



BANCA D'ITALIA
EUROSISTEMA

The statistics available for the monitoring of the housing market in Italy and in the euro area

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“Rethinking real estate markets: second rule towards social and economic benefits”

Rome, 3-4 June 2009

Introduction

Developments in residential property prices are crucial in economic analysis (and monetary policy decisions) for various reasons:

- 1) changes in house prices affect the business cycle through their impact on
 - (a) households' wealth and in turn on consumption behaviour
 - (b) residential investments;
- 2) sharp price fluctuations impact on financial stability (credit quality, value of collateral...)
- 3) the functioning of the housing market affects labour mobility

Empirical analysis shows that housing market might contribute to the persistent propagation of shocks that hit the economy

The current crisis confirms the importance of investing in reliable, complete and (possibly) harmonized statistics on the housing market.

Information available in the euro area and in Italy is lacking. This presentation focuses on:

1. The statistical outlook in the euro area and in Italy
2. Recent initiatives undertaken in Italy to enhance our understanding and monitoring of the housing market

1. The statistical outlook for the euro area

(i) Residential property prices

National statistics are highly heterogeneous, making it difficult cross-country comparison and the compilation of reliable aggregate figures (the ECB does it on the basis of national available information).

The main factors underlying this heterogeneity are:

- a) various sources of the data: information can be collected from local experts, notaries, real estate agencies, mortgage lenders;
- b) different frequencies of data (monthly, quarterly, half-yearly, yearly)
- c) timeliness: only for few countries (IE, NE and PT) data are available 1-2 months after the end of the reference period; for the other within 3-8 months;
- d) incomplete coverage: in most cases only a subset of the market is covered (both in terms of geographical and of type of dwelling). Samples are not representative of the whole market;
- d) different methods: the main problem is how to account for the impact of quality changes on price developments (different solutions are likely to be implemented at the national level).

To deal with these differences, in 2000 the Eurostat WG-HICP launched a project for producing comparable indices for OOH (preliminary results expected for the end of this year)

(ii) Rents.

Rent statistics are computed for within the framework of the HICP; a few issues on cross-country comparability emerge:

- a) the rental market is (to some extent) regulated in various aspects, regarding:
- (i) how the initial rent will change in the future in a multiyear rent contract;
 - (ii) whether there is some type of control on the initial rent for a new contract;
 - (iii) the contract termination rules.

Note: in many countries (part of the) rented houses are still directly owned by the public institution (or subsidised non-profit organisations) which employ specific (non-market) contracts and criteria in the selection of tenants. Unfortunately, figures on “social” renting are not comparable across EU countries (national definitions of “social” rents might differ);

b) An issue concerns the treatment of existing contracts (whose adjustment rules are often indexed to average inflation) versus rents for new contracts (which reflect more closely the recent house price developments).

c) In theory the frequency of rents statistics is monthly, but in practice data are collected quarterly in many countries.

(iii) Supply side indicators.

- Residential investments (NA) available with a lag of 2-3 months
- Building permits and number of housing starts are important leading indicators of changes in the supply side, though timely statistics (1 month) only for few countries
- The number of housing transactions is also available with significant lags.

(iv) Financial indicators.

Timely information on lending conditions regarding mortgage rates available within NCBs, as well as that on non-interest rate component. The quarterly BLS (last issued end of April) includes the following questions:

- Q8. Over the past 3 months, how have your bank's credit standards as applied to the approval of loans to households (for house purchase as well as consumer credit) changed?
- Q9. Over the past 3 months, how have the following factors affected your bank's credit standards as applied to the approval of loans to households for house purchase? (factors include housing market prospects)
- Q10. Over the past 3 months, how have your bank's terms and conditions for approving loans to households for house purchase changed (collateral requirement, loan-to-value ratio, etc.)

2. The statistical outlook in Italy

In Italy information on the housing market is:

- released by many (private and public) institutions/research centres;
- not systematic
- not timely
- not available for a few important dimensions

(i) Price statistics.

Official data on property transaction prices are not available yet (Istat participates to the Eurostat WG-HICP on OOH).

Alternative sources:

- a) Nomisma. Average prices (semi-annual) reported by a sample of real estate agencies active in 26 (large/medium) provincial capitals; geographical coverage is, then, limited.*
- b) Il Consulente immobiliare (CI). Since 1965 it collects information on house prices twice a year from market operators. Main advantages: long existence and broad territorial reach; main drawback: frequent changes in the reference sample (breakdown).*

c) *Osservatorio del mercato immobiliare* (OMI). Since 2002 the Property Market Observatory publishes the selling prices of properties twice a year, with an almost complete coverage of the national territory. The prices reported are based on various sources (direct survey of actual prices quoted by market operators or from administrative archives, combined with the assessments of local experts).

The main drawback is that this source lacks of historical depth and data are published with a delay of a few months.

d) *Scenari immobiliari*. It publishes information on residential property prices in all of Italy's municipalities. These are not actual prices reported on house sales, but an estimate of the interval within which the final selling price will presumably fall (the starting point is the prices requested by sellers as reported in advertisements).

All in all:

- CI is the source that is best suited to analyzing medium-term developments. It is used by Zollino, Muzzicato and Sabbatini (2008) to compute an index that extends back to the mid-1960s and permits a detailed geographical breakdown.
- OMI is important for the wealth of information provided and territorial coverage. It is used in Cannari and Faiella (2007) for estimating households' wealth.

(ii) Non-price information

- a) Statistics on building permits are released, but only at an annual frequency and with a delay of 1.5 years (at the moment data available up to 2006)
- b) An index of industrial production in construction is not yet regularly released
- c) Information on transactions is available (OMI), but with 3-4 months delay. Furthermore, data are semi-annual (quarterly data available but only on an experimental basis)
- d) Information regarding the how long it takes to sell a dwelling, the percentage of discount on the initial price and so on is not collected systematically.

(iii) Qualitative (high-frequency) surveys

ISAE monthly surveys. (1) Question on the households' intention to buy a dwelling (poor leading properties of the answers); (2) business climate of building firms.

Early this year Bank of Italy and Tecnoborsa launched a new quarterly survey to collect (timely) information on the residential housing market.

3. Bank of Italy-Tecnoborsa survey

-This new quarterly survey gathers opinions of real estate agents on the residential market through a questionnaire (short, simple, structured).

- The aim is to fill the informative gap for important quantitative variable (prices and transactions) due to the considerable lags of publications.

Section 1. The outlook for transactions

(a) main characteristics of dwelling; (b) average number of months to sell a dwelling;
(c) unexecuted mandate to sell and new mandate to sell;
(d) main reasons not to renew a mandate; (e) percentage of sales financed by mortgages and their incidence on transaction prices

Section 2. Prices

(a) price developments in the reference quarter;
(b) transaction price vis-à-vis offer price

Section 3. Short-term perspectives

(a) prices (next quarter);
(b) number of mandates to sell (next quarter);
(c) general outlook of the residential market in the local market (next quarter) and the national market (next quarter and next 2 years)

4. House prices developments /1

- Since the beginning of the current decade house prices have been gaining increasing attention on the side of monetary policy as for cyclical development and financial stability analysis
- Back in 2003 the Eurosystem finalised a comprehensive study featuring the main characteristics of housing markets in different European countries, covering plenty of structural issues related to price and volume determinants in the house property and rental markets
- With the utmost importance, a new dataset has been produced under the efforts to collect comparable and reliable statistics on house prices in the Euro area, to be regularly updated for the use of monetary policy
- Each country has been contributing based on official statistics and, if they are not available, on estimates made by National Central Banks and properly documented; still important differences remain as for source, coverage and timeliness of national data, which are then aggregated in a Euro area index for years from 1991 and with semi-annual frequency
- Bank of Italy provides its own calculations, that were originally meant only for internal use and dating back to middle sixties; they have been recently revised to take account of important improvements of raw data retrieved from *Il Consulente Immobiliare*

4. House prices developments /2

- Based on BI indicator of house prices, analysis of medium term developments points at four cycles in the Italian housing markets:
- The first cycle, presumably already under way when data collection began in 1965, closed with the peak reached at the end of 1974, when prices surged by more than 30 per cent after five years of broad stability ([Figure](#))
- The second cycle, from the end of 1974 to mid-1981, was characterized by a phase of volatility that was more accentuated around the second oil shock, interrupted by an abrupt rise in prices, that reached a new peak in 1981([Figure](#))
- The third cycle, lasting up to the second half of 1992, began with a gradual downward correction, with prices down in 1986 to the low of the previous cycle, followed by more than 8 per cent per year increase in real terms until the peak in 1992 ([Figure](#))
- In the fourth cycle, likely just closed by the end of 2008, after a seven year fall at a milder pace than in the past, house prices show a brisk upswing (5% per year in real terms) until first signs of a slowdown since the end of 2006 ([Figure](#))

4. House prices developments /3

- Recent developments point to a gradual fading of house inflation in Italy, by a diverging intensity across different sources as transaction volume shrank in latest periods
- According to OMI, house prices in real terms stabilized in the first semester of 2008, and show a slight decline in the second ([Figure](#))
- According to BoI indicator, barely in line with OMI in previous years, house prices were still on the raise in the first semester, with a virtual stagnation in the second, signalling that uncertainty usually surrounding property price increased as the volume recession deepened
- Latest figures point to number of transactions keeping plummeting in the first quarter of 2009, totalling an overall drop by 36% since the middle of 2006. ([Figure](#))
- Based on historical evidence that volume cycles are more timely reactive than prices to changes in fundamentals on housing market, and even more so in the case of Italy, there is little than a surprise about the divergent path between the two indicators in recent times, and we find reasonable to foresee a fall in prices soon to come.

4. House prices developments /5

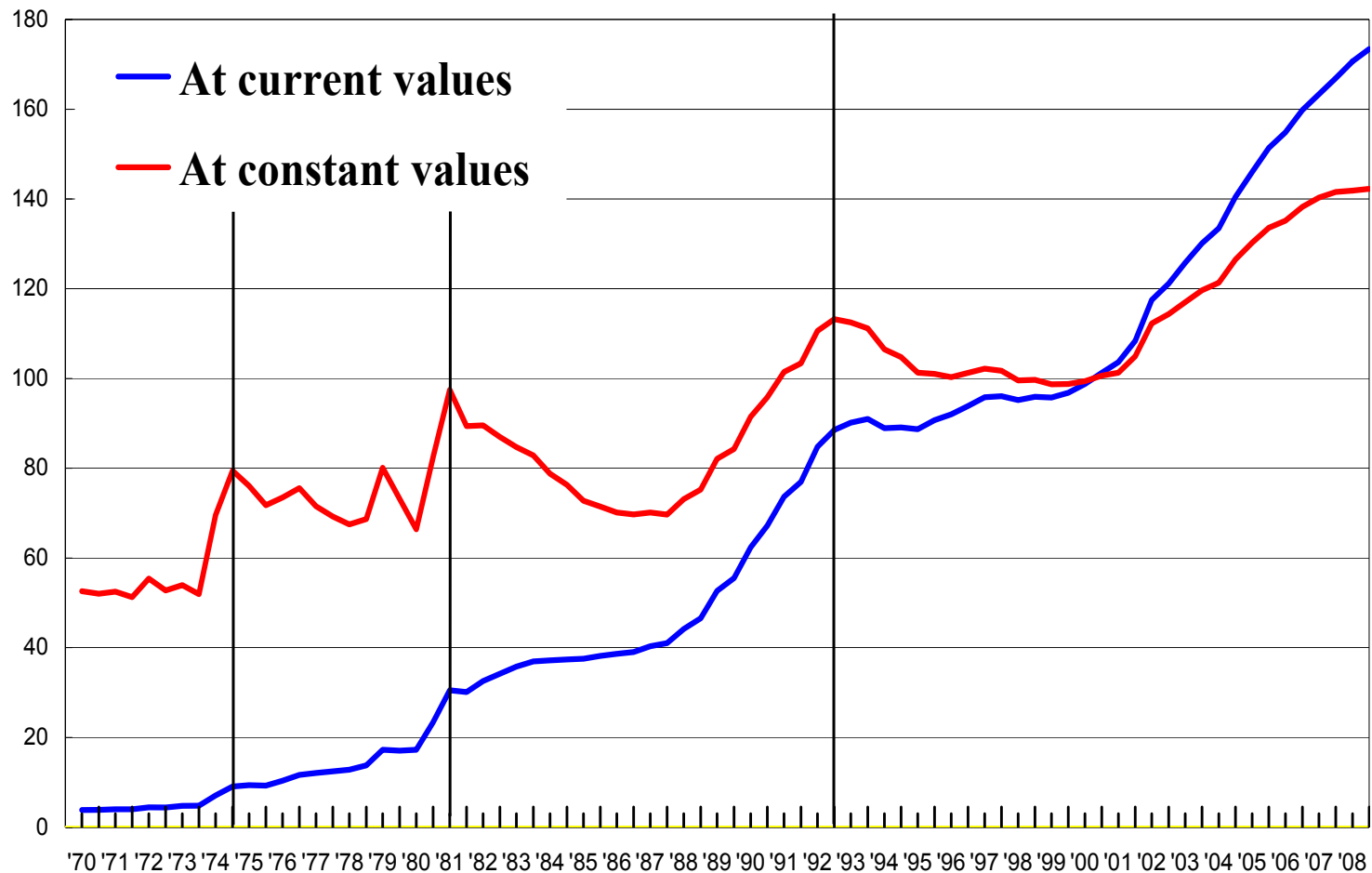
- Assessments of Euro area house price developments is still surrounded by high uncertainty on account of issues related to coverage, quality control and representativeness.
- In the Euro area, in 2008 house inflation markedly declined at 1.7% from 4.4% in 2007, continuing a moderate trend after the peak in 2005. [\(Figure\)](#)
- In 2008 as a whole nominal prices kept increasing, albeit at a slowing rate, in any Member states apart from the contraction in Ireland (-9.4%) and the virtual stagnation in Germany.
- Over the year signals of downward correction intensified and spread over a larger variety of countries, with year on year decline of nominal house prices in second semester in Spain, France and Finland, in addition to Ireland
- Based on latest information, in Q1 2009 house price further declined by some 10% in Ireland, 7% in Spain and 0.5% in the Netherlands.

5. Results from the latest Bank of Italy-Tecnoborsa survey

- According to the assessments collected across 1.000 real estate agencies, house market in Italy has shown a further deterioration since the last quarter of 2008, amid a new decline in the number of transactions, positive accumulation of unexecuted mandate to sell and first signs of price decline.
- The actual prices were on average lower by some 9.5% with respect to initial claims by suppliers and the time spent between the start and the final settlement of a transaction was up to 7 months
- The trend is pretty common across main area of the country, with a smaller reduction in transactions and more pronounced reduction in prices in the North-East ([Figure](#)).
- Despite the fact that expected price changes show a more moderate decline at the beginning of 2009 than in late 2008, the outlook confirms by large negative in a short term horizon ([Table](#)).
- First sign of recovery could materialize in the medium term (two years), in the country and main regions.

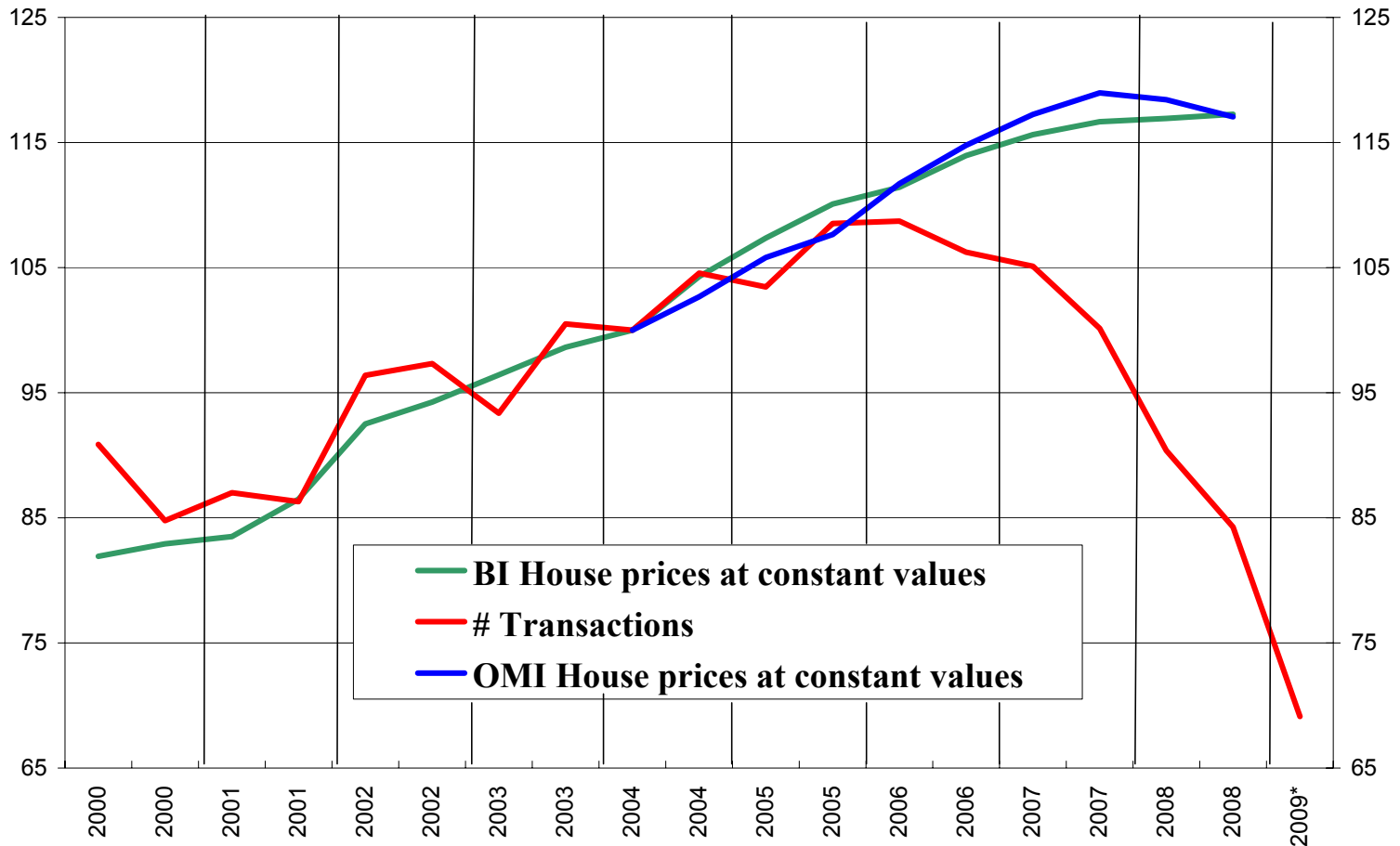
House prices in Italy

(index 2000=100; constant values based on HICP)



Source: elaborations based on data from Bank of Italy, Istat and *Il Consulente immobiliare*

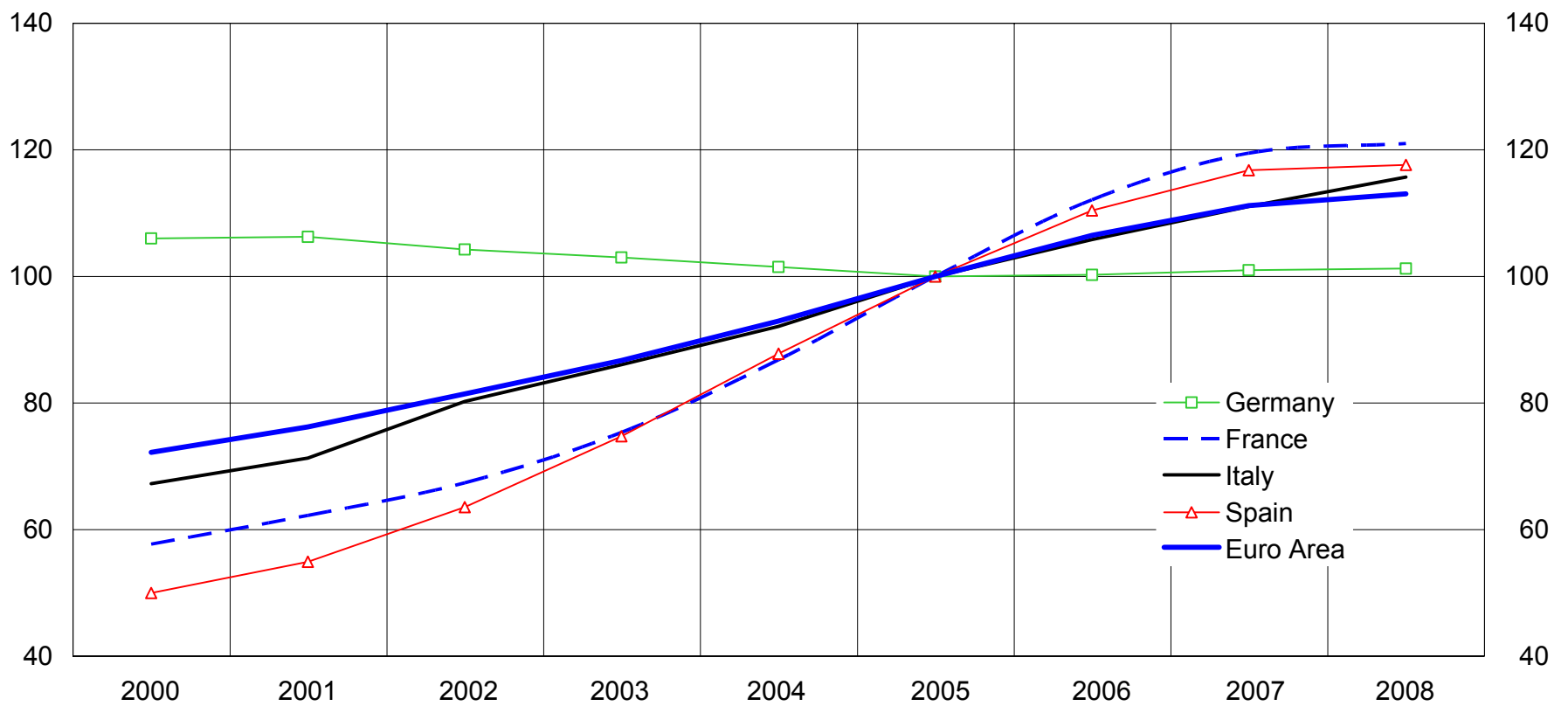
House prices and transactions in Italy (semi-annual data; index 2004 S1=100)



Source: elaborations based on data from Bank of Italy and *Osservatorio sul Mercato Immobiliare*;

(*) Estimate based on number of transactions in 2009-Q1.

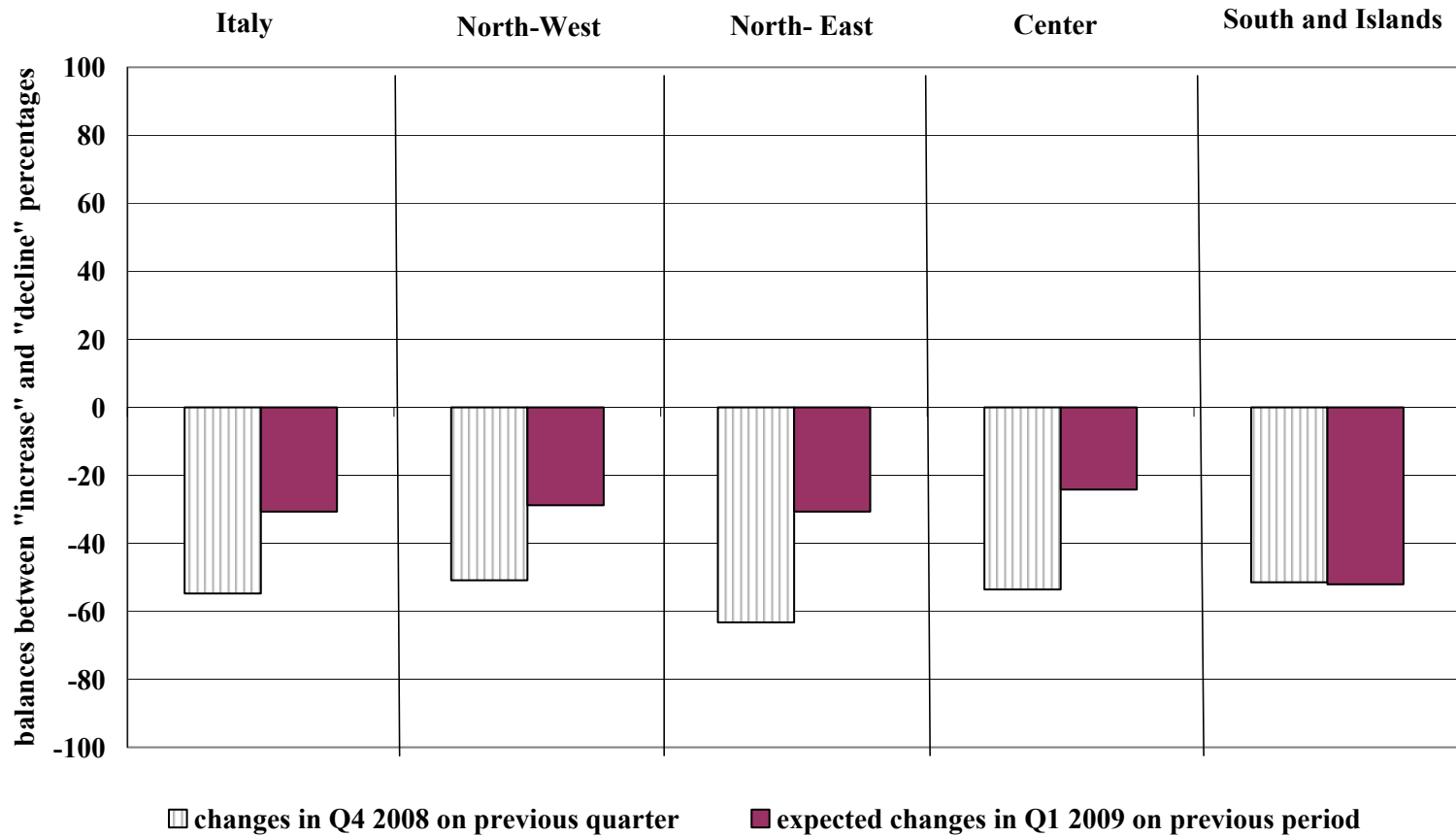
House prices in the Euro Area (annual data; index 2005=100)



Source: ECB and national statistics

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Italy - Real estate agency assessments of price developments



Source: Bank of Italy and Tecnoborsa Survey

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Italy - Real estate agency expected house market developments

	in Q1 2009 on previous quarter			over next two years on Q4 2008		
	negative	unchanged	positive	negative	unchanged	positive
Italy	60.8	34.6	4.6	35.0	19.8	45.2
of which: urban areas	58.9	37.2	3.9	34.5	22.4	43.1
non urban areas	62.3	32.6	5.1	35.3	17.8	46.9
Regions						
North-West	62.0	32.5	5.5	36.8	20.1	43.1
of which: urban areas	58.9	37.0	4.1	37.1	21.4	41.4
non urban areas	65.0	28.2	6.8	36.5	18.7	44.8
North-East	61.2	36.3	2.6	35.6	20.2	44.2
of which: urban areas	59.1	38.0	2.9	31.7	24.4	43.9
non urban areas	62.4	35.3	2.4	38.0	17.7	44.3
Center	61.2	34.5	4.3	32.5	19.4	48.1
of which: urban areas	62.3	34.0	3.7	35.6	23.5	40.9
non urban areas	60.3	34.9	4.8	29.8	15.8	54.4
South and Islands	54.7	38.7	6.6	31.8	18.9	49.3
of which: urban areas	50.0	44.2	5.8	25.6	19.5	54.9
non urban areas	57.6	35.3	7.1	35.8	18.5	45.7

Source: Bank of Italy and Tecnoborsa Survey

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