

Article

Explaining the impact of the new UK house price index: 2016

Outlining the impact of the new UK house price index and a comparison of this against other house price indices.

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1. Introduction

The new house price index (HPI) introduces improved methodology to address limitations with the previous house price indices published by the Land Registry and ONS, notably:

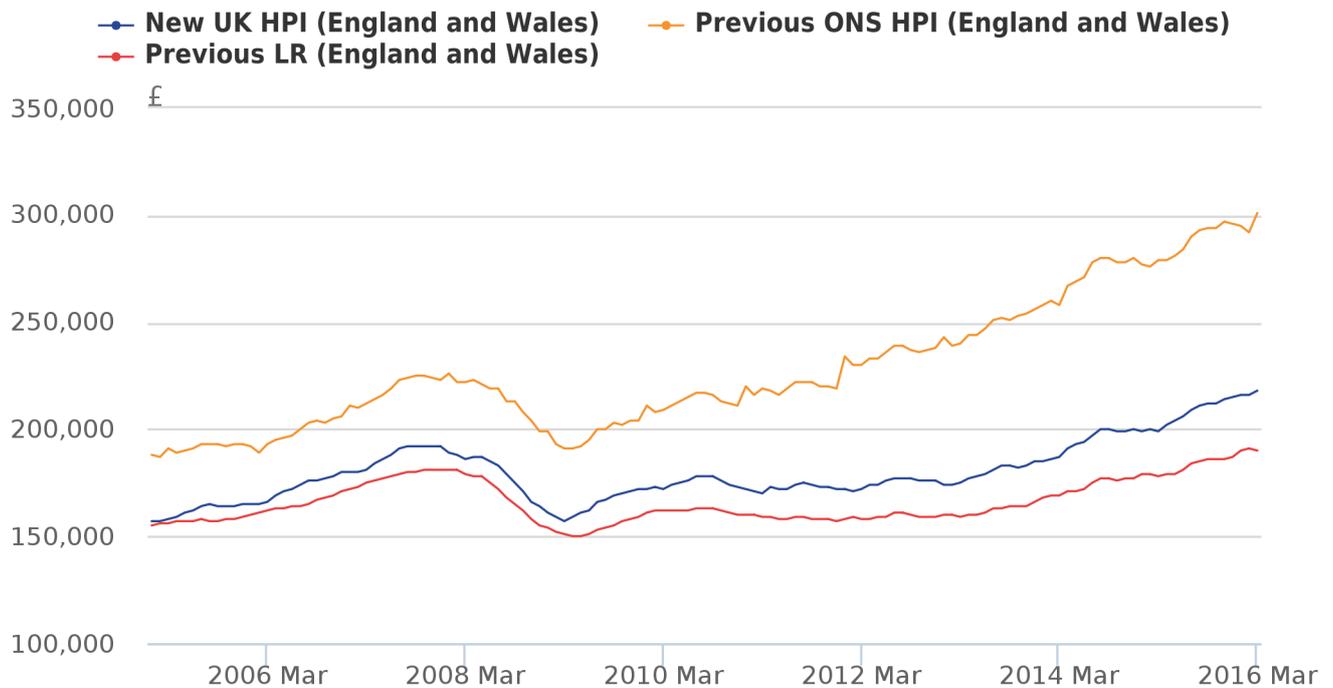
- the inclusion of both cash sales and new dwellings in calculations to provide full coverage of the housing market
- the use of a more appropriate calculation of average price that is not as sensitive to extreme valued property
- a calculation process that ensures the price index is representative of the current housing market
- publication of average prices that are fully comparable over time

The introduction of improved methodology and data sources has led to differences in published prices when comparing the new HPI to the previous HPIs published by Land Registry and ONS. However, when comparing the respective trends over time, the 3 series show very similar movements.

2. Impact on price

The difference in average price levels when comparing the new HPI to the old HPI is mainly caused by the choice of formula used to average prices. The new UK HPI uses a geometric mean, as opposed to the arithmetic mean used in the old HPI. The arithmetic mean is sensitive to extreme property values and, as a result, the prices can be skewed upwards by high value property. The geometric mean is less sensitive to these values, although it continues to represent them in the calculation process. Improvements to other aspects of the methodology will also contribute to the differences (such as the inclusion of cash sales), although the impact of these is more difficult to quantify.

Figure 1: Impact of new UK HPI on average price values (England and Wales), January 2005 to March 2016



Source: Land Registry and Office for National Statistics

Notes:

1. England and Wales data used in analysis for comparability purposes.

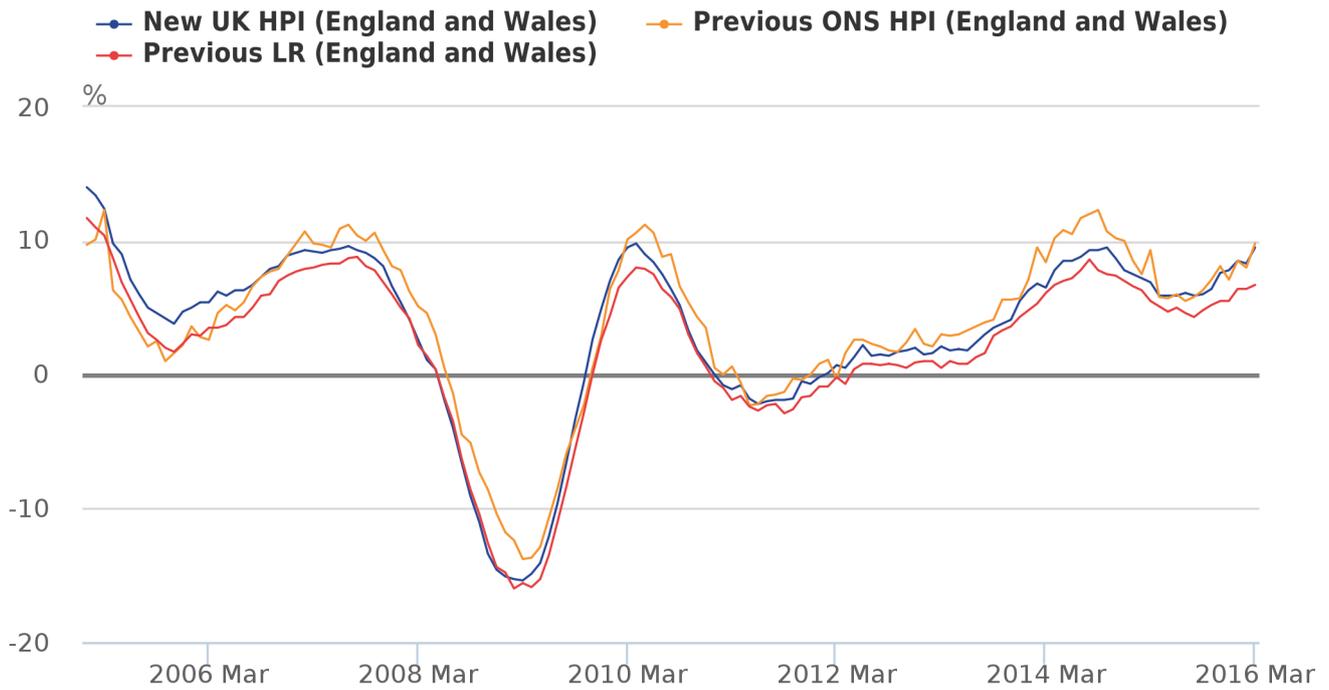
The difference between the new HPI and old Land Registry average price is mainly caused by the new HPI being more representative of current trends in the property market. The old Land Registry HPI is based on a typical set of property from April 2000, whereas the new UK HPI is updated each year to reflect current market trends.

3. Impact on growth

When comparing the annual growth from the 3 series, they all show very similar trends over time, suggesting the improved methodology is not having a large impact on house price growth over time.

Figure 2: Impact of new UK HPI on annual growth rates (England and Wales), January 2005 to March 2016

12-month percentage change



Source: Land Registry and Office for National Statistics

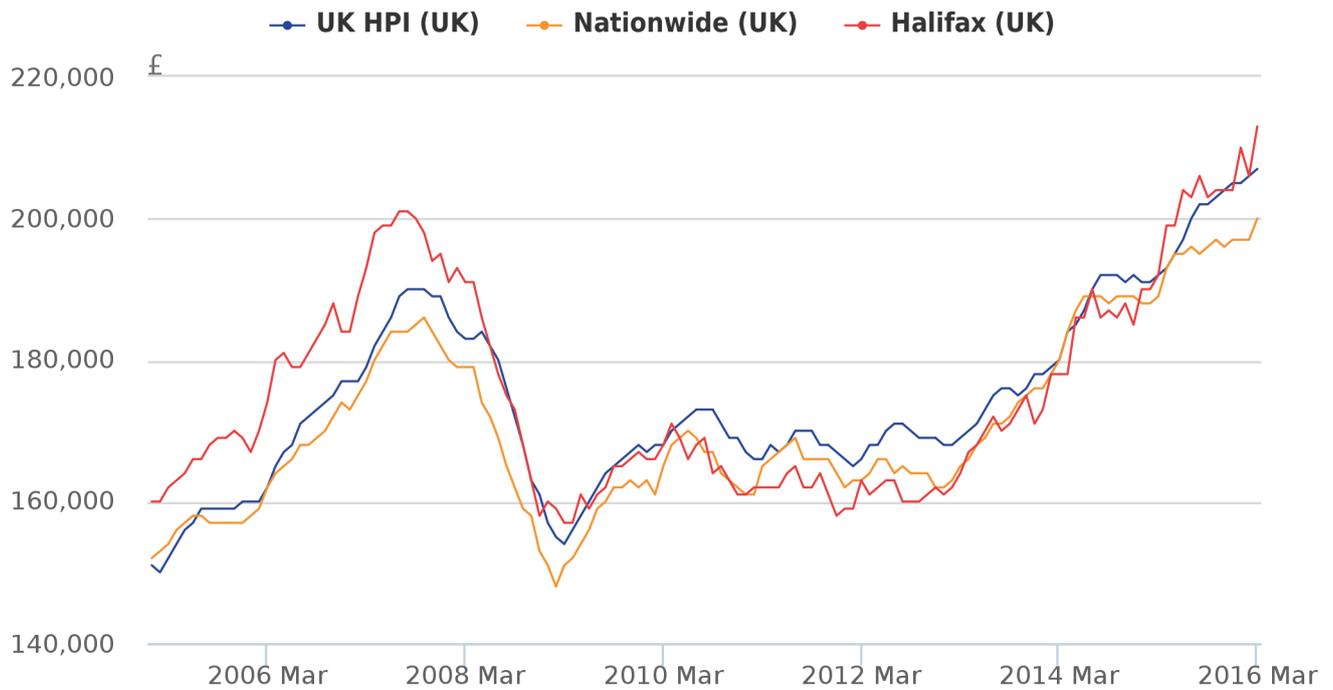
Notes:

1. England and Wales data used in analysis for comparability purposes.

4. Comparison of the new UKHPI with other house price indices

When comparing the average house price values estimated using the new UK HPI against the indices of Nationwide and Halifax, the 3 series are very closely aligned.

Figure 3: Average house price values, comparison of different indices, January 2005 to March 2016



Source: Land Registry, Office for National Statistics, Nationwide and Halifax

Further details on the UK HPI, including commentary, historical data tables and analytical tools can be found in the [main publication](#) of the UK HPI, published on GOV.UK. Details on the [methodology implemented](#) can be found in the February 2016 article.