Editorial

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The housing sector significantly shapes a country's long-term economic development, since it accounts for a considerable part of a country's welfare, wealth and GDP. House prices and housing wealth have risen sharply since the mid-1990s in the vast majority of European countries. In a number of countries, bursting house price bubbles have seriously damaged macroeconomic and financial stability. More recently, there have been strong house price increases in countries as Germany, Switzerland and Austria.

Against this background the Oesterreichische Nationalbank (OeNB) organized a workshop entitled Are House Prices Endangering Financial Stability? If so, How Can We Counteract This? on October 9 and 10, 2014. The workshop's objective was to discuss and assess the implications of most recent price increases in European housing markets. It aimed at bringing together international experts in the field for an exchange of views. The keynote speech was held by Professor John Muellbauer (University of Oxford). He shed light on the interactions between the housing sector, the mortgage sector and the real sector of the economy. The workshop consisted of four sessions, which covered a broad range of relevant topics.

1. *House Price Measurement: a Prerequisite for Assessing Upcoming Bubbles.* The focus of session 1 was on the measurement of house prices and whether associated problems restrain policymakers from a proper and timely assessment of a bubble?
2. *Which Factors Drive House Prices?* The following session consisted of presentations showing the heterogeneity of national residential property markets and the impact of structural factors on house price developments.
3. *How Can We Identify House Price Bubbles before They Occur?* This session dealt with the question of how to identify house price bubbles in advance.
4. *Which Instruments Are Available to Contain an Upcoming Bubble?* The last session completed the workshop with experiences of countries that faced a bubble in the past and where national policymakers and central banks have implemented measures to counteract these crises.

This workshop volume collects those papers that were provided by the authors after the workshop. All presentations and the workshop program are available on the OeNB website (www.oenb.at/Geldpolitik/immobilienmarktanalyse/workshops-und-konferenzen.html).

Session 1: House Price Measurement: a Prerequisite for Assessing Upcoming Bubbles

Measuring house prices is a complex task. House price indices differ regarding methodology (e.g. weighting of subindices, method of enabling constant quality measures, valuation method) and coverage (e.g. regional coverage, type of property, new versus existing property). Different house price indices may deliver rivalling signals. Is there a potential for mismeasurement that could blur the assessment of an upcoming bubble?

Mick Silver (IMF) discussed various data sources and approaches to calculate residential property price indices. He stressed the relevance of commercial property prices. He also underlined the possibility to calculate more sophisticated approaches than simple hedonic models due to the increased availability of geospatial data. Michael Scholz (University Graz) presented a model incorporating geospatial data. Wolfgang Brunauer (Real(e)value) and Wolfgang Feilmayr (Vienna University of Technology) showed the indices calculated in cooperation with the OeNB. These include a spatial imputation index which is based on semiparametric models that take nonlinearity and spatial heterogeneity into account.

Session 2: Which Factors Drive House Prices?

House prices are determined by a complex interplay of various demand and supply factors which tend to produce cyclical price movements. The differences in house price developments across countries may reflect country-specific factors such as demographic differences, institutional regulations or cyclical positions.

Christophe André (OECD) gave an overview of the latest housing cycle in selected OECD countries and discussed the implications of house price developments for financial stability. Christian Hott (Economic Advice) concluded that forecasting models relying on fundamentals miss partially the development of house prices. He concluded that the excess fluctuations of actual house prices can partly be explained by incorporating herding behavior and speculation into house price models.

Session 3: How Can We Identify House Price Bubbles before They Occur?

The identification of house price bubbles in real time is a extremely difficult task. Besides pure statistical measures, methods based on the estimation of "fundamentally justified" prices are usually utilized to assess the existence of a bubble. The papers in this session address possible methods to identify house price bubbles in advance. Florian Kajuth (Deutsche Bundesbank) showed an assessment of house prices in Germany using an estimated stock flow model. Martin Schneider (OeNB) presented the OeNB's Fundamentals Indicator for Residential Property Prices, which serves to assess deviations of house prices from fundamentally justified prices. Finally, Christian Dreger (DIW Berlin) introduced an early warning system for predicting house price bubbles based on three alternative approaches.

Session 4: Which Instruments Are Available to Contain an Upcoming Bubble?

House price bubbles can pose a serious threat to financial stability, especially if they are accompanied by a strong increase of credit. Policy makers have a variety of instruments available to contain upcoming bubbles. The papers in the last session dealt with instruments available to contain upcoming bubbles. The authors presented experiences of countries whose authorities have already implemented such measures. Thomas Schepens (Nationale Bank van België) showed recent developments in the Belgian housing and mortgage market and the methods used by the Nationale Bank van België to monitor these markets. Srobona Mitra (IMF) discussed the results of six case studies of countries that have already implemented macroprudential measures.