Chapter 6: Appraisal and StockMarket Based Price Indexes

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ECB Workshop on Handbook on Commercial Property Price Indexes, Frankfurt, September 29-30, 2014

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Very useful information on the appraisal process

- "..generally based on professional appraisals or officially reported valuations of the properties as reported by property-owning institutions that are members of the appraisal board index pool." 6.2.2.2.
- 25 percent mentioned (for US) as coming from professional appraisals in a quarter; once a year. FSI quarterly data?
- Kanutin (2013) refers to "interpolated values" in Europe when not professionally assessed.
- More empirical work on stale effects: the lagging and smoothing

Appraisal valuation process: all market based

- **Market value** comparison with known transaction price of other similar properties.
- **Income**; present discounted values of projected stream of cash flows; sensitive to discount rate applied which should be opportunity cost of capital, reflected in the expected return implied by the prices of similar properties currently trading.
- **Cost approach**; problem of estimating accumulated depreciation on structure and current cost of land…guided by what price-similar properties (land and buildings are selling for today.6.2.7.1

Justification of appraisal-based indices

- Appraisal-based valuations and stock market valuations are justified as market-based and , therefore, consistent with national accounts. If transaction data sparse, then transaction data should be ruled out in favor of these market based indices.
- ***But when transactions are sparse there are little to no current similar properties on which to base appraisals.***

The quality adjustment

- "Concern about CE being included (deducted) as not compatible with needs of central banks and other agencies cause the resulting index to fall below the track of property price evolution." 6.2.2.2
- For FSI would we not want constant-quality index?
- And are not CE and capital consumption (CC) poor mechanisms for quality adjustment.

The pros and cons

- The first draft suffered from having too little on the cons of such data, but this is nicely written up.
- Appraisal data can fill holes
- How to use it:
  - Index aggregation method
  - SPAR
  - Transaction-linked
    - Use to impute period 0 prices, available in 1, but not 0 and period 1 prices, available in 0, but not 1.

But the cons

- Only available annually by professional surveyors; lag/smooth effect generated by 3 out of 4 observations;
- Relatively small sample (with selectivity bias) appraised in this manner;
- Price is a judgement that may not be impartial and, when data is sparse, based on a few heterogeneous transactions;
- Justification as consistent with SNA needs to be tempered;
- Inadequate adjustment for quality change;
- Valuation definitions/standards vary across and within countries.

And the pros again:

- Appraisal data can fill holes.

Need more research

- On transaction prices as the core and how appraisal data can effectively temper the sparse data problem, especially if there are feasts and famines in and out of recessions. Transaction-based CPPIs are used: how to improve them.
- The extent of the problems mentioned above and methods and steps need to mitigate the errors and bias

Stock market-based indices

- Rather than be persuaded by the timely high-frequency nature, we should ask: Are they price indexes?
- Should they supplement CPPIs serving a different analytical role, or act as a proxy when transaction data are sparse.
- Do they have a quite different analytical base to price, indices for macro-economic stability? For example, as for RPPIs, in the analysis of the severity and duration of recessions do they belong to equity prices or a house price bubble, both of which have different effects and greater effects when combined