

Working Towards a Comparable House Price Inflation Measure in Europe

Meeting of the Group of Experts on Consumer Price Indices
Geneva, 30 May – 1 June 2012

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Outline

- Introduction
- Motivation and initial project work
- The House Price Index output
- Technical issues
- Future developments
- Conclusions

Introduction

■ Monitoring house prices:

- *role played in economic and financial crises, especially in the 2008-2009 contraction*
- *potential effect on consumption (wealth effects), etc.*

■ Increased demand from **users** (policy makers)

■ 2001: Eurostat and European Statistical System (ESS) - project for **official house price indices**

Motivation

- 1992: Maastricht Treaty – Monetary Union
- March 1997: Harmonised Index of Consumer Prices (HICP) by EU Member States
- **HICP excluded expenditures related to house acquisition** (mortgage & interest payments, costs related to purchase and ownership), **imputed rents**.
- **Improve HICPs comparability** - Owner Occupied Housing (OOH)
- Stand alone House Price Index

Project design

- The **OOHPI**- household expenditure:
 - *houses acquisitions for own use (including from own account production),*
 - *services related to purchases and ownership (net basis).*
- The **HPI** - expenditure on houses:
 - *actually transacted in the market (own account production excluded)*
 - *whatever purpose of transactions.*
- **Net acquisition approach** applied to the OOHPI: goods and services new to household sector

Phase 1 OOH (2001-2003)

- Five countries: Germany, Spain, Poland, Finland and the UK
- **Price indices** for new dwellings in all pilot-countries
- First version of a **methodological manual**

Phase 2 OOH (2006- mid 2008)

- **Coverage extended** to 12 countries
- Objectives:
 - *compile price index for all dwellings purchased by households;*
 - *estimate effect of land prices;*
 - *derive all dwellings price index according to net acquisitions concept*
- **Updated technical manual**
- 2008: study on **separation of land from structure prices.**

Phase 3 OOH (mid 2008- 2009)

- 26 participant countries
- **Coordination** assisted by external expert (**Statistics Portugal**)
- **Steering Group** - Eurostat, DG ECFIN, ECB and two Member States
- **Exchange of knowledge** - OOH workshops
- Eurostat started drafting an **EU Regulation**

Phase 4 OOH (2010- 2011)

- Participating countries - **EU 27** plus **Iceland** and **Norway**.
- 3 OOH workshops
- Updated version of the **OOH Technical Manual (v.2.0)**
- **Prescriptive** Manual (“OOH Short Manual”)
- **OOH Regulation** discussed with Member States
- First **experimental release**: series of HPI in Dec 2010.

An EU legal framework for owner-occupied housing

- **Regular** production and transmission of HPI and OOHPI
- **Continuity** after end of pilot phase
- Relationship with **administrative data sources**
- **Financial** planning (allocation of funds for OOH)
- Stop and re-start - very costly

Methodological framework

- **Technical manual on OOHPI and HPI**
- Based on **practical experiences** of statistical offices
- **Handbook on Residential Property Prices indices** - broad theoretical framework
- Both available on Eurostat website

House Price Index – data sources

- Administrative most typical
 - *Low cost, comprehensive coverage, but*
 - *Not collected for statistical needs:*
 - *Lacking variables, missing values,*
 - *Timeliness*

House Price Index

- Annually **chained Laspeyres-type** indices
- **Quality adjustment** - hedonic regression (predominant), stratification, SPAR.
- **Dissemination since Dec 2010** - 8 releases on Eurostat website

New/improved national HPIs

- Co-product of the OOH project

Country	Start of dissemination	Relevant references
<i>Ireland</i>	May 2011	O'Hanlon (2011)
<i>Luxembourg</i>	January 2010	Lamboray (2010)
<i>Spain</i>	September 2008	INE (2008)
<i>Netherlands</i>	January 2008	Statistics Netherlands (2008)

Technical issues

- **Decomposition** of dwelling prices into **land and structures** components
- **New** and **existing** dwellings - separation, data availability (new)
- **External weights** – data issues, volatility (market conditions)
- **Major repairs, self builders** and **major renovations**

Data and econometric issues

- **Outliers** identification, treatment of **missing** information
- Measurement errors
- **Model specification**, evaluation and selection
- Index number theory + **understanding the** functioning of the **housing market**
- Treating **special cases of transactions** (bare ownership purchases, housing cooperatives)

Future developments

- **Legal framework** for owner-occupied housing – 2012
- **Additional indicators on housing markets** (HPI back data, geographical breakdown; house sales; land prices)
- **Commercial property price indicators**

Conclusions

- Challenging (**no specific international standards** at outset)
- **“Top-down” approach**, HICP conceptual umbrella
- **Technical support** to participants
- Development/improvement of **methodological standards**
- **Data sources** (administrative)
- Workshops
- Legal framework
- **Metadata**

Thank you for your attention!