

Informations *Rapides*

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■ Cost-of-construction index – Third quarter of 2015

In the third quarter of 2015, the “Cost-of-Construction Index” decreased by 1.2% over a year

In the third quarter of 2015, the “Cost-of-Construction Index” (CCI) stood at 1,608 versus 1,614 in the previous quarter. Over a year, the CCI fell for the third consecutive quarter (–1.2% after –0.4%).

Cost-of-construction index

1953 Q4=100

| Dates | CCI | Percentage change over a one-year period (Q/Q-4) % |
|----------------|--------------|--|
| 2011 Q1 | 1,554 | + 3.05 |
| 2011 Q2 | 1,593 | + 5.01 |
| 2011 Q3 | 1,624 | + 6.84 |
| 2011 Q4 | 1,638 | + 6.85 |
| 2012 Q1 | 1,617 | + 4.05 |
| 2012 Q2 | 1,666 | + 4.58 |
| 2012 Q3 | 1,648 | + 1.48 |
| 2012 Q4 | 1,639 | + 0.06 |
| 2013 Q1 | 1,646 | + 1.79 |
| 2013 Q2 | 1,637 | - 1.74 |
| 2013 Q3 | 1,612 | - 2.18 |
| 2013 Q4 | 1,615 | - 1.46 |
| 2014 Q1 | 1,648 | + 0.12 |
| 2014 Q2 | 1,621 | - 0.98 |
| 2014 Q3 | 1,627 | + 0.93 |
| 2014 Q4 | 1,625 | + 0.62 |
| 2015 Q1 | 1,632 | - 0.97 |
| 2015 Q2 | 1,614 | - 0.43 |
| 2015 Q3 | 1,608 | - 1.17 |
| 2015 Q4 | | |

Reminder: the historical series since 1953 are available on www.insee.fr.

Source: INSEE

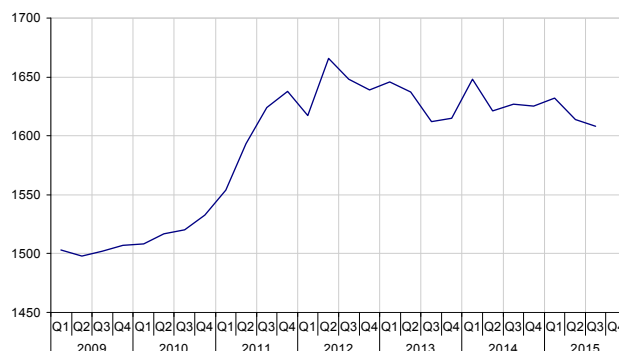
According to Law 2014-626 of 18 June 2014 (Article 9) which amends section L145-34 of Commercial Code, two indices can be used for the escalation of commercial rent contracts:

- The Commercial rent index for commercial and craft activities;
- The Tertiary activities rent index for commercial activities other than commercial.

The CCI is no longer proposed for escalation of commercial rent contracts.

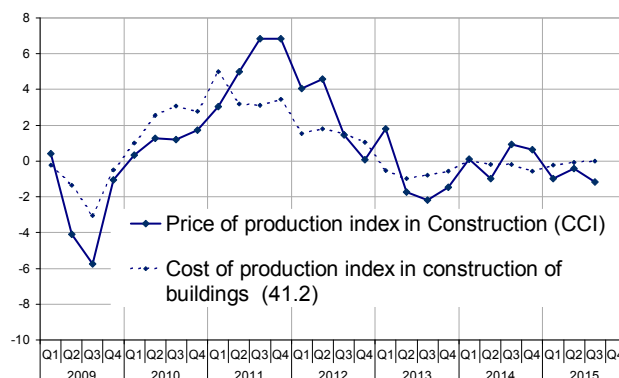
CCI

Q4-1953=100



Source: INSEE

Year-on-year change in prices and costs of construction of buildings



Source: INSEE

For more information:

Definition

The French "Cost of Construction Index" ([CCI](#)) is a quarterly index, of reference 100 in the fourth quarter of 1953, the date of its creation. CCI measures the price change of new buildings, having a primary (non-community) residential use in France. It is published in the [Journal Officiel](#) in the end of the third month following the quarter under review. It is calculated by INSEE in collaboration with the Ministry of Ecology, of sustainable Development and Energy.

Although established by usage, the words "Cost of Construction Index" makes a misnomer since it is a price index, based on observation of construction contracts dealt between the clients and the firms delivering the building works, excluding other components that enter into the global cost of purchasing (land cost, costs associated with promoting, financing costs, etc.). The cost of construction itself is apprehended by other indicators including [producer cost index in construction of buildings \(group 41.2\)](#) calculated and published by INSEE.

Calculation method

A price index is a measure of price trends. Such a goal requires to isolate a pure price change, ruling out any effect related to changes in the content of the given product, for instance, in this case, the rising cost of housing resulting from the increase in the rooms surface and from the installation of more sophisticated equipment. In most cases, price indices are developed as follows: the current value of a sample of intangible items is collected, then is related it to how much it was recorded at a reference date. When an article is replaced by a different model, a "quality effect" is estimated, that is to say the impact of this change on the new price. We can thus determine a pure price change, by subtracting the quality effect.

The problem in construction is specific because each building is unique. It is not possible to compare prices at different periods of exactly the same construction. This forbids the simple calculation of price based on the mere observation of buildings, and blurs the perception that people can have of the inflation in the construction sector. Indeed, prices discussed here depend on a large number of parameters: configuration of the construction, materials used, installed equipment, site constraints, site and extent of the operation, nature of relationships between stakeholders (developers, house-builders, general contractors, subcontractors, clients), implementation schedule, circumstances of the deal. The computing device must be adapted to these characteristics.

The hedonic method establishes a relationship, using an econometric model, between the market price of construction and characteristics of structure, which allows assessing the implicit value of these various characteristics (area, number of floors, comfort level, geographic location and living standards of the construction site for instance). The temporal evolution of prices is captured in the model by the indicator variables of the dates. Such a method is already used by INSEE, especially for [the prices of second-hand dwellings](#). It ensures the inclusion of changes in quality of housing.

The coverage of the CCI is very broad, it includes three major types of [construction](#) for residential use: the pure individual, the grouped individual (single house in a subdivision, etc.) and collective dwellings. To account for the heterogeneity of structures, a hedonic model is defined for each type. The model coefficients are re-estimated each quarter; the models themselves are reviewed every year, for the computation of the first quarter. Hedonic CCI of all new housing construction results from the aggregation according to chain-linked Paasche technique of these three sub-indices in proportion to the importance of each type.


The data needed in order to calculate the hedonic CCI are provided by the statistical survey on the "cost of construction index and cost of new housing (ICC-PRLN)", conducted by the Statistical Service of the Ministry of Ecology, of sustainable Development and Energy. This investigation can trace the evolution of construction prices through the monitoring of 500 cases, representing quarterly 7,000 to 8,000 new dwellings.

Uses

Two indices can be used in order [to escalate commercial rents contracts](#): the [commercial rent index](#) (commercial and craft activities) or the [tertiary activities rent index](#) (non commercial activities). Law 2014-626 restrains escalation of commercial rents contracts and removes the use of cost construction index from the list of index available in order to escalate commercial rents contracts. Code of trade (articles L145-33 and L145-34) modified by law No. 2001-1168 of December 11th, 2001 art. 33 V on cost of construction index, decree No. 2008-1139 of 4 November 2008 on the commercial rent index and decree No. 2011-2028 of 29 December 2011 on tertiary activities rent index defines the activities involved and the procedures for calculating and publishing the index.

Evolutions of CCI can be compared or reconciled with indicators of cost of production factors, such as [cost of production index in construction of buildings \(group 41.2\)](#) published monthly by INSEE. Moreover, as regards the maintenance and improvement of housing, "[IPEA](#)" is the relevant price index.

CCI is also used for compiling the volume-price breakdown in national accounts (for activity and product "Building").

- <http://www.bdm.insee.fr/bdm2/choixCriteres.action?codeGroupe=2>
- Complementary information (historical data, methodology, weblinks, etc.) is available on the web page of this index: <http://www.insee.fr/en/themes/info-rapide.asp?id=102>
- Historical data are available on the BDM : [G1](#), [G2](#).
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Next issue: 21 March 2016 at 12:00 pm.