Real estate statistics: some considerations from Basel

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The views expressed are those of the author and do not necessarily reflect those of the BIS or the IFC.

Property prices and macrofinancial analyses

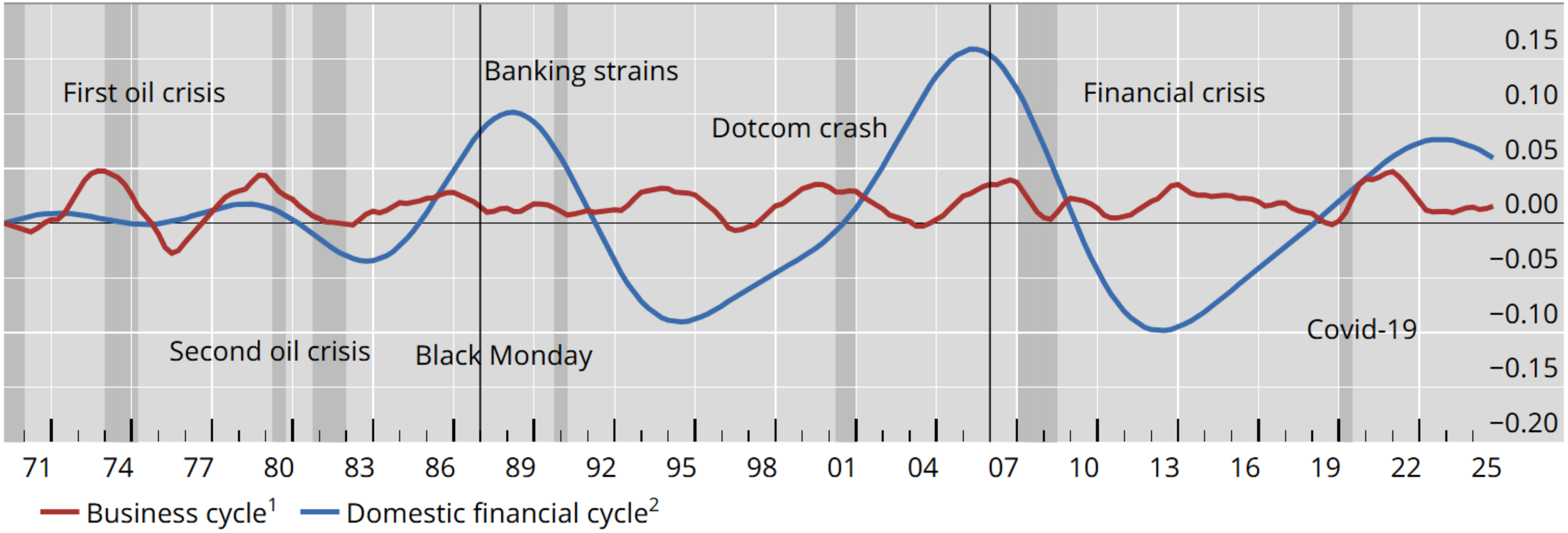
- Direct **economic impact**
  - Rising prices and demand for new construction
  - Stimulate credit demand for purchasing properties
  - Wealth effects? Not clear…
- **Financial accelerator mechanism**: property assets as collateral
  - Depends on local characteristics: eg possibility for consumers to borrow against the value of houses ("mortgage equity withdrawal (MEW)")
  - Role of credit market imperfections (pricing of credit)
  - Moral hazard issues (when loans have to be repaid)
- **Dynamic interactions** between asset prices and credit creation

Property prices and financial stability issues

- **Financing cycle**: self-reinforcing forces between
  - Asset prices
  - Financial conditions eg risk premium / appetite
  - Credit demand & supply
  - Perceived loan quality
- Impact on **financial system's soundness**: property as a guarantee and an asset (when invested directly)
- **Turn of the cycle**
  - Underlying vulnerabilities as financial conditions tighten
  - Level of indebtedness matters (non-linearity)

House prices and the financial cycle – an illustration

The domestic financial and business cycles in the United States



The shaded areas indicate recessions; the solid black lines indicate the start of a banking crisis as defined by Laeven and Valencia (2018).

[1] The business cycle as measured by a frequency-based (bandpass) filter capturing fluctuations in real GDP over a period from one to eight years. [2] The financial cycle as measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices.

Sources: Drehmann et al (2012); Laeven and Valencia (2018); BIS calculations.

Widespread interest in property prices among policy makers

- **Monetary** authorities
  - Demand and inflation
  - Monetary policy transmission mechanisms (eg banking intermediation)
- **Macro prudential** authorities
  - Systemic risk across the financial system
  - Over time (pro cyclicality)
- Micro **supervisors**
  - Banks
  - Other Financial Institutions (regulated or not: eg shadow banks)

Still important data gaps despite international efforts, especially at the BIS

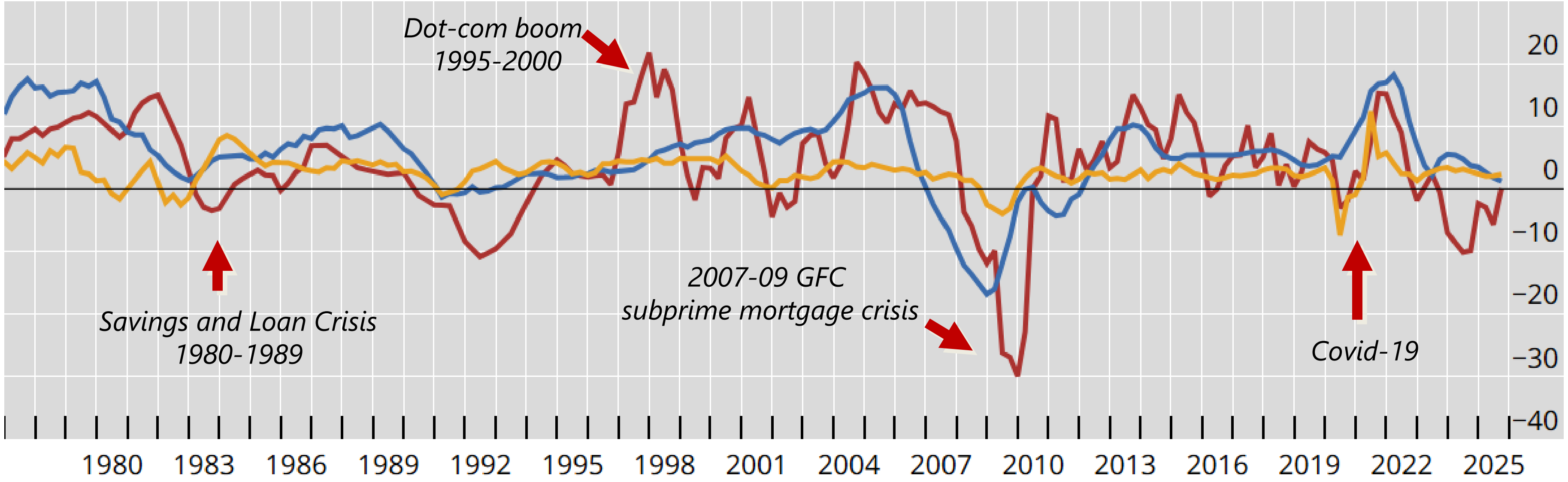
- **BIS global role** in collecting and disseminating property prices after the GFC
  - But important challenges remain for collecting **RPPIs**…
  - … and even more so for **CPPIs**

- **3 main data issues**
  - **Information value** of the data collected
  - **Reliability**
  - **Usefulness** (for policy)

Illustration: US residential and commercial property prices

Commercial and residential property price developments and real GDP growth in the United States

Annual growth, in per cent



Property price index[1]: Commercial, Residential; Real GDP[2]

[1] Year-on-year growth rates. [2] Seasonally adjusted annual rate.

Source: BIS; Board of Governors of the Federal Reserve System.

CPPIs appear more volatile than RPPIs

Both fluctuate more compared to the business cycle

Thank you!!

- Mind the data gap: commercial property prices for policy (2019), *IFC Report,* no 8
- Residential property price statistics across the globe (2014), *BIS Quarterly Review*, Sept.
- Exploring aggregate asset price fluctuations across countries : measurement, determinants and monetary policy implications, *BIS Economic Papers*, no 40
- Research and analysis using the BIS property price statistics

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