

Article

# Measures of owner occupiers' housing costs, UK: January to March 2019

Understanding the different approaches of measuring owner occupiers' housing costs (OOH) associated with owning, maintaining and living in one's own home.

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Release date:  
19 June 2019

Next release:  
18 September 2019

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# 1 . Main points

- Owner occupiers' housing costs (OOH) in the UK under the rental equivalence approach have grown by 1.1% in Quarter 1 (Jan to Mar) 2019 compared with the corresponding quarter of the previous year.
- OOH according to the net acquisitions approach have grown by 1.5% in Quarter 1 2019 compared with the corresponding quarter of the previous year.
- OOH compiled using the payments approach experienced growth of 2.7% in Quarter 1 2019 compared with the corresponding quarter of the previous year.

## 2 . Things you need to know about this release

Owner occupiers' housing costs (OOH) are the costs of housing services associated with owning, maintaining and living in one's own home. This is distinct from the cost of purchasing a house, which is partly for the accumulation of wealth and partly for housing services.

In this article, we focus on three approaches to measuring OOH: payments, rental equivalence and net acquisitions, and evaluate the performance of the different measures over time, in prevailing economic conditions. The series will be updated on a quarterly basis. We invite you to submit feedback on this release to [cpi@ons.gov.uk](mailto:cpi@ons.gov.uk).

The first article in the series provides more information about the [different approaches to measuring owner occupiers' housing costs](#) to aid your understanding of the differences in concept and underlying methodology. There have also been a number of "Spotlight" sections produced, which focus in on a particular topic. For a list of subjects covered, please see [Annex 1](#). We will continue to produce these Spotlights as and when there is need.

You should note that the payments approach and net acquisitions are both experimental indices and therefore we would caution against any use other than for research purposes. More information on the methodology for each approach can also be found in the [CPIH compendium](#).

### 3 . Results

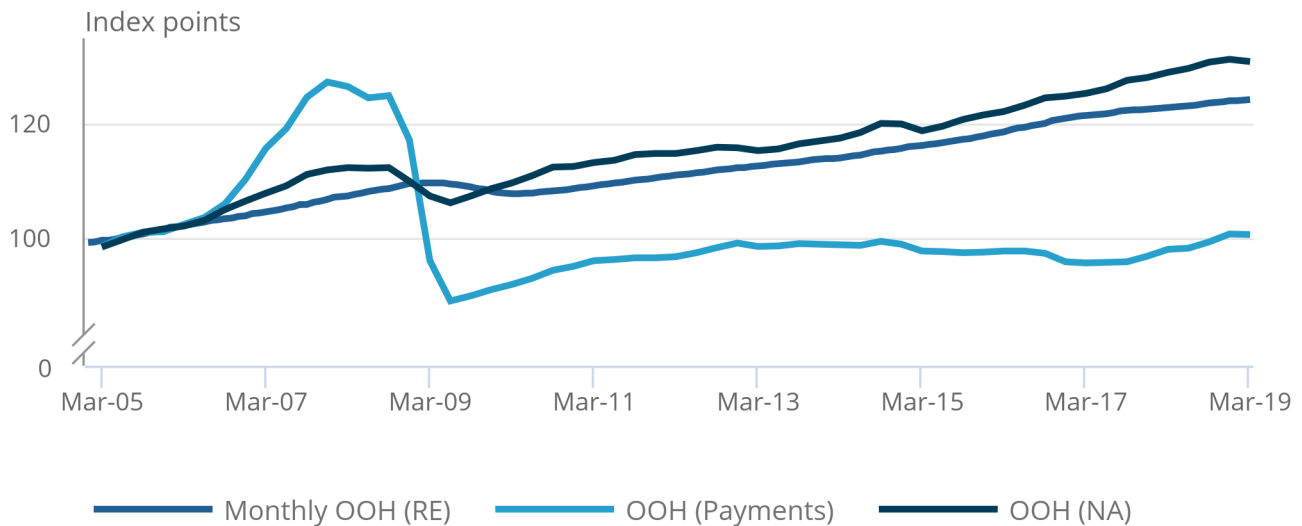
Figure 1 presents the cumulative indices for each approach and Figure 2 shows the annual growth rates. The index for the net acquisitions approach – OOH(NA) – has been consistently larger than the payments and rental equivalence approaches since Quarter 4 (Oct to Dec) 2009. Over the period, the rental equivalence approach – OOH(RE) – experienced the fewest fluctuations in the 12-month growth rate. The annual growth rate of OOH(NA) was 1.5% in the first quarter (Jan to Mar) of 2019.

**Figure 1: The index for the net acquisitions approach – OOH(NA) – has been consistently larger than the payments and rental equivalence approaches since Quarter 4 (Oct to Dec) 2009**

OOH rental equivalence (RE), OOH net acquisitions (NA) and OOH (payments) indices; UK, Quarter 1 (Jan to Mar) 2005 to Quarter 1 2019

Figure 1: The index for the net acquisitions approach – OOH(NA) – has been consistently larger than the payments and rental equivalence approaches since Quarter 4 (Oct to Dec) 2009

OOH rental equivalence (RE), OOH net acquisitions (NA) and OOH (payments) indices; UK, Quarter 1 (Jan to Mar) 2005 to Quarter 1 2019



Source: Office for National Statistics

Notes:

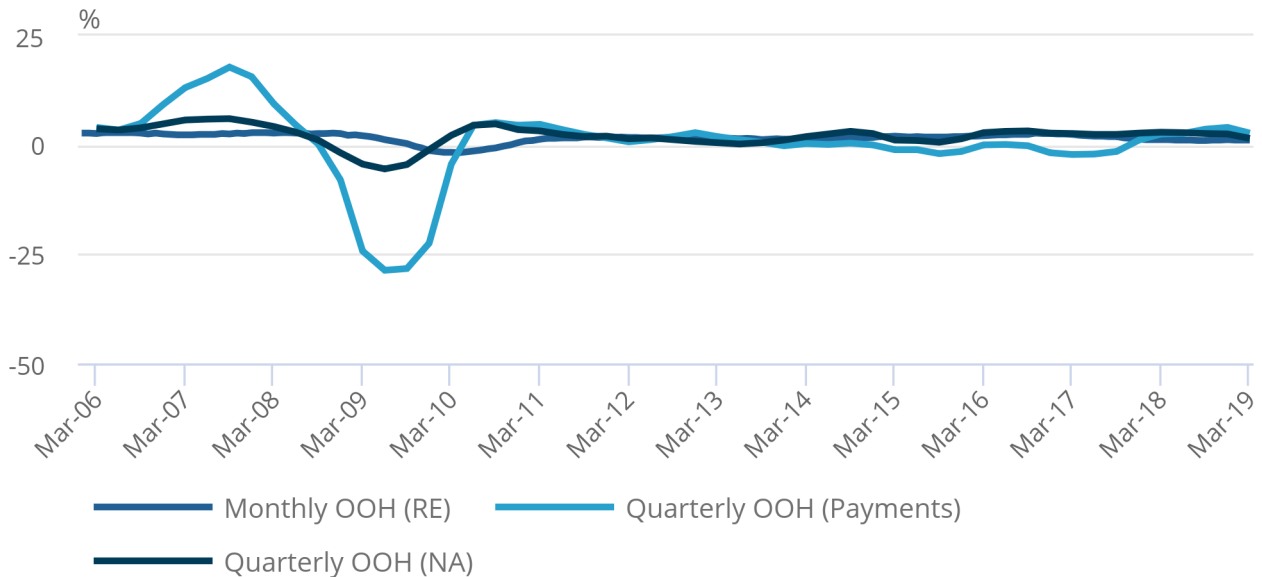
1. Q1 refers to Quarter 1 (Jan to Mar); Q2 refers to Quarter 2 (Apr to June); Q3 refers to Quarter 3 (July to Sept); and Q4 refers to Quarter 4 (Oct to Dec).

**Figure 2: The annual growth rate of OOH(NA) was 1.5% in the first quarter (Jan to Mar) of 2019**

OOH rental equivalence (RE), OOH net acquisitions (NA) and OOH (payments) quarter on corresponding quarter of previous year growth rate; UK, Quarter 1 (Jan to Mar) 2006 to Quarter 1 2019

**Figure 2: The annual growth rate of OOH(NA) was 1.5% in the first quarter (Jan to Mar) of 2019**

OOH rental equivalence (RE), OOH net acquisitions (NA) and OOH (payments) quarter on corresponding quarter of previous year growth rate; UK, Quarter 1 (Jan to Mar) 2006 to Quarter 1 2019



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (Jan to Mar); Q2 refers to Quarter 2 (Apr to June); Q3 refers to Quarter 3 (July to Sept); and Q4 refers to Quarter 4 (Oct to Dec).

## 4 . What are the main contributions to these results?

This section shows which components are contributing the most to the year-on-year quarterly growth rate for the payments approach and the net acquisitions approach. Because of the methodology used to calculate the rental equivalence approach – OOH(RE) – it is not possible to present a contributions chart for this approach. This is mainly because OOH(RE) is not constructed using a set of sub-indices that measure different concepts (for example, maintenance costs and Stamp Duty), but instead is aggregated from indices measuring the same concept across regions.

## Payments approach

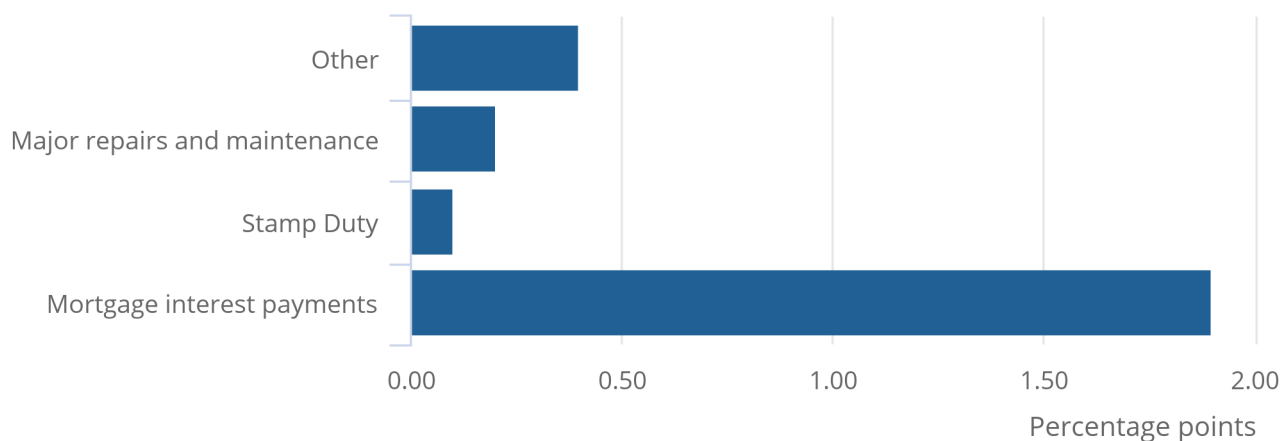
Figure 3 presents the contributions to the quarterly growth rate of OOH(payments) from the sub-indices used in its construction. The largest positive contributor to OOH(payments) in Quarter 1 (Jan to Mar) 2019 was mortgage interest payments, which contributed 1.9 percentage points to the quarterly growth rate. Stamp Duty contributed 0.1 percentage points in the first quarter of 2019.

### Figure 3: The largest positive contributor to OOH(payments) in Quarter 1 (Jan to Mar) 2019 was mortgage interest payments

Contributions to year-on-year quarterly growth rate of OOH (payments) from component sub-indices; UK, Quarter 1 (Jan to Mar) 2019

### Figure 3: The largest positive contributor to OOH(payments) in Quarter 1 (Jan to Mar) 2019 was mortgage interest payments

Contributions to year-on-year quarterly growth rate of OOH (payments) from component sub-indices; UK, Quarter 1 (Jan to Mar) 2019



Source: Office for National Statistics

#### Notes:

1. Contributions may not sum due to rounding. Other includes dwelling insurance, ground rent, estate agent fees, home-buyers survey and house conveyancing.
2. Q1 refers to Quarter 1 (Jan to Mar); Q2 refers to Quarter 2 (Apr to June); Q3 refers to Quarter 3 (July to Sept); and Q4 refers to Quarter 4 (Oct to Dec).

## Net acquisitions approach

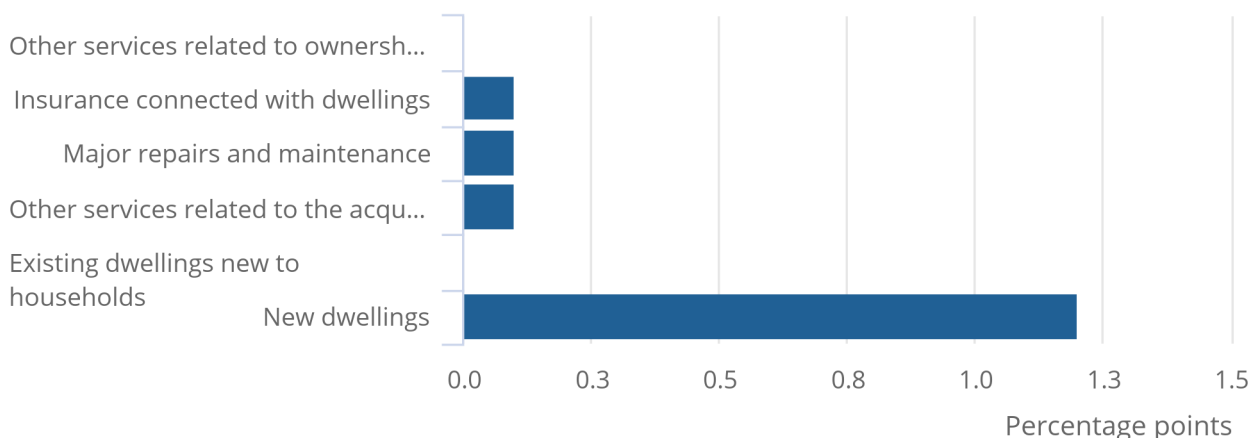
Figure 4 shows the contributions to quarter on corresponding quarter of previous year growth rate for OOH net acquisitions – OOH(NA). The new dwellings component remains the largest contributor to OOH(NA) growth, decreasing slightly from 1.7 percentage points in the last quarter (Oct to Dec) of 2018 to 1.2 percentage points in Quarter 1 2019. The components “existing dwellings new to households” and “other services related to ownership of dwellings” are not included due to lack of data and therefore contribute 0 percentage points.

### Figure 4: The new dwellings component is the largest contributor to OOH(NA) growth in Quarter 1

Contributions to the year-on-year quarterly growth rate of OOH net acquisitions (NA) from component sub-indices; UK, Quarter 1 (Jan to Mar) 2019

### Figure 4: The new dwellings component is the largest contributor to OOH(NA) growth in Quarter 1

Contributions to the year-on-year quarterly growth rate of OOH net acquisitions (NA) from component sub-indices; UK, Quarter 1 (Jan to Mar) 2019



Source: Office for National Statistics

#### Notes:

1. Contributions may not sum due to rounding. New dwellings includes self-builds and renovations and the acquisition of new dwellings.
2. Q1 refers to Quarter 1 (Jan to Mar); Q2 refers to Quarter 2 (Apr to June); Q3 refers to Quarter 3 (July to Sept); and Q4 refers to Quarter 4 (Oct to Dec).

## 5 . Different approaches to measuring OOH

The rental equivalence approach – OOH(RE) – uses the rent paid for an equivalent house as an estimate of the cost of housing services that are consumed. In other words, we value housing services by looking at the cost of the next best alternative to home ownership, namely renting a property. Importantly, OOH(RE) does not capture changes in asset value; rather it measures the change in price of housing services provided.

The payments approach – OOH(payments) – aims to measure the payments related to the ownership of owner-occupied housing. This means that all payments that households make as owner occupiers when consuming housing should be included, such as mortgage interest payments, transaction costs and running costs.

OOH(payments) is not our favoured method for measuring owner occupiers' housing costs (OOH) in the Consumer Prices Index including owner occupiers' housing costs (CPIH). This is because a consumer price index aims to measure consumption and interest payments represent the cost of borrowing money rather than the cost of consumption. However, OOH(payments) is our preferred measure for the Household Costs Indices (HCIs), which depart from consumption principles, and aim to capture households' experience of changing prices and costs. For more information about the HCIs, please see the article [Developing the Household Costs Indices \(HCIs\)](#).

The net acquisitions approach – OOH(NA) – aims to measure the costs of acquiring a house with household-to-household transactions netted off. The approach theoretically treats a home as the purchase of a good that is part asset (the land) and part consumable (the house) and excludes the land component from the index. 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.

In practice, while the measure presented here is the best measure of OOH(NA) that we can currently produce, the lack of available source data means that some components are not recorded fully. We therefore advise that OOH(NA) should be used and referred to with caution and it is consequently not our favoured approach of measuring OOH in CPIH.

Table 1 shows the components of these different approaches. For more information about each, please see the [CPIH compendium](#) or the [first article](#) in this series.

Table 1: Components of the three approaches of measuring owner occupiers' housing costs

<b>Rental equivalence</b>	<b>Payments</b>	<b>Net acquisitions</b>
Imputed rents	Mortgage interest payments	Acquisition of new dwellings
	Dwelling insurance	Self-builds and renovations
	Ground rent	Existing dwellings new to the OOH sector
	Stamp Duty	Services related to acquisition
	Estate agent fees	Major repairs and maintenance
	Home-buyers survey	Insurance connected with the dwelling
	Major repairs and maintenance	Other services related to ownership of dwellings
	House conveyancing	

Source: Office for National Statistics

## 6 . Annex 1: List of spotlight articles

This is a list of topics that we have focused on in previous publications:

[Spotlight: the relationship between private rents and house prices](#)

[Spotlight: owner occupiers' housing costs in the RPI](#)

[Spotlight: analysis of revisions to OOH\(RE\) expenditure weights](#)

[Spotlight: changes to methodology](#)

[Spotlight: exploratory analysis of the impact of errors in the OOH stratum weights](#)

[Spotlight: changes to methodology of the OOH\(payments\) approach](#)

[Spotlight: changes to OOH revisions policy](#)