

Historical decomposition of the Cyprus Residential Property Prices

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Abstract

The aim of this paper is to examine the main driving force(s) of residential property prices during various periods, via historical decomposition. This is achieved by establishing the contribution of different structural shocks to the historical dynamics of the residential property price index. For every quarter in the sample, the growth rate of the residential property price index is decomposed into its different components in order to assess the driving forces behind residential property prices fluctuations. In effect, an insight into possible disconnection of property prices and economic fundamentals could potentially also be gained, thus providing indications of possible vulnerabilities building up in the sector, which would in turn impose risks on financial stability. Furthermore, emphasis is given on the recent surge in construction costs which is shown to play a predominant role in the recent residential property price dynamics.

Keywords: Construction cost; Residential Property Price Index (RPPI); Historical Decomposition

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