

The treatment of OOH in the Finnish CPI

Kristiina Nieminen, CPI

Johanna Kaila, Housing statistics

20th September 2022

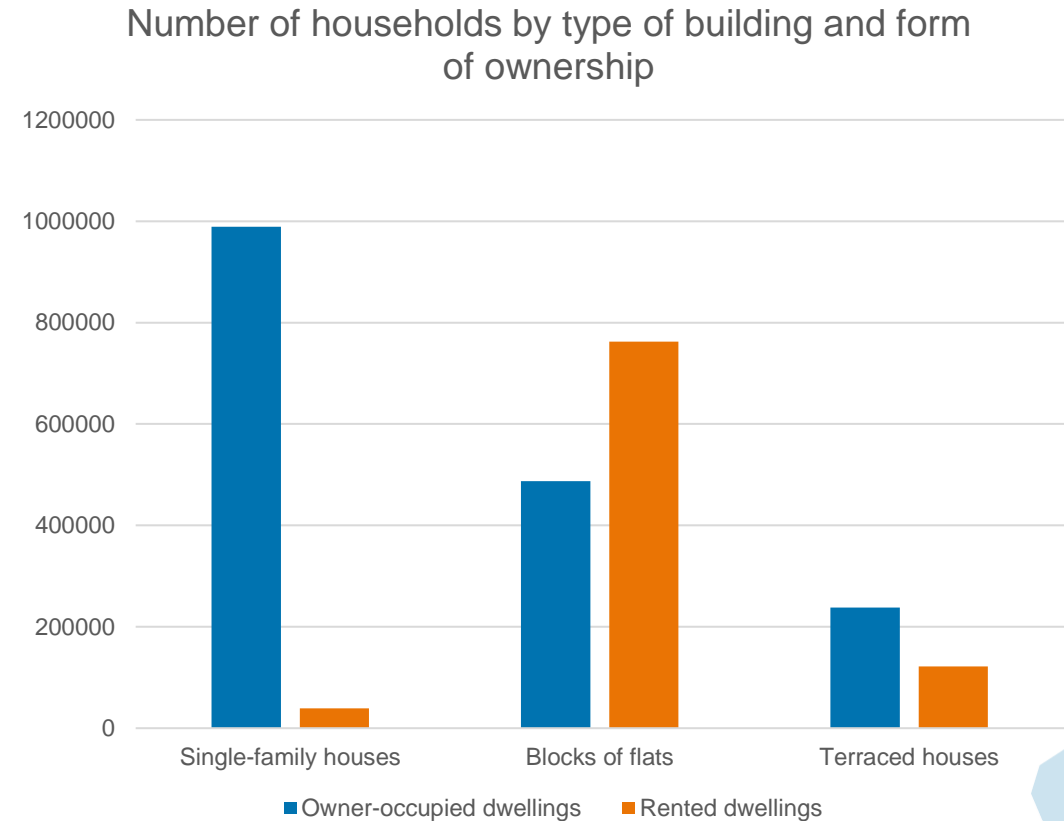
Content

- Finnish housing market
- The Finnish CPI
- Measuring OOH
- The choice of method

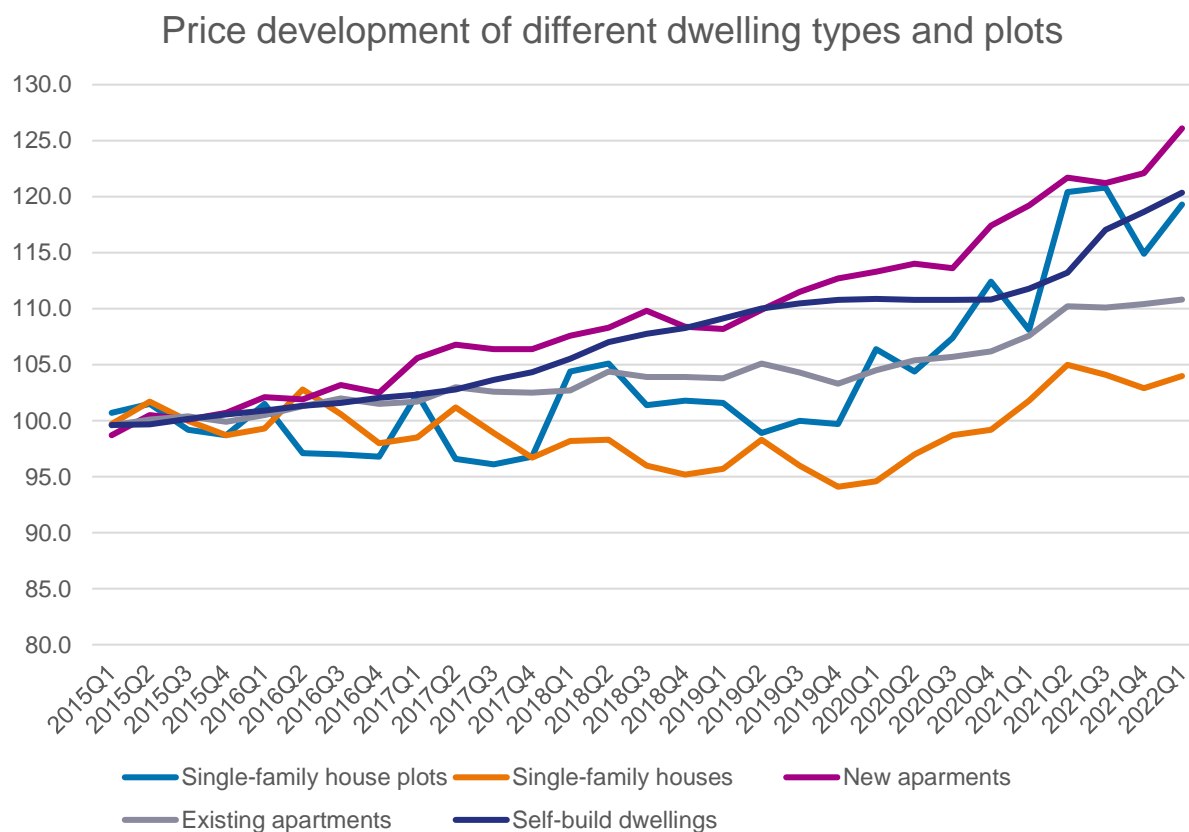
Finnish housing market

Finnish housing market

- Owner-occupation is the most common form of housing in Finland
 - 62 % of households live in owner-occupied dwellings
- 96 % of single-family houses are owner-occupied
- 39 % of blocks of flats are owner-occupied



Finnish housing market



- Prices for new and self-build dwellings have increased more rapidly than prices for existing dwellings
- For existing dwellings prices are decreasing in many regions in Finland

The Finnish CPI

National use of CPI

- Inflation
- Compensatory use
 - Review of rents of apartments and plot/land
 - Increase of
 - Pension payments,
 - Social benefits (housing, financial aid to students, sickness benefit, parenthood allowance, maintenance grant etc.)
- Converting value
 - starting period money to money of comparison year
- Deflation
 - for converting current prices to fixed prices
- International price comparison

Owner-occupied housing in CPI – history 1/2

- Up to 1967 all forms of housing were measured with rents
- 1968-1974 the Building Cost Index was included
- 1975-1984 OOH was measured by an imputation method
- Up to 1995 the Finnish housing market was subject to rent control

>> monitoring of the prices of OOH with the rents was proved unsatisfactory

Owner-occupied housing in CPI – history 2/2

- For 1985=100 a separate method was developed for OOH
 - since 1988 following items have been included
 - capital costs of owner-occupied housing,
 - prices of old dwellings and housing
 - loan interest rates
- The method has remained nearly unchanged in later revisions of the CPI
 - Gradually more emphasis on maintenance and renovation

Measuring OOH

OOH in national CPI and harmonised OOHPI

- We calculate OOH in two different ways
 - OOH in national CPI
 - Harmonised OOHPI for European comparisons
- Main differences:
 - Mortgage rates included in the national CPI but not in the OOHPI (due to different purposes of indices)
 - In national CPI the price development of new dwellings is measured with price index of existing dwellings (due to historical reasons)
- We aim to harmonise these two as far as possible
 - New dwellings for national CPI?

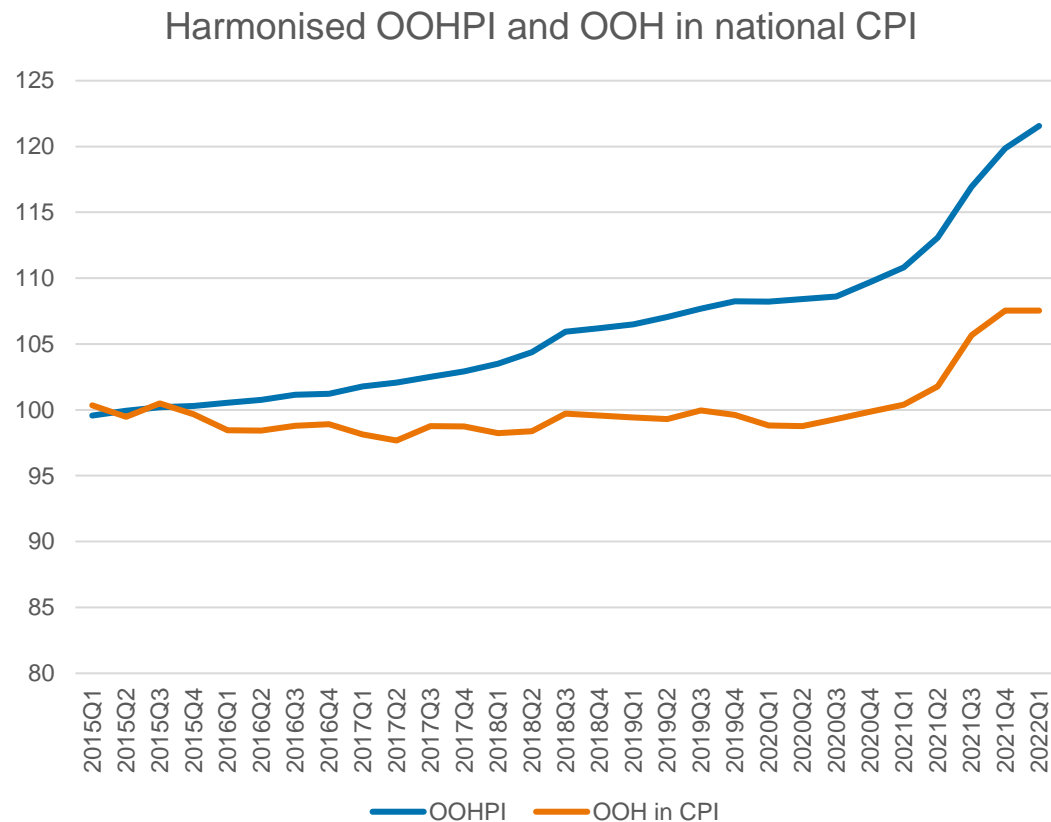
OOH in CPI

- Acquisition of new dwelling
 - *Price index of **existing** dwellings*
- Renovations
 - *Building cost index*
- Interests on housing loans
 - *Bank of Finland*
- Other costs for owner-occupied housing
 - *Estate agents' fee*
 - *Asset transfer tax*

OOHPI

- Purchases of new dwellings
 - *Price index of **new** dwellings*
- Self-build dwellings
 - *Price index of **new** single-family houses*
- Major repairs and maintenance
 - *Building cost index*
- Insurance connected with dwellings
- Other costs related to the acquisitions of dwellings
 - *Estate agents' fee*

OOHPI and OOH in national CPI

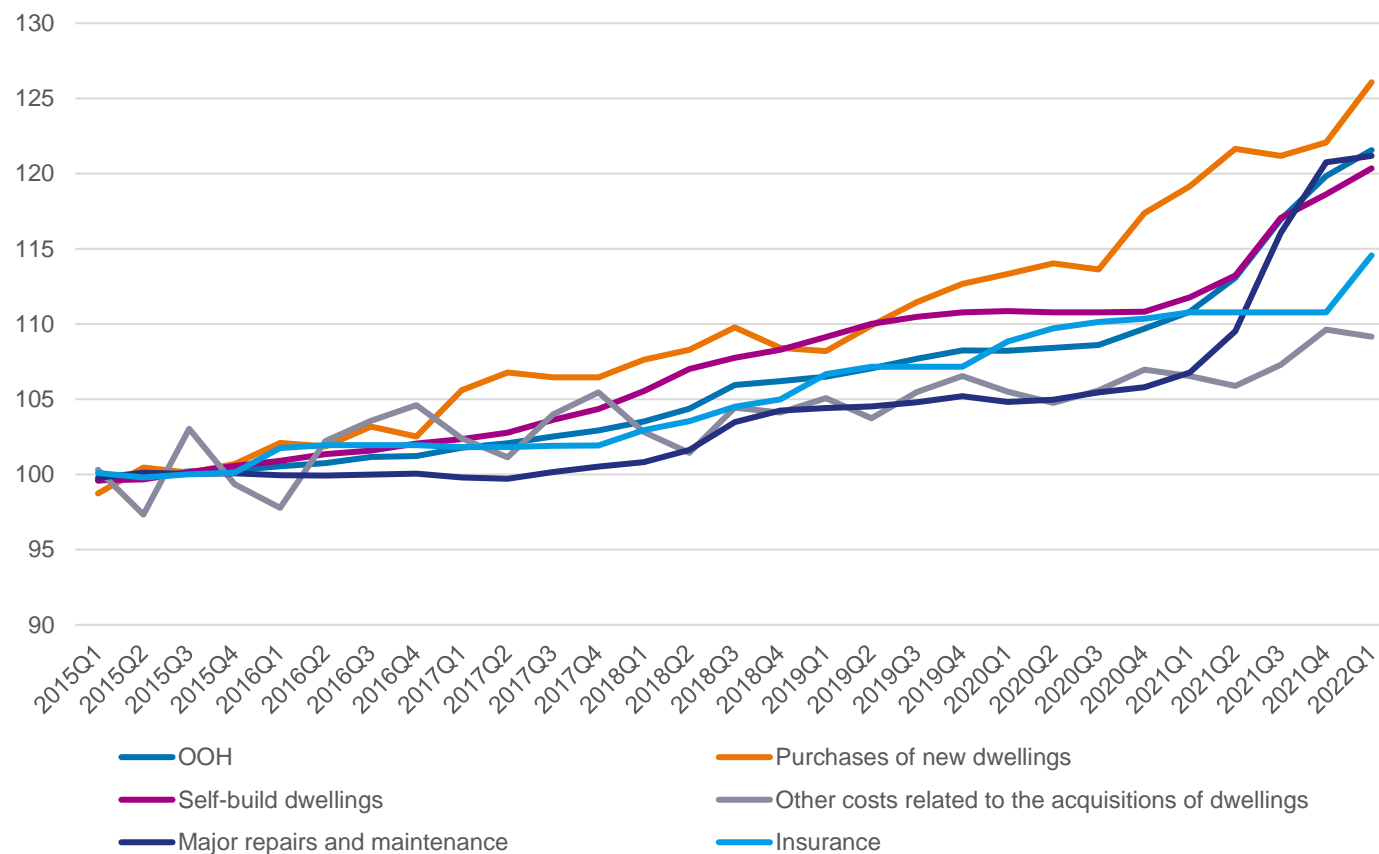


- Main difference: price development of existing dwellings in CPI, new dwellings in OOHPI
- Prices for new dwellings are increasing more rapidly than prices for existing dwellings

OOHPI in practice

| Sub-index | Data | Notes | Weight in OOHPI, % |
|--|---|--|--------------------|
| Purchases of new dwellings | Price index of new dwellings, based on real estate agents' data on transactions of new dwellings | <ul style="list-style-type: none"> Transaction often happens much before the building is completed Prices include land and structure Land excluded from the weights by estimation | 28 |
| Self-build dwellings | Data from private research companies and Statistics Finland's data collection. The index is compiled by using the Building Cost Index and the indices describing professional and own-account construction. | <ul style="list-style-type: none"> The aim is to follow the development of the prices of single-family housing construction. Price of land excluded | 21 |
| Major repairs and maintenance | Building cost index | Includes renovations made by housing companies and occupants themselves (for both flats and single-family houses) | 47 |
| Insurance connected with the dwelling | Consumer price index, Statistics Finland's data collection | | 1 |
| Other costs related to the acquisitions of dwellings | Estate agents' commission fees | Weight for estate agents' fee is estimated using number of transaction multiplied with average fee of transaction | 3 |

OOHPI in practice



OOHPI in practice: land prices

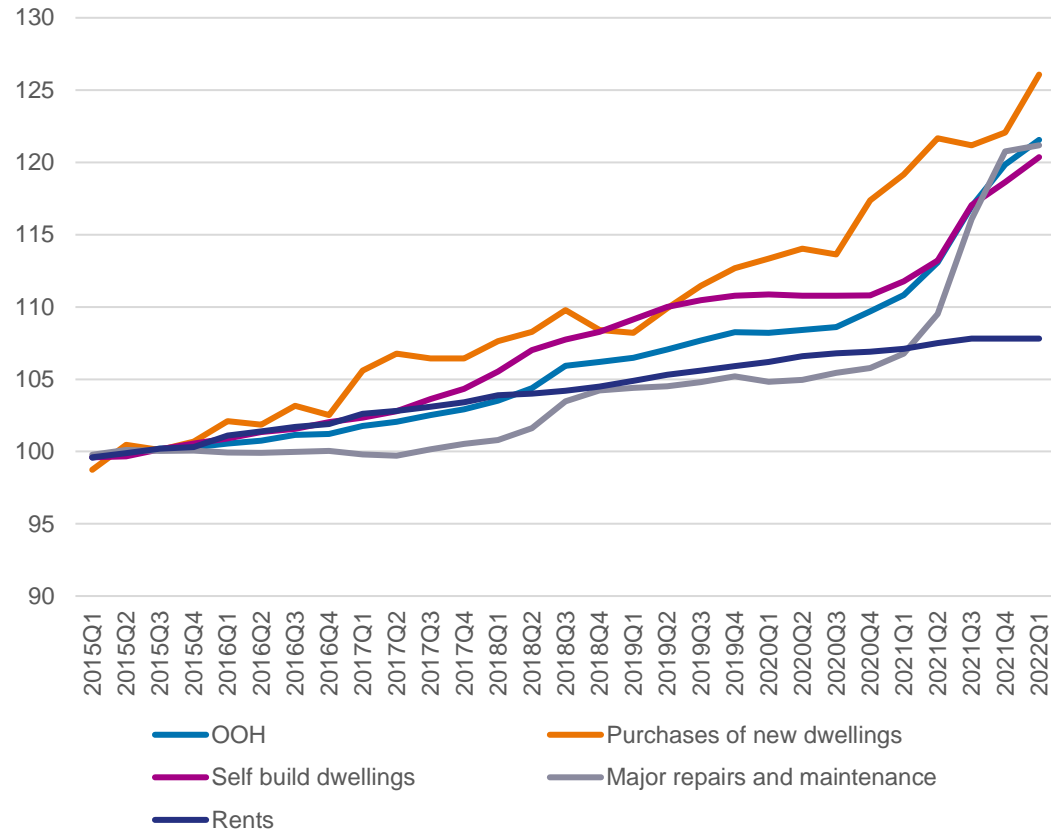
- Prices for new dwellings include both land and structure
- We have separate data for prices of single-family house plots
- For weights, we exclude the price of land by estimation based on the share of land price in single-family houses
- $\text{Share of land} = \frac{\text{mean price for single-family house plot}}{\text{mean price for single-family house including land}}$
- However, the price development includes the price of land

The choice of method

Data for rents

- Data for rent index is based on housing allowance register and rental housing companies' data
- The coverage is around 30 % of rental dwellings
 - Existing tenancies
 - We do not have comprehensive data for new tenancies (only if both new and previous tenant receive housing allowance)

Price development of OOH components and rents



- The weights in OOH:
 - self-build dwellings 21 %
 - purchases of new dwellings 28 %
 - major repairs and maintenance 47 %
- Price of land is included in the index 'purchases of new dwellings'

Rationale for the choice of method

- We have not calculated the CPI with different OOH methods in the past years
- The current method has been used for years and users have not argued against it
- The structure of Finnish housing market
 - How to measure the costs of owner-occupiers with rental equivalence when the characteristics of rental markets are quite different from owner-occupied housing markets?

Rationale for the choice of method

- Data issues with the rent index
 - We don't have comprehensive data for new tenancies
 - Rent data lacks information for single-family houses
- We are not convinced that measuring the costs of owner-occupiers with rents would give a real picture of the current situation: rents have been stable but for example the renovation costs have been increasing rapidly



Thank you!

kristiina.nieminen@stat.fi

johanna.kaila@stat.fi

