

Welcoming remarks

Horst Köhler

I am pleased to welcome the distinguished experts and observers to the joint IMF/BIS Conference on Real Estate Indicators and Financial Stability.

This is the first such international conference in this area. The IMF role as an organiser reflects the fact that one of the primary areas of the IMF's mission - the safeguarding of the stability of the international financial system - must necessarily deal with the relationships between real estate activity, price cycles, and the stability of banking institutions and financial systems. The relationship between real estate market collapse and financial crisis has been demonstrated repeatedly. Examples of financial distress and crisis related to a collapse in real estate prices include cases as diverse as the U.S. savings and loan crisis in the late 1980's, the financial crises in Sweden and Japan in the early 1990's, and the widespread real estate market collapses and financial crises in Southeast Asia in 1998. The Bank for International Settlements (BIS) has long recognised these interrelationships. So, I am greatly pleased that the BIS co-sponsors this conference because their intense and continuing work in this area goes back to the real estate driven recession of the late 1980's and early 1990's.

I would like to begin by saying a few words about the evolving role of the International Monetary Fund in bolstering the vitality and stability of the international financial system. The IMF is charged with the task of supporting the operation of the international financial system. As part of its regular consultations with member countries on their economic conditions and policies, there has been increasing recognition that the achievement of many of the Fund's macroeconomic goals requires the efficient and stable operation of the financial system. Specifically, during the past two decades, financial sector crises have had recurrent, severe economic consequences that also impaired the effectiveness of macroeconomic policies.

In recognition of these needs, in 1997 the IMF and the World Bank collaborated on the creation of the Financial Sector Assessment Program (FSAP). The FSAP is a voluntary program in which countries agree to receive teams of financial sector experts drawn from the IMF, World Bank, and cooperating official institutions and standard setters who undertake a comprehensive examination of potential financial sector strengths and vulnerabilities and structural weaknesses, as well as countries' observance of key financial sector standards, codes, and good practices. Also, a specific focus of the FSAP by our sister institution, the World Bank, has been on the medium- and long-term structural development of the financial system as part of the overall economic development of the economy. The FSAP has proven to be a highly effective tool to strengthen the financial sector, as demonstrated in part by the long list of volunteers for future assessments and requests for follow-up assessments. A number of the elements of the financial sector review process are now being increasingly included in the regular Article IV surveillance process, as appropriate.

One of the aspects of the current emphasis on financial stability is the collection of statistical information needed to assess the risks and strengths of financial systems. Such information may be referred to as Financial Soundness Indicators, or FSIs, about which you will hear more later. In the IMF's research and consultations on FSIs, a recurring theme from analysts, policy officials, and practitioners was the need for information on financial sector exposures and risks related to residential and commercial real estate and construction. Numerous experts cited an apparent relationship between collapses in real estate prices and financial sector stress and crisis. Moreover, frequent mention was made about the absence of timely and reliable information, or sometimes the complete absence of any information, about the condition of the real estate market.

Our work on FSIs pointed to the need for improvement in statistics on real estate, and our Executive Directors this past June endorsed the staff's efforts to encourage the compilation and dissemination of real estate price indices for residential and commercial real estate. We are pleased that our colleagues at the BIS are our co-sponsors. This collaboration can bring great benefits by melding discussions on the links to financial stability with the technical and statistical matters that will permit national authorities, market participants, and the international community to develop timely, high-quality information on real estate activity and markets and their strengths and risks.

And this, of course, is where you come in. We have drawn together from around the world a truly expert group of researchers, central bankers, real estate professionals, standards setters, and users to

advise us on these questions. Some are sitting around the table here as presenters and discussants, but an equally illustrious group is sitting in the audience. All are invited to participate in the discussions, and we are looking forward to a lively and challenging interchange of views. It is our hope that we can make progress clarifying many of the technical issues. As well, we hope to gain a clearer understanding of what priorities should be followed, and - while fully recognising the resource issues and the complexity of the work - identifying the practical next steps that can be taken by the international community, national authorities, and the private sector.

Before turning the conference over to Mrs. Carol Carson, Director of the IMF's Statistics Department, and Mr. Paul Van den Bergh, Head of Information, Statistics, and Administration of the Bank for International Settlements, let me express my appreciation for your participation and contributions to this conference. Thank you very much.

Carol Carson

I would like to add my words of welcome to that of the Managing Director to this BIS-IMF Conference on Real Estate Indicators and Financial Stability. I do so in welcoming you especially on behalf of the IMF Statistics Department.

A little bit about the history of this conference. The conference grew out of our work on the development of financial soundness indicators. As the IMF Managing Director used the term FSIs, I will go ahead and do the same. A little over a year ago, in this work on FSIs, during discussions regarding the possible role of real estate in financial stability, our colleagues at the BIS proposed a joint conference. The idea at that time was to hold a conference to explore the state of information on real estate, to assess the needs of various kinds of users of statistics on real estate, to deal to the extent that we could in a few days' conference with some of the technical issues, and then especially important, to explore the steps that might be taken by the international community to move forward in this area.

I am delighted that the BIS joined us in this first-ever conference on real estate and to deal with the issues that I just mentioned. Paul Van den Bergh and I find ourselves in a number of these collaborative ventures, and from the point of the IMF I can say they have always been very fruitful. When I look back over the last three months, we had reason to be together and work collaboratively in August, September, and now we came through finally at the end of October with this joint effort.

As the IMF Managing Director said, we look around this room and feel that we have brought together a bountiful degree of expertise - knowledgeable economists and statisticians from central banks, national statistical institutes, international organisations, academic institutions and the private sector.

The papers that have been prepared are a good leading indicator that we will have a productive, useful conference. We will have opportunities to share views, to exchange information on national practice, hopefully to identify some best practices and discuss how these best practices can be used in building real estate indicators relevant for the conduct of macroeconomic policy and the monitoring of financial stability.

The statisticians among us, of course, have long been involved in the compilation of statistics related to real estate. These statistics are used, for example, in national accounts and, as well, there have been some indices of real estate that have been used in macroeconomic policy analysis. What is different about this conference is that it takes the statisticians in a new direction to focus on the relationship between real estate indicators and the soundness of banks and the financial sector. In the process, we hope to gain insights into the new types of information that would be needed to help assess financial soundness, conduct macroeconomic policy and enrich the user community with the relevant methodological information about how the statistics are put together. In addition, we should begin outlining the steps that will carry us forward.

Briefly, I would like to foreshadow some of the questions that I believe that we will deal with in this conference. Let me start with the fact that we know that real estate prices as prices of assets may play a significant role in economic policy. They are used, for example, as information variables in making monetary policy decisions. They provide information on possible balance sheet problems that lending institutions may be facing, and hence they provide indicators of financial stability.

In that setting, we can ask, can we identify a specific set of real estate indicators useful for both macroeconomic policy and financial stability analysis, or are different types of indicators needed for these different purposes? Can leading indicators be developed that will alert emerging real estate-related problems to the banking sector and to the overall stability of the financial sector?

Moving on, a number of countries are developing and using a wide range of indicators that apply various analytical tools, concepts, and samples. Some countries are publishing relevant data in their national bulletins or on their website. However, a significant task is still ahead in terms of constructing timely, reliable, and analytically useful real estate indicators.

We know that there are inherent difficulties in real estate that make them, if not unique, certainly unusual. Among these are the fact that real estate properties are heterogeneous and they are thus non-standard assets. We also know that transactions of individual properties are infrequent. Both of these mean that putting together statistics is especially difficult.

In this respect, I would raise the following questions. Which are the techniques most widely used in compiling real estate indicators? Can we identify international best practice in the methods for constructing these indicators, or should we emphasise flexibility in adjusting the techniques to local conditions and resources? Further, which criteria should guide decisions on the type of indicators that should be disseminated to the public?

We know that the collection of information on real estate is costly and much of the available information is proprietary. We should ask which models shed light in effective sharing of information between various data providers, including both the public and the private sectors.

What steps can be taken to improve the use of the existing sources of data in compiling real estate indicators? What institutional and legal changes could facilitate the compilation of these indicators? Who are the major providers of the data and with what reliability and at what cost do they produce indicators? Of course, a question relevant to the IMF and to the BIS is what support should be provided by the international community, regional organisations, and standard-setters.

With these questions in mind, I would like to make a particular comment. I would encourage you to share your insights in this important area. We have tried to set up an environment that will encourage and facilitate a free flow of information. As the Managing Director said, all are invited to speak. There are microphones around the tables, but there will also be microphones that can be used by the audience around the edges. We have tried to set up an environment that will facilitate a free flow of information.

I stress the importance of sharing information because I do see that this conference may well have an impact in the way we go forward. The results of this conference may well affect the future priorities for work in this area, the degree of cross-country harmony that we can bring about, the types and degree of technical assistance that the international organisations might be able to offer, and the mix of public versus private that would carry us forward to the greater availability of information in this field.

I am gratified to report that the interest in this conference has been extremely high. We've been pleased that so many people were so willing to travel so far to be here for this two days of conference. And as I mentioned, the papers are, as we see it, of outstanding quality.

We know that we've made one important step in making the papers available on the website of the BIS, with their very user-friendly eBIS facility, and we look forward to putting the papers into a conference volume as well.

For all of this, then, I thank you for being here and I hope that you will find our facilities here at the IMF help us have a good conference. You will find that staff from my department are at various places around this room and outside, and I hope you will freely draw on them if you have questions or other needs. With that, I say thank you very much and again welcome.

Paul Van den Bergh

Good morning, ladies and gentlemen. On behalf of the Bank for International Settlements, I would also like to welcome you to this Joint Conference on Real Estate Indicators and Financial Stability.

I'm doing this on behalf also of the colleagues that have travelled with me from Basel. Maybe we can briefly introduce them because they have done most of the work. If I just start left, Steve Arthur, Haibin Zhu, and Gert Schnabel, who is on this side of the table.

So we're very pleased to be here today and to participate in this conference. But, Carol, I'm particularly pleased at the beginning of the procedures and as a cosponsor, although I think I should reserve the final judgment until after we've finished our discussions.

First of all, I'm very pleased with the active cooperation that we've had between our two organisations and how this has led us to where we are today, with all the papers on the table and so many useful discussions to come.

I'm particularly pleased that we have been able to attract so many distinguished speakers, discussants, panellists, and session chairpersons from different parts of the world. The papers that have been produced indeed are of very good quality and there is much food for thought on the table.

I'm also pleased - and this was one of the objectives that we set out when we organised the conference - that we have been able to draw on expertise and get input from various areas - and this was a conscious decision on our part-national statistical institutes, central banks, other government agencies, academics, and commercial data compilers and vendors. And I think it's this mixture that we have, these different perspectives that we've tried to bring to this conference, that will contribute to interesting discussions, I hope.

And then finally, as you said, Carol, I'm particularly pleased already by the interest that the conference has attracted outside the group of people here today. We, at least, have had a few inquiries and a few questions before we travelled to Washington from people who said, well, we would have liked to participate. We had to limit it, but there's a clear interest from outside the group that is here today and tomorrow already.

Ladies and gentlemen, attention to property prices, real estate, at the Bank for International Settlements, as the Managing Director was saying earlier, dates back to the late '80s and early '90s, when we started to focus on the meaning of these concepts of asset price inflation and deflation and the role of asset prices in the conduct of monetary policy. And this was even before we then saw the major fluctuation in prices in asset markets in the latter part of the 1990s and during the early part of this millennium.

More recently, asset prices, including those for residential and commercial property, have started to be looked at from a financial stability perspective as well. I will not go further into details. One of my colleagues has drafted an interesting paper on this and he will present that a bit later in the conference this morning.

Now, ever since we started to pay closer attention to property prices at the BIS, we found it very difficult to collect and maintain good data on property prices. We built up a database to start monitoring developments in individual countries, and one of my colleagues will explain again a bit later this morning the difficulties that we have encountered.

Let me just very briefly state up front what these major challenges have been. First of all, surprisingly, data are simply not always available on a regular basis, at least, for many countries. That is very strange, but that is just the fact.

The representativeness of the data that we find is questionable. I mean, the data sources and the methodologies are not always very well-explained. That makes the international comparison of statistics on property prices extremely difficult, and if you then want to do a comparative economic analysis, that is not an easy task.

There are very many breaks in series, changes in the methodologies, changes in underlying sources that make it very difficult to have particular historical data. And just recently, some of my colleagues who have been doing work on predicting financial crisis have noticed that with a lack of historical data, there is just a limit now to how far back in history we can go to test some of the models that we have developed. And then last but not least, the timeliness and the frequency of the data is inappropriate.

Carol, if I were to use the IMF Data Quality Assessment Framework (DQAF) - and focus on what is in the framework - data integrity, methodological soundness, accuracy, reliability, serviceability - it's clear that almost no country would meet these various criteria for its national statistics on property prices.

Now, we were not the only ones at the BIS to be surprised by the lack of proper data in this area. In a recent survey of global property markets, The *Economist* magazine commented, and I quote, "Official

statistics officers typically collect more information about the price of shoes or cement than housing, despite its far greater importance.”

Also, in June 2003, the Governor of the Bank of Canada, David Dodge, said in a speech to the Conference of European Statisticians, at which there were a large number of national statistical institutes present, and I quote, “Given that the investment in housing represents a big chunk of household spending, and that for most people their homes represent their most valuable asset, it is surprising that in many countries there are no comprehensive, quality-adjusted data on housing prices or rents,” end of quote.

By the way, we were both present at that conference and we took comfort from the encouragement that David Dodge - Governor Dodge - gave us in his speech in convening this joint conference.

We have also noticed that researchers and market participants are struggling to obtain good data, if only because we get very frequent requests at the BIS for the data that underlie the different charts, tables, and econometric results that we publish in our various publications.

In many cases, we cannot share the data because we obtained it from a commercial source, and in other cases if we are able to point people to publicly available data, we often have to explain the various limitations that exist and the weaknesses that are inherent in the available data.

So we were particularly encouraged when the IMF decided to include their property prices in their financial soundness indicators - I think we'll use the acronym FSIs, although you realise that we have an FSI in Basel that is completely different, the Financial Stability Institute. Admittedly, they will not be core indicators, but part of what is called the encouraged set of statistics. And when we had earlier discussions - and I think this dates back to about a year in this room - on the methodology for financial soundness indicators, there were clearly some open methodological questions relating to real estate. Not surprisingly, we couldn't reach agreement in this relatively new area of research.

So the conference today and tomorrow should be able to allow us to identify best practices in the development of appropriate property price statistics. And I'm sure that this can then find its way in the next version or versions of the *IMF's Compilation Guide on Financial Soundness Indicators*.

Apart from the various practical methodological issues that we will be addressing, there is one simple reason why we at the BIS felt that a conference on real estate prices might be useful. And this dates back now to the earliest work we did on property prices almost ten years ago. To quote from the seminal BIS economic paper from April 1994, and I quote, “Statistical deficiencies in this area of property prices result in part from a certain neglect bred by under estimation of the potential policy significance of the data,” end of quote.

Now, the fact that the IMF and the BIS have joined forces to call this conference is possibly the biggest contribution we could make to achieve a broader recognition that good statistics on property prices are of key importance to policymakers, to analysts, and to economic agents, and that projects to improve statistics in this area should receive high or higher priority.

Ladies and gentlemen, if I may - and I'll start on the proceedings of the conference very quickly, go not in detail through the program, but indicate that we have a very charged agenda for this conference.

We're going to start in just a minute with a review of the impact on real estate on financial and monetary stability. So we look at sort of the broad analytical and economic questions first. After that, we will hear about the usefulness of the available statistics, which will prove to be very interesting; listen to the experiences from a broad group of countries in the compilation of real estate statistics. After that, we will focus on methodological issues, specifically and separately first for residential and then for commercial real estate prices. Having done that, tomorrow we will then focus on the usefulness of particular methods, hedonic methods, in particular, for calculating real estate prices. And we will look at aggregation issues, aggregation across regions in a country, across different countries, and across different asset classes. And then toward the end, the difficulties of valuing real estate in special situations will be investigated. We will then close tomorrow afternoon with a panel discussion where we will evaluate what we have learned and try to sketch the way forward.

Ladies and gentlemen, you may agree with me that we have a challenging but very attractive program. I think all of us look forward to interesting presentations, active discussions, and good networking. And hopefully the conference will stimulate further work on methodologies and, most importantly, will convince compilers worldwide of the importance of improving property price statistics. In this way, the conference may make a modest but concrete contribution to promoting monetary and financial stability. Thank you very much.