



EUROPEAN CENTRAL BANK

EUROSYSTEM

**Tjeerd Jellema**  
**ECB DGS/GECS**

# **Some thoughts on the delineation of commercial property**

## A few points to make

### Questions at the outset

- It should fit in a broad statistical framework?
- What is real estate property?
- When do we observe it, and what do we observe?
- Where is the borderline with residential property?

### Point of departure

- Alignment with existing statistical methodological frameworks
  - Delineation
  - Classification
- Role of national accounts (SNA2008)
  - Because it provides a complete conceptual framework

# Broad statistical framework

- What would we like to observe
  - The price of an asset (Real estate/property)
  - When it changes ownership (e.g. transaction based)
  - Involving two economic agents (e.g. two statistical units)
  - Related to / involved in an economic activity (e.g. real estate activity)
- The economic activity may be
  - A Market activity
  - A Non-market activity
  - For own use
- The property may be used for different purposes
  - Dwellings (e.g. residential purposes)
  - Building other than dwellings
  - Other structure

# What is real estate property?

## A first shot using the internet

### WIKIPEDIA:

Real estate is "**property consisting of land and the buildings on it**, along with its [natural resources](#) such as crops, minerals, or water; immovable property of this nature; **an interest vested in this**; (also) an item of real property; (more generally) buildings or housing in general. Also: the business of real estate; the profession of buying, selling, or renting land, buildings or housing."

It is a [legal](#) term used in jurisdictions such as the [United States](#), [United Kingdom](#), [Canada](#), [Nigeria](#), [Australia](#), and [New Zealand](#).

### Investopedia:

Any property that is attached directly to land, as well as the land itself. Real property not only includes buildings and other structures, but also rights and interests. Real property can be either rental or residential.

- Real Estate Land, buildings, and things permanently attached to land and buildings. Also called realty and real property.
- Real estate is the modern term for land and anything that is permanently affixed to it. Fixtures include buildings, fences, and things attached to buildings, such as plumbing, heating, and light fixtures. Property that is not affixed is regarded as [Personal Property](#). For example, furniture and draperies are items of personal property.
- The sale and lease of real estate in the United States are major economic activities and are regulated by state and federal laws. The two major types of real estate are commercial and residential real estate. **Commercial real estate involves the sale and lease of property for business purposes. Residential real estate involves the sale and rental of land and houses to individuals and families for daily living.**

Note that there is a difference in meaning as regards real property, and real estate. The latter includes interests, such as the right to acquire in the future.

# Broad statistical framework

- In business terms commercial property serves to **generate income** for its owners.
- Loosely translated this implies
  - The property is rented out.
  - The property is acquired for resale, and thus generates capital gains
- If this is agreed, then we can argue that the owners of Commercial Property are engaged in an economic activity “Real Estate”. This activity is classified in terms of the ISIC / NACE activity classification as ISIC 68.2 / NACE 68.2.
- National accounts statistics is careful in distinguishing **Value Added** from production of real estate services, from **Income** (such as interest, dividends etc.). The word income to characterise commercial property in a statistical framework/manual is ambiguous, and should be avoided.

# Classification of Activity and Product (SNA 2008)

- ISIC V 4.
  - L REAL ESTATE SERVICES
    - 68.1 Buying and selling services of own real estate
    - 68.2 Rental and operating services of own or leased real estate
- CPC V.2
  - **Division 72 Real estate services**
    - **721 Real estate services involving own or leased property**
      - 7211 Rental or leasing services involving own or leased property
        - 72111 Rental or leasing services involving own or leased residential property
        - 72112 Rental or leasing services involving own or leased non-residential property
      - 7212 Trade services of buildings
        - 72121 Trade services of residential buildings
        - 72122 Trade services of non-residential buildings
        - 72123 Trade services of time-share properties
        - 72130 Trade services of vacant and subdivided land

## What is real estate activity?

### 68.10 Buying and selling of own real estate

- This class includes:
- Buying and selling of self-owned real estate:
  - apartment buildings and dwellings
  - non-residential buildings, including exhibition halls, self-storage facilities, malls and shopping centres
  - land
- This class also includes
  - subdividing real estate into lots, without land improvement
- This class excludes:
  - development of building projects for sale, see 41.10
  - subdividing and improving of land, see 42.99

### • 68.20 Renting and operating of own or leased real estate

- This class includes:
  - renting and operating of self-owned or leased real estate:
  - apartment buildings and dwellings
  - non-residential buildings, including exhibition halls, self-storage facilities
  - land
  - provision of homes and furnished or unfurnished flats or apartments for more permanent use, typically on a monthly or annual basis
- This class also includes:
  - development of building projects for own operation
  - operation of residential mobile home sites
- This class excludes:
  - operation of hotels, suite hotels, holiday homes, rooming houses, campgrounds, trailer parks and other
  - non-residential or short-stay accommodation places, see division 55

# Broad statistical framework

- Income generation, real estate activity and real estate markets.
- National Accounts provide the following breakdown of activities, applicable also to real estate services:
  - A market producer of goods and services
    - This relates to real estate services provided at market prices.
  - A Non-market producer of goods and services
    - This relate to goods and services that are provided at significantly less than cost, usually by Government or by Non-profit Institutions Serving Households
    - An example would be social housing, or an industrial estate or market place
  - Production for own use
    - Real estate services produced for own use. This refers to the imputation of rental income and expenditures on **Owner Occupied Housing**, which is part of the production boundary recognized in SNA2008



## SNA 2008 Asset Classification

### Non-financial assets (AN codes)

- **Produced non-financial assets (AN1)**
- **Fixed assets by type of asset (AN11)**
  - Dwellings (AN111)
  - Other buildings and structures (AN112)
    - *Buildings other than dwellings (AN1121)*
    - *Other structures (AN1122)*
    - *Land improvements (AN1123)*
  - .....
  - **Inventories by type of inventory (AN12)**
  - **Valuables (AN13)**
- **Non-produced non-financial assets (AN2)**
  - **Natural resources (AN21)**
    - Land (AN211)
    - .....
  - **Contracts, leases and licenses (AN22)**
  - .....
  - **Purchases less sales of goodwill and marketing assets (AN23)**

## Classification of types of construction (CC)

Code	Description	Property Classification	
1	Buildings		
11	Residential buildings	Residential	
111	One-dwelling buildings	Residential	
112	Two- and more dwelling buildings	Residential	
113	Residences for communities	Residential	
12	Non-residential buildings		
121	Hotels and similar buildings		Outside Commercial Property?
122	Office buildings	Office	
123	Wholesale and retail trade buildings	Retail	What about Wholesale?
124	Traffic and communication buildings		Outside Commercial Property?
125	Industrial buildings and warehouses	Industrial	
126	Public entertainment, education, hospital or institutional care buildings		Outside Commercial Property?
127	Other non-residential buildings		
2	Civil engineering works		

## Classification of types of construction (CC)

Code	Description	Property Classification	
1	Buildings		
11	Residential buildings	Residential	
111	One-dwelling buildings	Residential	
112	Two- and more dwelling buildings	Residential	
113	Residences for communities	Residential	
12	Non-residential buildings		
121	Hotels and similar buildings		Outside Commercial Property?
122	Office buildings	Office	
123	Wholesale and retail trade buildings	Retail	What about Wholesale?
124	Traffic and communication buildings		Outside Commercial Property?
125	Industrial buildings and warehouses	Industrial	
126	Public entertainment, education, hospital or institutional care buildings		Outside Commercial Property?
127	Other non-residential buildings		
2	Civil engineering works		

Can CC be used as the main classification for real estate properties?

- Only the part describing **buildings** is relevant to real estate property
- It ignores a classification of land underlying the building (Leasehold, Freehold)
- It describes the physical characteristics of a building suited to a particular purpose
- The description of purpose appears to have links to economic activities that would use the building

## Borderline issues

National Accounts Concepts		Market Output	Non-Market Output	Own-Use
Dwelling + land underlying dwelling				
Building other than dwelling, land underlying				
Other Structure				

## Borderline issues

National Accounts Concepts		Market Output	Non-Market Output	Own-Use
	RPPI and CPPI concepts	Commercial	Non Commercial	Owner Occupied Housing
Dwelling + land underlying dwelling	Residential Property			
	Social Housing			
Building other than dwelling, land underlying	Office Property			
	Retail Property			
	Industrial Property			
Other Structure				

## Borderline issues

National Accounts Concepts		Market Output	Non-Market Output	Own-Use
	RPPI and CPPI concepts	Commercial	Non Commercial?	Owner Occupied Housing
Dwelling + land underlying dwelling	Residential Property	Commercial Residential Property		Owner Occupied Housing
	Social Housing		Social Housing Schemes (General Government)	
Building other than dwelling, land underlying	Office Property	Commercial Office Property	Non-Market Offices	
	Retail Property	Commercial Retail Property	Non-Market Retail	
	Industrial Property	Commercial Industrial Property	Non-Market Industrial	
Other Structure				

## Implications

What is in commercial property	What is not in commercial property
Property owned by the units belonging to the real estate <b>industry</b> , or bought or sold by the real estate sector (generating income or capital gains)	Property owned by all units belonging to industries other than real estate, used as part of their capital stock, necessary to produce goods and services.
Property owned by market producers of real estate services	Property owned by non-market producers of real estate services
Commercial Residential Property	Owner Occupied Housing
Commercial properties generating rents or holding gains (Income generating properties)	Incomplete new property development. Belongs to construction industry Constitutes financial risks, but does not constitute commercial property (No income generation)

**Thank you for your attention**



## **Classification of Activity and Product (ESA 2010)**

- ISIC / NACE
- L REAL ESTATE SERVICES
  - 68.1 Buying and selling services of own real estate
  - 68.2 Rental and operating services of own or leased real estate
- CPA (=>NACE)
- L REAL ESTATE SERVICES
  - 68.1 Buying and selling services of own real estate
    - 68.10.11 Residential buildings and associated land sales or purchases services
    - 68.10.12 Time share properties sales or purchases services
    - 68.10.13 Residential vacant land sales or purchases services
    - 68.10.14 Non-residential buildings and associated land sales or purchases services
    - 68.10.15 Non-residential vacant land sales or purchases services
  - 68.20.1 Rental and operating services of own or leased real estate
    - 68.20.11 Rental and operating services of own or leased residential real estate
    - 68.20.12 Rental and operating services of own or leased non-residential real estate