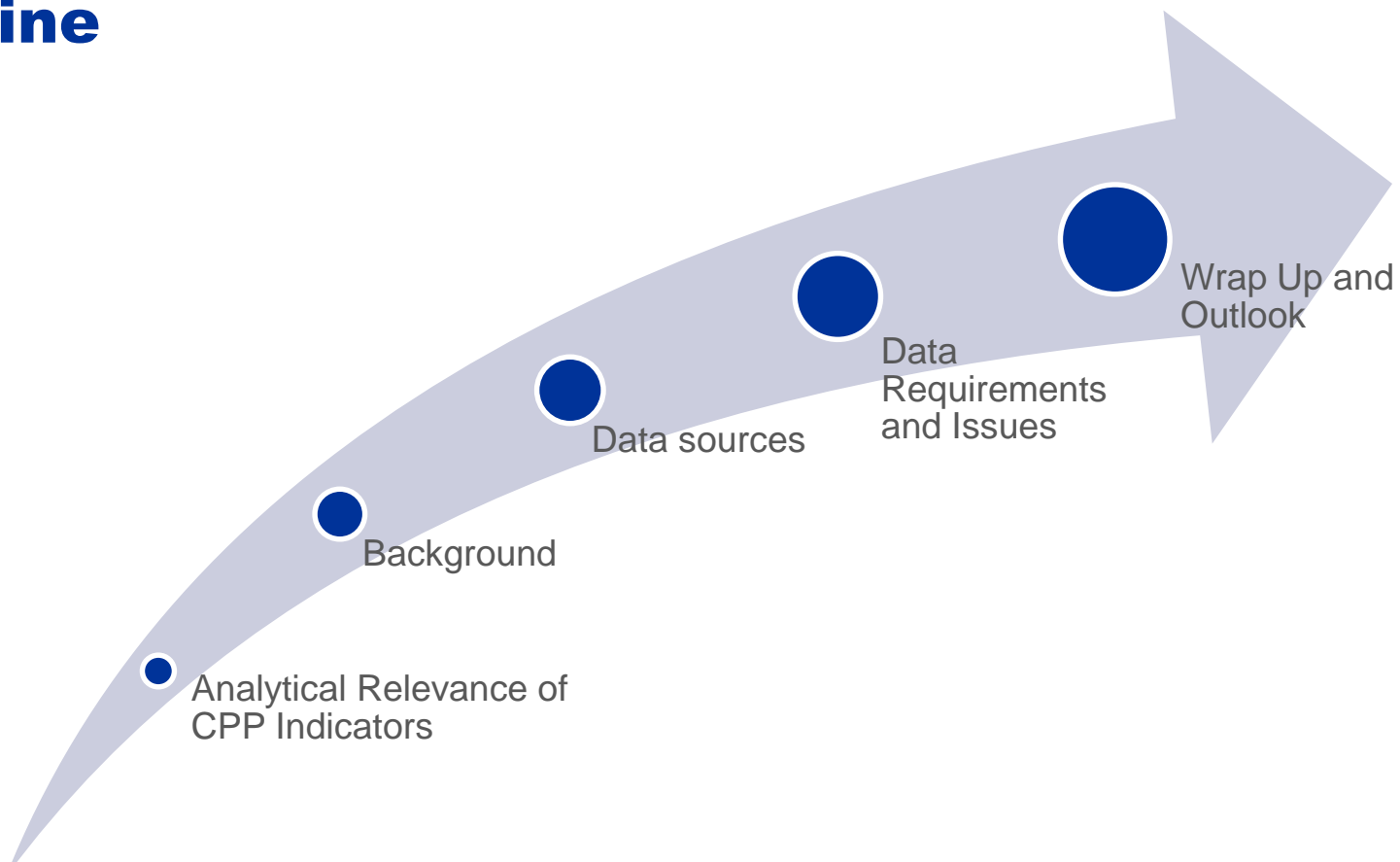**Andrew Kanutin**
ECB / DG - S

Commercial property price indices for the euro area -

ECB experimental indicators of commercial property prices

Workshop on Commercial property price indices, Cappadocia, Turkey, 7-8 May

Outline

Analytical Relevance of
CPP Indicators

Background

Data sources

Data
Requirements
and Issues

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[1]

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

- Commercial Property Prices (CPPs)

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

[1] ESRB Recommendation October 2016

Background of ESCB's Experimental Indicator of Commercial property prices

- Work-stream in conjunction with ECB's 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. Under continuous review to improve quality.

Data Sources

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

Commercial Property Prices

Transaction based*:
- Ideal, representing current market

Problems:
- CP = Highly heterogeneous and infrequently traded
- Property markets = highly illiquid during financial/ economic stress
- Sources can be both private and "official".

Valuation based*:
- Sources = private organisations → rather designed for performance measurement

Problem:
- 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

Problem:
- Fictitious, prime sector only

Financial market data
- Real Estate Trusts containing CPs as assets
- Inferring of CPPs, available in real time

Problem:
- 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)
  - **Valuation based**, ideally quarterly rather than interpolated
  - Challenge : comparability across countries

- **Commercial Data**: MSCI (previously IPD)
  - Directly held commercial real estate assets
  - Valuation based or transaction-linked compilation method
  - Challenges: market illiquidity→ control for transaction number
                  volume changes → keep sample constant
                  coverage for several countries
                  mostly 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	MSCI (valuation based)	Annual	Linear interpolation
Germany	Bulwiengesa AG/VDP (transaction linked/transaction based)	Annual (up to 2007) /Quarterly	Linear interpolation (up to 2007)
Estonia	-	-	-
Ireland	MSCI (transaction linked)	Quarterly	None
Greece[1]	Bank of Greece (valuation based)	Biannual	None
Spain	MSCI (valuation based)	Annual	Linear interpolation
France	MSCI (transaction linked)	Quarterly	None
Italy	Banca d'Italia	Quarterly	None
Cyprus	-	-	-
Latvia	-	-	-
Lithuania	-	-	-
Luxembourg	-	-	-
Malta	-	-	-
Netherlands	MSCI (transaction linked)	Quarterly	None
Austria	MSCI (valuation based)	Annual	Linear interpolation
Portugal	MSCI (valuation based)	Annual	Linear interpolation
Slovenia	-	-	-
Slovakia	-	-	-
Finland	-	-	-
Bulgaria	-	-	-
Czech Republic	MSCI (valuation based)	Annual	Linear interpolation
Croatia	-	-	-
Denmark			
Hungary	MSCI (valuation based)	Annual	Linear interpolation
Poland	Narodowy Bank Polski/MSCI (transaction based/valuation based)	Annual/Quarterly	Linear interpolation
Romania	-	-	-
Sweden	MSCI (transaction linked)	Annual	Linear interpolation
United Kingdom	MSCI (transaction linked)	Quarterly	None

1) Data available only for Office and Retail property types

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

- Further breakdowns
    – Capital cities
    – urban and non-urban
    – different property types

    } Granular data preferred by users - would also allow further analytical data

- 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)

(annual percentage changes)
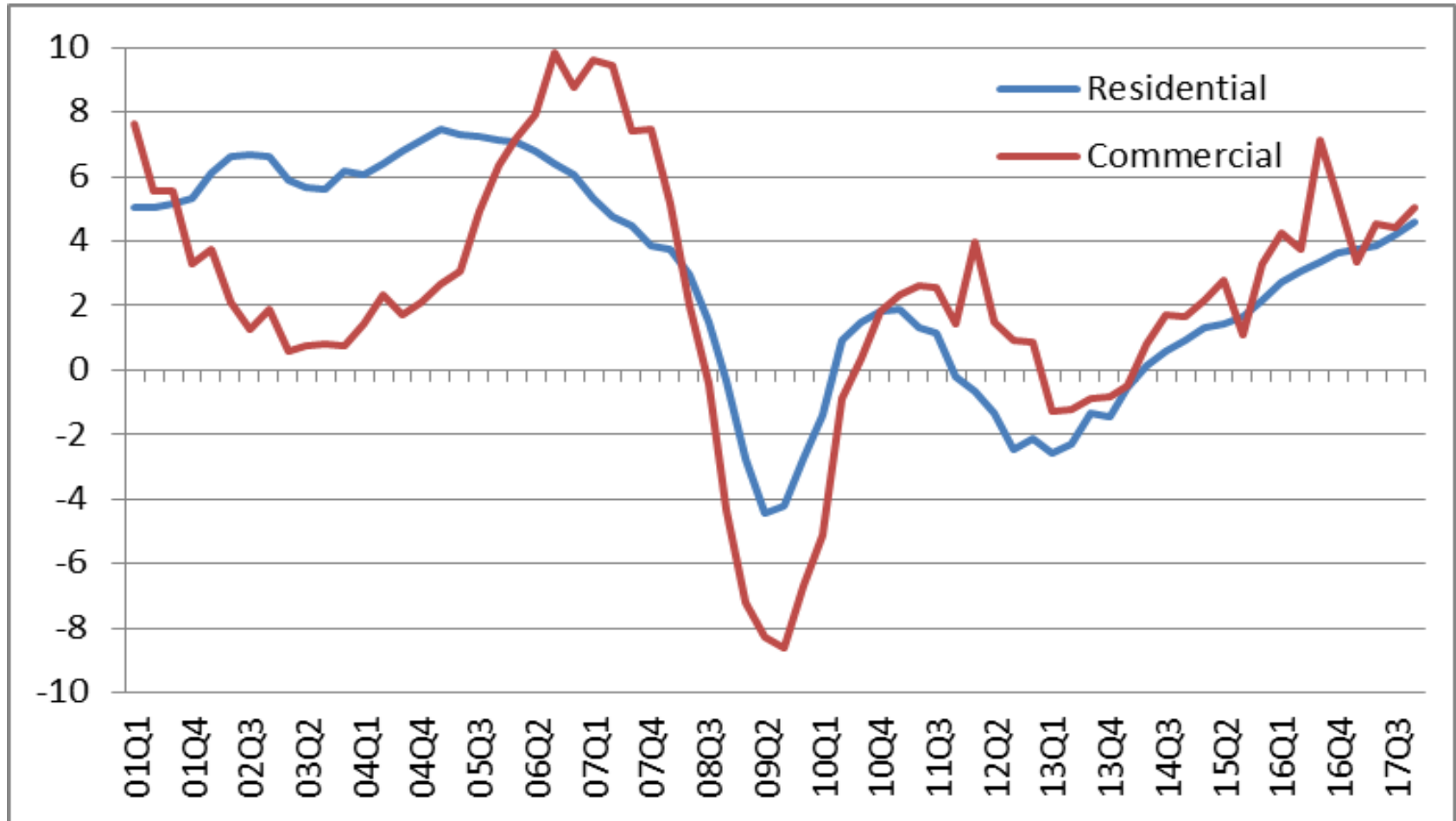
Source: ECB, WG GES

- Prices <u>not</u> enough:

    – Prices and associated Indicators: **price indices**, rent indices, rent yields, **vacancy rates**

    – Other economic (supply and demand) indicators: **building permits**, **Work completıons**, construction work completed, transaction numbers and transaction value

- **Weighting**

- New data source – RCA

- Official sources

Thank you for your attention!