

Warning: Some Transaction Prices can be Detrimental to your House Price Index

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There is a broad consensus in international statistical organizations such as Eurostat, the European Central Bank, and the International Monetary Fund that price indices should be constructed using transaction data. Yet transaction data often lag behind actual market developments in the primary housing market (i.e., the market for new-builds) as prices are typically set months or years before the transactions are finalized. We find that for two large Polish cities (Warsaw and Poznan), secondary market house price indices (HPIs) (for existing properties) lead primary indices (for new builds) by, on average, eight quarters. In Poland and other countries with large primary-market components, this lag can dramatically distort National HPIs. The lag also potentially affects the European Union's flagship measure of inflation, the Harmonized Index of Consumer Prices (HICP). This is because the HICP includes owner-occupied housing (on an experimental basis) using exclusively primary market transaction data. We illustrate here that replacing final transactions in the primary market with preliminary agreements would resolve these timeliness issues.