



**Statistics Netherlands**

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**Why the average dwelling purchase price is not an indicator**

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**Difference between average purchase price and Price index existing owner-occupied dwellings**

Statistics Netherlands and the Land Registry Office together publish the price index existing owner-occupied dwellings (PBK). Several organisations also publish the average purchase price of residential property sold. Occasionally, the average dwelling purchase price drops, whereas the PBK rises. How is this possible and what is true?

To come straight to the point: the average purchase price is no indicator for price developments of owner-occupied residential property. The average purchase price reflects the average price of dwellings sold in a particular month. The fact that the dwellings sold differs from one month to another is not taken into account. The following instance explains which problems are entailed by the continually changing of the quality of the dwellings sold.

Suppose in February of a particular year mainly big houses with extensive gardens beautifully situated alongside canals are sold, whereas in March many small terraced houses are sold. In that case, the average purchase price in February will be higher than in March.

**Instance: Price changes existing owner-occupied residential property**

	February	March	March to February
			%
Average purchase price (euro)	260,000	230,000	-11.5
Average WOZ value (euro), most recent reference date	250,000	215,000	-14.0
Average purchase price / average WOZ value (PBK)	1.040	1.070	2.9

In the above instance, the average purchase price dropped by 11.5 percent relative to February, but it would be wrong to conclude that dwelling prices have dropped by 11.5 percent as well. The quality of the dwellings sold in March is inferior to the quality of the property sold in February. This can be inferred from the average WOZ value of the dwellings sold in March, which was 14.0 percent down on the average WOZ value of the dwellings sold in February. The WOZ value is the value of a dwelling if it was to be sold on reference date. Hence, purchase prices of dwellings sold in March cannot be compared to purchase prices of dwellings sold in February. Even if dwelling prices should not change during these two months, the average purchase price may still change.

The PBK published by Statistics Netherlands in co-operation with the Land Registry Office is based on the so-called SPAR (Sale Price Appraisal Ratio) method. This method is used to monitor changes in the relation between the average purchase price of residential property and the average WOZ value of the property sold. In the above instance, the PBK increased by 2.9 percent. Division by the average WOZ value is in fact a method to control the quality. It turns out that by using this calculation method, the quality of the property sold is fairly irrelevant. This explains the main discrepancy between average purchase price and PBK.



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In a nutshell: the difference between the average purchase price per month is a mixture of the difference of price in combination with the quality of the property sold, whereas in the PBK concept, the price accounts for the difference.

In the article “[Price Index Owner-occupied Dwellings, Method description](#)”, accessible on the website of Statistics Netherlands, the calculation method of the PBK is explained in more detail.