

Methodology of the Monthly Index of Services

Real Estate Agencies Industry Review

Introduction

At the beginning of 2008 Her Majesty's Revenue and Customs (HMRC) moved the classification of their VAT system to SIC 2007 –the latest revision of the international Standard Industrial Classification. The ONS has received VAT data aggregated at the five-digit SIC level and processed it to produce monthly and quarterly turnover data. As a consequence, this data can no longer be processed using the current system. Gross Domestic Product Output (GDP(O)) and Index of Services (IoS) rely on several VAT series as value data in their system. This review focuses on replacing these VAT series in division 70, for SIC 70.31 real estate agents and 70.32 management of real estate on a fee or contract basis.

Summary

The industry review for real estate agencies has recommended:

- replace deflated turnover from VAT returns in SIC 70.31 and 70.32 with an employment indicator based on workforce jobs
- this will be adjusted for changes in productivity

Although the methodology will be changed all the way back to 1994 in the IoS system, only the open period from 2005 will be revised. The recommendations of this review will have little impact on top level Gross Domestic Product (GDP) for the open period.

How important is Real Estate Agencies?

In terms of gross value added (GVA) weights consistent to Blue Book 2009, real estate agents (SIC Division 70.3) represents:

- 0.7 per cent of the IoS
- 0.5 per cent of total GVA

Real estate agencies are published as part of the real estate, renting and business activities component within the IoS.

Methodology

Previous methodology¹

Table 1 below gives the detail of the methodology that has been previously used for 70.3:

Table 1

SIC	Description	Output indicator	Source	Deflator	GVA wt in 2005 (GDP=1000)	% of division	Eurostat rating
70.31	Real estate agencies	Turnover from VAT returns	HMRC	RPI: Real estate agent fees SPPI: Real estate agencies	3.7	3.0%	A
70.32	Management of real estate on a fee or contract basis	Turnover from VAT returns	HMRC	SPPI: Canteens and catering SPPI: Security services SPPI: Industrial cleaning SPPI: Property rental payments	2.4	2.0%	B

IPD – Investment Property Databank, RPI – Retail Price Index, SPPI – Service Producer Price Index, VAT – Value Added Tax, HMRC – Her Majesty's Revenue and Customs, HE – Household Expenditure

Real estate agencies

Real estate agencies were measured using turnover from VAT returns. The deflators used for this classification are a Retail Price Index (RPI) for real estate agent fees and a Service Producer Price Index (SPPI) for real estate agencies. The data was provided from Her Majesty's Revenue and Customs (HMRC) on a quarterly basis.

Management of real estate on a fee or contract basis

The second three digit SIC class part two, management of real estate on a fee or contract basis, were also measured by turnover from VAT returns. The deflators used for this classification are Service Producer Price Index's (SPPI) for canteens and catering, security services, industrial cleaning and property rental payments. The data was provided from Her Majesty's Revenue and Customs (HMRC) on a quarterly basis.

Reasons for review

The main reasons for reviewing the real estate industry were as follows:

- loss of VAT on SIC 2003 basis

What should we be doing?

In October 2001, Eurostat (European Union's Statistical Office) published the handbook on price and volume measures in national accounts. The handbook provides guidance by product, on what price and volume methods should ideally be used (A methods), acceptable methods (B methods) and those methods that should not be used (C methods). The handbook has been written in the context of annual data but the same rules apply to sub-annual data.

For real estate services on a fee basis, where the fee is a percentage of a property price, the preferred method is to use a price index which combines the change in fee percentages and

¹ In this report, the previous methodology refers to the methodology used prior to Blue Book 2009, and the new methodology to the methodology taken on at Blue Book 2009

the change in house prices. Another A method is to use a model price approach where the real estate agents could be asked to quote a price of selling e.g. a standard dwelling. For letting of residential buildings the preferred method is to use Consumer Price Index (CPI) information, as this output is only consumed by households. For letting of non-residential buildings the use of Producer Price Index (PPI) information is the preferred method, providing sufficient detail is available on different types of buildings and their quality. Acceptable B methods, are to use a price index of investments in new dwellings or an index based on property values, as well as using volume indicators such as numbers of houses sold or numbers of transactions of notaries, if broken down by types of houses.

Issues faced by the industry review

A summary of the key features, output definition, issues and recommendations for 70.3 real estate agencies and management of real estate on a fee or contract basis follows:

Key features

Prior to introducing VAT data, GDP(O) and IoS used to measure output using property transactions. Research compiled for this project has estimated that property transactions (i.e. revenue from acting as an agent in the sale or transfer in a property transaction) only account for 20 per cent of output. Real estate agents are also engaged in letting, surveying, valuations, advice and consultancy. As well as this, property transactions would be wholly inappropriate for the measurement of management of real estate on a fee or contract basis (which is mainly facilities management type activities).

Issues

- VAT data is not available and therefore reflatd turnover from VAT returns can no longer be used as a measure for taxi operations

Without any conceptually appropriate indicators available, the review recommended using employment figures from workforce jobs as a "quick fix" until turnover collection extended to these industries as part of the re-allocation of the turnover inquiries for SIC 2007.

Recommendations

1. Replace the current turnover from VAT returns for real estate agencies for 70.31 with workforce jobs adjusted for changes in productivity

2. Replace the current turnover from VAT returns for management of real estate on a fee or contract basis for 70.32 with workforce jobs adjusted for changes in productivity

Who was consulted as part of the Industry Review process?

Within the ONS, there was comprehensive consultation with relevant teams both within National Accounts and in the survey areas. In terms of external consultations, the review consulted with Eurostat.

New methodology

In summary the industry review for SIC 70.3 made the following recommendations that were implemented at Blue Book 2009:

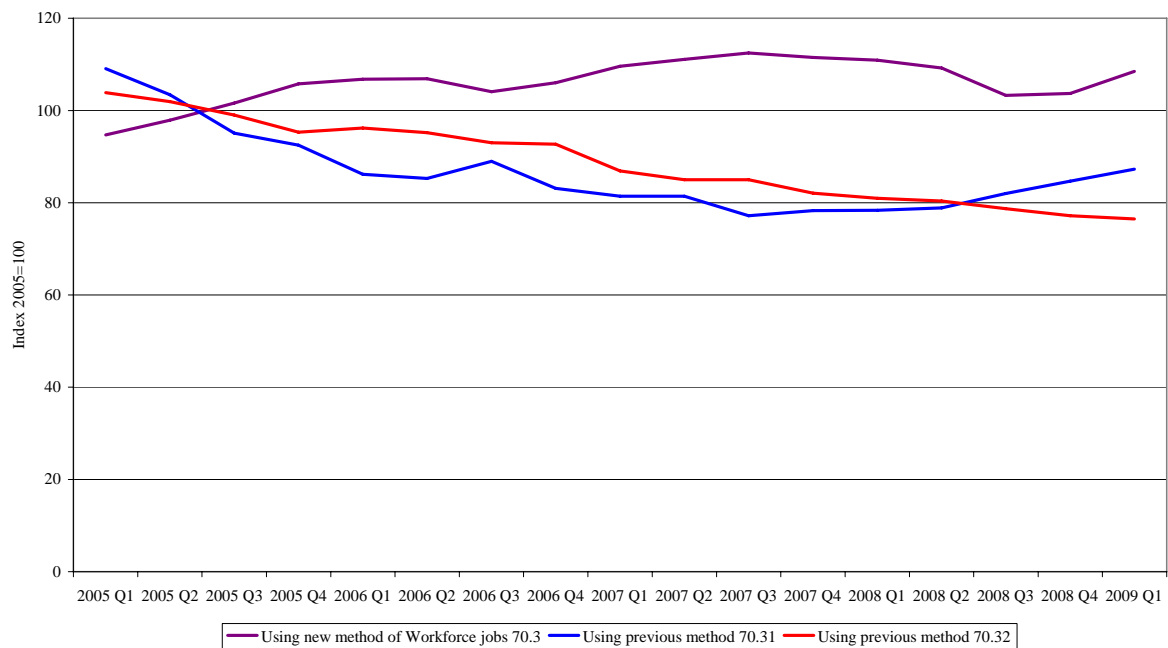
- to replace the turnover for VAT returns for real estate agencies and management of real estate on a fee or contract basis (SIC 703.1 & 703.2) with workforce jobs employment data adjusted for changes in productivity
- use workforce jobs as a suitable measure until MIDSS turnover collection is started in January 2010

Impact of new methodology

The graph below shows the impact of the new methodology on 70.3. The data has been revised back to quarter one 2005. This in line with the open period for revisions set-out in the National Accounts Revisions Policy for Blue Book 2009.

Figure 1

Real estate activities (SIC 70.3) constant prices seasonally adjusted



Contact Information

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Annex 1

Comparison of new and old methods

Group/Class	Industry Description	Previous Output Indicator	Previous Deflators	New Output Indicator	New Deflators	GVA weight per 1000	Weight within division
7031	Real estate agencies	Turnover from VAT returns (£million)	Weighted mean of: 1. RPI: Real estate agent fees 2. SPPI: Real estate agencies	Workforce jobs adjusted for changes in productivity	Real estate productivity	3.0	3.9%
7032	Management of real estate on a fee or contract basis	Turnover from VAT returns (£million)	Weighted mean of: 1. SPPI: Canteens and Catering 2. SPPI: Security services 3. SPPI: Industrial cleaning 4. SPPI: Property rental payments	Workforce jobs adjusted for changes in productivity	Real estate productivity	2.0	2.6%

HE – Household Expenditure, VAT - Value Added Tax, IPD – Investment Property Databank, RPI – Retail Price Index, SPPI – Service Producer Price Index

References

Eurostat (2001) Handbook on price and volume measures in national accounts, ISBN 92 894 000 6. Available for download from:

http://europa.eu.int/comm/eurostat/Public/datashop/printcatalogue/EN?catalogue=Eurostat&product=KS-41-01-543-__-N-EN