

Commercial property analysis: an ECB perspective

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Note: Opinions expressed are the presenter's own and might not necessarily represent opinions of the European Central Bank or the Eurosystem.

Outline

- I. Importance of commercial property markets**

- II. Data needs for commercial property analysis**

- III. Current analysis and assessment of commercial property markets**

I - Importance of commercial property markets

Monetary policy and financial stability

I- Real estate prices and *monetary policy transmission*

- Investment channel
- Wealth effect

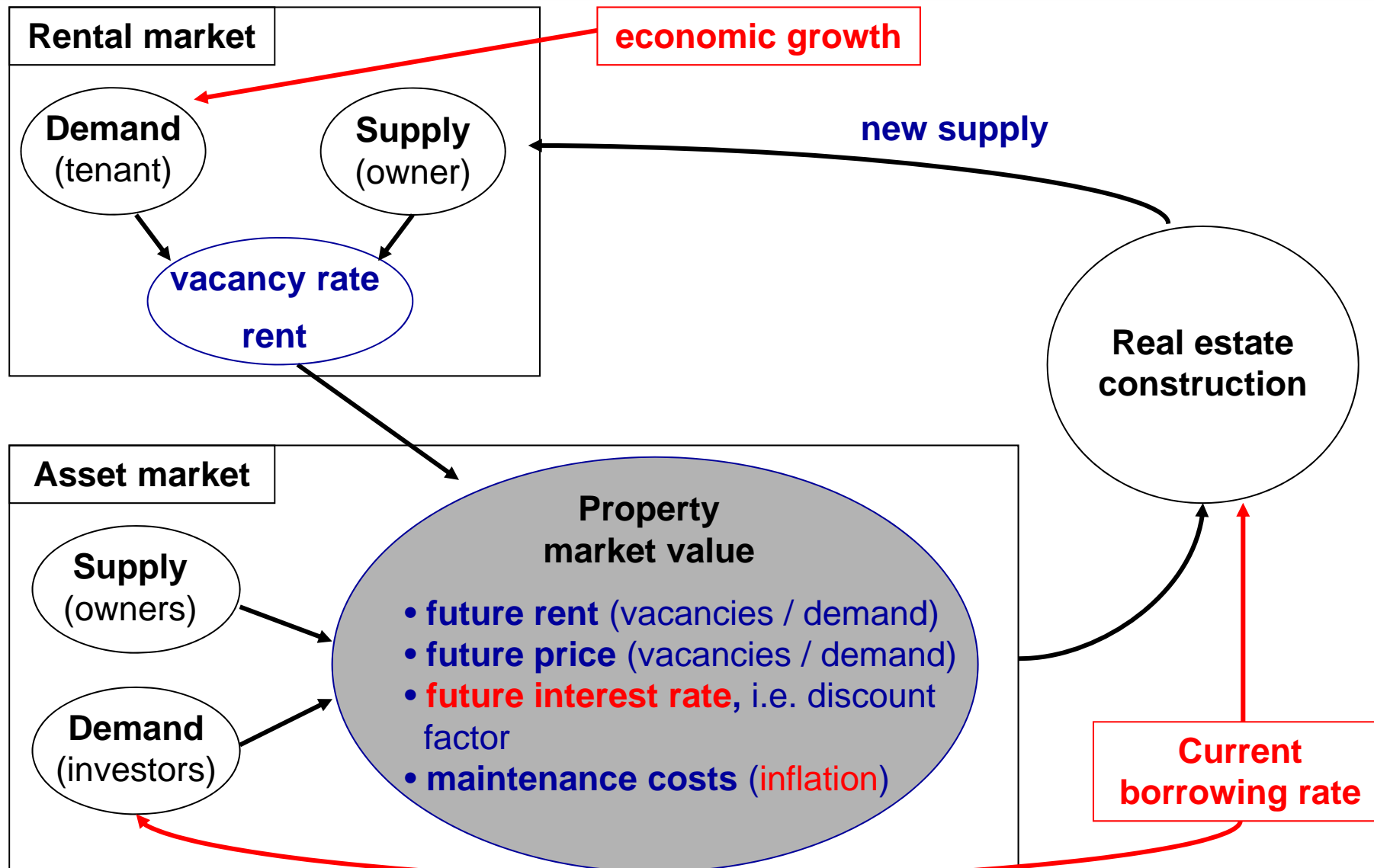
2 - Real estate prices and *financial stability*

- Banks have large lending exposures
- Institutional investors, such as insurance companies and pension funds
- Commercial property lending & volatility of loan portfolios

Source: Haibin Zhu (2003), "The importance of property markets for monetary policy and financial stability", BIS Paper No. 21

I - Importance of commercial property markets

Role in the macro economy



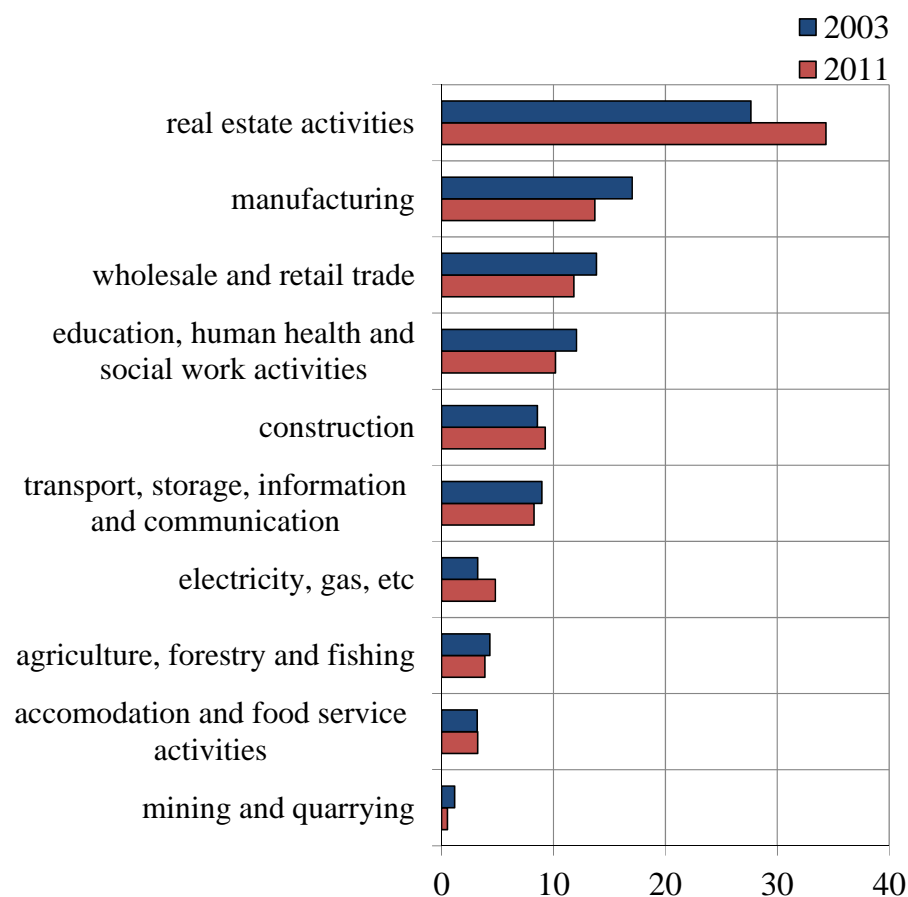
I – Importance of commercial property markets

Bank lending exposures

Lending for “real estate activities” accounts for the largest share in total euro area MFI non-financial corporate lending

- Grew from 28% in 2003 to 34% in 2011

Lending by euro area MFIs to non-financial corporations by sector (% of total non-financial corporate lending)

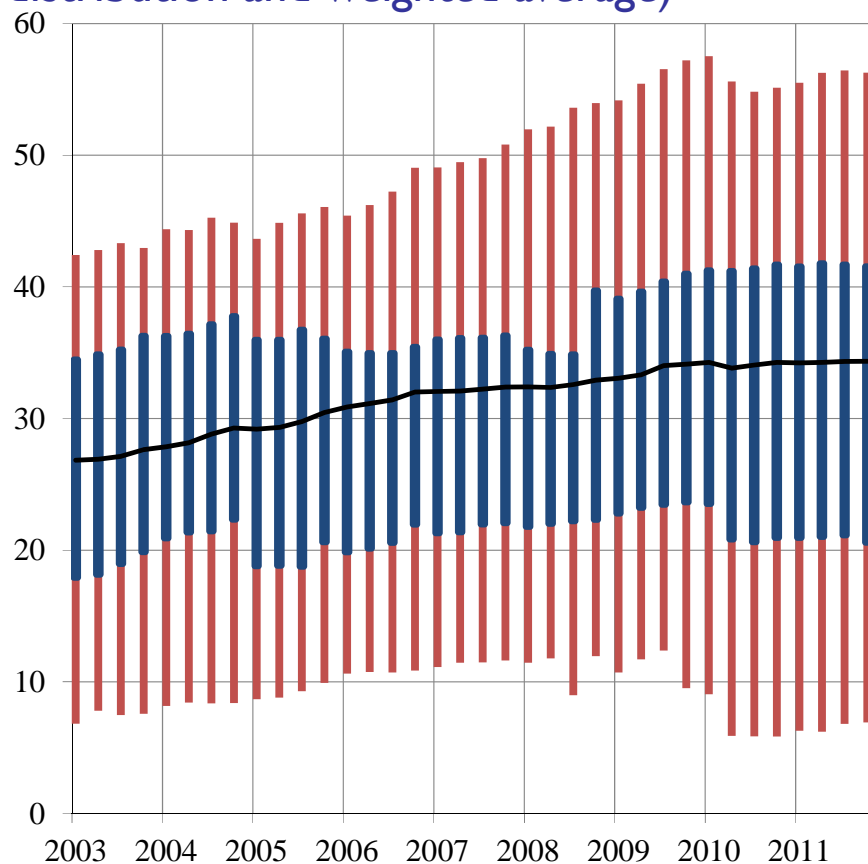


Source: ECB.

I – Importance of commercial property markets

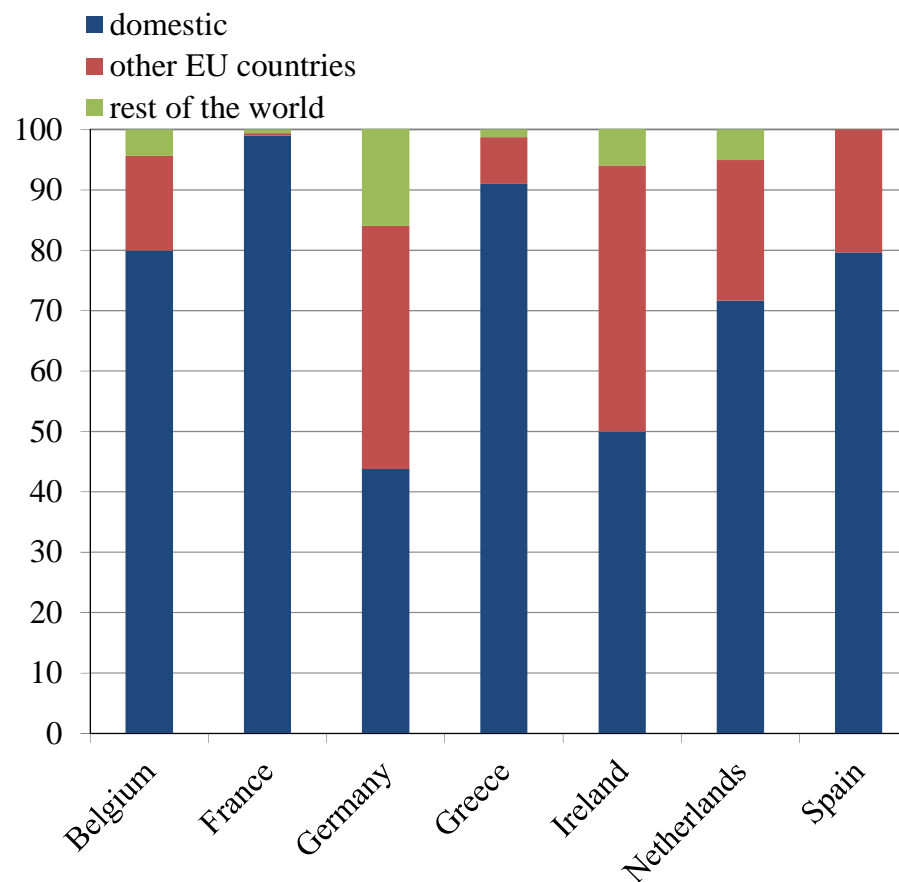
Bank lending exposures

Country distribution of lending by euro area MFIs to real estate activities
 (% of total non-financial corporate lending; maximum, minimum, interquartile distribution and weighted average)



Source: ECB.

Geographical breakdown of commercial property loans issued by surveyed euro area banks (2007; % of total)

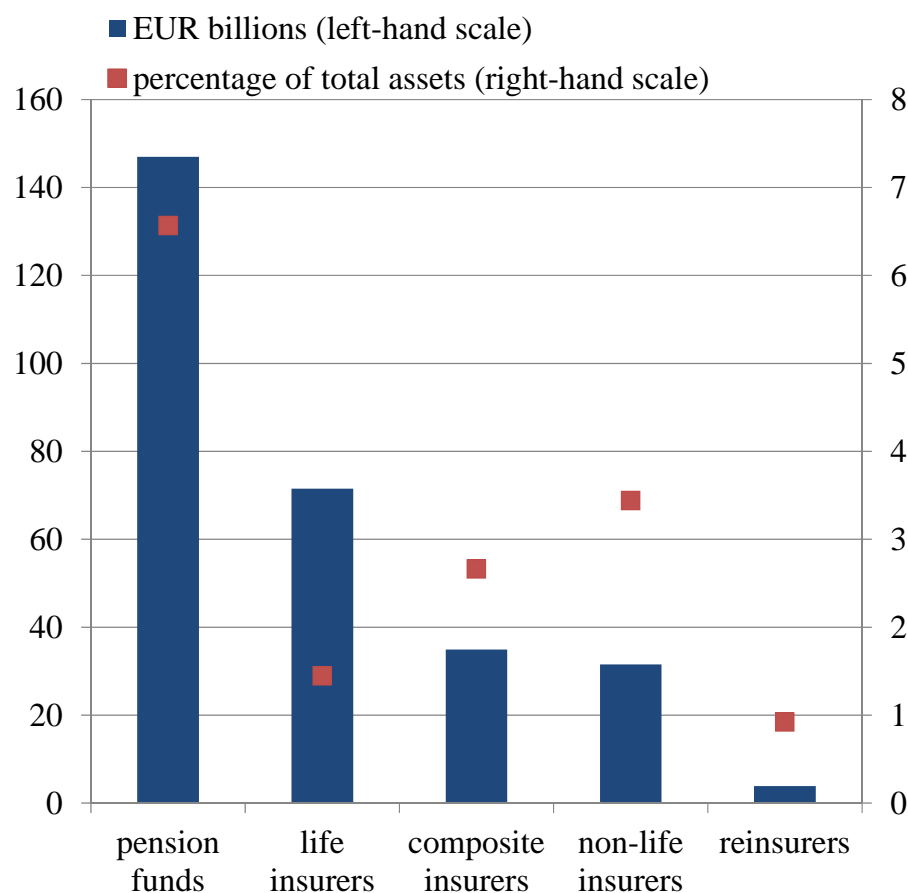


Source: ECB.

I - Importance of commercial property markets

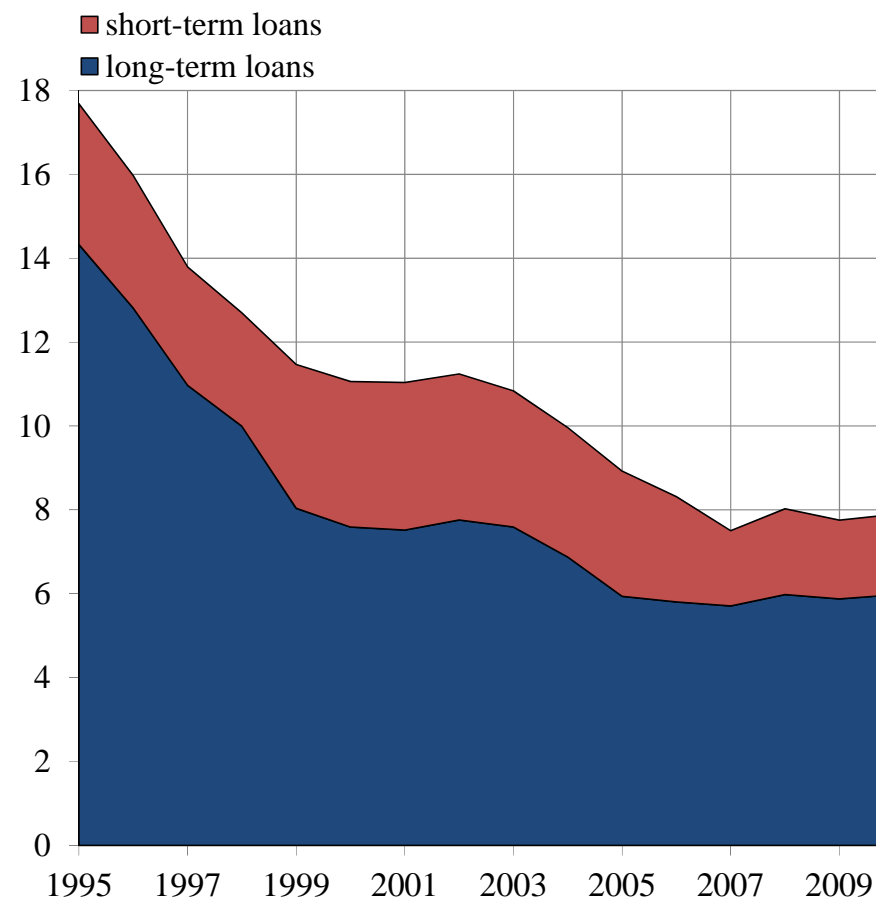
Exposures of institutional investors

Direct investment in commercial property by occupational pension funds and insurance companies in the EU



Source: EIOPA.

Lending by euro area insurers (% of total financial assets)

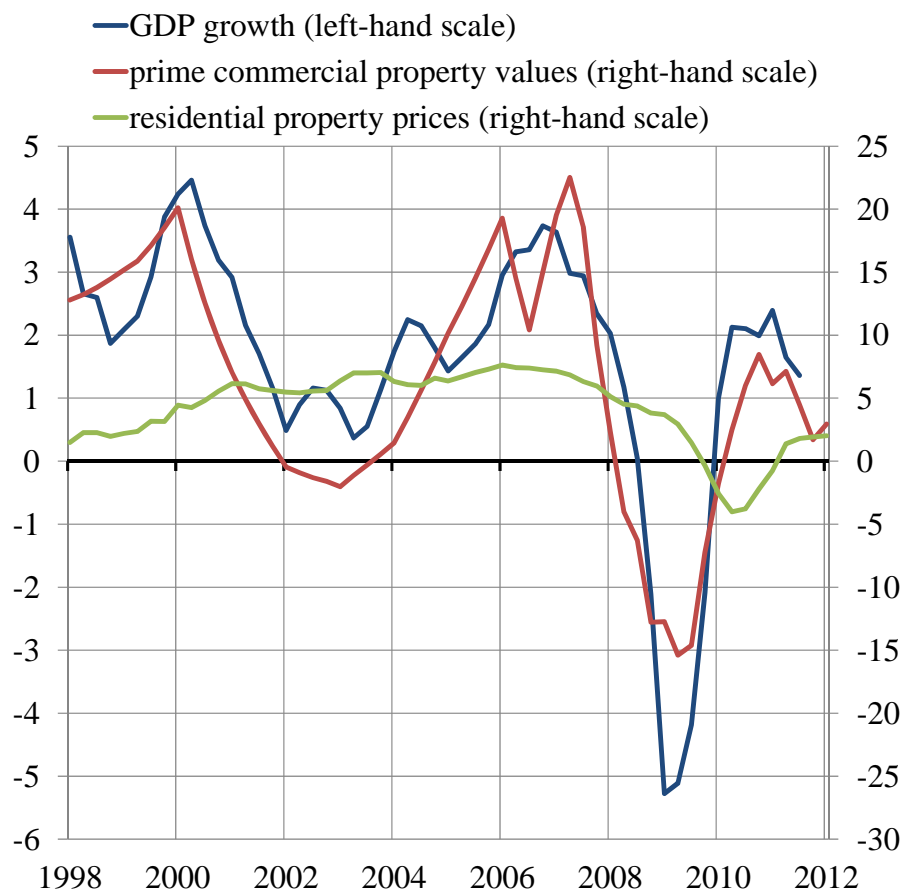


Source: OECD.

I - Importance of commercial property markets

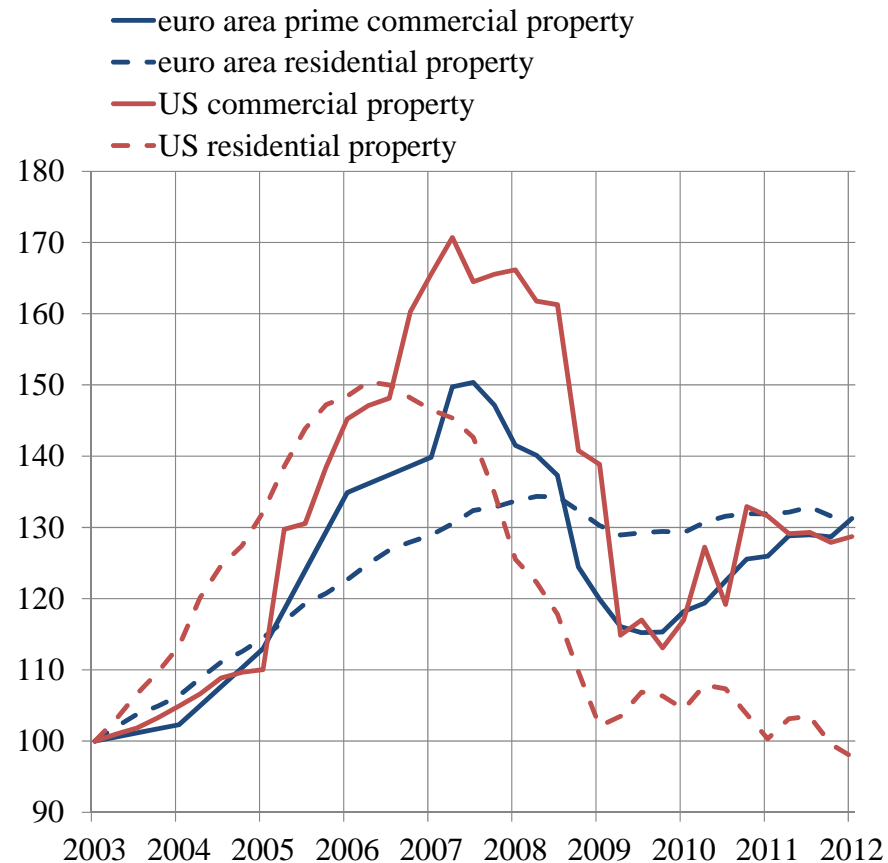
Volatility of property lending

Real GDP growth, prime commercial property values and residential property prices in the euro area
(% change per annum)



Sources: ECB, Jones Lang LaSalle and ECB calculations.

Commercial and residential property prices in the euro area and the United States
(% change per annum)



Sources: ECB, Jones Lang LaSalle and Bloomberg.

II - Data needs for commercial property analysis

1) Coverage/quality

- **Geographic coverage:** All euro area and EU countries
 - ECB also monitors global commercial property developments since some euro area/EU banks also have significant exposures in, e.g. the US
- **Sectoral coverage:** Four main sectors: Retail, office, industrial and residential; all properties
- **Variables of interest:** In addition to prices/values also need for data on rents, vacancy rates, etc.
- **Data characteristics:** Transaction-based price information (price stability analysis) ... as well as accurate valuation based indicators (financial stability analysis, e.g. to assess the value of collateral in bank lending)

2) Frequency

- Quarterly data needed for both financial and price stability analysis, ideally for at least the past 20 years

3) Timeliness

- Preferably no later than 4-6 weeks after each quarter

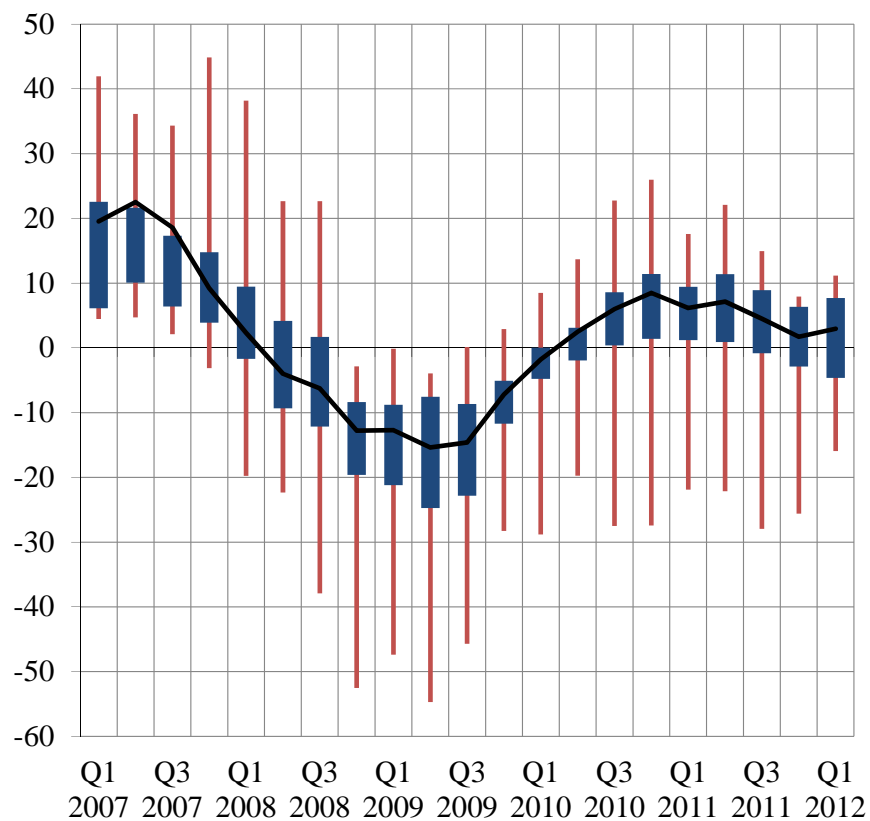
... + wish list: *Bank lending exposures data?*

III - Current analysis and assessment of commercial property markets

Prime commercial property in euro area countries

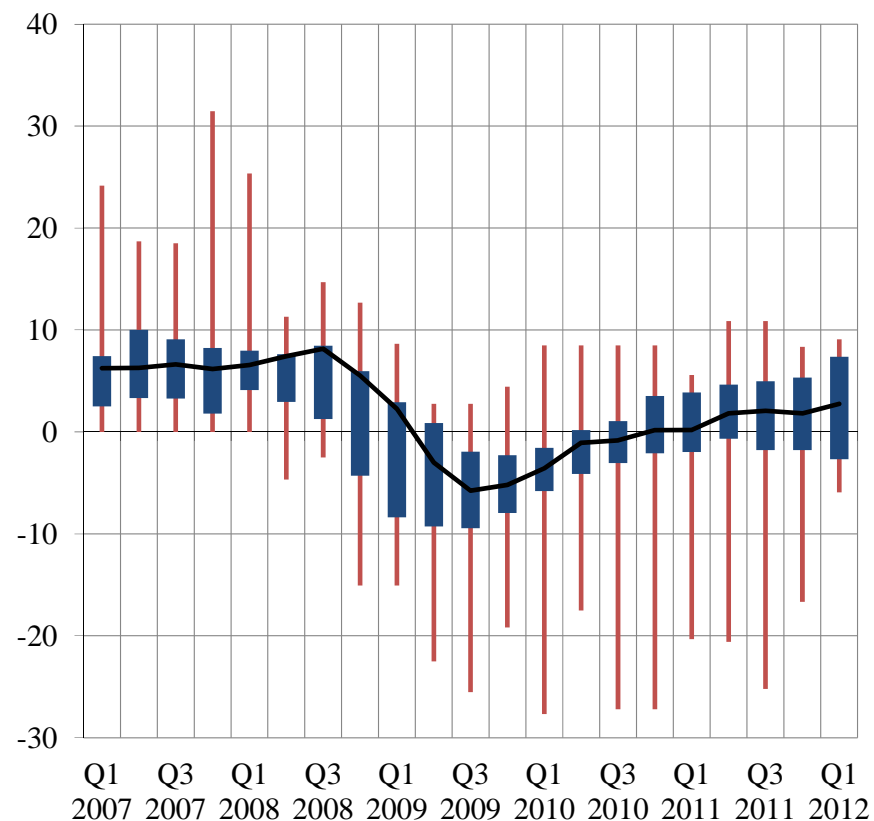
(% change per annum; maximum, minimum, inter-quartile distribution and weighted average)

a. capital values



Source: Jones Lang LaSalle.

b. rents

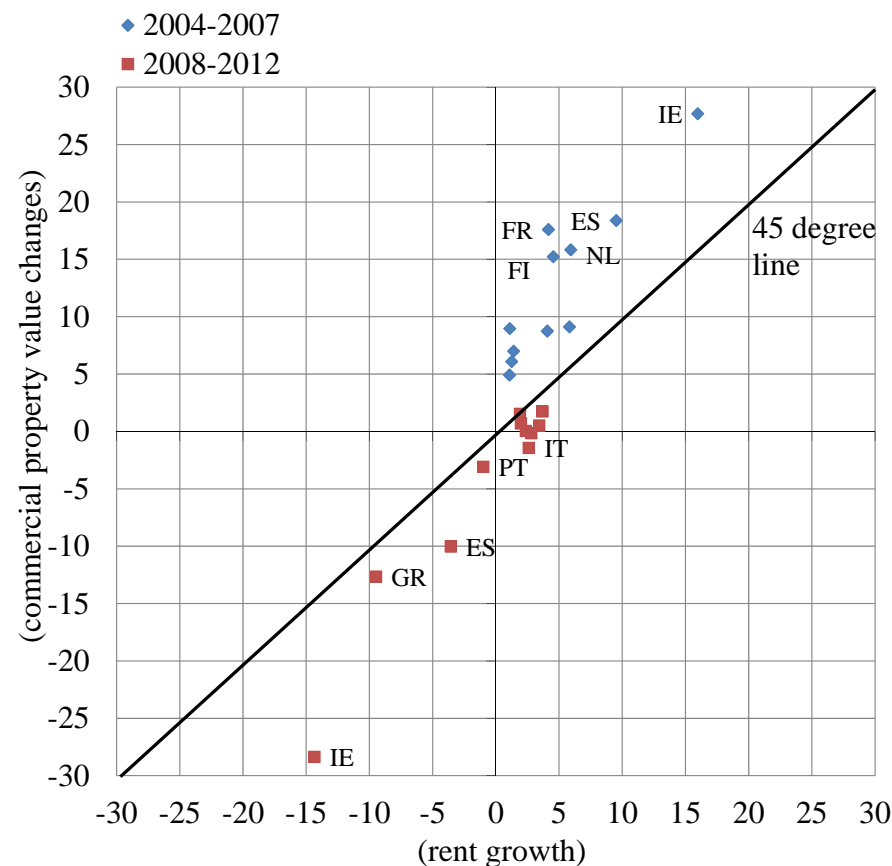


Source: Jones Lang LaSalle.

III - Current analysis and assessment of commercial property markets

Changes in commercial property capital values and rents in selected euro area countries

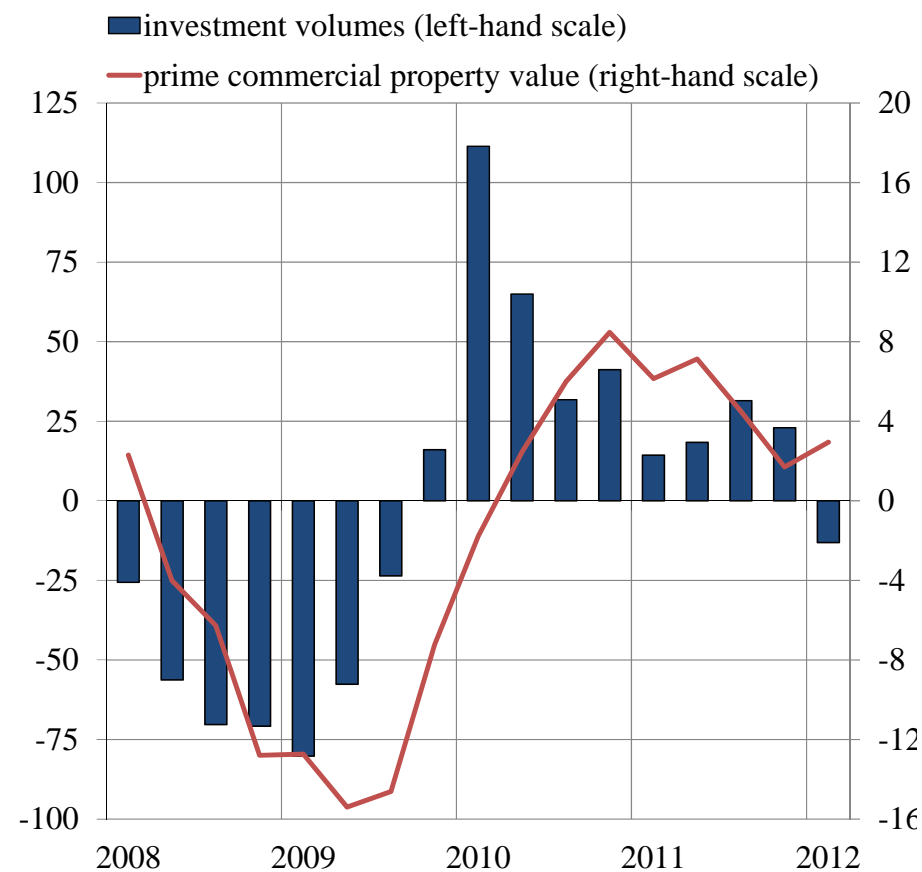
(average percentage change per annum for the period 2004-2007 and 2008-Q1 2012)



Source: Jones Lang LaSalle.

Commercial property investment volumes and prime commercial property value in the euro area

(% change per annum)



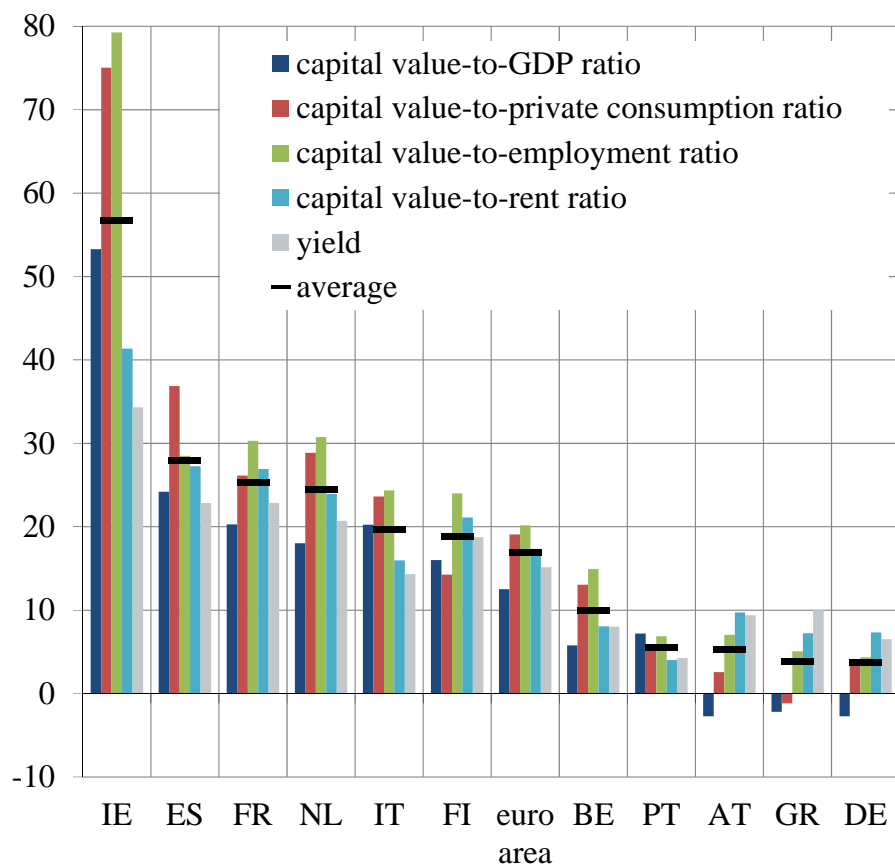
Sources: DTZ and Jones Lang LaSalle.

III - Current analysis and assessment of commercial property markets

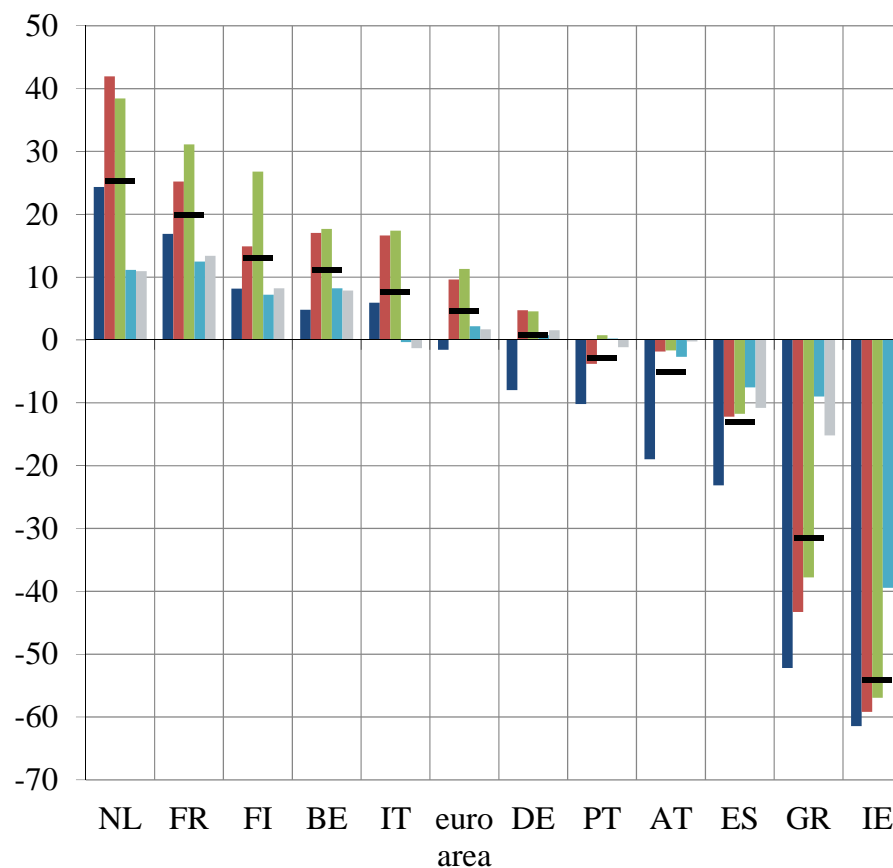
Value misalignment indicators for prime commercial property in selected euro area countries

(% deviation from average values from 1997)

(Q1 2007)



(Q1 2012)



Sources: Jones Lange LaSalle, ECB and ECB calculations.