



CPPI Statistical Report ***'Commercial property price indicators: sources, methods and issues'***

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1. Background

- An increased need over recent years to have **better and more complete measures of changes in real estate prices** led to the publication in 2013 of a ***Handbook on Residential Property Price Indices (RPPIs)***.
- At the same time, **interest increased in commercial property price indicators** from public institutions, policy makers, analysts, and market investors.
- Against this background and **in the context of the G20 Data Gaps Initiative, Eurostat took the lead, under the auspices of the Inter-secretariat Working Group on Price Statistics (IWGPS)**, in coordinating the drafting of this text.

1. Background

- The primary aim of the *CPPI Statistical Report* is to **outline concepts, methods, data sources and key issues** for the compilation of commercial property indicators. The report makes a first attempt at **setting out the wide range of challenges** linked to the measurement of commercial property.
- The text **covers the conceptual framework, the purposes and uses of CPPIs** – as well as other indicators.

1. Background

- The **text is not prescriptive** for three reasons.
 - Firstly, it is **not always possible to give practical guidance** as some of the **solutions to conceptual problems are not clear-cut** and there are choices to be made about precisely how a practical solution is implemented.
 - Secondly, **what is applicable and what can be achieved will depend on the data and resources available** to the institute compiling the CPPI.
 - Thirdly, the **concepts and methods for CPPIs are less well developed than for RPPIs** and there has been less practical experience. Recommended practices are likely to evolve and be supplemented by further advice with the accumulation of more practical experience on the compilation and use of CPPIs.

2. What is 'commercial property'?

- Before considering CPPIs, it is necessary to define '**what is commercial property?**' Property represents **one of the most significant, non-financial assets** owned by households, firms, and governments. However, the use of property and its economic role changes **depending on the entity that owns and uses it.**
- While '**property**' might be considered a more general term than '**real estate**', the two are used interchangeably in the remainder. In what follows, and independently of which of the two terms is used, they refer to **developed land; i.e., buildings together with land.**

2. What is 'commercial property'?

- The IWGPS approved the work on **building blocks** for definitions of commercial property. The building blocks are thought to be **flexible enough to accommodate different definitions** according to the varying uses of indicators.
- The delineation is **inspired by SNA terminology** and contrasts
 - the **type of property** concerned: residential or non-residential; with
 - the **economic activity** involved: selling/renting, construction, own use or non-market.

2. What is 'commercial property'?

- As such, the delineation includes **all types of properties**, independently of **whether or not they are eventually considered as being commercial** in the particular use of this definition.
- The **express aim of the building blocks** is two-fold:
 1. Every property goes into one and only one building block; i.e., **every property appears exactly once somewhere** (technically speaking, it is a partition).
 2. Since it is appropriate to use different measurement approaches depending on the specific analytical objective, the **building blocks can be flexibly grouped**.

2. What is 'commercial property'?

Activities	Assets	Residential properties	Non-residential properties
Selling and renting of real estate		Rental housing	Investment properties
		<i>of which</i> <i>Owned by households</i>	
Construction of buildings		Residential buildings under construction	Non-residential buildings under construction
		<i>of which</i> <i>For use by owner-occupiers</i>	
Own use		Owner-occupied housing	Corporate properties
Non-market		Social housing	Other non-residential properties

3. Classification of commercial properties

- The **classification of commercial property** has had **little attention in official statistics**. The only internationally recognised detailed classification of commercial properties in official statistics is the ***Classification of types of construction (CC, 1998)***, a nomenclature for the classification of constructions according to their type.
- This **lack of a fully satisfactory internationally recognised nomenclature** for commercial property has led to **producers and users adopting their own classifications**.

3. Classification of commercial properties

- A working group of **German government institutions** (Federal Statistical Office; Expert Committees on Property Valuation; Federal Ministry of the Interior, Building and Community; Federal Institute for Research on Building, Urban Affairs and Spatial Development) **and associations in the real estate and banking industry** came together to develop a classification of real estate which should be
 - a (national) **standard**;
 - suitable for **analysis**;
 - **accepted** by all market participants;
 - **compatible** with the data pool;
 - take account of **existing norms** (SNA and CC); and
 - delineated by the **use of the property** (as opposed to by the owner).

3. Classification of commercial properties

- For the **purposes of analysis, research and valuation, developed land** is first categorised according to four main groups:
 - **Residential** property;
 - **Commercial** property;
 - **Agriculture, forestry and fishing** property; and
 - **Other** property.
- The category '**commercial property**' contains properties with very heterogeneous uses and it is **further broken down** according to nine segments.

3. Classification of commercial properties

- The **purpose** of a commercial property is to produce a good or service, i.e. it is used as capital stock in the production process – incl. the real estate activity. This includes **investment and corporate properties**.
- **Users** of commercial properties are **firms and governments** but normally not households.
- NB: **Rental housing** is **residential property** *per definitionem* (to reiterate: the working group takes a user point of view).

3. Classification of commercial properties

- **Wholesale and retail trade** buildings
- **Office** buildings
- **Industrial and logistics** buildings
- **Hotels and hospitality** buildings
- **Hospital, health care and other social** buildings
- **Leisure, culture and education** buildings
- **Technical infrastructure** buildings
- **Other non-residential** buildings
- **Other structures**

3. Classification of commercial properties

- This classification of commercial property is **largely similar to the CC**. The [first report](#) of the German working group also **further stratifies wholesale and retail trade buildings as well as office buildings**.
- For the **trade buildings**, characteristics such as **floor area and technical design** were taken into consideration. Examples include **shopping centres, department stores and specialist retailers**.
- **Office buildings** are identified mainly through the **range of functions of the buildings**. Thus, it distinguishes between **single-use buildings including office parks, and business premises** which are mainly used as offices.

3. Classification of commercial properties

- The **second report** further describes the remaining segments.
- **Industrial and logistics** buildings: light and heavy industry, logistics, labs
- **Hotels and hospitality** buildings: hotels and other buildings for accommodation (additional services are very important), gastronomy
- **Hospital, health care and other social** buildings: hospitals, health care, institutional buildings (e.g. prisons)

3. Classification of commercial properties

- (cont'd)
- **Leisure, culture and education** buildings (also for religious purposes): leisure parks, cinemas, churches, football stadiums, universities, kindergartens – education is more relevant than accommodation
- **Technical infrastructure** buildings: energy generation, other supply and disposal, communication infrastructure, transport

4. Way forward

- *CPPI Statistical Report*: '**CPPIs based on actual transaction prices are the ideal target measures for most uses.**'
- Yes, but (list is not exhaustive! – [joint expert group](#)):
 - The **interrelationship** between **prices, rents and yields** (and potentially vacancy rates) must be taken into account rather than only prices.
 - From **administrative data sources** such as land registries and tax records one cannot get the necessary **meta information**, however.
 - This problem has been elevated with **SPEs**, where not even the **property transaction** as such would be recorded.

4. Way forward

- We need to become accustomed to the fact that this **first-best solution** will, most likely, be unfeasible in practice. This is why **valuation-based indicators** deserve a closer look, too.
- Valuation data from **investment funds or loan collateralisation** might be a useful basis for the analysis of prices, rents and yields, particularly in the **major cities and prime locations**.
- But yes: valuations tend to **lag and smooth** the corresponding results from transactions.

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