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

Bogdan Marola – Eurostat
Daniel Santos, Rui Evangelista and Vanda Guerreiro – Statistics Portugal
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 OOHI: 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
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Start of dissemination</th>
<th>Relevant references</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>May 2011</td>
<td>O’Hanlon (2011)</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>January 2010</td>
<td>Lamboray (2010)</td>
</tr>
<tr>
<td>Spain</td>
<td>September 2008</td>
<td>INE (2008)</td>
</tr>
</tbody>
</table>
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!