

Article

Net acquisitions approach to measuring owner occupiers' housing costs – impact of the new UK house price index: Quarter 2 (Apr to Jun) 2016

Recent improvements in the House Price Index methodology have led to changes in net acquisitions approach to measuring owner occupiers' housing costs. This article provides a comparison of the OOH(NA) indices, calculated using the old and new HPI.

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1 . Summary

The net acquisitions approach to measuring owner occupiers' housing costs (OOH(NA)) is in part compiled using the House Price Index (HPI, ONS). Recent improvements in the [House Price Index methodology](#) have led to changes in OOH(NA). Here, we provide a comparison of the OOH(NA) indices, calculated using the old and new HPI.

2 . Background

The net acquisitions approach is a method for measuring owner occupiers' housing costs (OOH) that are associated with the purchase and ongoing ownership of dwellings for own use. It is not included in the Harmonised Index of Consumer Prices (HICP). We are required to produce OOH(NA) on a quarterly basis to meet the European Commission Regulation [93/2013](#). It is an experimental statistic. We publish OOH(NA) and 2 component sub-indices, the Acquisitions of Dwellings Index and the Ownership of Dwellings Index.

The net acquisitions approach treats a home as the purchase of a good that is part asset (the land) and part consumable (the house), and seeks to exclude the land component from the index. This is because the HICP is a measure of consumption and therefore asset prices should not be included. However, in practice, for many countries including the UK, it is not possible to separate out the land cost from the price of a house. For this reason, Eurostat has proposed a method that does not separate land and house prices.

OOH(NA) in the UK follows the method proposed by Eurostat, and does not separate the land cost from the price of a house. OOH (NA) also includes costs associated with buying and maintaining a house; for example, self builds and renovations, repairs and maintenance, transfer costs and dwelling insurance. A [methodological paper showing our approach to calculating a net acquisitions method](#) was released in December 2014.

OOH(NA) uses the House Price Index (HPI) in its methodology, in particular in the calculation of the Acquisitions of Dwellings Index. The new HPI was introduced to address limitations with the previous house price indices, 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

A detailed explanation of the new methodology and impact on the existing HPI can be found in the article [Explaining the impact of the new UK house price index: 2016](#), published in July 2016.

The Acquisitions of Dwellings Index and subsequently the OOH(NA) index are both affected by the change in the HPI. The Ownership of Dwellings Index remains unaffected.

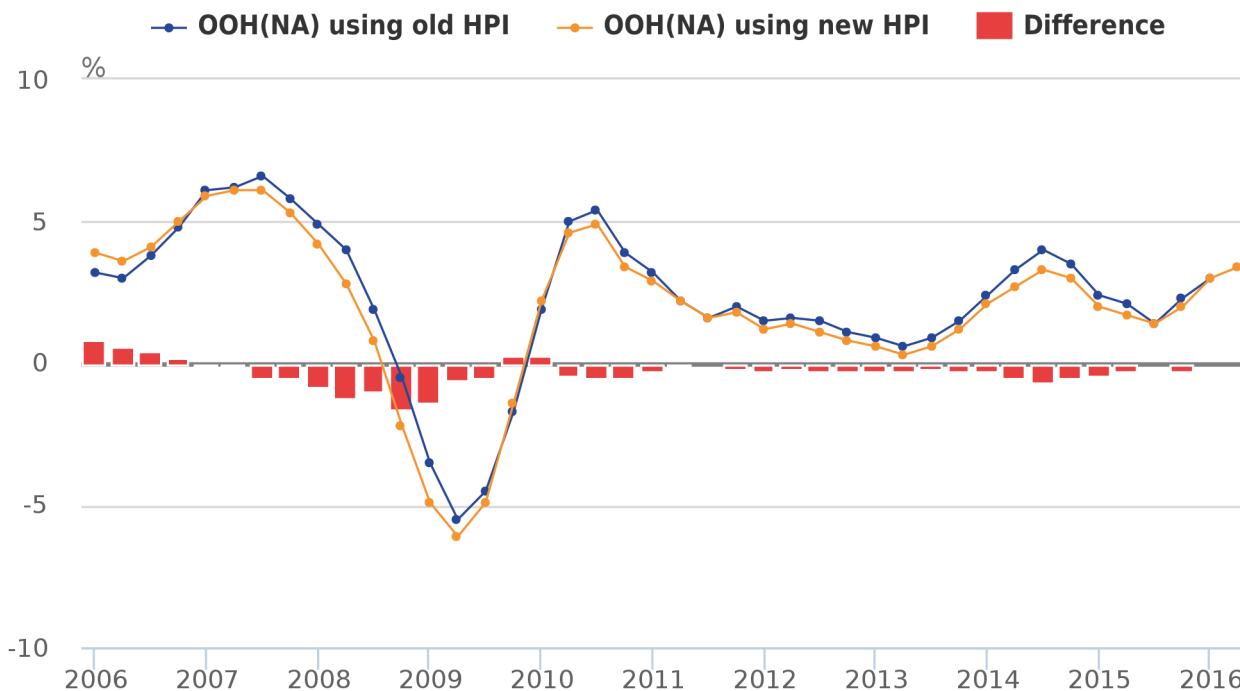
3 . Comparison using old and new HPI

From September 2016, OOH(NA) will be calculated using the new HPI. The old HPI series using the previous methodology has been discontinued. The historical OOH(NA) series has also been revised, from Quarter 1 (Jan to Mar) 2005 to Quarter 1 2016, calculated using the new HPI. It is published in the Quarter 2 (Apr to July) 2016 release of data. Here it is compared to the previous OOH(NA) series, calculated using the old HPI to show the impact of the change.

The growth rate of OOH(NA) shows a very similar pattern when using the old HPI and the new HPI. This can be seen in Figure 1. The peaks and troughs appear at the same times but the growth rate is generally lower using the new HPI. Prior to 2007, it is slightly higher using the new HPI.

Figure 1: A comparison of the annual growth rate (% change) of OOH(NA) using the old HPI and new HPI

UK, Q1 2006 to Q2 2016



Source: Office for National Statistics

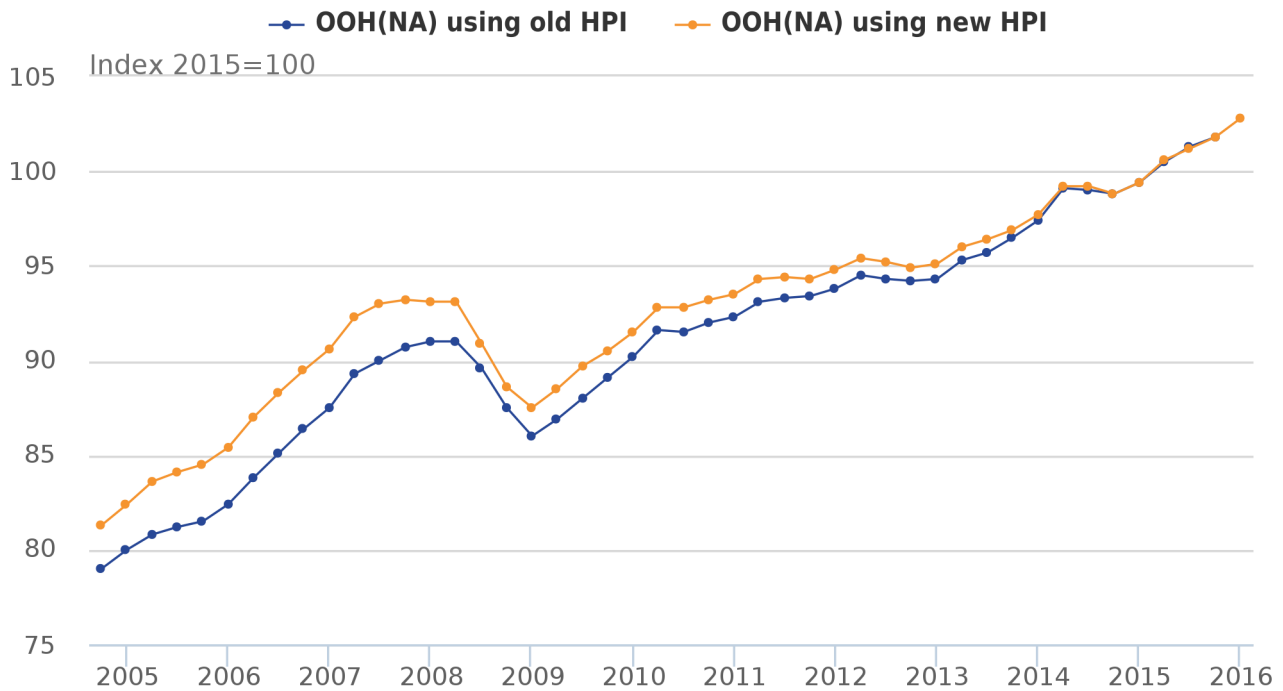
Notes:

1. Q1= Quarter 1 (Jan to Mar), Q2 = Quarter 2 (Apr to Jun), Q3 = Quarter 3 (Jul to Sep) and Q4 = Quarter 4 (Oct to Dec).

Figure 2 presents the historical OOH(NA) index using both the old and the new HPI. There is some divergence in the historical series, around 3 percentage points from Quarter 1 2005 to Quarter 2 2008. The OOH(NA) index is generally higher using the new HPI, as shown in Figure 2.

Figure 2: OOH(NA) Index using the old HPI and new HPI

UK, Q1 2005 to Q2 2016



Source: Office for National Statistics

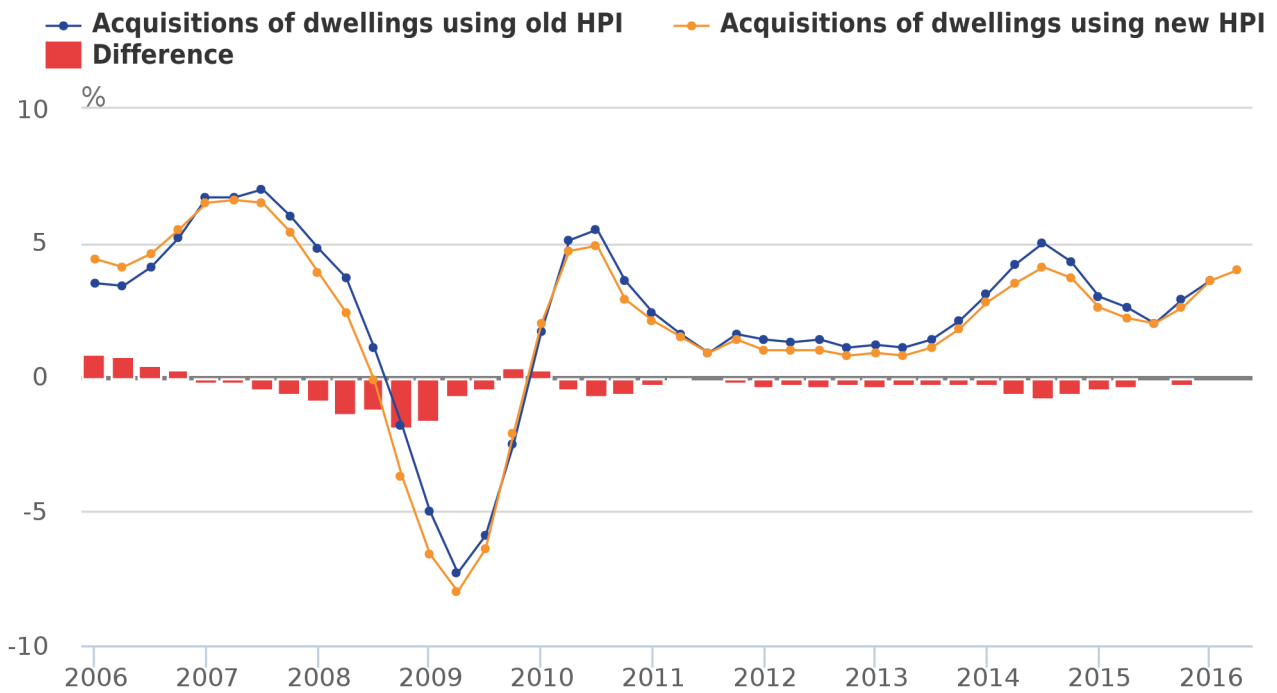
Notes:

1. Q1= Quarter 1 (Jan to Mar), Q2 = Quarter 2 (Apr to Jun), Q3 = Quarter 3 (Jul to Sep) and Q4 = Quarter 4 (Oct to Dec).

There is a similar impact on the Acquisitions of Dwellings Index, as seen in Figures 3 and 4.

Figure 3: Annual growth rate (% change) of the Acquisitions of Dwellings Index using the old HPI and the new HPI

UK, Q1 2006 to Q2 2016



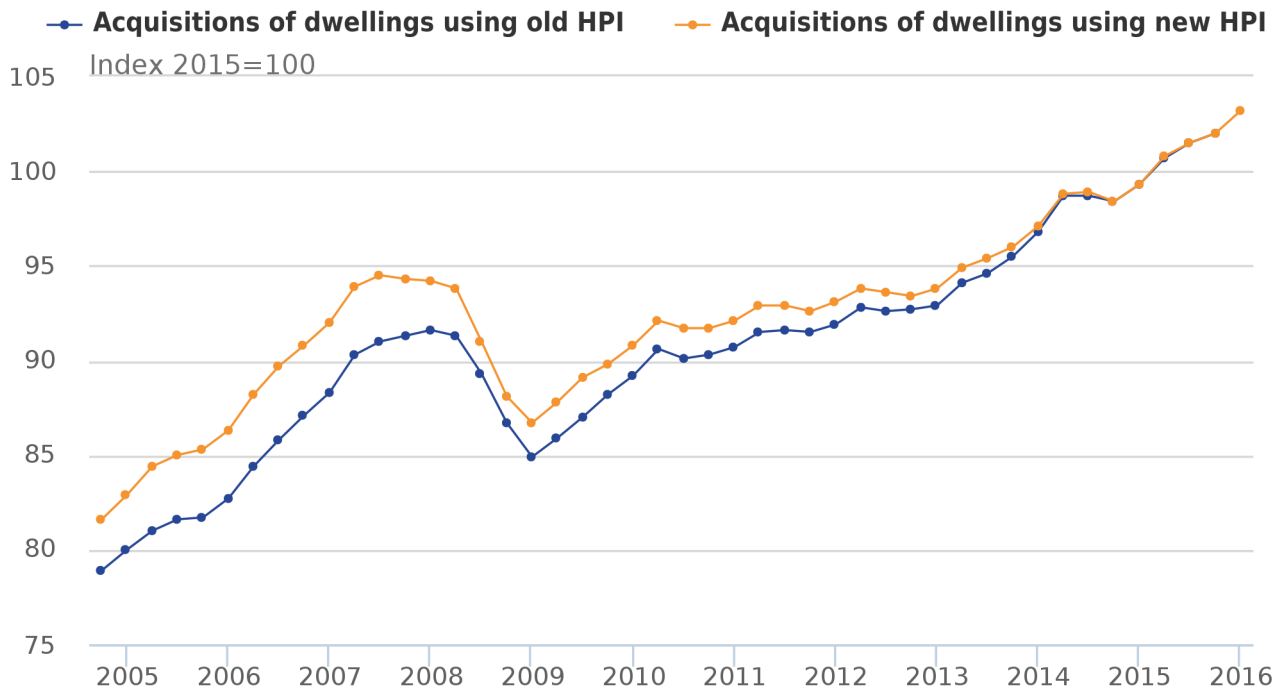
Source: Office for National Statistics

Notes:

1. Q1= Quarter 1 (Jan to Mar), Q2 = Quarter 2 (Apr to Jun), Q3 = Quarter 3 (Jul to Sep) and Q4 = Quarter 4 (Oct to Dec).

Figure 4: Acquisitions of Dwellings Index using the old HPI and the new HPI

UK, Q1 2005 to Q2 2016



Source: Office for National Statistics

Notes:

1. Q1= Quarter 1 (Jan to Mar), Q2 = Quarter 2 (Apr to Jun), Q3 = Quarter 3 (Jul to Sep) and Q4 = Quarter 4 (Oct to Dec).

4 . Conclusion

The methodology used to calculate the HPI has been improved and the series using the old methodology has been discontinued. The UK OOH(NA) measure is compiled in part using the HPI. The historical series of OOH (NA) has been revised and in the future it will use the new HPI in its calculation. This is expected to result in revisions to the OOH(NA) index of between 0 and 3.2 percentage points.