ECB progress towards a European Commercial Property Price Index

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Overview

• Why?
• Preparations?
• Hybrid data
  – Commercial source plus National data
• Transactions vs. Valuations
• Current state of play
• Future work
Why?

- ESCB looking at topic ≈ 3 years
- In the interim G20 publication “Financial crises and Information gaps”

- ECB uses:
  - Financial stability
  - Exposure to risk by finance providers
  - Macro-economic analysis (inflation, property sector, construction sector)
Preparations

• Stocktaking exercise (May 2010)
  – Generally data / indicators available, very heterogeneous
  – Sources tend to be commercial (real estate companies; commercial banks; notaries), some official sources
  – Monthly/quarterly frequency with variable timelines

• International Conference (May 2012) hosted by ECB
  – Challenging topic
  – Confirmed heterogeneity of sources
  – Methods need to be innovative
Transactions vs. Valuations

- Statistics on prices typically based on actual transactions (HICP, etc.)
- Not always possible in this field as low liquidity especially in times of market stress
- Valuations typically source of info, BUT
  - Differing international standards
  - Tendency to overshoot
  - Turning point identification concerns
  - “group think”
- ECB solution: hybrid methodology where available transactions but supplemented by valuations
Current state of play (I)

- Two strands of work at EU level
  - ECB interim approach
    - Uses International Property Databank (IPD) data plus where available NCB preferred series (DK, DE, IT)
    - Eurostat work on handbook (Paolo Passerini presentation)

- ECB requirement:
  - Quarterly frequency; whole country; ideally disaggregation into office, retail (when owned for the rental market), industrial and residential, T+90 publication
Current state of play (II)

- Two series being calculated in conjunction with IPD + NCBs
- Valuation only (capital growth)
- Transaction linked (transactions supplemented by valuation)
Current state of play (III)

**TLI.**

**VBI**

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mar-01  nov-01  mar-03  nov-03  jul-05  mar-07  nov-07  mar-09  nov-09  jul-11
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mar-01  nov-00  mar-02  nov-02  jul-04  mar-06  nov-06  mar-08  nov-08  jul-10
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euro area (IPD)  euro area (IPD “plus”)  EU (IPD “plus”)  EU (IPD)
euro area (IPD)  euro area (IPD “plus”)  EU (IPD “plus”)  EU (IPD)
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Future work

- ECB experimental data – scheduled to publish in Q1 2014 (slight technical delay compared to paper)

- Only first publication - enhancements planned
  - Allied indicators (vacancy rates, rents)
  - Re-examination of weighting approaches (simple GDP weights used at present)
  - Enhancement of interpolation methods
  - Spatial autocorrelation
  - Etc.
Conclusions

• Important data set for ESCB

• Need to be extremely innovative. Somewhat out of normal comfort zone in compilation

• Interim approach to fill data gap while Eurostat investigate long-term data-set

• Trend indicator with more enhancements both needed and required