BANK FOR INTERNATIONAL SETTLEMENTS

Commercial property prices collection and usages at the BIS

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ERES Conference on "Commercial property market indices and strategic actions for distressed property assets in Greece"

Bank of Greece

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Outline:

1. Background
2. Country coverage and sources
3. Database usage and references
4. Shortcomings
5. Way forward
6. Annex charts

Background:

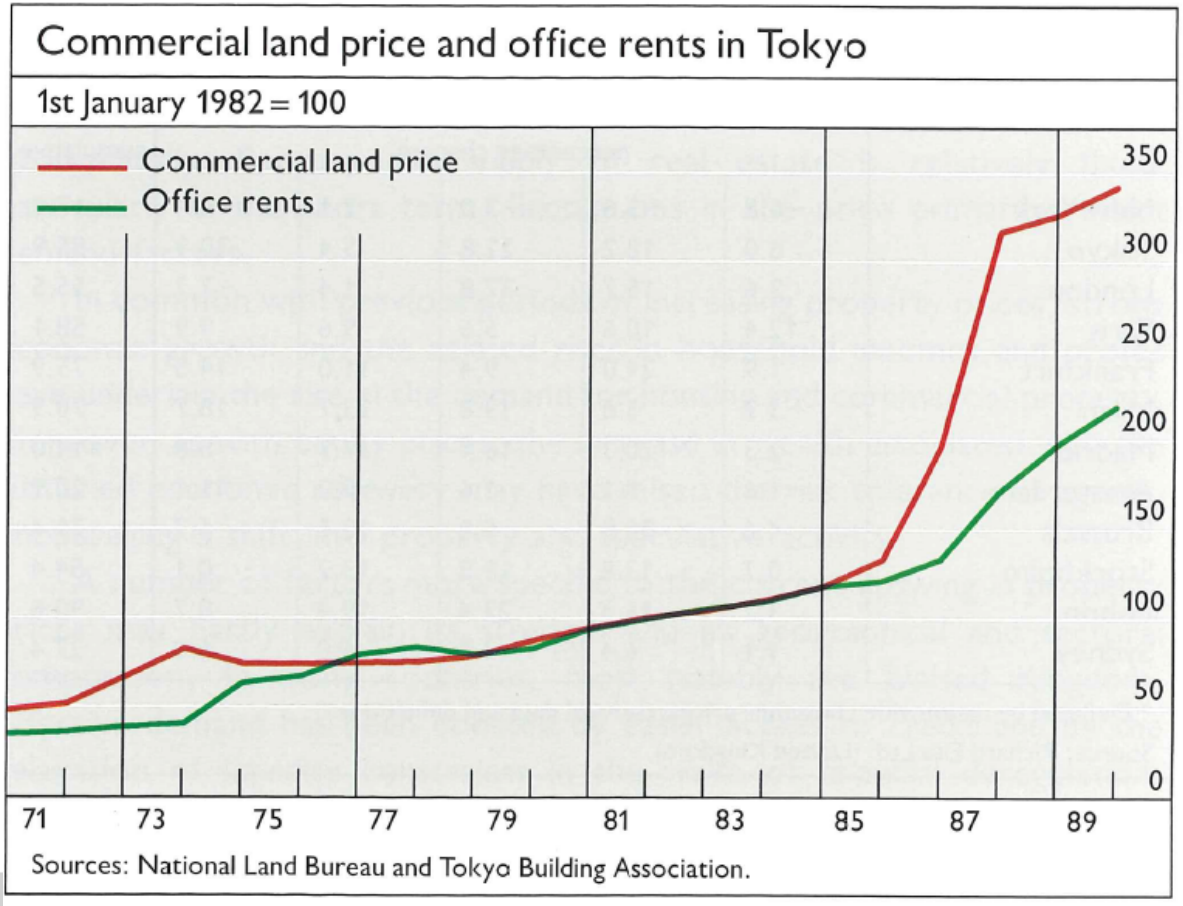
Interest in commercial property values has been on the rise since the crisis, three main reasons:

- Commercial property often serves as collateral for loans issued by financial institutions
- Its value is used as input in the valuation of securitized assets
- Potentially useful in the formulation of monetary policy

The BIS has been promoting the use and analysis of **both** residential and commercial property prices for financial stability purposes.

Background:

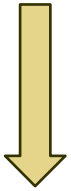
In **1989** the BIS Annual Report showed for the first time commercial property price indices. In particular for the case of Japan, these values proved very important in the building up of imbalances in corporate balance sheets.



Background:

Since then further efforts have been made in order to fill the gap existing in property price statistics

First comprehensive dataset: C E V Borio, N Kennedy and S D Prowse (1994): "*Exploring aggregate asset price fluctuations across countries: measurement, determinants and monetary policy implications*", BIS Economic Papers, no 40, April.
Data far back as 1970-1971 for 13 countries



Commercial property prices were used together with equity and residential property prices to construct an aggregate asset price index

Background:

In order to be able to analyse **turning points** and **medium-term cycles** in property markets we needed long time series

Owing to lack of consistent statistics in this area we had to mix different data sources:

- Central banks
- Commercial sources (IPD, JLL)
- Trade associations (NCREIF)
- Academic studies

Country coverage and sources: an **historical internal d**

Commercial property prices, internal database				
Country	**Frequency**	**Start date**	**Source**	**Coverage**
Australia	Quarterly Annual	1968:Q1 1983	IPD JLL	Office Sydney
Austria	Annual	2003	IPD	Office
Belgium	Annual Annual	1980 1970	IPD JLL	Office Brussels
Canada	Quarterly Annual	1985 Q1 1984	IPD JLL	Office Toronto
Denmark	Annual Annual (disc) **Quarterly**	1999 1982 **1992**	IPD Sadolin **NSO**	Office Copenaghen **Denmark (all business properties)**
Finland	Annual Annual (disc)	1997 1971-2009	IPD Yuoneistomarkkinoinnti	Office Helsinki Central Business District
France	Annual Annual (disc)	1985 1980	IPD JLL	Office Paris
Germany	Annual Annual (disc) **Quarterly**	1985 1980 **2004**	IPD JLL **VDP**	Office Frankfurt **Germany**
Hong Kong SAR	Quarterly (disc) **Monthly**	1983 Q1 **2000-12**	NSO **NSO**	Office **Mixed**
Ireland	Quarterly Annual	1995 Q1 1983	IPD IPD	Office

Country coverage and sources: an **historical internal data**

Commercial property prices, internal database (cont.)				
Country	**Frequency**	**Start date**	**Source**	**Coverage**
Italy	Annual	2002	IPD	Office (Rome)
	Annual	1983	JLL	Milan
Japan	Semi-annual	1955 H1	Japan real estate institute	Land prices
Netherlands	Annual	1994	IPD	Office
	Annual (disc)	1980	JLL	Amsterdam
New Zealand	Semi-annual	1980 H1	via DBS	Overall index
	Semi-annual	1990 H1	JLL	Auckland
Norway	Quarterly (disc)	Q4 2006	IPD	Office
	Annual	1999	IPD	
	Annual	1980/90	OPAK	Oslo
Portugal	Annual	1999	IPD	Office
South Africa	Annual	1994	IPD	Office
Spain	Annual	2000	IPD	Office
	Annual	1980	JLL	Madrid
Sweden	Annual	1983	IPD	Office
	Annual (disc)	1980	JLL	Amsterdam
Switzerland	Quarterly	1970	Wuest&Partner (DBS)	Office
	Quarterly (disc)	1983	Wuest&Partner	
United Kingdom	Monthly	1986/12	IPD	Office
	Quarterly	2000Q1	IPD	
	Annual	1970	IPD	
	Annual(disc)	1974	JLL	London
United States	Quarterly	1977 Q4	NCREIF	Office
	Semi-annual	19802HY	JLL	New York City

Country coverage and sources :

In addition to the internal database, we receive data from the following countries and are **available on our website:**

Country	Freq.	Coverage	Type of property	Source
Switzerland	Q	Whole country	Office premises	Private sector
	Q	Whole country	Retail premises	Private sector
China	M	Capital city	Mixed (residential and non-residential)	NSO
Germany	A	Urban areas	Office premises	Private sector
	A	Urban areas	Retail premises	Private sector
	A	Urban areas	Industrial properties	Private sector
	A	Urban areas	Mixed (residential and non-residential)	Private sector
Denmark	Q	Whole country	Commercial property	NSO
	Q	Whole country	Industrial properties	NSO
	Q	Whole country	Agricultural properties	NSO
Hong Kong SA	M	Whole country	Commercial property - office premises	NSO
	M	Whole country	Commercial property - retail premises	NSO
Indonesia	Q	Capital city and subur	Commercial property - office premises	Central bank
Japan	Q	Capital city and subur	Land for commercial	Public corporations
	Q	Big cities	Land for commercial	Public corporations
	Q	Urban areas	Land for commercial	Public corporations
Luxembourg	A	Whole country	Mixed (residential and non-residential) proper	NSO
Philippines	Q	Capital city	Land for commercial	Private sector
Singapore	Q	Whole country	Commercial property - office premises	General Government
	Q	Whole country	Commercial property - retail premises	General Government
	Q	Whole country	Industrial properties	General Government

Database usage and references:

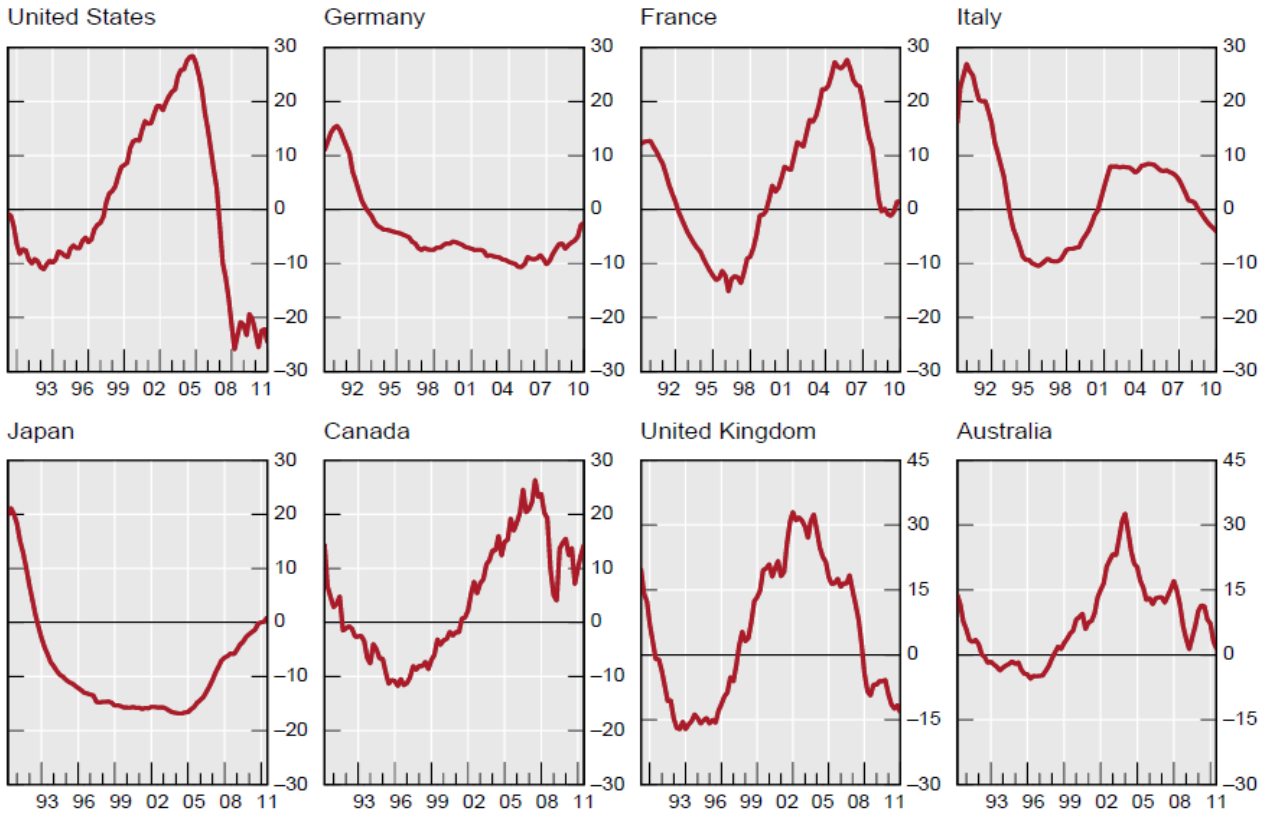
Where are commercial property price series useful?

- Monitoring, regular publication in the Annual report and background information for governors
- Aggregate asset price indicator, C E V Borio, N Kennedy and S D Prowse (1994): "*Exploring aggregate asset price fluctuations across countries: measurement, determinants and monetary policy implications*", BIS Economic Papers, no 40, April
- Signals for future crises, C E V Borio, M Drehmann: "Assessing the risk of banking crises – revisited", BIS Quarterly Review, March 2009
- Davis E P and Zhu H (2005) - "Commercial property prices and bank performance"- BIS Working Paper No 175 and Quarterly Review of Economics and Finance, 49, 1341-1359

Database usage and references: the gaps

Real property price gap[1]

In per cent



[1] Weighted average of **real residential and commercial property prices** with weights corresponding to estimates of their share in overall property wealth; gaps are estimated using a one-sided rolling Hodrick-Prescott filter with lambda set to 400,000; in percentage points as deviations from trend.

Sources: Various real estate associations; national data; BIS calculations.

Database shortcomings:

Available data suffer of a number of inconsistencies

- Mix of definitions, transaction-based indices are available only for a few countries, the majority of the data is based on **valuation models**

- **Frequencies** are mostly annual

- We focus on **offices** as we observed that these were the most widely available data however it is not clear if this is the “ideal” choice

- Still far from global **coverage**, “official” data are scarce in both advanced and emerging market economies

Way forward:

Further steps:

➢Improving what already exists:

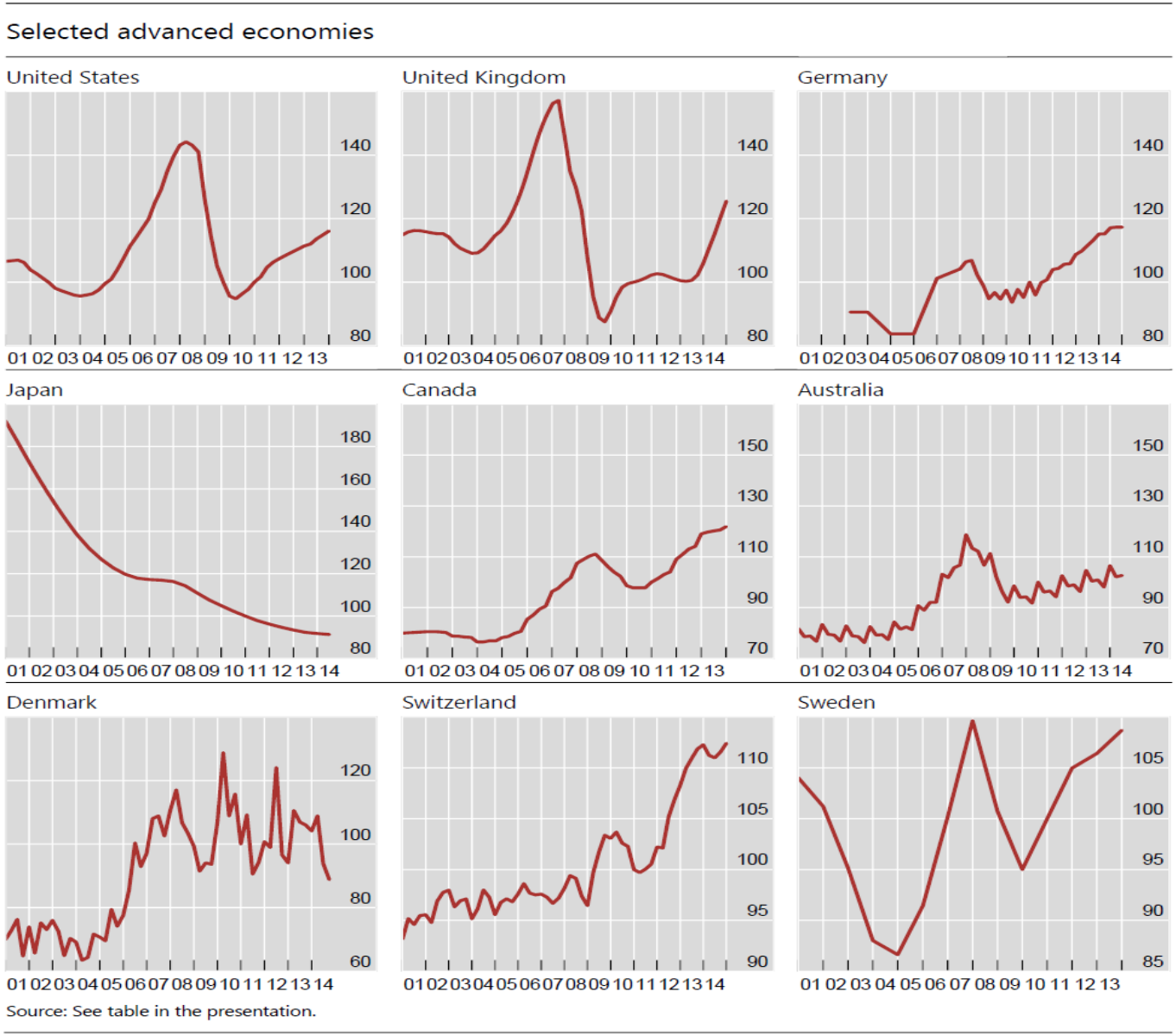
-Understanding the methodology of the valuation-based indices

-Revising the weights used in the aggregate assets price indices

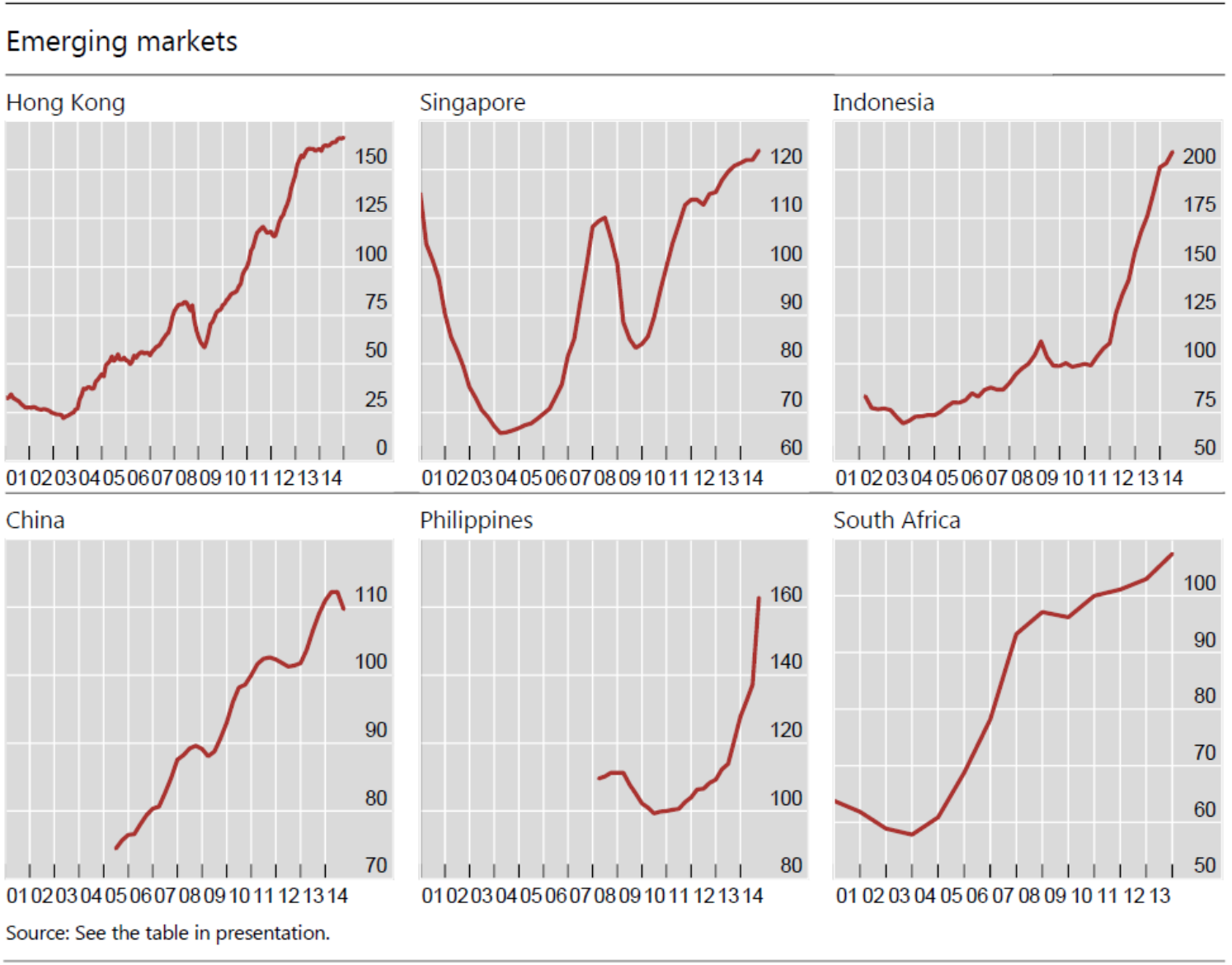
➢For the time being, no further efforts in the collection of commercial values, priority has been assigned to the residential property prices

➢Greater cooperation with NCBs and the ECB

Annex: nominal commercial property prices 2010 = 100



Annex: nominal commercial property prices 2010 = 100



Source: See the table in presentation.

Thank you!

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