Owner occupied housing in the South African CPI: weighting and pricing

Measurement of Inflation of Owner-Occupied Housing in the CPI – Sprint of the United Nations Network of Economic Statisticians

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Own   vs   Rent

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The South African CPI has three primary objectives

- To measure inflation in the economy
- To measure changes in the cost of living of South African households
- To provide a deflator for consumer expenditure in National Accounts

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South Africa uses imputed rentals to measure OOH

- Prior to 2008 changes in mortgage interest payments were used as a proxy

- Imputed rentals chosen because:
  - Most common practice internationally
  - Easiest to implement
  - Supports objectives of CPI

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Over 80% of housing in South Africa is formal

Percentage of housing types
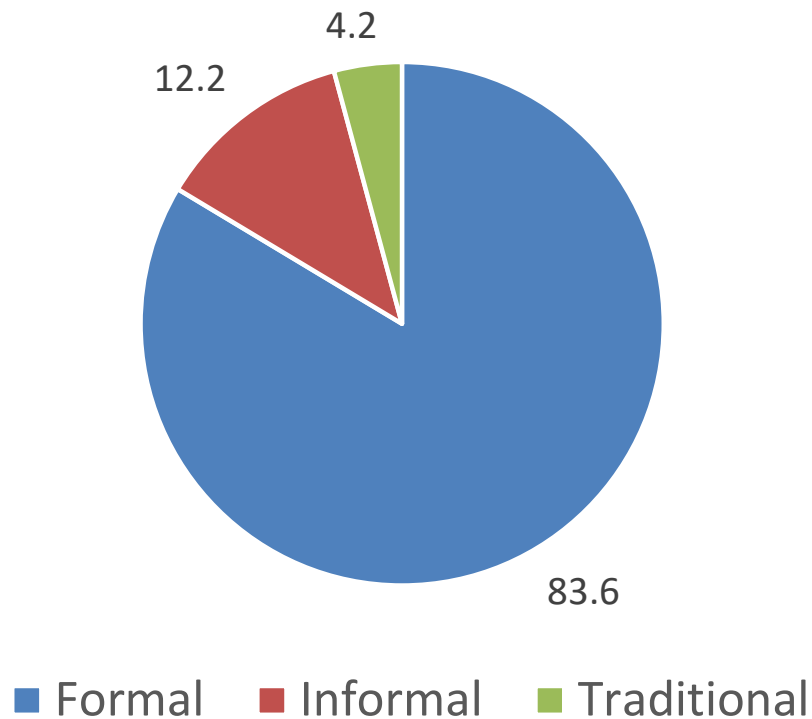
4.2

12.2

83.6

■ Formal   ■ Informal   ■ Traditional

General household survey, 2021

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Owners vs renters

11.6

18.7

69.7

■ Owned ■ Rented ■ Other

General household survey, 2021

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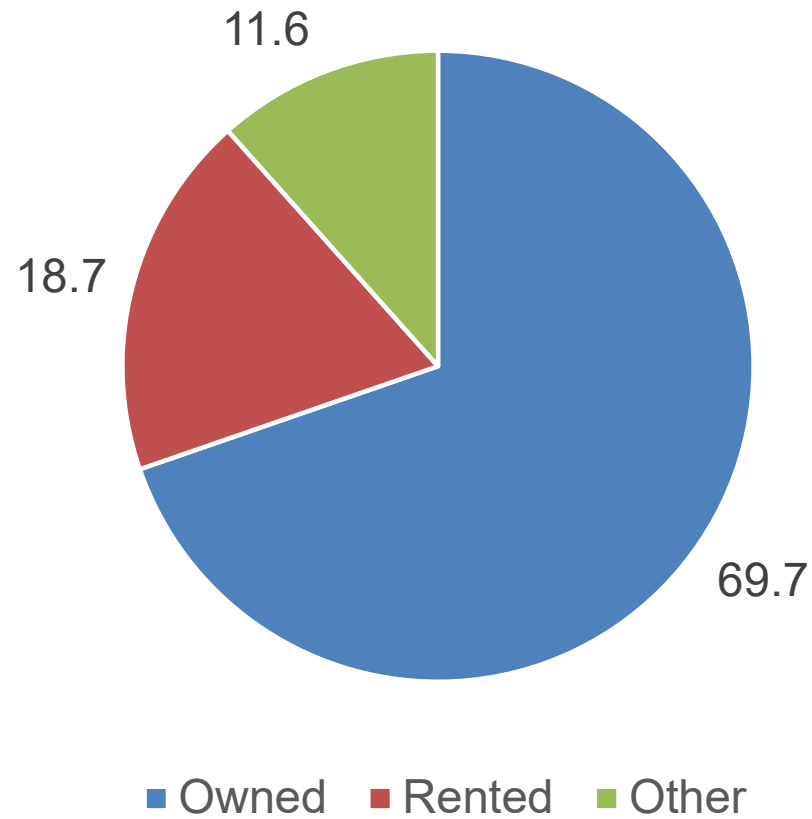
What can the HES tell us about OOH?

3 traditional questions :

1. If you had to rent this dwelling, how much would you pay for it per month?

    ? Do owners know the rental market?

2. What would you estimate the value of the dwelling unit to be?

    • Used this multiplied by a rental yield in 2008

    ?Do owners know the housing market?

3. Amount paid on mortgage bond – split between capital and interest?
    ?Useful for payments approach

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Weights are calculated through matching method

HES records characteristics of the dwelling: Now use this to match owned and rented dwellings to obtain rental value

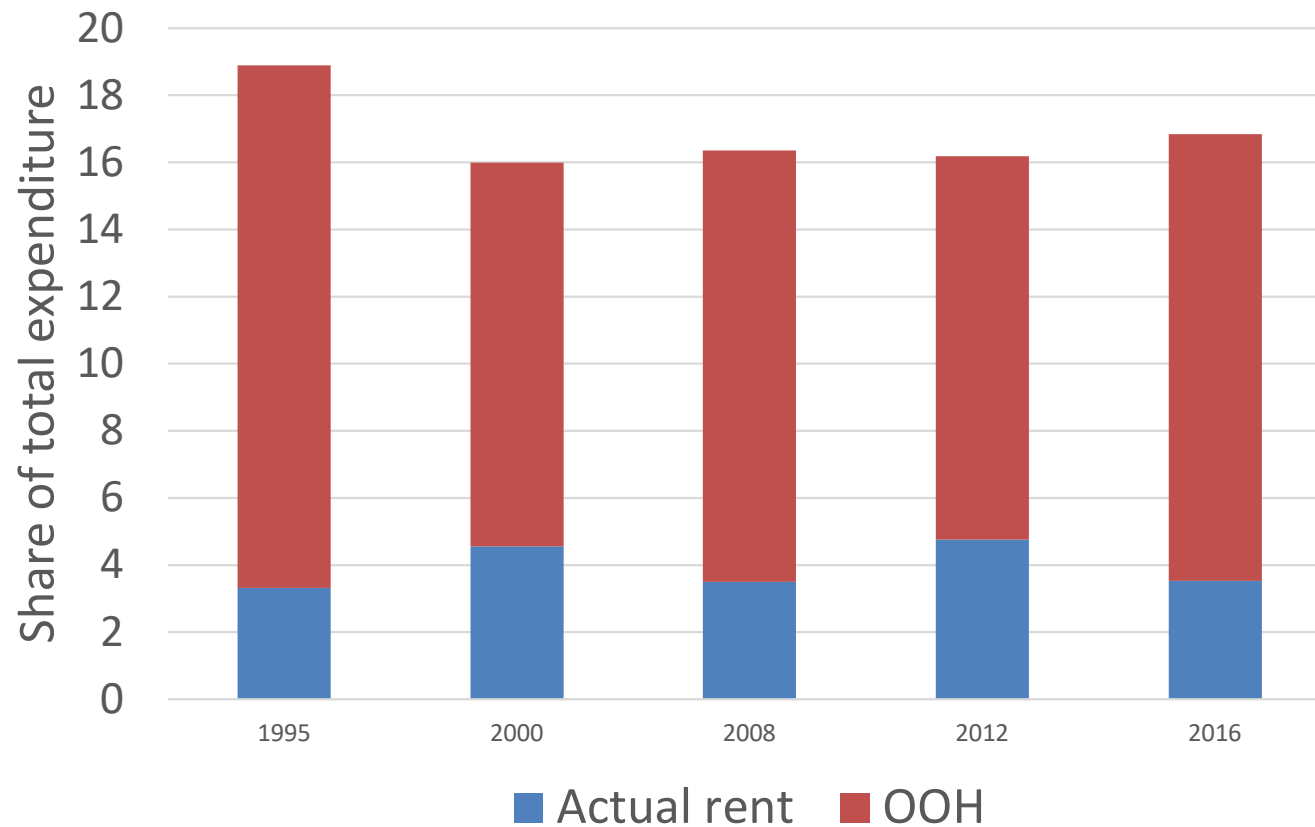| Variable |
|---|
| Province |
| Municipality |
| Type of settlement: urban/rural/formal/informal/farm/traditional…. |
| Type of dwelling: Apartment/house/house in complex/room/shack….. |
| Number of bedrooms |
| Number of bathrooms |
| Number of kitchens |
| Number of multi-purpose rooms |
| Garages (for number of cars) |
| Number of living rooms |
| Number of dining rooms |

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Weights are calculated through matching method

Rental data				OOH data					OOH Expenditure
Area	Dwelling type	Combo	Average rent	Area	Dwelling type	Combo	Quantity	Imputed rent value	Σ
Cape Town	House	A	10 562	Cape Town	House	A	214	2 260 268	4 038 800
Cape Town	House	B	9 562	Cape Town	House	B	186	1 778 532	
Cape Town	Flat	C	5 489	Cape Town	Flat	C	74	406 186	466 610
Cape Town	Flat	D	2 158	Cape Town	Flat	D	28	60 424	

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Some variation in OOH/rental weight

Weight of imputed and actual rents

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House type composition is different
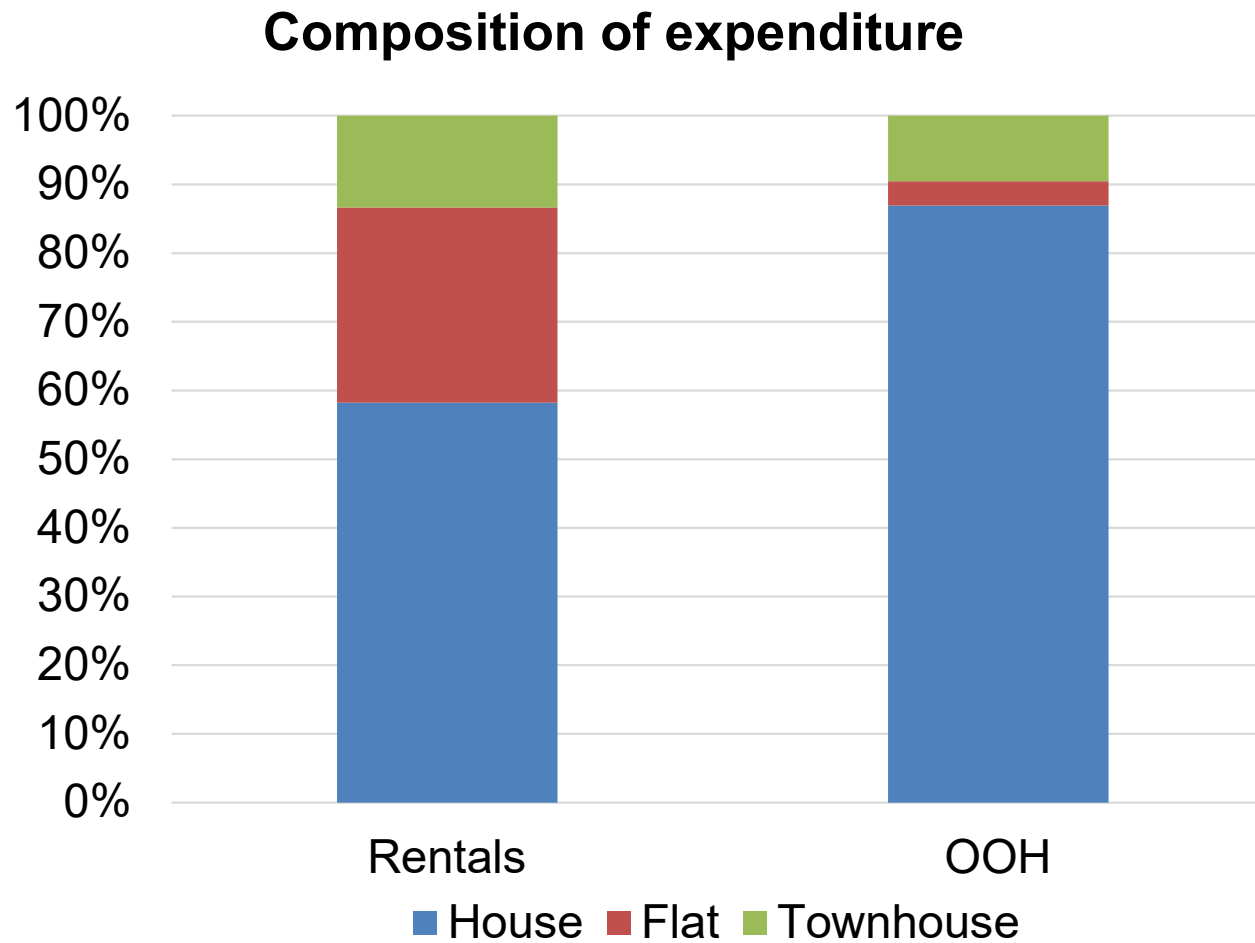
Composition of expenditure

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How the rental market works

- No price regulation

- No regulator (no admin data available)

- Minimal government supply of rental units

- Property agents (Estate agents) commonly appointed to find and contract with tenants

- Contracts signed for 12 months (or shorter) with renew option

- Escalation rate is not normally fixed

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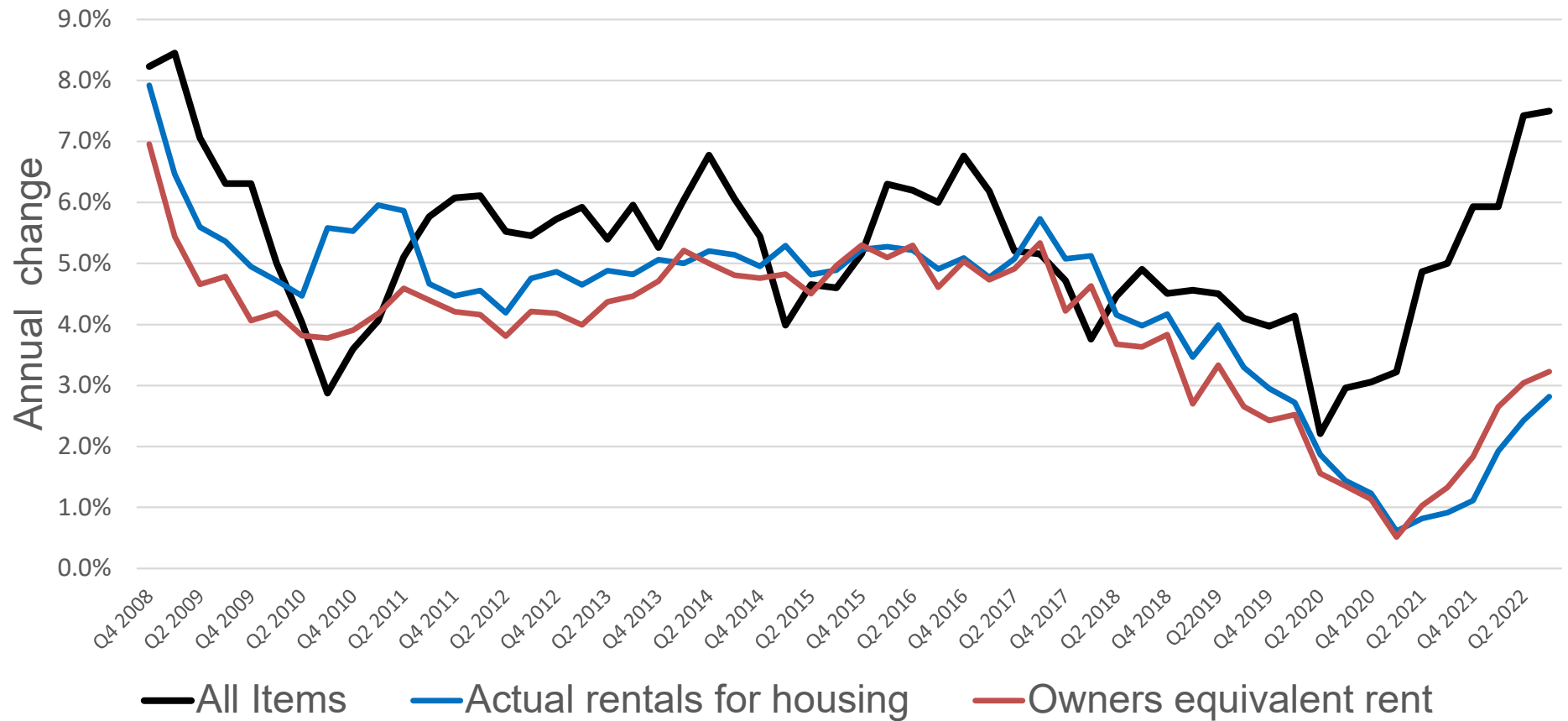**REPUBLIC OF SOUTH AFRICA**

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Rental prices collected by field survey

- Sample of 3 500 rental units

- Rents recorded each quarter

- Fieldworkers visit rental agencies

- Rental price for that quarter recorded

- Follow matched model approach

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Rental inflation is stable and lags change in CPI

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Issues ahead

- Adjust OOH weights for insurance, maintenance etc

- Extend mix of dwelling types depending on next HES

- Increase sample size

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Thank you

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