

Online workshop on measuring informal economy for EECCA and SEE countries, March 2021

Owner-Occupied Dwelling Services in

Georgia



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Methodological Framework



The following approaches may be considered to evaluate services of owner occupied dwellings

- stratification method – requires well developed rental market;
- user cost method – suggested if stratification method can't be implemented;
- self assessment method;
- Administrative assessment methods;

User cost method



Suggestions when User Cost should be implemented:

EU regulation:

- Actually rented dwellings are less than 10% of total dwelling stock;
- disparity between private and other paid rentals exceeds a factor of three;

OECD, World Bank:

- Less than 25 percent of all dwellings are actually rented;
- More than half of the rented dwellings are occupied by foreigners paying high rents, or government or other employees paying low rents;
- Rented dwellings are not evenly distributed over all parts of the economy;

Owner occupied dwellings in Georgia



According to the survey of dwellings, conducted in 2014 year along with the population census:

- 90 percent of total dwellings are occupied by owners;
- Rented dwellings are not evenly distributed over the country.

Components of the User cost method



Expenditures on owner occupied dwelling services consists of:

- Intermediate consumption;
- Other taxes on production;
- Consumption of fixed capital;
- Net operating surplus.

Intermediate Consumption



Intermediate consumption includes:

- Expenditures on maintenance and repair;
- Insurance premiums;
- Premium supplements;
- Insurance claims (minus).
- FISIM

Sources: Household budget survey; Insurance State Supervision Service of Georgia;
National Bank of Georgia

Other taxes on production



Other taxes on production include:

- Taxes paid by owners on the value of owner-occupied dwellings and their associated land
 - property tax paid by owner-occupiers

Source: Ministry of Finance of Georgia

Dwelling Stock



Estimation of capital stock is needed to calculate Consumption of Fixed Capital and Net Operating Surplus;

Data sources:

- Dwelling surface from the dwelling survey conducted in 2014 year;
- Completed construction surface of residential buildings;
- Prices of newly constructed dwellings - taken from web pages using web scrapping techniques, conducted in 2018 year.
- Land value under the dwelling - 15% of dwelling price;
- Estimated lifetime of dwellings - 75-80 years differs by regions;
- Declining balance rate = 1.6

Assumption: prices decline equally each year and are fully amortized in the last year.

Price of a dwelling of average age = average price of a dwelling (excluding land) * $(1-(A/L))$

Where: A is average age of dwelling and L is the expected service period

Dwelling stock is derived as a product of total dwelling space and a price of a dwelling with average age.

Consumption of fixed capital, Net operating surplus

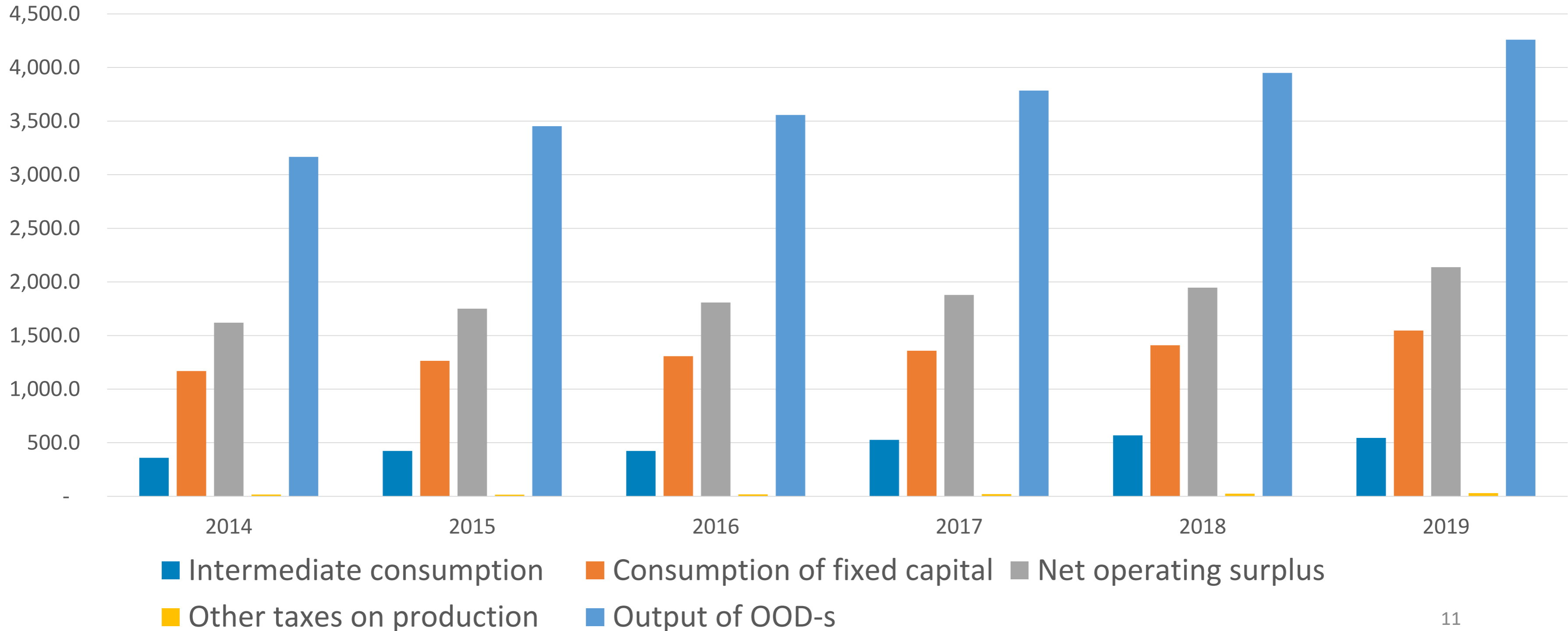


Consumption of Fixed Capital (CFC) is calculated using Geometric depreciation with no mortality function;

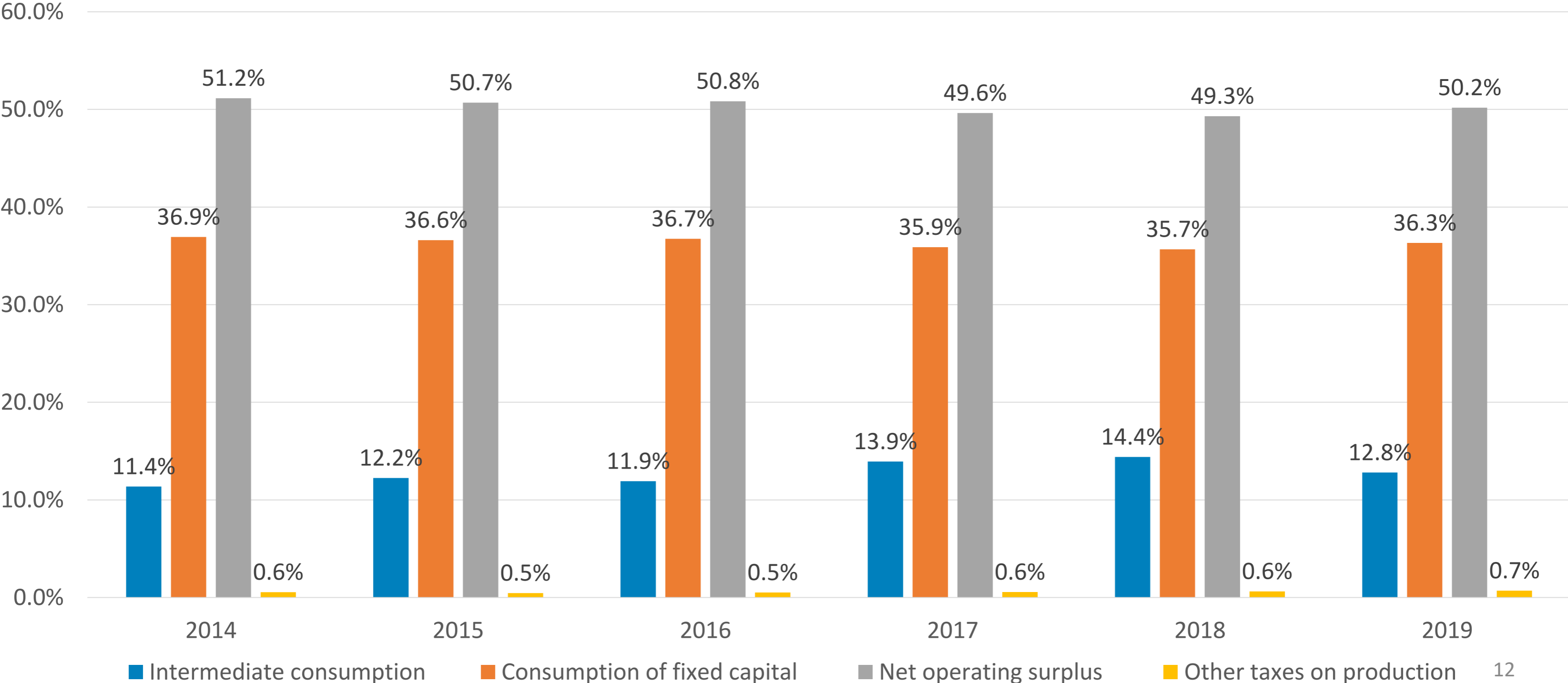
Consumption of Fixed Capital = Value of dwelling stock (excluding land) * depreciation rate

Net operating surplus = 2.5% * value of stock of dwellings including land

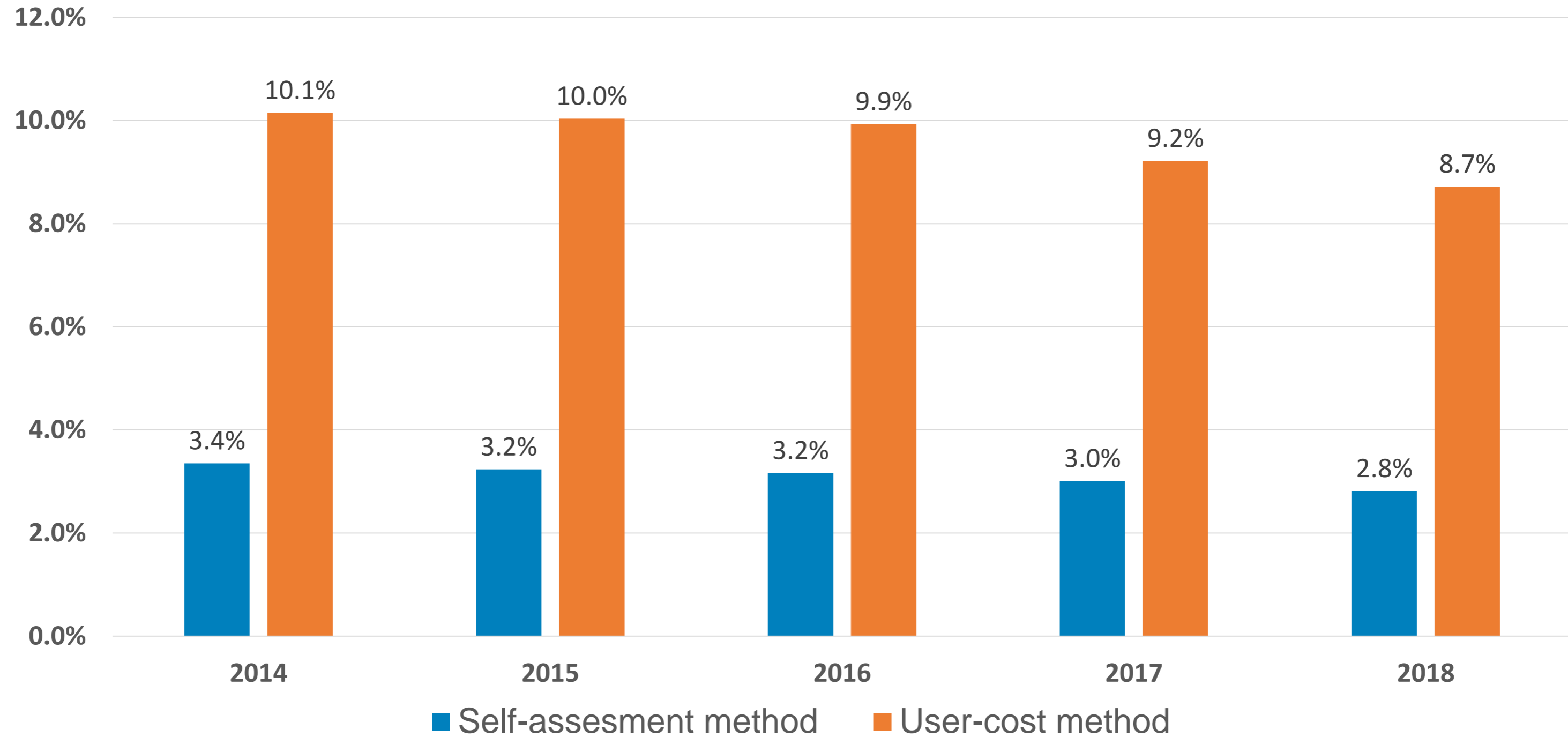
Components of User Cost



Structure of the User Cost



Share of VA of imputed rents in GDP at basic prices





Thank you for your attention!

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