

## **USER'S GUIDE HOUSING PRICE INDEX (HPI-MLX)**

### **What is the HPI?**

The Housing Price Index (HPI) is a measure of the rate of price change, over time, on residential properties in the Lower Mainland region of British Columbia. The HPI is widely used by realtors, their clients and the media as it provides the most reliable information on housing price trends.

The HPI began with research at the University of British Columbia into improving the measurement of price inflation in housing markets. The problem with average prices is that changes over time reflect not only price inflation but also shifts in the quality of properties sold. The HPI solves this problem by pricing a constant-quality and typical property over time.

The Fraser Valley Real Estate Board implemented their HPI in 1995, followed by the Real Estate Board of Greater Vancouver in 1996. Today, the HPI is used to:

- Track and report *typical* asset price inflation (or deflation) in local and regional housing markets.
- Compare typical characteristics or prices of properties in different housing markets.
- Understand current market conditions and future price trends in a particular housing market.
- *Estimate* the current market value or selling price of a typical property by updating a historical market value or sale price.

The Housing Price Index (HPI) is similar to Canada's Consumer Price Index (CPI), the most widely used measure of consumer price inflation. The CPI tracks the market price of a constant quality basket of goods typically consumed by Canadians. Whereas the CPI measures consumer price inflation (or deflation), the HPI measures housing asset price inflation (or deflation).

The HPI is obtained by comparing, through time, the price paid for a **benchmark property**. The benchmark property is typical for a given housing market and is held constant over time. Changes over time in the price of a benchmark property are therefore not due to changes in the quantity or quality of the property. Thus, the HPI measures typical, **pure price change** (inflation or deflation).

HPI benchmark properties are conceptual rather than physical, and benchmark prices are predicted rather than observed. The HPI uses advanced statistical methods to estimate benchmark property prices based on the prices and qualities observed on actual property sales.

HPI price indexes measure typical rates of price change rather than individual rates of price change. If the HPI measures price inflation in a particular housing market at



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10 per cent, this does not indicate that the value of every property in that market increased by 10 per cent. Rather, it indicates that the typical, or average, rate of inflation was 10 per cent. Further, the more typical a particular property is relative to market-wide properties, the more likely its market value has increased by 10 percent.

The HPI provides price indexes, based on benchmark property prices, for each of 187 housing markets in the Lower Mainland. Each housing market is defined by two factors: a property type and a geographic area. HPI price indexes fall into one of five property types: detached house, attached house, apartment unit, detached house with acreage, and residential. Residential property encompasses the other four property types.

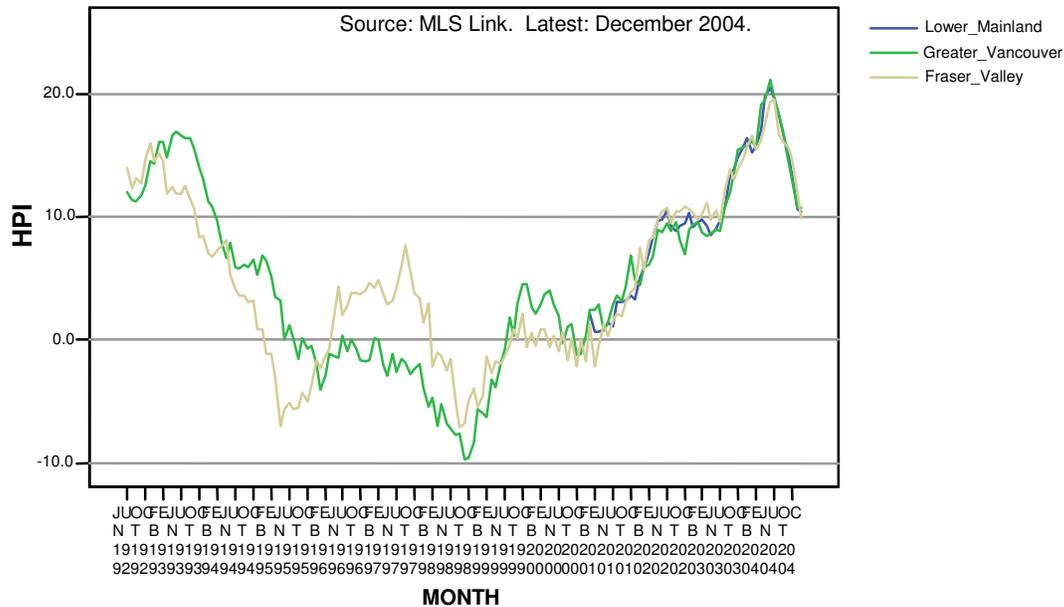
The following table and graph show some of the major components of the HPI. All indexes are priced on a calendar month frequency, ending in the latest month processed by MLS LINK. Indexes begin in either June 1991 or January 2000, depending on whether they are newly defined in the upgrade from MLS VANDAT or STELLAR to MLS LINK. A complete list of HPI-MLX housing markets is shown in Appendix One.

### **The Housing Price Index (HPI), Major Components, 2001=100**

<b>Area</b>	<b>Property Type</b>	<b>Housing Price Index (HPI)</b>			<b>Percent Change Dec 2004 from:</b>	
		<b>Dec 2004</b>	<b>Nov 2004</b>	<b>Dec 2003</b>	<b>Nov 2004</b>	<b>Dec 2003</b>
<b>Lower Mainland</b>	<b>Residential</b>	147.3	146.6	130.9	0.5	12.6
<b>Lower Mainland</b>	<b>Detached House</b>	143.0	142.7	129.5	0.2	10.4
<b>Lower Mainland</b>	<b>Attached House</b>	147.3	146.6	127.9	0.5	15.2
<b>Lower Mainland</b>	<b>Apartment Unit</b>	156.2	154.1	135.0	1.4	15.7
<b>Lower Mainland</b>	<b>House with Acreage</b>	153.0	156.5	135.1	-2.2	13.3

Source: MLS Link.

## Annual Percentage Change in the HPI, Detached, 1992-2004



### What's New in HPI-MLX?

HPI-MLX is the latest version of the Housing Price Index (HPI), in use by real estate boards since 1996. In August 2004, the Greater Vancouver and Fraser Valley boards upgraded their existing MLS systems to a common system called MLS LINK. HPI-MLX is designed to accommodate this upgrade to MLS LINK and to improve the legacy HPI product.

The following list highlights notable changes in HPI-MLX versus legacy HPI, from the point of view of realtors, media and analysts.

- New property markets have been added to increase the scope of the HPI. Five new markets are defined for the overall Lower Mainland region, which covers the combined Greater Vancouver and Fraser Valley board territory. There is one new Lower Mainland market for each property type (detached, attached, apartment, detached acreage) and one further market of these four property types together, referred to as the "residential" property. In addition, there is one new residential property market for each board's territory. There are also seven new "detached house with acreage" markets.
- Changes made in MLS LINK to the Boards' legacy "sub-areas" have resulted in a number of new or revised property markets in HPI-MLX. These changes affect mostly detached housing markets in Surrey, Langley, Abbotsford, Maple Ridge and Richmond as well as apartment markets in Vancouver and Richmond.

- Changes to improve the reliability of HPI statistics have resulted in revision or elimination of some legacy markets. For example, attached and apartment markets in Squamish and the Sunshine Coast have been dropped because their sales volume is too small to benefit from HPI technology.
- All newly defined markets in HPI-MLX have a five-year history of statistics, beginning in January 2000. All legacy HPI markets that continue in HPI-MLX have a history of statistics beginning in June 1991. All HPI-MLX markets are listed in Appendix One. Terminated legacy HPI markets are also listed in Appendix One.
- All HPI price indexes have been re-based to equal 100 in calendar year 2001. This equates the base period of indexes with different starting dates. Re-basing does not affect the measurement of pure price inflation.
- All benchmark property definitions have been updated in HPI-MLX. The price indexes, rather than benchmark prices, measure pure price inflation (or deflation) on typical, constant quality properties even though benchmark property qualities have been updated. English language descriptions of HPI-MLX benchmark property qualities are listed in Appendix Two.
- HPI-MLX statistics replace legacy HPI statistics from June 2004 onward. Legacy HPI statistics from June 2004 onward are preliminary estimates, while HPI-MLX statistics are final estimates.
- All HPI-MLX statistics are final in the current month, as they are based on the boards' process date rather than sale date. This change only affects the Greater Vancouver board, since the Fraser Valley board's HPI statistics were already based on process date.
- All HPI-MLX statistics are based on market-specific benchmark properties rather than board-wide benchmark properties. This change only affects the Fraser Valley board, since the Greater Vancouver board's HPI statistics were already based on market-specific benchmarks.

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