

Frequently Asked Questions

Why is the Lands and Survey Department (LSD) launching a Residential Property Price Index (RPPI)?

1. **Reliable property price indexes and other indicators of real estate markets are critical for policymakers to assess the state of the real estate market and its potential impact on macroeconomic and financial stability.** Rapid increases in property prices may indicate the presence of a bubble that increases vulnerabilities in the financial system, while rapid decreases in property prices could signal an impending recession as households and businesses cut consumption and investment. The indexes are also used by policymakers as an input into the design of macroprudential policies (i.e., policies aimed at reducing systemic risks in the financial sector) and to evaluate the effectiveness of monetary policy transmission.

What additional data is now available?

2. **The RPPI is designed to measure changes in the average prices paid for residential properties sold in the Cayman Islands.** The index is mix-adjusted to account for the fact that different types of properties are sold at different times. It covers all market purchases of condos, both cash and mortgage funded. Currently, it does not cover house purchases.
3. **The geographical breakdown of the published indexes includes Seven Mile Beach, George Town, West Bay, and the other districts combined into one.** The RPPI for George Town is compiled and published quarterly. The national RPPI and regional sub-indexes are compiled and published annually.

What does it mean that the RPPI is “property-mix adjusted”?

4. **The new RPPI is a constant-quality price index.** This means that it aims to measure the pure price change over time, independent of any changes in the physical or locational mix of properties transacted in a given quarter or year. The Consumer Price Index (CPI) measures the prices of exactly the same products every month. However, this is not possible with residential property as a different mix of properties is transacted every month. This problem is solved by employing statistical regression methods to account for the physical and locational differences and isolate the price change on a constant-quality basis.

What data sources are used to produce the RPPI?

5. **The new RPPI makes innovative use of stamp duty returns.** The data collected includes the price and date of the residential property transactions as well as the characteristics of the properties. This illustrates the potential for obtaining new statistical insights, at an aggregate level, from administrative records.

Why does the RPPI cover only condos and neither houses nor (undeveloped) land?

6. **Condos, compared to houses, have higher numbers of purchases, allowing for an index to be estimated more easily; the number of transactions of condos is about double that of houses.** In particular, for condos, it was possible to produce a quarterly index for George Town, which is considered a very relevant indicator for the local market. Likewise, it was possible to single out Seven Mile Beach, which is a good proxy for (foreign) investments. For houses, the price model performance was not deemed satisfactory at this stage since additional property characteristics, primarily the floor area, would need to be compiled. In this sense, condos were the “low-hanging fruit.”
7. **That being said, the LSD is investigating broadening the scope of the RPPI to include both houses and (undeveloped) land, but a publication of these numbers is currently not foreseen.**

Why has Seven Mile Beach been singled out, and why are the districts other than George Town and West Bay combined into one?

8. **Seven Mile Beach has been singled out as a good proxy for (foreign) investments.** A study of charges that occur when a mortgage is filed in the domestic banking system indicated that Seven Mile Beach has disproportionately few charges filed, both in terms of the number of transactions and the sum of the consideration value. This shows that most transactions in Seven Mile Beach are either cash transactions or foreign financed, making it a good proxy for (foreign) investments. George Town, on the other hand, has a consistently high share of charges filed with the transfer of land, making it a very relevant indicator for the local market – for which price indexes are even available quarterly.
9. **Bodden Town, East End, and North Side, as well as Cayman Brac and Little Cayman, were grouped into one for a greater number of observations, increasing the reliability of estimates.** The number of purchases of condos in these districts was too limited to enable regional sub-indexes for each of them.

Why is the RPPI for George Town compiled and published on a quarterly basis but the national and regional sub-indexes are compiled and published annually?

10. **George Town is the only analytical district estimated at a quarterly frequency.** The simple reason behind this choice is that George Town has enough observations to reliably construct a quarterly index, while the other analytical districts do not. Still, the quarterly results exhibit some noise, which is why further smoothing is applied to the estimated index series (see Q&A on smoothing).

What is the difference between the average consideration value and the new RPPI?

11. **In statistics, various measures allow us to represent the characteristics of a group.** The characteristics of interest could be, for example, the ages of a group of people, the wages of a group of workers, or the price of a group of houses. One of the most commonly used statistical measures is the mean (the “arithmetic mean” to be precise, but more often simply termed the “average”). The mean is the sum of the characteristics of the group (e.g., ages, wages, or prices) divided by the number in the group.
12. **However, neither average nor median prices are appropriate for measuring the evolution of property prices as the mix of dwellings sold in different periods can change over time.** The Residential Property Price Index is the definitive measure of property price trends.

Why is the quarterly RPPI for George Town smoothed?

13. **The Cayman Islands’ residential property market is relatively small and heterogeneous.** This creates challenges in measuring house price inflation, particularly in a quarterly index such as for George Town. It leads to considerable variability in the index from quarter to quarter. Therefore, the actual price change in any given month may not reflect the underlying price trend.
14. **To better reflect both the trend and the latest price developments, the LSD applies data smoothing to the quarterly RPPI for George Town.** Properly applied, data smoothing both emphasizes the trend and leads to an earlier identification of market turning points. Additionally, data smoothing improves the quality of the RPPI, providing an accurate measure of both the short and long-term developments in house price inflation and enabling a high-frequency index that would otherwise be too volatile to publish.