EUROPEAN CENTRAL BANK

EUROSYSTEM

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Commercial property prices indices for the euro area

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- While we have been working in this workshop to further a handbook on commercial property prices, there is a real and immediate need for actual data for the EA and EA countries.

- ESCB, ESRB, SSM, national supervisory and macroeconomic analysts are all clamouring for more, better, faster data NOW.

- This session aims to give a flavour of work that is going on at present at the ESCB to fulfill these immediate needs.

- The session will cover efforts at the EU level (ECB, IPD) and one example of developments at the national level (Deutsche Bundesbank / replacing vdp)

- Finally a longer-term vision (ECB)

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Commercial property prices indices for the euro area – ECB experimental indicators of commercial property prices

Overview

1	Analytical Relevance of CPP Indicators

2	Background

3	Data Sources

4	Data Requirements and Issues

5	Wrap Up and Outlook

- Real estate markets: major impact on macroeconomic developments / financial stability → adequate & timely information needed for policy makers

- Changes therefore valuable input for monetary and financial stability analysis

- <u>Residential Property Prices (RPPs)</u>
  - Household wealth effects – saving / spending decision

- <u>Commercial Property Prices (CPPs)</u>

  - may change because of monetary policies / impacts, but can also propagate monetary policy actions to growth or inflation
  - Indirect influence through effects on investment decisions
  - Collateral / loan quality
  - Exposure to risk

- Change in property prices influences health and soundness of financial sector

- Work-stream in conjunction with ECBs Working Group on General Economic Statistics – data are responsibility of the whole ESCB

- Also impetus from the G20 Data gaps exercise

- Aim: Comparable and complete data set for the EU / euro area : quarterly indices, available around T+90

- Breakdowns: office, retail, industrial, residential (when owned for rental market)

- Issues with heterogeneity in collection, compilation and sources of data (only some NCBs directly involved)

- Current data: Designated as experimental – therefore should be seen as indicative rather than explicit. Work in progress

Data Sources

- Data collectable at various stages by various entities → quality / comparability affected

Commercial Property Prices
Transaction based*:   • Ideal, representing current market   <u>Problems:</u>   • CP = Highly heterogeneous and infrequently traded   • Property markets = highly illiquid during financial/ economic stress
Valuation based*:   • Majority of CPP data   • Sources = private organisations → rather designed for performance measurement   <u>Problems:</u>   • Valuation errors, smoothing issues, varying coverage, short time span
Other expert judgement   • Market professionals judge fictitious property (e.g. Jones Lang Lassalle)   • Very timely data   <u>Problems:</u>   • Fictitious, prime sector only
Financial market data   • Real Estate Trusts containing CPs as assets   • Inferring of CPPs, available in real time   <u>Problem:</u>   • Movements in assets not only due to CPPs, assets do not represent whole market   * Transaction based & valuation based linked to use partial info from former to improve latter.

- ECB requirement = EA and EU quarterly index, 90 days timeliness or better, country sub-indices

- **Experimental hybrid indicator**
  - Available national indicators, if preferred indicator, e.g. Transaction based.
  - Remaining countries, data obtained from commercial data provider
  - EA/EU aggregates are GDP weighted across the countries.

- **National Indicators:**
  - **Transaction based** (Currently : DK, DE,IT, GR, PL due end 2014)
  - **Valuation based**, ideally quarterly rather than interpolated
  - Challenge : comparability across countries

- **Commercial Data**: IPD (Investment Property Databank)
  - Directly held commercial real estate assets
  - Valuation based or transaction-linked compilation method
  - Challenges: market illiquidity$\rightarrow$ control for transaction number
    - volume changes $\rightarrow$ keep sample constant
    - coverage for several countries
    - not quarterly, but annually interpolated data
   - mostly prime market segment

Sources

Table 1: Source data used in the compilation of euro area and EU indicators of commercial property prices

Country	Source	Original series frequency	Extrapolation method
Belgium	IPD (valuation based)	Annual	Linear extrapolation
Germany	BulwienGesa AG	Annual	Linear extrapolation
Estonia	.	.	.
Ireland	IPD (transaction linked)	Quarterly	None
Greece [a]			
Spain	IPD (valuation based)	Annual	Linear extrapolation
France	IPD (transaction linked)	Biannual	Linear extrapolation
Italy	Banca d'Italia	Quarterly	None
Cyprus	.	.	.
Latvia	.	.	.
Luxembourg	.	.	.
Malta	.	.	.
Netherlands	IPD (transaction linked)	Quarterly	None
Austria	IPD (valuation based)	Annual	Linear extrapolation
Portugal	IPD (valuation based)		
Slovenia	.	.	.
Slovakia	.	.	.
Finland	.	.	.
Bulgaria	.	.	.
Czech Republic	IPD (valuation based)	Annual	Linear extrapolation
Denmark	Danmarks Statistik	Quarterly	None
Croatia	.	.	.
Lithuania	.	.	.
Hungary	IPD (valuation based)	Annual	Linear extrapolation
Poland [a]	IPD (valuation based)	Annual	Linear extrapolation
Romania	.	.	.
Sweden	IPD (transaction linked)	Annual	Linear extrapolation
United Kingdom	IPD (transaction linked)	Monthly	None

a) Data from the national central bank are expected to become available by end 2014.

- Representative sample of properties (Ideally transactions; fallback appraisals. Mix both?) per country

- Further breakdowns
  - urban and non-urban
  - different property types

- Control for changes in quality of properties and in sample composition to allow for price index compilation

- Index compilation can be problematic due to shifts in composition of real estate properties (frequency determined by turnover of markets), CPP = quarterly / annually

- Conceptual overlap of RPP and CPP in rental segment (Non-owner occupied RP = income generating CPP)

Chart 1: euro area Residential and Commercial property prices

(annual percentage changes)
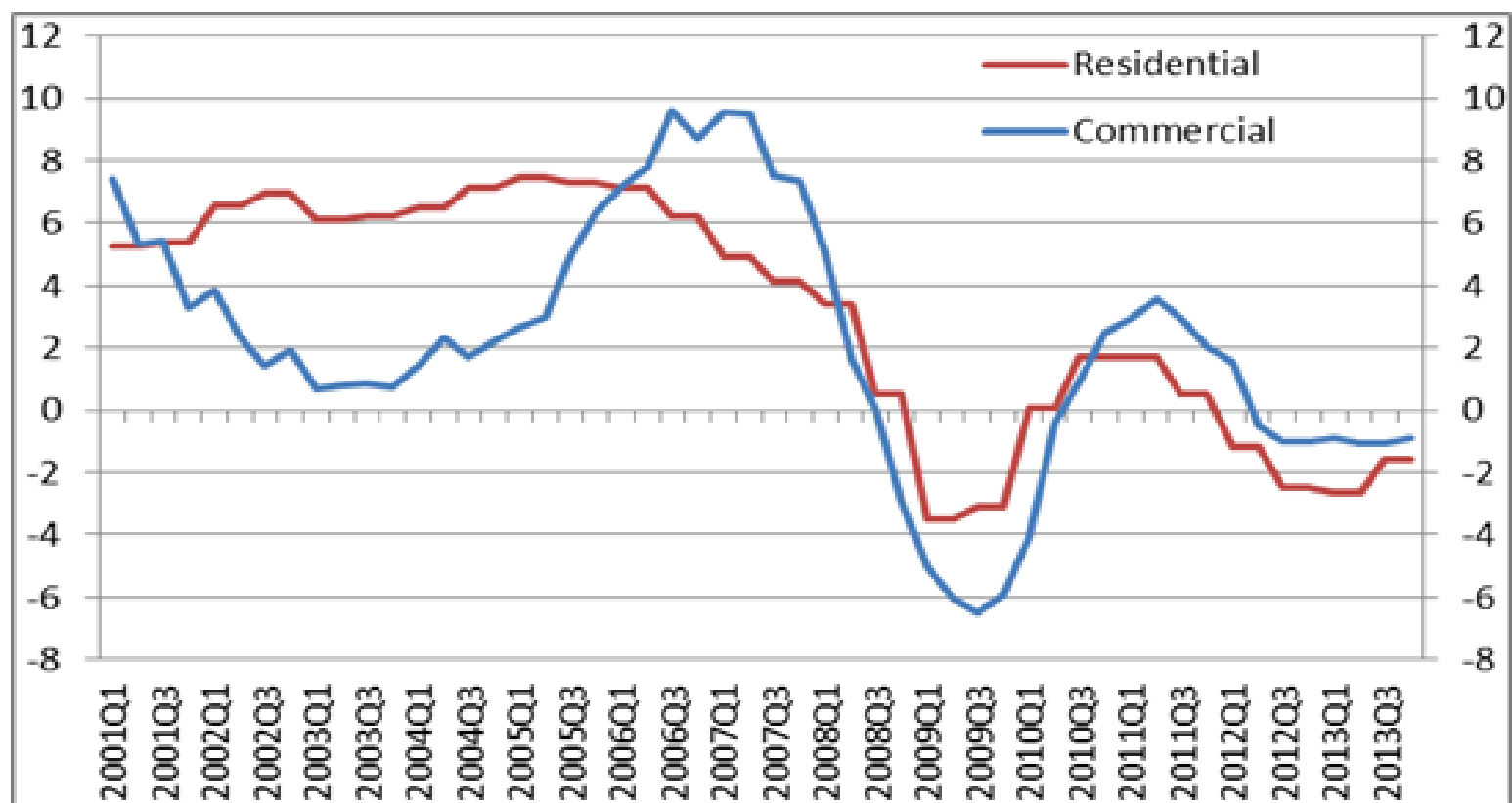
Source: ECB, WG GES

- Major issues in comparability and harmonisation → elaborate metadata needed

- Main Research objectives:
  - Delineation and coverage of CPP's
  - Alternative data sources
  - Improved index compilation, quality adjustment, interpolation methods
  - Indicators for property type breakdown
  - Weighting schemes representative of market structure. Weighting for transactions, for existing capital stock.

- Investigating measurement of property still under development

- Turnover indicators, vacancy rates, etc. required to support analysis

- Further joint work of ECB and NCBs

Thanks for your attention!

Questions?

Annex

Chart 2: Differing sources of Commercial Property Prices
(Annual percentage changes; JLL right hand scale, ECB, left hand scale)

Source: ECB