



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Commercial property market analysis: an ECB perspective

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Overview

- 1 Framework and relevance of commercial property
- 2 Background and data requirements
- 3 Sources and caveats
- 4 Results and outlook

Overview

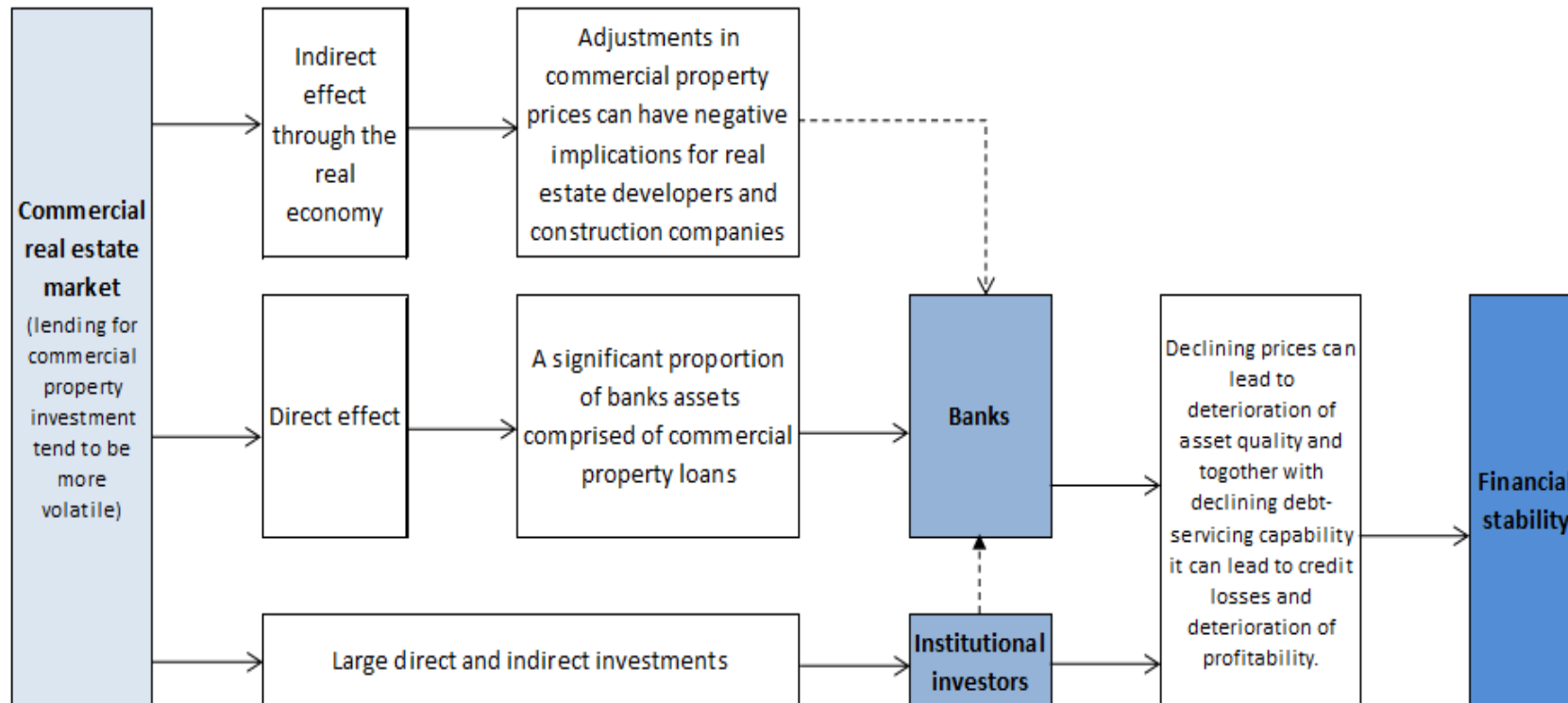
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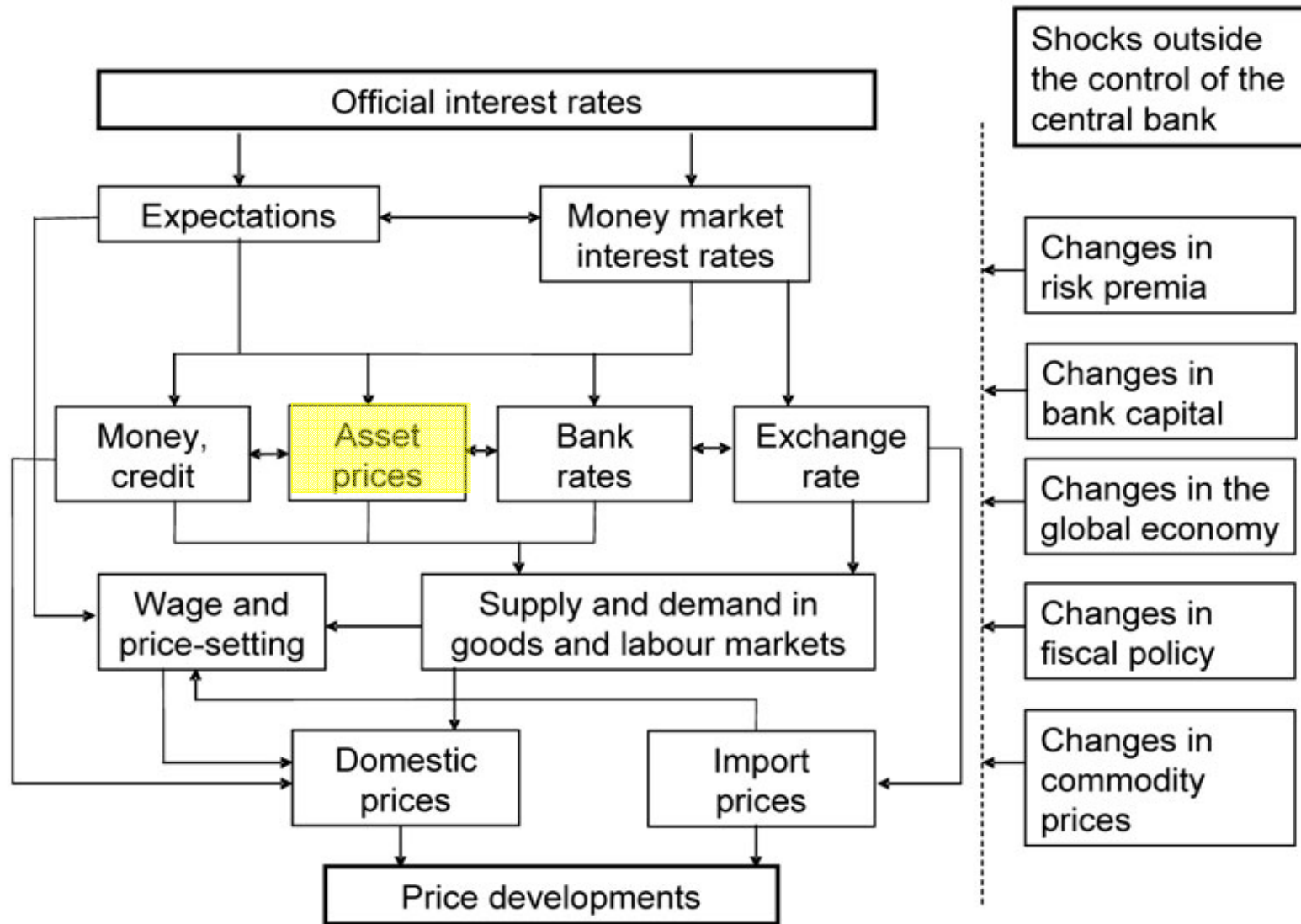
Financial Stability



Source: ECB: Commercial property markets, December 2008

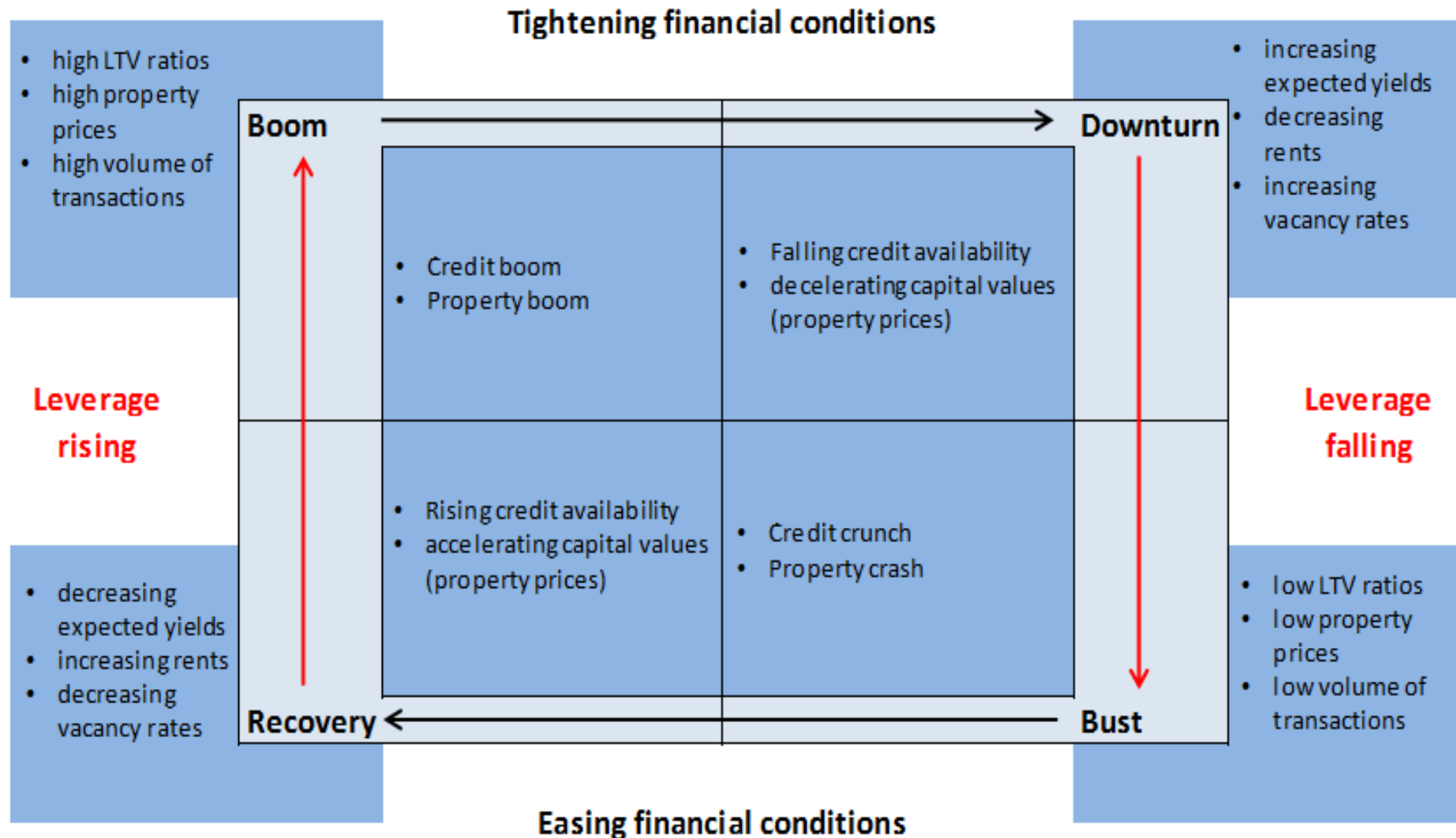
Framework and relevance of commercial products

Monetary Policy



Framework and relevance of commercial property

CRE Cycles



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Background

- 20 data gaps identified in 2010 IMF and Financial Stability Board paper “The financial crisis and Information gaps” (see <http://www.imf.org/external/np/g20/pdf/102909.pdf>)
- Recommendation 19 deals with real estate data
“The Inter-Secretariat Working Group on Price Statistics to complete the planned handbook on real estate price indices. The BIS and member central banks to investigate dissemination on the BIS website of publicly available data on real estate prices. The Inter Agency Group to consider including real estate prices (residential and commercial) in the Principal Global Indicators(PGI) website.”
- ESCB taken lead on topic in Europe
- Work undertaken by the ESCB’s Working Group on General Economic Statistics

Data Requirements and Issues

- ECB requirement = Euro area / EU quarterly index, 60-90 days timeliness, ideally broken down by:
 - Member State;
 - urban/non-urban;
 - main property types
- Experimental hybrid indicators (using if possible national available and otherwise commercially provided data), GDP- weighted
- If possible: Transaction based by national source (DK, DE,IT), if not: Valuation based, quarterly rather than interpolated (GR development work about to come on stream)

Data Requirements and Issues

- Commercial Data: IPD (Investment Property Databank)

- Directly held commercial real estate assets
- Valuation based or transaction-linked compilation method
- Issues: market illiquidity → control for transaction numbers
volume changes → keep sample constant
not quarterly, but annually interpolated data
only prime segment market
no buildings in construction/ development → crucial to financial stability analysis

compilation methods or assumptions not
data (e.g. ECB data vs JLL data)

Comparability in
given for CPP

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Sources and caveats

- Data collectable at various stages by various entities → quality and 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

Valuation Based:

- Majority of CPP data
- Sources = private organisations → rather designed for performance measurement

Problems:

- 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

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

Breakdowns

- Not always large enough and representative property sample / sufficient coverage of geographical areas
- Hard to control for changes in quality of properties and in sample composition
- Individual results for EU countries – transaction numbers!
- Problems distinguishing between urban and non-urban
- Same issues for separate indices for different property types

Methodology

- Index compilation can be problematic due to shifts in composition of real estate properties (monthly indices only feasible with high turnover markets), RPP = quarterly, CPP = sometimes only annually
- Potential overlap of RPP and CPP (Non-owner occupied RP = income generating = CPP)

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1 Framework and relevance of commercial products

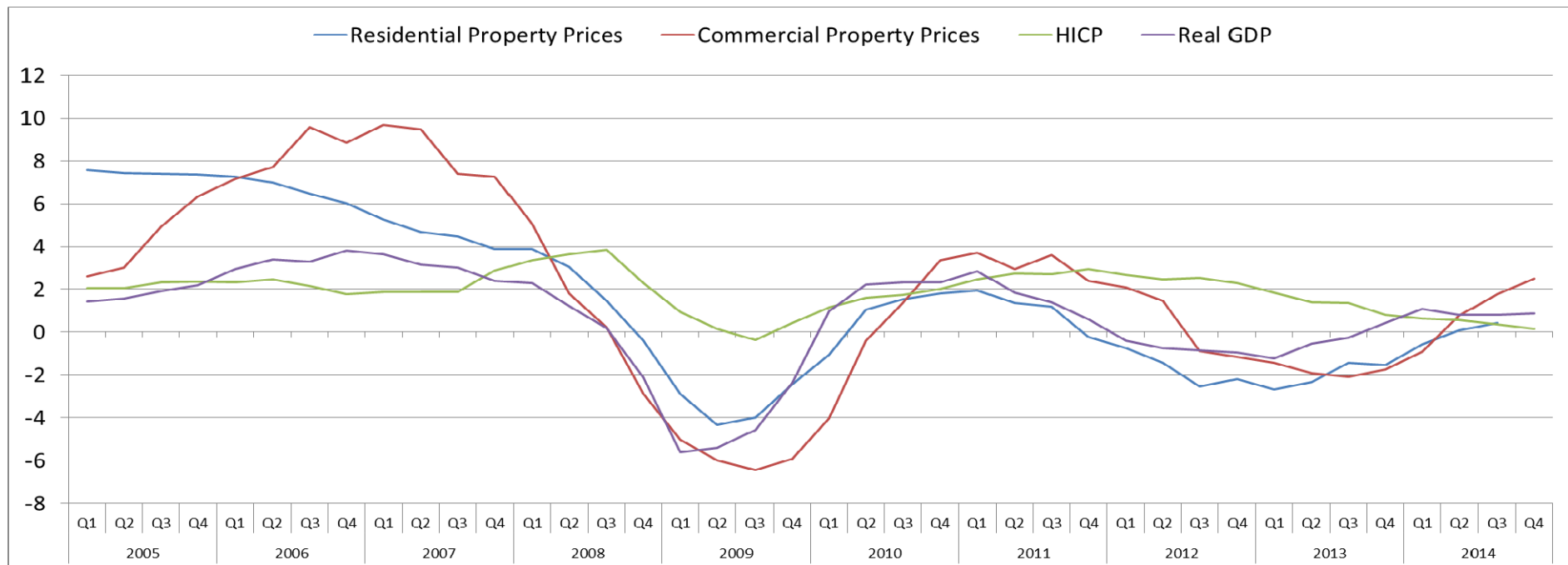
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Results

- ESCB data published as “experimental statistics” in February 2014
- (See <http://www.ecb.europa.eu/pub/pdf/mobu/mb201402en.pdf> pages 54 - 58) -> Good feedback thus far
- Major issues in comparability and harmonisation → elaborate metadata needed



Outlook

- Currently: drafting of international handbook on CPP (under the auspices of the Inter-secretariat Working Group on Price Statistics)
- Main Research objectives:
 - Alternative data sources, examination of robustness
 - Indicators for property type breakdown
 - Integrating property still under development
 - Weighting schemes representative of market structure
 - Review of interpolation methods
 - Exploitation of geographical information
 - Quality adjustment
- Further joint work of ECB and NCBs

Thanks for your attention!

Questions?

