Executive Summary

The current economic crisis in Cyprus revealed the need for the development of tools for monitoring changes in the domestic property market. Developments in the real estate market and in particular the movements of property prices are highly relevant for both private sector decisions (e.g. investors, commercial banks) and policy-making (e.g. government, central banks). The systematic measurement of property prices via the construction of specialised indices can, inter alia, (i) lead to more informed decision-making by firms and households; (ii) provide commercial banks with valuable tools for identifying exposures of their loan portfolios and assessing the levels of their capital buffers and possible needs; (iii) assist policy-makers in the conduct of macro-prudential analysis and timely interventions as well as in the design of informed taxation schemes. In particular, this paper:

- presents details on the construction of a new database, using newspaper advertisements of monthly prices and related information about various types of property (houses, flats, plots etc) in different districts of Cyprus over the post-2000 period;
- propose scientifically appropriate models for the estimation of property price indices that can provide a measure of the quarterly change in property prices, together with an assessment of the reliability of this measure;
- propose econometric models for the analysis of the factors (property characteristics and macroeconomic variables) which affect property prices;
- propose econometric models for the systematic estimation of projections for the future evolution of property prices.