Commission Regulation (EC) No 1722/2005 of 20 October 2005 on the principles for estimating dwelling services for the purpose of Council Regulation (EC, Euratom) No 1287/2003 on the harmonisation of gross national income at market prices (Text with EEA relevance)

COMMISSION REGULATION (EC) No 1722/2005

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on the principles for estimating dwelling services for the purpose of Council Regulation (EC, Euratom) No 1287/2003 on the harmonisation of gross national income at market prices

(Text with EEA relevance)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Treaty establishing the European Atomic Energy Community,

Having regard to Council Regulation (EC, Euratom) No 1287/2003 of 15 July 2003 on the harmonisation of gross national income at market prices (GNI Regulation)[(1)], and in particular Article 5(1) thereof,

Whereas:

(1) Article 2(7) of Council Decision 2000/597/EC, Euratom of 29 September 2000 on the system of the Communities' own resources[(2)] lays down that gross national product at market prices (GNP) is to be considered equal to gross national income at market prices (GNI) as provided by the Commission in accordance with the European System of Accounts (ESA). The ESA of 1995 (ESA95), superseding two earlier systems of 1970 and 1979 respectively, was established by Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community[(3)], and was set out in the Annex thereto. GNI, as used in ESA95, replaced GNP as a criterion for own resource purposes, with effect from budget year 2002.

(2) For the purpose of the implementation of Article 1 of Council Directive 89/130/EEC, Euratom on the harmonisation of the compilation of gross national product at market prices[(4)], the principles for the estimation of dwelling services have been set out by Commission Decision 95/309/EC, Euratom[(5)]. For the purposes of Article 1 of Regulation (EC, Euratom) No 1287/2003, the equivalent set of principles should now be provided in respect of GNI.

(3) The measures provided for in this Regulation are in accordance with the opinion of the GNI Committee set up by Regulation (EC, Euratom) No 1287/2003,

HAS ADOPTED THIS REGULATION:

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EC) No 1722/2005. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

Article 1

For the purposes of Regulation (EC, Euratom) No 1287/2003 the following principles for the estimation of dwelling services as set out in this Regulation shall apply.

Article 2

1 Member States shall apply the stratification method based on actual rentals in order to compile the output of dwelling services.

Member States shall use tabular analyses or statistical techniques to derive significant stratification criteria.

2 Member States shall make use of actual rentals due for the right to use an unfurnished dwelling under all contracts relating to privately-owned dwellings in order to compile imputed rentals.

Rentals for furnished dwellings may also be used if scaled down so as to exclude payment for the use of the furniture.

In countries where the privately rented sector is small, exceptionally, duly increased public rentals may be used to enlarge the basis for imputed rentals.

Article 3

1 In exceptional and duly justified cases, Member States may apply other objective methods, such as the user-cost method.

No justification shall be required for use of the user-cost method in compiling the output of owner-occupied dwellings, provided that both of the following conditions are met:

a privately rented dwellings must represent less than 10 % of the dwelling stock; and

b the disparity between private and other paid rentals must exceed a factor of three.

2 Within three years of the date of adoption of this Regulation the GNI Committee shall review the functioning of the user-cost method.

Article 4

Member States using a base year approach shall extrapolate a given base year figure using appropriate quantity, price and quality indicators.

Article 5

The further and more detailed principles for the estimation of output, intermediate consumption and transactions with the rest of the world, in the context of dwelling services, shall be as contained in the Annex.

Article 6

This Regulation shall enter into force on the 20th day following its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

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Done at Brussels, 20 October 2005.

For the Commission

Joaquín ALMUNIA

Member of the Commission

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ANNEX

For the purpose of Regulation (EC, Euratom) No 1287/2003, the following points aim to clarify the principles for the estimation of output, intermediate consumption and transactions with the rest of the world, regarding dwelling services.

1. OUTPUT OF DWELLING SERVICES

1.1. Basic methods

In national accounts, by convention, the output of dwelling services comprises not only the services produced by rented dwellings but also those provided by owner-occupied dwellings. With regard to the valuation of output of dwelling services, the European System of National and Regional Accounts (ESA95) stipulates in paragraph 3.64, that 'the output of services of owner-occupied dwellings should be valued at the estimated value of rental[(6)] that a tenant would pay for the same accommodation, taking into account factors such as location, neighbourhood amenities, etc. as well as the size and quality of the dwelling itself'. In principle, several methods are available for estimating the value of services produced by owner-occupied dwellings:

— the stratification method based on actual rentals, which combines information on the housing stock, broken down by various strata, with information on actual rentals paid in each stratum,

— the user-cost method, where separate estimates are made of intermediate consumption, consumption of fixed capital, other taxes less subsidies on production and net operating surplus. The output of dwelling services is the sum of these components,

— the self-assessment method, where owner-occupiers are asked to estimate a potential rental for their property,

— administrative assessment methods, where a potential rental is determined by third parties, e.g. by government for fiscal purposes.

The stratification method based on actual rentals is the preferred method. This method can also be used for estimating the value of all actual rentals from a sample of actual rentals and for estimating the value of dwelling services from dwellings let at a zero or low rental (see section 1.4.1 for detail).

The user-cost method should be applied only under certain conditions and only for those strata of the housing stock where actual rentals are missing or statistically unreliable.

The self-assessment method should not be used due to a largely subjective influence on the estimate which leads to substantial uncertainties in the results.

Administrative assessment methods, especially when related to taxation, may produce biased results. However, sometimes results from objective assessment methods may be available for some strata. It is acceptable to use the results when the objectivity of the method and the comparability of the results can be demonstrated.

The stratification method uses information about actual rentals from rented dwellings to obtain an estimate of the rental value of the stock of dwellings. This may be interpreted as a grossing-up procedure based on a price times quantity approach. A stratification of the housing stock is required to obtain a reliable estimate and to include relative price differences properly. Subsequently, the average actual rental per stratum is applied to all dwellings in that particular stratum. If the available information is derived from sample surveys, this grossing-up relates to both a part of the rented and all owner-occupied dwellings. The detailed procedure to determine a rental per stratum is usually carried out for a base year and is then extrapolated to the current years.

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The rental to be applied to owner-occupied dwellings in the stratification method is defined as the private market rental due for the right to use an unfurnished dwelling. The rentals for unfurnished dwellings from all private market contracts should be used to determine imputed rentals. Private market rentals that are at a low level due to government regulation should be included.

If the information source is the tenant, it may be necessary to correct the observed rental by adding any specific rental allowance, which is paid directly to the landlord. If the sample size for the observed rentals as defined above is not large enough, also observed rentals for furnished dwellings may be used for imputation purposes, provided they are adjusted for the furniture element. Exceptionally, also increased rentals for public-owned dwellings may be used. Low rentals for dwellings let to relatives or to employees should not be used (see sections 1.2.3 and 1.4.1 for details).

The stratification method may be used also for grossing up to all rented dwellings. The average rental for imputation as described above may not be suitable for some segments of the rental market. For example, scaled-down rentals for furnished dwellings or increased public rentals may not be appropriate for the respective actually rented dwellings. Separate strata for actually rented furnished or social dwellings combined with appropriate average rentals can overcome this problem.

In principle, the rental should exclude charges for heating, water, electricity etc. Where the data sources do not allow this, coherence between the rentals and intermediate consumption must be ensured (see section 2 for details).

Where for certain strata of owner-occupied dwellings a representative actual rental is missing, this can be overcome in most cases by applying extrapolation or regression techniques.

An alternative to the standard stratification method which relies on extrapolating average rentals per stratum is the use of hedonic regression methods. Briefly, such methods use the sample data for rented dwellings to determine a price of each dwelling characteristic (size, location, presence of a balcony, etc.). Output is obtained by multiplying each characteristic of (a representative sample of) the dwelling stock with the hedonic price of this characteristic. Regression methods permit an enlarged number of variables to be taken into account and can be particularly effective when for some strata observed rentals are missing.

Obviously this does not solve the problem in the extreme case of all dwellings being owner-occupied or in the absence of a developed rental market. As an objective assessment for such cases the user-cost method should be applied. The user-cost method should only be applied to owner-occupied dwellings.
Details of the user-cost method

The user-cost method should only be applied when the stratification method based on actual rentals cannot be used because the rental market is unrepresentative.

By convention, this is considered to be the case when the two following conditions are met simultaneously: (1) the number of privately rented dwellings represents less than 10 % of the total number of dwellings and (2) the disparity between private and other paid rentals exceeds a factor of three. Even when both conditions apply, a country may still choose to use the stratification method provided that the results are of sufficient quality. When one or both of the conditions are not met, the stratification method should be used unless it can be demonstrated that the user-cost method produces more comparable results.

Under the user-cost method, the output of dwelling services is the sum of intermediate consumption, consumption of fixed capital (CFC), other taxes less subsidies on production and net operating surplus (NOS). For owner-occupied dwellings, no labour input is recorded for