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Imputed rent in the Income Distribution
Statistics (IDS): the requirements for
reviewing the method for EU-SILC
purposes from 2007 onwards

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Imputed rent, the current method

- Imputed rent is calculated in the Finnish micro statistics HBS, IDS and EU-SILC within the NA (ESA95) framework, according to the EC, Euratom decision (95/309) principles, the Canberra Group recommendations (2001), and in accordance with Eurostat's EU-SILC (Doc. EU-SILC/162/ 2006) recommendations and HBS recommendations (Doc. E2/HBS/ 151-B/2003; HBS/161/2006).
- Gross rents are imputed according to the rental equivalence approach. For obtaining net rents in the micro statistics (HBS, IDS, EU-SILC), the opportunity cost approach is applied.
- Imputed rent is counted to the property income component in IDS, to the separate target variables HY030 and HY100 in EU-SILC.

Gross rents are **equivalent market rents** (average rents euro/m² from old and new contracts) imputed from the external data source, statistics on Rents of Dwellings **by the stratification method** to the usable floor area of the household main dwelling. Gross rent values and their contributions to strata have been fixed to the average annual change of the rent value (price index) from the year after the method's base year onwards.

For imputing gross rent values to similar dwellings, data has been stratified by dwelling type (3 groups) * construction year (5 groups) * number of rooms (4 groups) * location (statistical grouping of municipalities, 2 groups).

To obtain (net) rent values

Imputed gross rent values of the sample households' main dwellings:

- Depreciation (+ depreciation in deductions to taxes paid, EU-SILC HY120 => excluding depreciation)

- Housing consumption expenditure actually paid by the household (items equal with the market rent content, include subsidies of EU-SILC HY070)

= **Imputed rent value** of the household (EU-SILC HY030)

- Mortgage interests of owner-occupier's main dwellings (in gross amounts EU-SILC HY100, + interest benefit in deductions to taxes paid EU-SILC HY140)

= **Imputed net rent value** of the household (IDS)

Requirements for the reviewing the method

Commission Regulation (EC) No 1980/2003, e.g. defines the household coverage on imputed rent:

- Owner-occupiers
- Households that live in accommodation rented at a lower price than the market price, or because the accommodation is provided rent-free. In Finland, these households are further grouped by a rental sector as follows to specify the income component:
 - Other private household (counted to income transfers received in IDS, counted to HY030 in EU-SILC)
 - Non-profit sector (defined as social transfers in kind to adjusted disposable household income, not counted to income in IDS, counted to HY030 in EU-SILC)
 - Employer -> counted to non-cash employee income in IDS, to PY020 in EU-SILC

Requirements for the reviewing the method

Aims to improve the coherence between statistics (NA, HBS, IDS, EU-SILC) of Statistics Finland in calculating imputed rent. For this, the Task Force was launched. It recommends:

- Use a common tenure status grouping of dwellings
- Use a common floor area framework of private household main dwellings
- Use common gross rent values to floor area (euro/m²)
- Use a common method for depreciation
- Use a common method for calculating actual housing consumption expenditure

Requirements for the reviewing the method

Validity and reliability of market rents to describe gross rent values should be improved.

Problems, which currently exists:

- Dwelling stock and dwelling quality characteristics differ between regions
- Private rent markets (under 17 % of all household-dwellings units 31.12.2004) are relatively small, concentrated to growth areas.

So far, the external data base on market rents has been revised in Statistics Finland. The data is introduced for imputing.

Coverage is extended to municipalities more widely than earlier.

Data provides:

- Improved accuracy for average gross rent values according to dwelling quality characteristics and location across the country .
- Improved use of municipality based classifications in describing dwelling location for stratification.

Sources:

- Market rents are from statistics on Rents of Dwellings (monthly interviews, traditional method based on classification, regression methods for price changes)
- Prices of old dwellings from statistics on Prices of Dwellings (total register) is used as a supplementary source.

Representative data is ensured by using:

- Primarily municipality information about market rents to each stratum (by dwelling quality characteristics).
- Second, if the minimum sample cell criteria is not fulfilled by stratum, information about the market rents of the NUTS3 region of the municipality is used to adjust the market rents in the municipality.
- Last, information about the dwelling prices of the municipality and its NUTS3 region are used to adjust the market rents in the municipality.

Otherwise, minor changes to the current method.

They are as follows:

- Increasing still the consistency of the concepts and definitions between statistics.
- Updating the classifications of the variables used for stratification.

The following slides show results based on the present method. Household coverage on imputed rent follows the EU-SILC definition.

Table 1. Inequality and risk-of-poverty estimates with excluding (HY020 in 2004) and including imputed rent and mortgage interests. EU-SILC 2004 (producers' data), Finland.

	HY020	<i>Imputed rent</i> + Owner-occupied	HY020 <i>incl. Imputed rent</i> + rented
S80/S20	3.51	3.53	3.46
Gini coefficient	0.254	0.254	0.251
Mean eq. income	18 487	19 417	19 501
Median eq. income	16 639	17 395	17 464
Risk-of-poverty (%)			
Poverty tresholds:			
<.4 * median	1.9	2.0	1.8
<.5 * median	4.8	4.8	4.4
<.6 * median	11.0	10.8	10.1
<.7 * median	19.9	19.7	19.1

Figure 1. Risk-of-poverty rates by age with excluding (HY020 in 2004) and including imputed rent and mortgage interests. EU-SILC 2004, Finland

