

Contents

1.	Preface	11
	1.1. Introduction	11
	1.2. Background	11
	1.3. A Guide to Readers	11
	1.4. Acknowledgements	12
2.	Introduction	13
3.	Uses of Commercial Property Price Indicators	15
	3.1. Overview	
	3.2. In the national accounts: using the CPPI in the estimation of a component of wealth and as a deflator	
	3.3. A financial stability or soundness indicator to measure risk exposure	18
	3.4. A macroeconomic indicator of economic activity	19
	3.5. Monetary policy and inflation targeting	20
	3.6. A commercial property index as an input to a company's or citizen's decision making on whether to invest in commercial property	21
	3.7. Uses made of other indicators relating to the commercial property sector	21
	3.8. Land Prices	22
	3.9. References	23
	3.10. Appendix 3.1: Examples of uses of other commercial property indicators for economic and macroprudential analysis	24
4.	Conceptual Framework for Commercial Property Price Indices	29
	4.1. Introduction	29
	4.2. Some basic definitions & terminology of commercial property	30
	4.2.1. What is 'commercial property'?	31
	4.2.2. Target index and quality adjustment	32
	4.2.3. Appraisal prices	34
	4.2.4. Potential problems with appraisal-based indices	34
	4.3. Commercial Property Price Indices and the System of National Accounts	37
	4.4. Classification of commercial properties	38
	4.4.1. The segmentation and stratification dimensions in commercial property asset markets	38
	4.4.2. Classifications in official statistics that could be used for commercial properties	
	4.4.3. Classification of commercial property based on market segments	
	4.4.4. Treatment of types of estates: freeholds and leaseholds	
	4.5. Main methods for the construction of a commercial property price index	43

	4.5.1. The stratification approach	43
	4.5.2.The repeat sales method	43
	4.5.3. Hedonic regression methods	44
	4.5.4. The SPAR method	45
	4.6. Aggregation and weighting issues	46
	4.6.1. The construction of aggregate price indices for sales of commercial properties	46
	4.6.2. The construction of aggregate price indices for stocks of commercial properties	47
	4.6.3. Frequency and revision policies	48
	4.7. References	48
5.	Measuring asset price change over time: transaction price-based indices	. 53
	5.1. Introduction	53
	5.2. Selected threshold considerations	55
	5.2.1. Equal and value weighted indices	56
	5.2.2. Constant and varying liquidity indices	56
	5.3. The data on which transaction price indices are based	56
	5.4. Simple averaging	57
	5.5. Mix-adjustment by stratification	57
	5.6. An introduction to hedonic & repeat sales methods	58
	5.6.1. Hedonic indices	59
	5.6.2. Repeat sales indices	59
	5.7. The hedonic price method	59
	5.7.1. Time dummy variable method	62
	5.7.2. Hedonic imputation method	
	5.7.3. Characteristics, advantages, and disadvantages of the hedonic method	63
	5.8. Repeat sales method	
	5.8.1. Repeat sales index	
	5.8.2. Matched sample estimation	
	5.8.3. Sample selection and data issues in repeat sales versus hedonic indices	
	5.8.4. Characteristics, advantages, and disadvantages of repeat sales indices	
	5.9. Index construction	
	5.9.1. Geometric/arithmetic bias correction	
	5.9.2. Noise reduction and frequency conversion	
	5.10. Index evaluation	
	5.10.1. Standard errors of price indices	
	5.10.2. Volatility and first-order autocorrelation	
	5.10.4. Temporal bias: lead and lag relations	
	5.11 References	
	2 LL ReletenCBS	,,



6.	Appraisal based indices	75
	6.1. Introduction	75
	6.2. Appraisal value as regressor	76
	6.3. The SPAR method	77
	6.4. Characteristics, advantages, and disadvantages of appraisal-based indices	77
	6.5. References	78
7.	Appraisal and Stock Market based Investment Return Indicators	79
	7.1. Introduction	79
	7.2. Appraisal-based Investment Return Indicators	80
	7.2.1. Property Appraisals	80
	7.2.2. Specific considerations in appraisal-based IRIs	81
	7.2.3. Data collection	84
	7.2.4. Computation of appraisal-based IRIs	85
	7.2.5. De-smoothing of appraisal-based IRIs	
	7.2.6. Characteristics, advantages, and disadvantages of appraisal-based IRIs	88
	7.3. Stock Market Based Investment Return Indicators	90
	7.3.1. Stock market and property market valuation of property assets	
	7.3.2. Computation of stock market based IRIs	
	7.3.3. Data collection and preparation	
	7.3.4. Characteristics, advantages, and disadvantages	
	7.4. References	95
8.	Additional indicators for commercial property	97
	8.1. Introduction	97
	8.2. Rent indices	99
	8.2.1. Rent agreements	99
	8.2.2. Measurement of market rent	100
	8.2.3. Rent index construction	102
	8.3. Vacancy rate	104
	8.4. Additional space market indicators	104
	8.5. Yields	105
	8.6. Number of Transactions	106
	8.7. Concluding remarks	107
	8.8. References	107
9.	Data sources	109
	9.1. Overview	109
	9.2. Commercial property price indices: transactions	110
	9.3. Commercial property price indices: valuations	111

9.4. The treatment of outliers	11
9.5. Commercial property price indices: weights	11
9.6. Stock-market based property return indices: stock market based data	11
9.7. Other indicators relating to the commercial property sector	11
9.8. References	11
. Commercial Property Price Indicators currently available	11
10.1. Overview	11
10.1.1. Harmonisation, methodologies, definitions and coverage	1 1
10.1.2. Compiling a database of commercial property prices: incomplete data outliers, data and index quality	
10.2. Availability of official indices	11
10.2.1. The ECB's experimental quarterly Indicators of Commercial Property Pr	ices 12
10.2.2. Statistics Denmark's quarterly Commercial Property Price Index	12
10.2.3. Hong Kong SAR: The Commercial Property Price Index compiled by the National Statistics Office	
10.3. Commercial Property Price Indices and other indicators compiled by non-government entities	1:
10.3.1. Worldwide: IPD (Investment Property Databank Ltd)	
10.3.2. United States: The Moody's/Real Capital Analytics (RCA) Commercial Property Price Index	
10.3.3. Hong Kong SAR: The Jones Lang LaSalle indices	1
10.3.4. Hong Kong SAR: FPD Savills	1
10.4. Case Study: Japan	13
10.4.1. Introduction	1
10.4.2. The Multi prices for one property	1
10.4.3. Commercial Property Price Indices	1
10.4.4. New official CPPI in Japan	1
10.4.5. Additional indicators for commercial property	1
10.5. Case Study: the United States	14
10.5.1. Appraisal-based indices	1-
10.5.2. Transaction-based indices	1-
10.5.3. Sparse data, noise filtering, and frequency conversion	1
10.5.4. Market segmentation in the CPPI	1
10.5.5. The CoStar Commercial Repeat sales Index Series (CCRSI)	1
10.5.6. Another layer of market segmentation: 'General' and 'Investment' properties in the CCRSI	1
10.5.7. Stock market-based indices	1
10.6. Case Study: Hong Kong SAR	15
10.6.1. Introduction	1
10.6.2. Existing Index Sources in Hong Kong SAR	1
10.6.3. A comparative analysis of the alternative indices	10



10.7. Case Study: Denmark	164
10.7.1. Official statistics produced by Statistics Denmark	164
10.8. References	168
11. Annexes	169
11.1. CPPIs and Decomposition for Land and structure components	169
11.1.1. The Residual Approach for Valuing a Commercial Property	169
11.1.2. Obsolescence, structure depreciation and demolition depreciation	174
11.2. Land	176
12. CPPI Glossarv	181