SUMMING UP AND WAY FORWARD

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CPPI HANDBOOK 2ND DRAFT

PREPARATION OF AN INTERNATIONAL HANDBOOK ON
COMMERCIAL PROPERTY PRICE INDICATORS

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SUMMING UP: DAY 1

What is commercial property?

- SNA classifications delineates what comprises commercial property

- A starting point could be - Commercial property in business terms serves to generate income

  - Through rents, or

  - Capital gains

- Outstanding issue – should CPPIs include commercial residential property?

SUMMING UP: DAY 1

What should CPPIs measure? Chapter 4

- What is the conceptual target for CPPIs? start with the standard price index methodology /concepts – transactions / constant quality preferable, but some flexibility

- Need to be clear what the index is based on – transactions / appraisals

- Need to bear in mind use of index

- But reality is low no of transactions

- Need for a practical / pragmatic approach to overcome lack of data

- Need to separate out indices from indicators e.g. REITs

- Needs to cover issues like weights, aggregation of different sectors etc

- Land structure split – interesting but still a research project not required for all uses

- Terminology needs clarifying

SUMMING UP: DAY 1

Transaction-based price indices: Chapter 5

- Transaction based indices are the preferred method (conceptually) for CPPIs

  - However, too few transactions and great heterogeneity

  - More research need to handle sparse transactions

  - Good information included in Chapter 5

SUMMING UP: DAY 1

Appraisal-based price indices: Chapters 5 & 9

- SPAR method easy to calculate and explain
    - But dependent on the quality of the appraisals

- Valuations are not standardized
    - Within countries considerable scope for bias between valuers i.e. different valuers may give different appraisal values
    - Between countries valuation rules / procedures vary and are not comparable

SUMMING UP: DAY 1

Appraisal-based indicators of investment return and indicators based on stock market prices

- **Appraisal based indices**
- Standardization of valuation practices between countries would improve comparability of appraisal based CPPIs
- Need for greater understanding of what is done re appraisals
- **REITs**
- Complementary lead indicator not indices

SUMMING UP: DAY 2

- Decomposing a CPPI into land and structures components

  - User needs vary

  - Some users require total structure and land price to be reflected in CPPIs – which is currently what is feasible

  - Some users require a decomposition and the presentation shows this potentially could be achieved. (data requirements, underlying assumptions – more work is needed)

- Data sources for transactions and appraisals. Practical challenges/difficulties

  - Transactions and appraisal based data sources both have problems, but in the end are trying to estimate market value

SUMMING UP: THE WAY FORWARD

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Thank you!

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