4	0.3	4.5	3.4	1.4	0.7	-0.5	-0.6	2.3
2022 Q1	1.3	1.4	0.8	2.7	3.9	0.1	0.6	-0.2	3.3	2.1
2022 Q2	1.6	0.8	3.5	1.0	2.5	1.2	2.3	1.1	1.9	-0.4
2022 Q3	1.1	3.2	2.6	3.3	2.6	1.3	2.8	0.6	2.6	2.3
2022 Q4	0.2	3.6	2.3	1.4	-3.7	0.3	1.2	1.7	2.2	0.1
2023 Q1	1.4	2.4	3.5	4.3	1.2	1.3	2.8	2.2	-1.1	2.9
2023 Q2	1.4	4.0	4.1	6.5	2.5	1.8	-0.4	1.7	0.9	1.9
2023 Q3	1.5	4.0	2.9	5.2	-1.7	0.3	1.4	2.5	1.1	4.3

Source: KTK.

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Notes:

The General CPI and other related indicators and sub-indices are prepared by the Real Estate Monitoring Unit of the CBC.

The data from 2006 to 2009 were collected retrospectively from the databases of a number of banking institutions, while from 2010 onwards the data are sent by the member banks of the Cyprus Banks Association (Bank of Cyprus, Hellenic Bank, Alpha Bank, National Bank of Greece, Astro Bank, Cyprus Development Bank, Société Générale, Ancoria Bank and Eurobank) and KEDIPES in a standardized format in the CBC's automated assessment management system.

The contracting credit institutions receive the relevant information from real estate appraisers for the purposes of granting or restructuring loans, or real estate revaluations. The estimates come from more than 100 valuation offices worldwide, contributing to the impartiality of the indicators. The figures are representative of the entire housing market in Cyprus, since they cover the entire free territory of the Republic of Cyprus (provinces of Nicosia, Limassol, Larnaca, Paphos and Famagusta) and refer to all types of housing (houses and apartments).

All the calculated indices have been weighted so that the first quarter of 2010 corresponds to the value 100. To calculate the housing price indices, the two price indices per type, ie houses and apartments, are used.

Change in the weighting method of the indices: From the first quarter of 2015 the weighting method has changed and the house and apartment price indices are now weighted based on the sum of the value of individual properties over the last four quarters, so that they give a more representative picture of the distribution houses and apartments in the Cypriot real estate market. In previous editions the indices were weighted based on the number of observations (estimates) in the last four quarters. In the same way, to calculate the General House/Apartment Price Index, the provincial House/Apartment Price Indices, weighted by the value of the observations during the last four quarters, are used. This change in the weighting method of the indicators was a recommendation of technocrats of the International Monetary Fund, as part of the evaluation of the CBC index in the context of the implementation of the Memorandum of Cooperation. The assessment concerned the possible use of the index for purposes of upgrading the values of the General Assessment (1.1.2013) made by the Department of Cadastre and Land Surveying.

As a result of the change in how the indices are weighted, the overall house price index for both the historical (2006-2009) and new series (2010 onwards) has been revised. The new series have also revised the general house and apartment price indices, as well as the provincial house price indices. It is noted that the above changes did not significantly alter the indicators and especially their rates of change.

Also, in the first quarter of 2019 the indices were revised from the first quarter of 2017 onwards, since observations that were deemed not to reflect the market value after verification were left out of the sample, so as to continue the sequence with the existing construction methodology of the Index according to international standards. The above changes also did not significantly differentiate the indices and especially their percentages of change.

The utilitarian method (hedonic method) was followed for the compilation of the indicators. In case the number of quarterly data per province is not sufficient to apply the utilitarian method, the simple average method is followed. A detailed explanation of the index's construction methodology as well as other information is available on the website of the Central Bank of Cyprus, https://www.centralbank.cy/images/media/pdf_el/Methodology_GR__.pdf

This bulletin is available at: https://www.centralbank.cy/el/publications/residential-property-price-indices

For further information and/or clarifications contact the Real Estate Monitoring Unit of the CBC at the e-mail address RealEstate@centralbank.cy.

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