



# **[03.01]**

## **Dwelling Services**

**In the ICP 2011**

Global Office

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## Dwelling Services in ICP 2011

### *Introduction*

There are two issues here:

1. estimating household expenditure on dwelling services in the GDP; and
2. calculating PPPs for dwelling services.

The User Cost document is relevant for issue 1; the documents on Rent Specifications and the Volume of Dwelling Services are relevant for issue 2.

### *Estimating household expenditure on dwelling services in the GDP*

According to the SNA, household consumption expenditure should include both the actual expenditure by households on rents for dwellings and an estimate of how much owner-occupiers would have paid in rent if they had to pay rents for their dwellings instead of owning them. This estimate is referred to as an “imputation” and the SNA suggests that the best way to make the imputation is to use rents actually paid for similar dwellings. Thus, for example, the rent of an owner-occupier living in her own two-story, six room, detached house with 200 square meters floor space in a suburb of the capital city is to be imputed at the average rent actually paid for a similar dwelling in a similar location.

In order to make these imputations, the national accounts compiler will need information on rents being paid for a variety of different kinds of houses and apartments in different parts of the country. In many countries however, dwellings are only available for rent in a few locations and the few that are available for rent may not be typical of the majority of dwellings in the country. For example they may only be luxury dwellings for highly paid expatriate managers of foreign-owned companies or they may be basic dwellings with few amenities for low paid migrant worker. An additional problem is that in many developing countries people in rural areas construct their own houses using traditional materials like bamboo, mud, wattle, thatch and palm leaves and these buildings are almost never rented.

Because of these problems, the estimates in the national accounts for dwellings are very often understated in many countries. Some countries make no imputation for rents of owner

occupied dwellings and other countries only impute rents for owner-occupied dwellings in urban areas and do not make any imputation for traditional dwellings in rural areas. All countries taking part in ICP 2011 are required to reconsider their national accounts estimates for dwelling services. **Countries where the SNA guidelines cannot be followed because the dwellings that are available for rent are not representative of the dwelling stock as a whole should make new estimates for dwelling services based on the user cost approach.** In many case this will lead to significant revisions to the size of GDP. This will improve the international comparability of GDP and the expenditure weights used to calculate PPPs for dwelling services will be more realistic.

Note that the user cost approach is not recommended merely to provide better weights for calculating PPPs. The user cost method is recommended primarily to improve the published, official estimates of GDP but, of course, these new, more accurate, expenditure estimates will also be used in the calculation of PPPs.

### *Calculating PPPs for dwelling services*

The standard procedure for calculating PPPs for dwelling services is exactly the same as for any other service. PPPs are obtained by averaging price relatives (in this case rent relatives) for identical, or very similar, dwelling services in each country. The standard procedure has been found to work well in countries where the dwellings actually rented are representative of the stock of dwellings as a whole and where the statistical agencies collect information on rents paid for the different kinds of dwellings that are rented in most parts of the country. **For ICP 2011, all countries are requested to provide information on rents for dwellings using the Rent Survey questionnaire that has been prepared by the Global Office.**

This questionnaire asks countries to report average rents paid for several different types of dwellings – e.g. houses and apartments - with several different kinds of amenities – e.g. electricity and private toilet. Rents are to be reported separately for dwellings in rural and urban areas. **Information from the Rent Survey will be used to calculate PPPs for dwelling services for those countries that are able to complete all or most of this questionnaire.** These will be countries where many different kinds of dwellings are rented and where the statistical office has a national rent survey so that they can calculate average rents for the dwelling specified in the questionnaire.

It is likely that many countries will only be able to complete a few parts of the questionnaire but all countries are requested to make their best efforts to complete as much as possible. For

example, it is often possible to use even limited rental surveys for selected areas, like major urban centers, as a useful check on rental PPPs derived from the quantity approach.

### *Quantity method of calculating PPPs for dwelling services*

ICP 2005 showed that many countries cannot supply information on rents that can be used to calculate PPPs by the standard procedure. These countries will only be able to complete a few parts of the questionnaire. For these countries an alternative method of calculating PPPs can be applied. This is called the “Quantity Approach” and it involves calculating the “volumes” of housing services generated in each country. For each pair of countries bilateral PPPs are obtained by dividing the ratios of the volumes of dwelling services into their “expenditures relatives”; these latter are the ratios of the two countries’ expenditures on actual and imputed rents for dwellings taken from the national accounts.

The volume of dwelling services is obtained in two stages. First, a simple measure of the **quantity** of dwelling services is calculated using either the floor space or the number of rooms in all dwellings. **Quality** indicators referring to amenities such as electricity and running water are then used to convert these quantity measures into **volume measures**.

**For ICP 2011, all countries are required to complete the Quantity Approach questionnaire which collects the information needed to calculate these volume measures.** Countries that are able to calculate PPPs directly using rent statistics are also requested to complete the Quantity Approach questionnaire. Comparisons of PPPs for countries that can use both the standard method and the quantity approach will be used to refine the quantity approach in future rounds of the ICP. This will be especially important for linking the PPPs for different countries and regions.

Note that the accuracy of the PPPs obtained using the Quantity Approach depends on the accuracy of both the volume ratios and the expenditure ratios. This is an additional reason why countries should improve their estimates of expenditures on rents by the User Cost method. If the expenditure ratios are wrong; the indirectly-obtained PPPs will also be wrong. Just as indirectly obtained quantities obtained from direct rental PPPs will err if the expenditures are not correctly measured.

