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Residential property prices – what has been achieved since 2003?

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Not paradise lost, but far from regained

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In October 2003, a joint conference on Real Estate Indicators and Financial Stability was organised by the International Monetary Fund and the Bank for International Settlements in Washington DC. The purpose of the conference was to discuss and explore the theoretical as well as the practical issues underlying the development and use of real estate indicators in assessing financial stability. Most of the papers then presented focused on the usefulness of available statistics and compilation, methodological and aggregation issues. This paper briefly examines the situation at that time and the improvements since, but also warns of the stony path ahead.

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Introduction

On 27 October 2003, a two-day conference on Real Estate Indicators and Financial Stability, jointly organised by the International Monetary Fund (IMF) and the Bank for International Settlements (BIS), opened in Washington DC. In his welcoming address, the then Managing Director of the IMF, Horst Köhler, remarked, inter alia, “This is the first such international conference in this area. The IMF role as an organiser reflects the fact that one of the primary areas of the IMF’s mission (is) the safeguarding of the stability of the international financial system. ... The relationship between real estate market collapse and financial crisis has been demonstrated repeatedly. ... One of the aspects of the current emphasis on financial stability is the collection of statistical information needed to assess the risks and strengths of financial systems. ... Our work on Financial Soundness Indicators pointed to the need for improvement in statistics on real estate, and our Executive Directors this past June endorsed the staff’s efforts to encourage the compilation and dissemination of real estate price indices for residential and commercial real estate. We are pleased that our colleagues at the BIS are our co-sponsors.”² In his reply, the Head of Information, Statistics and Administration of the BIS, Paul Van den Bergh, noted that “attention to property prices (at the BIS) dates back to the late ’80s and early ’90s, when we started to focus on the meaning of these concepts of asset price inflation and deflation and the role of asset prices in the conduct of monetary policy. ... More recently, asset prices, including those for residential and commercial property, have started to be looked at from a financial stability perspective as well.”³ However, he went on to admonish, “ ... ever since we started to pay closer attention to property prices at the BIS, we found it very difficult to collect and maintain good data on property prices. ... First of all, surprisingly, data are simply not always available on a regular basis. ... The representativeness of the data that we find is questionable. ... There are many breaks in series, changes in the methodologies, changes in underlying sources that make it very difficult to have particular historical data. ... If I were to use the IMF Data Quality

² BIS (2005): *Real estate indicators and financial stability*, Proceedings of a joint conference organised by the BIS and the IMF in Washington DC, 27–28 October 2003, BIS Papers no 21, April, p 1.

³ BIS (2005): *Idem*, p 4.



Assessment Framework (DQAF) – and focus on what is in the framework – data integrity, methodological soundness, accuracy, reliability, serviceability – it's clear that almost no country would meet these various criteria for its national statistics on property prices."⁴ One of the two papers that I presented there focused on these difficulties.⁵

What progress has been made since that conference and this workshop? This paper attempts to answer that question by reviewing the situation, from the Bank's perspective, both then and now.⁶ The conclusions drawn allow a certain measure of satisfaction, but definitely leave no room for complacency: awareness of the need for – and, hopefully, the release and dissemination of – improved statistics can and must be fostered through, inter alia, such international conferences and workshops.

The situation in October 2003

At the time of the IMF/BIS conference, the BIS collected residential property price data for 28 economies, whereby one – Austria – was already perceived as referring to a discontinued series,⁷ and four – China, Greece, Korea and Malaysia – were not yet in active production. Of the remaining 23, two – Germany and the euro area⁸ – were only available at an annual frequency, and three – France, Italy and Japan – at a semi-annual frequency. In other words, of the seven largest industrial countries,⁹ only the United States, the United Kingdom and Canada had data at a quarterly frequency or higher!

Indeed, it was noticeable at the time – and is still largely true today – that the so-called Anglo-Saxon countries (thereby including, for example, Australia, New Zealand and Ireland, but also South Africa and Hong Kong SAR¹⁰) were more aware of the

⁴ BIS (2005): *Idem*, p 4.

⁵ BIS (2005): *Idem*, Obtaining real estate data: criteria, difficulties and limitations, pp 63–69.

⁶ Since this workshop is primarily focused on residential property prices, commercial property is not reviewed here. In general however, much of the conclusions drawn for the one asset price class apply to the other. Although there have been definite attempts to collect data on a nationwide – and therefore more homogeneous – basis, notably and admirably by Investment Property Databank (IPD), other commercial providers have become much more restrictive in data dissemination, presumably for fear of damaging their core business areas vis-à-vis their competitors.

⁷ And anyway only for the capital city, Vienna.

⁸ Largely as a result of the availability of the German data.

⁹ The original Group of Seven.

¹⁰ Hereafter referred to simply as Hong Kong.



requirement for property price data per se, explaining why their data go back to at least the early 1980s (South Africa and Hong Kong), but, in most cases, to the 1960s. Furthermore, higher-frequency data is also seen as a necessity (half of these eight economies report monthly data).¹¹

Although the majority of the price data were reported directly to the BIS Data Bank by the relevant central banks, several were not¹² and the BIS was either dependent on the good offices of personal contacts or on the availability of data on “official” websites.¹³

The situation in October 2006

In January 2005, in response to an internal BIS report,¹⁴ the Bank invited the 18 shareholder central banks, which were not already regularly sending data to its data bank, to report – at the highest possible frequency – the circa 50 time series which had been identified by BIS staff as being most representative – and internationally comparable – to illustrate the macro-economic situation. Residential property prices was one of the series requested and emphasis placed on quarterly data.¹⁵

As a result, the BIS now maintains residential property price data for 40 economies: these are, in addition to the 28 of October 2003, all of which are now either re-reporting or in active production, Bulgaria, the Czech Republic, Estonia, Hungary, India, Indonesia, Israel, Latvia, Luxembourg, the Philippines, Slovakia and Thailand. Furthermore, in the

¹¹ Given the high proportion of home ownership in the majority of these economies, neither of these qualities comes as a surprise. Indeed, there appears to be, in general, a definite – and equally unsurprising – link between home ownership ratios and property price data availability: the lower the ratio, the lower the financial “risk” and thus the lower the requirement to monitor relevant indicators. With increasing household wealth, however, this situation can rapidly change.

¹² China, Hong Kong, Italy, Japan, Korea, Malaysia, Singapore and Switzerland.

¹³ The BIS shareholders are, exclusively, central banks, and are therefore the sole reporters to the Bank’s Data Bank (they are also, with the exception of selected international organisations, the sole institutions which have data bank access). However, very few central banks have directly commissioned data compilation themselves, but act, from the Bank’s point of view, as a third-party provider. Consequently, property price data, if available on a website, is generally so from either the national statistical office or from a dedicated government department.

¹⁴ The so-called Thiessen Report, which was commissioned to ascertain whether the BIS fully satisfied its shareholders’ needs: in the field of statistics, it was felt that a common set of data for all 55 shareholder economies would be advantageous. Such a set already had a long tradition, but either did not cover all economies or the same thematic areas, often through a lack of data. The 110-page report, consisting of a graph and table for each economy and which is updated regularly, was first presented at the Bank’s 76th Annual General Meeting in June 2006.



last few days, Icelandic data has become available on a – hopefully temporary – one-off basis. Of the original 28, only Germany remains unchanged at an annual frequency, and, while Italy and Japan also remain unchanged at a semi-annual frequency, they are now joined by euro area data.¹⁶ The third semi-annual series, France, has been, however, replaced by a quarterly series; Chinese and Malaysian data, originally annual, are also quarterly,¹⁷ but they measure, like the other newly-available Asian economies, prices only in the capital (or major) city, often even limited to a prime residential area.¹⁸

Apart from the former eastern European countries cited above, there have been enquiries for assistance from Croatia, Poland and Slovenia, and it is to be hoped that data will be forthcoming in the not too distant future. Such interest in property prices in this part of the world is one of the two major developments within the past three years.

The other major development, also apparent from the foregoing, is the realisation of central banks of the importance of having reliable (and encompassing) property price data as an integral part of their models for setting monetary policy. To this end, national statistical offices have increasingly been commissioned to collect such data, and the dependence on commercial providers has correspondingly waned.

Conclusion

Within the space of three years, the world of property prices has moved forward. The BIS is aware of at least 40 economies which regularly measure – and publish – residential property prices. There is a greater propensity and acceptance to disseminate such data which, in some cases (eg Austria) has appeared to stimulate the authorities to improve measurement criteria. Such transparency, both of the indices themselves, but, more so,

¹⁵ Indeed, reporting at a monthly frequency was also envisaged, but, of the newly-reporting countries, only Israel has done so.

¹⁶ Annual data remain, however, and have indeed been produced back to 1981. I am sure that this recent development will be described in more detail by Martin Eiglsperger of the European Central Bank later in this workshop.

¹⁷ This is in part due to the availability within the BIS of the CEIC Data Company Ltd (“CEIC”)’s database; in part, and also for India, Indonesia, the Philippines, Singapore and Thailand, this is due to data being sent by Jones Lang LaSalle Asia Pacific.

¹⁸ As a parenthesis, this is even more the case for commercial property price data, and which makes international comparison extremely hazardous.



in the methodologies employed, has also undoubtedly been partly instrumental in the development of such indices in several eastern European countries.

These largely positive developments are, unfortunately, offset by the negative “usual suspects”: there is no standard measurement criteria, (eg per square metre versus per dwelling, all property including new houses versus excluding, etc), no standard methodology (eg hedonic or repeat sales, survey or all sales (or purchases)), no standard data prime collector (eg tax returns, lending agencies, notaries, etc) and, finally, no standard reporting frequency. That said, especially in any discussion on methodology, the physical size of the market will play a major role: for example, the repeat sales method used in the United States is a valid – and excellent – approach, but which can only succeed in a large economy with, furthermore, a large and rapid turnover in the property market. An economy embarking on collecting price data for the first time and where, for example, land registry itself is in its infancy (eg Croatia), is faced with problems of a far greater magnitude.¹⁹

Furthermore, there is still room for improvement in some of the major industrial economies’ data. Italian data remains semi-annual and in addition refers only to 13 major and 13 provincial cities.^{20, 21} In Japan, the semi-annual data only measure land prices; there is no measurement, at any frequency, of housing or property.²² And German data, although greatly expanded to include 125 towns and cities within the whole of the country, remains annual.²³ The Austrian and Swiss cases deserve particular mention: they appear to be the only – at least, documented – cases of measuring price data as the offer rather than the realised price.²⁴ In such stable – and, in terms of the property

¹⁹ Not the least of which is gaining the trust and confidence of the population that such data will not be used to their possible detriment, ie in assessing their wealth for tax purposes.

²⁰ However, as described by Robert Sabbatini in his paper for this Workshop, the Banca d’Italia is hoping to publish quarterly data with an extended coverage in the near future.

²¹ Australian data are only available for the eight state capitals, but, contrary to the Italian case, this is certainly a more exhaustive coverage.

²² It may well be that the theoretical decline in “house prices” in Japan, often attributed to the stagnant economy, is a fallacy. Since the index excludes the cost of the building itself, and which, at least in part, is governed by the (rising) cost of raw materials, a true property price index may well be inflationary. This could have led to a very different monetary policy in the past than that followed by the authorities.

²³ There are various other indices with slightly fewer cities, but they too are only available annually.

²⁴ In addition, the company charged with the data collection by the Swiss National Bank, Wüest & Partner, does not calculate a global index of all property for Switzerland, but by type of property (flats (both for rent and self-owned) and single-ownership houses). BIS staff calculate a global index using available property ownership ratios.



markets, small – economies, such a measurement may be valid in terms of price *growth* (but not necessarily in terms of price *levels*); the same certainly could not be said in an economic climate like the one which prevailed both sides of the millennium in the United Kingdom (strong declines followed by even stronger gains).

Even the positive developments raise questions: why, with the exception of Mexico, does there appear to be little interest in property price developments in South America? Does this not play (yet) a role in the region's monetary policy? By moving away from data calculated by commercial providers – largely for their own business requirements and which were, even if highly skewed, at least homogeneous – to national sources, has international comparison, due to differing methodologies, become more difficult? To what extent are newly-available data trustworthy and will resources be provided to continue regular price monitoring (ie not only at the census level)?

In my paper of October 2003, I concluded, “As Borio and Lowe (2002) conclude:²⁵ ‘The first is *more and better data*. There is, in particular, a remarkable dearth of data on real estate prices, despite their proven role in the genesis of financial crises and, increasingly, in influencing the business cycle. Data gathering has so far been largely left to the initiative of private firms, which naturally tailor the data to their own requirements. Given the ‘public good’ properties of the data, there seems to be a good case for official authorities to put efforts into this area.’”

Three years on, the situation no longer seems as dire. However, guidelines from international organisations would certainly be welcome to at least mitigate the difficulties facing, especially, those economies addressing property prices for the first time. It is to be hoped that this workshop can continue the process started by the IMF and BIS in October 2003.

²⁵ Claudio Borio and Philip Lowe (2002): “Asset prices, financial and monetary stability: exploring the nexus”, *BIS Working Papers*, no 114, July.