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***UK OFFICE FOR NATIONAL STATISTICS: VOORBURG 2001
CORPORATE SERVICES PRICE INDEX (CSPI)***

VOORBURG 2001

DRAFT PRINCIPAL PAPER:

REAL ESTATE SERVICES

Nick Palmer - UK Office for National Statistics

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Service industries covered:

1. Real estate agency services

2. Letting of self-owned property

(Focus is on non-residential property)

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Actual indices covered:

- ***Real Estate Agency services*** - agents' selling, letting and acquisition activity = proxy for all real estate activities, including property management
- ***Property rental payments*** - the renting or leasing of self-owned non-residential property.

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Outputs of Real Estate Agency services:

**Services provided by real estate agents
as:**

- **intermediaries in selling, letting etc.**
- **property managers**
- **related professional services**

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Outputs: property rental payments

**Provision of rented accommodation for
non-residential purposes**

- measured by rental payments to owners,
or agents acting on behalf of owners.**

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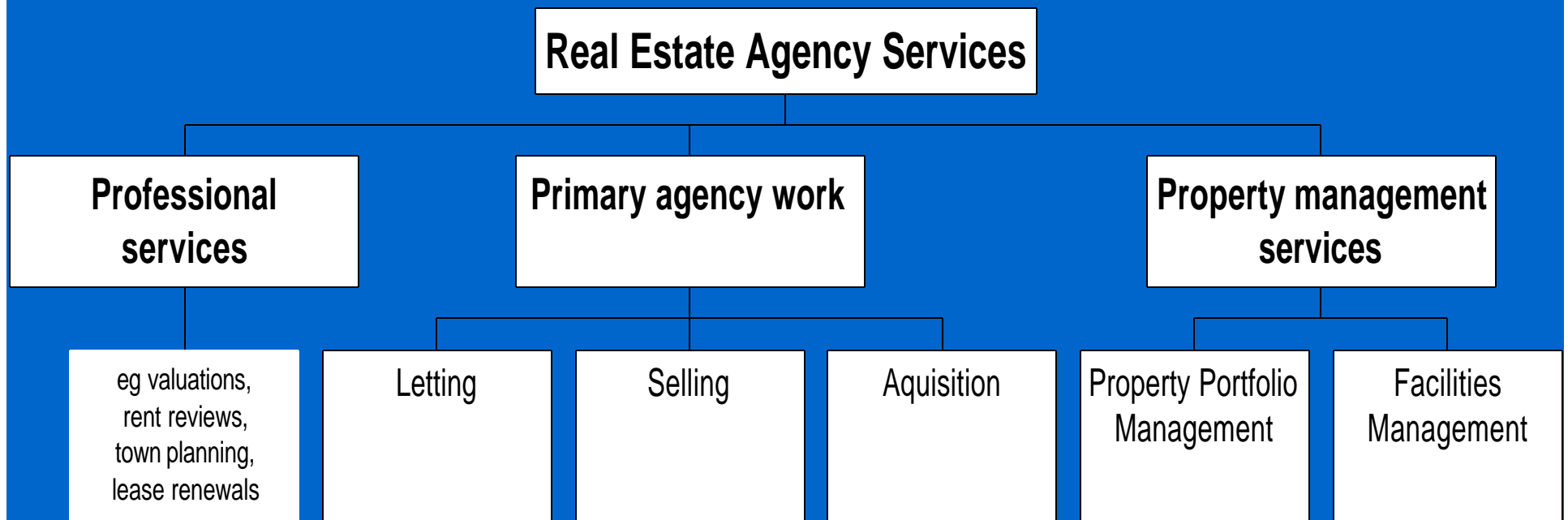
<u>Index</u>	<u>(SIC 92) UK</u>	<u>ISIC</u>	<u>CPC</u>
Real estate agencies	70.30 ("Real estate activities on a fee or contract basis") containing: 70.31: ("Real estate agencies") and 70.32: ("Management of real estate on a fee or contract basis")	7020	72222 ("Non-residential buildings and associated land sales on a fee or contract basis")
Property rental payments	70.20 ("Letting of own property")	7010	72112 ("Renting or leasing services involving own or leased non-residential property")

N.B. The UK's CSPI measures the changes in prices of services from businesses to other businesses only.

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UK industry characteristics:

Category	Total employment	Total turnover (£ billion)	Number of businesses
Real estate agency/management on a fee or contract basis (SIC 70.30)	140,000	6.7	17,600
Letting of own property (70.20)	136,000	12.5	17,900
Total	276,000	19.2	35,500

- Over 90% of real estate businesses have <10 employees
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**Pricing mechanism for real estate agency
services:**

Combine

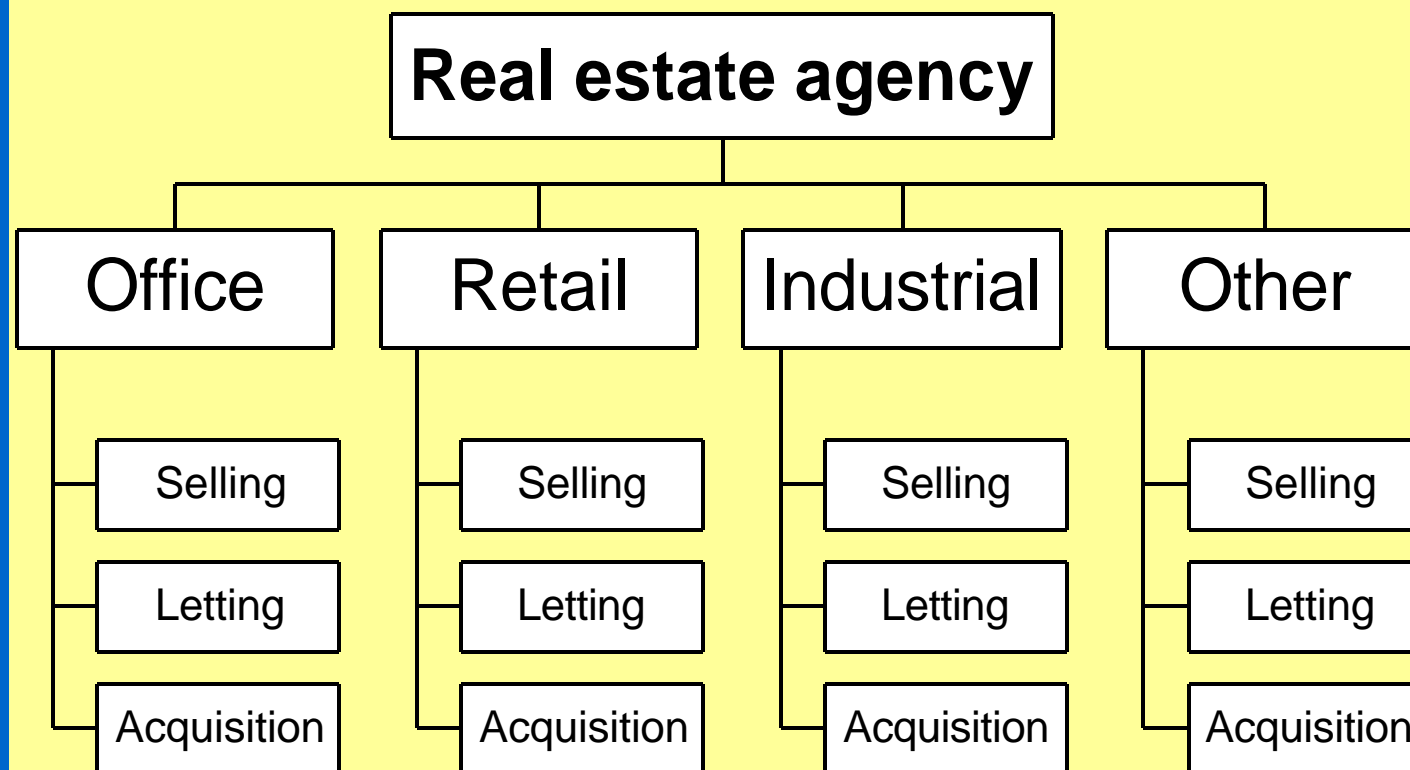
an index of estate agents' margins (i.e. the percentage commission charged for selling, letting and acquisitions)

with

an index of average property values or rental values.

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**Sample structure for price collection
(for each region)**



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Current sample: real estate agency

- **4 regions within UK**
- **26 contributors**
- **over 250 quotations per quarter**
- **(several UK companies providing data for each region separately)**

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Real estate agency: commission rates

**“Representative commission rate”
asked for, in each market sector**

**- ideally the median of actual rates
charged**

Pricing mechanism: property rentals

- **monthly survey of over 1,000 investment properties by Investment Property Databank (IPD)**
- **indices derived for gross income from rents paid for:**
 - **office properties**
 - **retail properties**
 - **industrial properties**

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Investment Property Databank (IPD)

Monthly indices used for combining with agents' commission rates:

- **capital value index**
- **rental value index**

Also, gross income index for property rentals payments

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Investment Property Databank (IPD)

Sample used for their indices:

- **over 1,000 properties, independently valued each month, worth:**
 - **over £10 billion in investment terms**
 - **5% of UK commercial property market**

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Limitations

- **representative commission rates**
- **packages of services**
- **other services yet to be included, e.g. property management**
- **changes in commission rates & quality adjustments**
- **scope of IPD data**

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Future issues

- regional factors
- increase sample size
- rebasing
- broaden coverage of real estate agency services
- evaluate collection of commission rates
- publish rental payments in more detail
- use as deflators ?

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Use as deflators ?

1. UK National Accounts:

- output indicator for property rentals = IPD total return index (so no need for deflator)
- real estate agency services: volume measure currently used (details delivered relating to land/property transfers - includes residential)

2. Index of Local Government Prices ?

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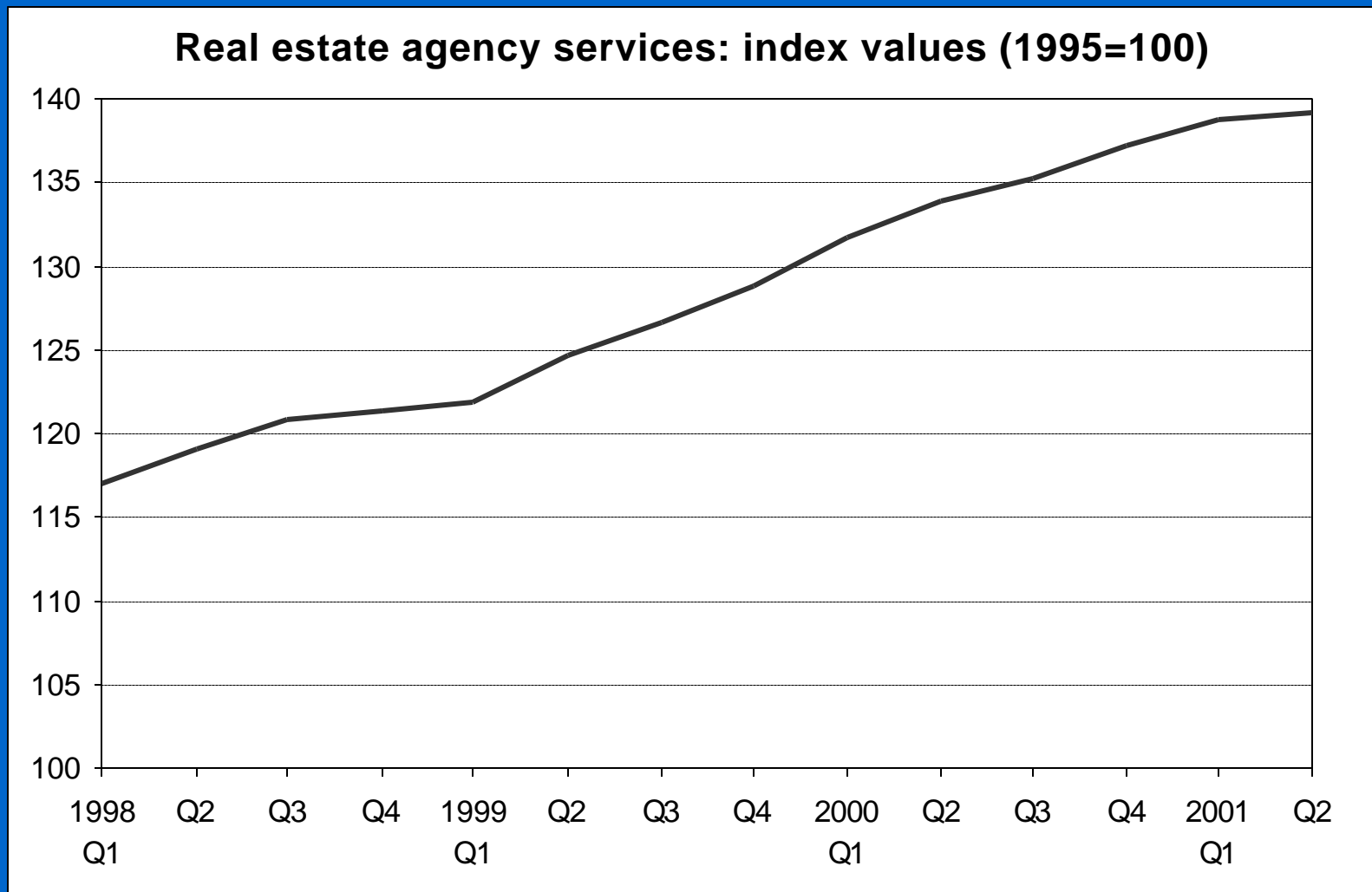
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General points

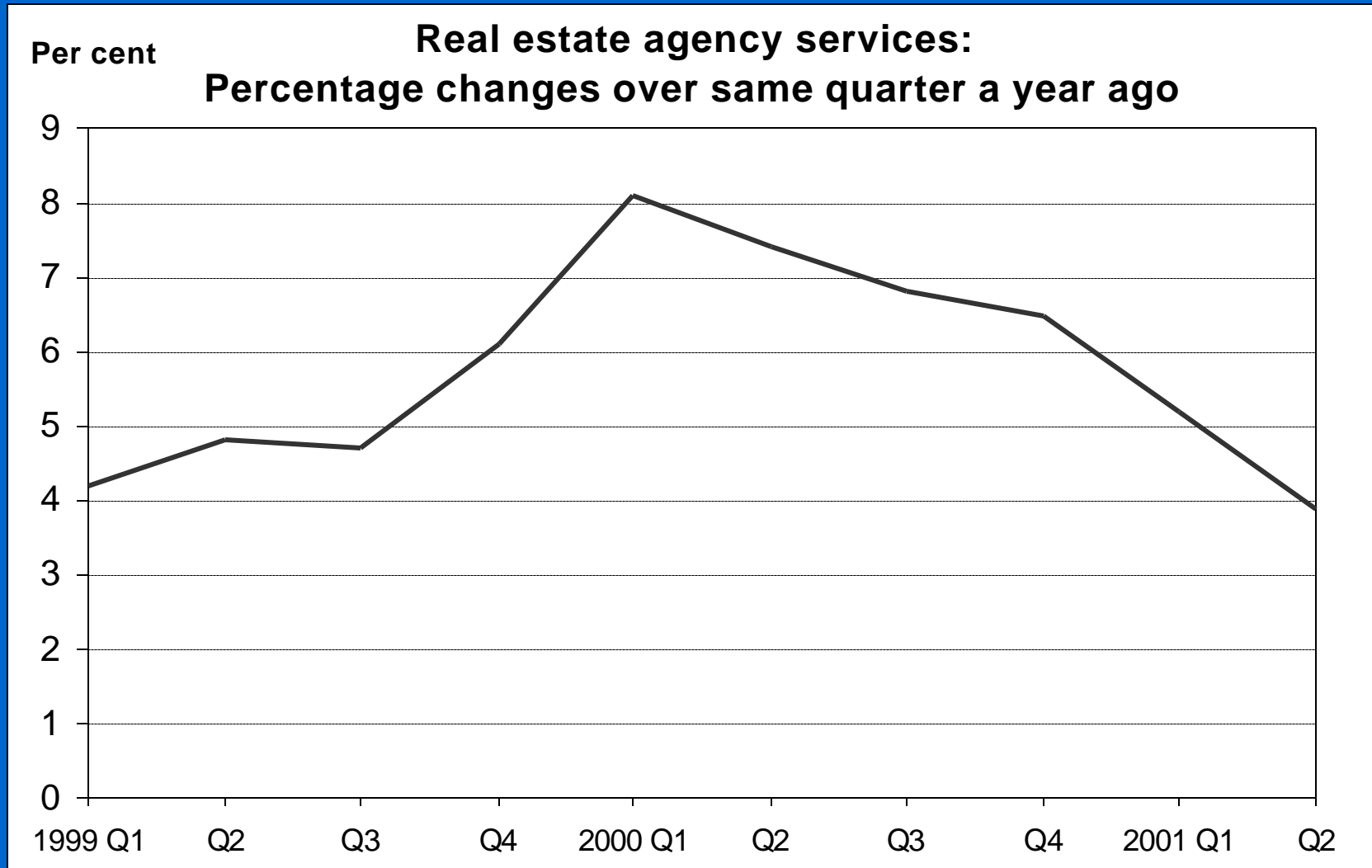
- **Separate or combine the various kinds of real estate services ?**
- **Use proxies/measure key services only ?**
- **Split between residential and non-residential properties**
- **Own survey or exploit external sources ?**

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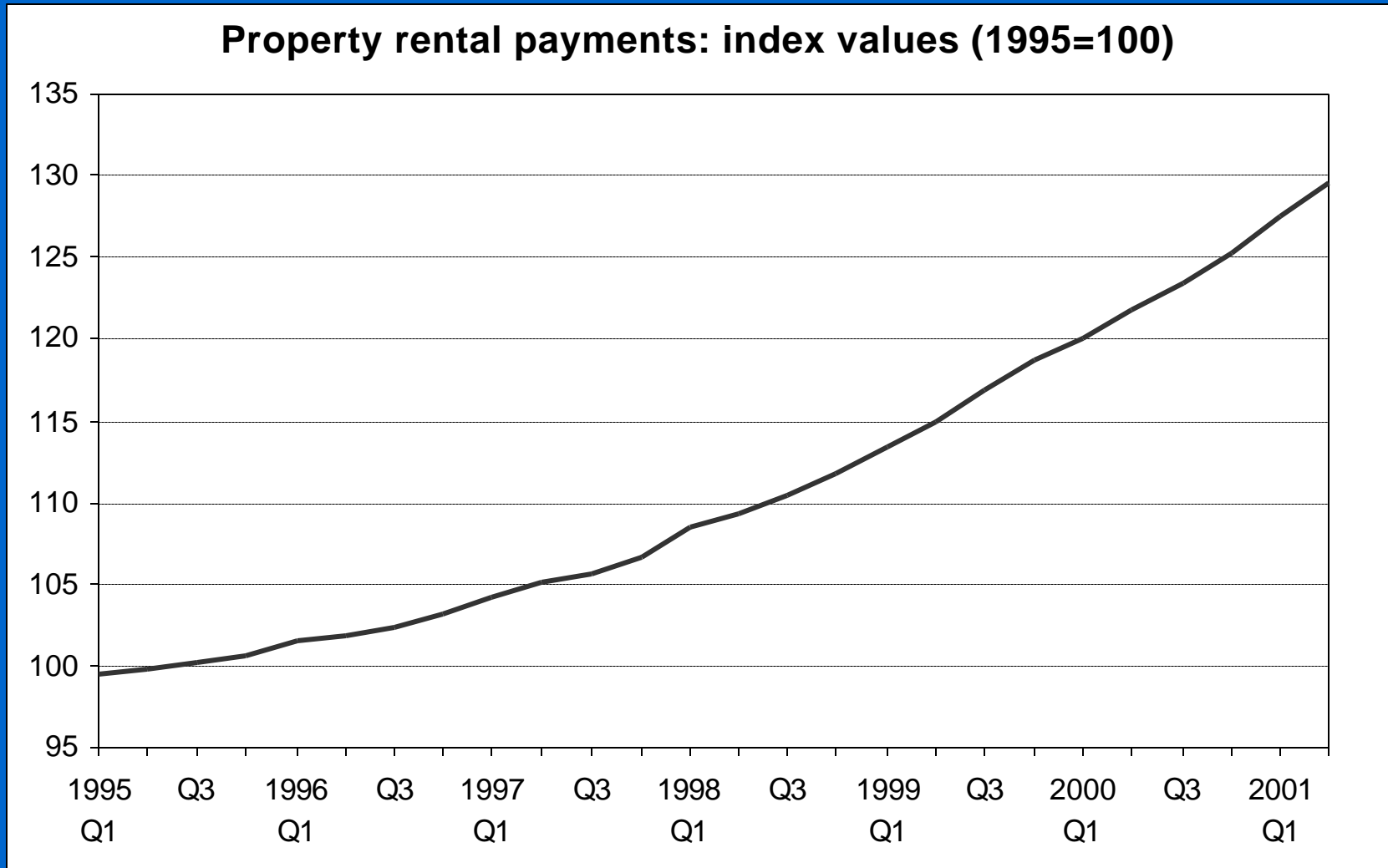


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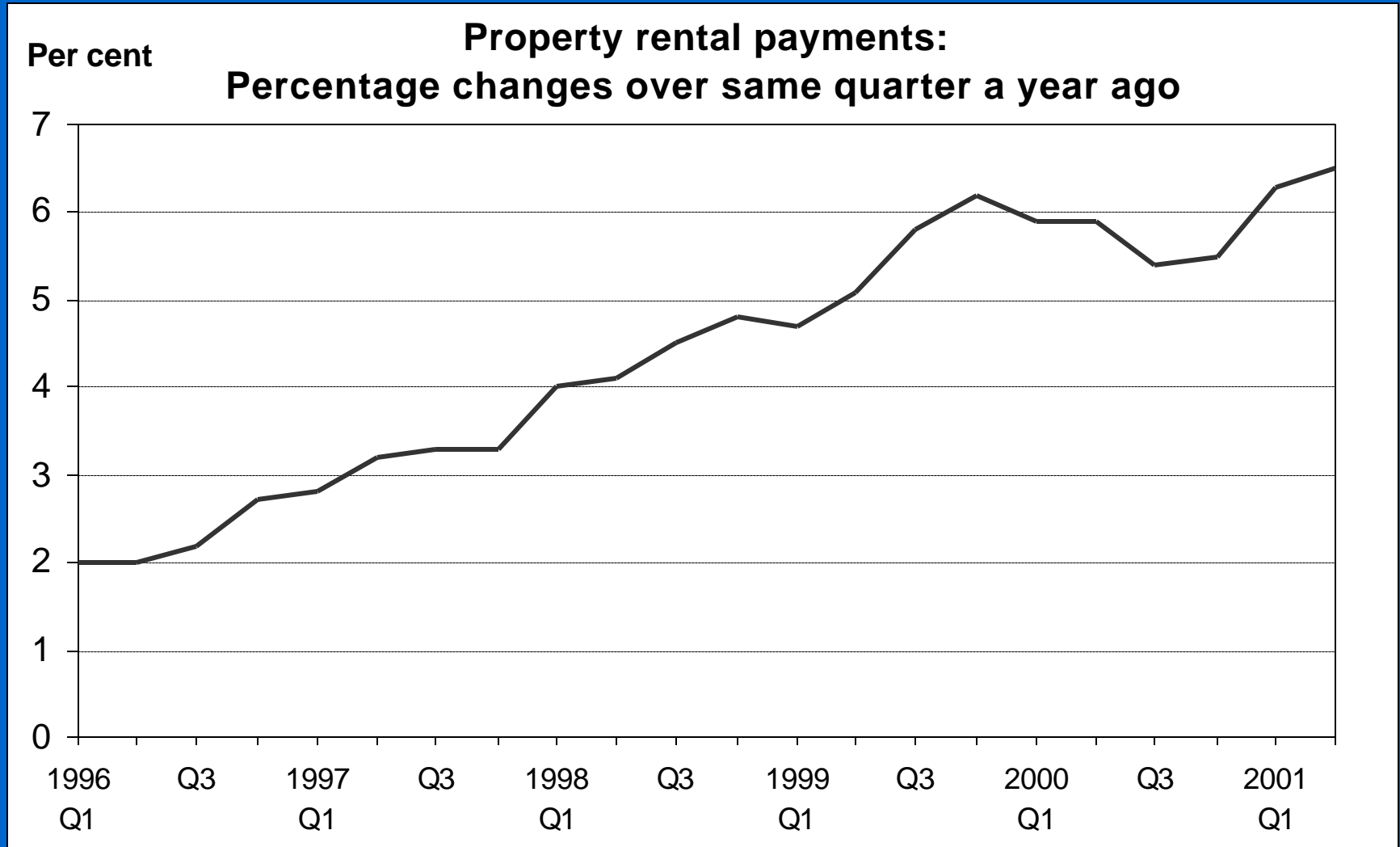
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Appendices (1)

- Australia - real estate agents' services for both residential and commercial properties
- US - rental payments to owners of non-residential property (separate price index for real estate agency also exists)
- Japan - selected categories of real estate services as proxy for whole sector
- Sweden - survey of building rents