

Article

Measures of owner occupiers' housing costs, UK: October to December 2019

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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1 . Main points

- Owner occupiers' housing costs (OOH) in the UK under the rental equivalence approach have grown by 1.2% over the 12 months to December 2019.
- OOH according to the net acquisitions approach have grown by 1.6% over the 12 months to December 2019.
- OOH compiled using the payments approach have grown by 2.0% over the 12 months to December 2019.

2 . Things you need to know about this release

The Office for National Statistics (ONS) has released a [public statement on the coronavirus \(COVID-19\) and the production of statistics](#). We are working to ensure that we continue to publish our consumer price statistics. Further information is available from the [Consumer price inflation, UK: February 2020](#) bulletin.

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 purchased partly for the accumulation of wealth and partly for housing services.

OOH is an important component of the household consumption basket. In the Consumer Prices Index including owner occupiers' housing costs (CPIH), the OOH component is measured using the rental equivalence approach, OOH(RE). However, there are other approaches to measuring OOH.

In this article, we focus on two alternative approaches: payments, OOH(payments) and net acquisitions, OOH (NA). The OOH(payments) approach is also used in a new set of indices called the [Household Costs Indices](#), which aim to reflect changing prices and costs as experienced by households. This article compares these approaches with the rental equivalence approach and discusses the performance of the different measures over time, in prevailing economic conditions.

Recent improvements were introduced to the way that we calculate the Stamp Duty Index, a component of both OOH(NA) and OOH(payments). Details of these improvements can be found in the previous release, [Measures of owner occupiers' housing costs, UK: July to September 2019](#).

The first article in the series provides [more information about the different approaches to measuring OOH](#) to aid your understanding of the differences in concept, underlying methodology and data sources, and associated advantages and limitations to each approach. There have also been several "Spotlight" sections produced, which focus on different topics relating to OOH. These topics are listed in the "Related links" section.

You should note that the payments and net acquisitions approaches 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](#).

We are currently undergoing a review of our Prices publications. This could result in changes to the scheduling of OOH releases in the future.

We invite you to submit feedback related to this release to cpi@ons.gov.uk.

3 . Results

Figure 1 presents the cumulative indices for each approach and Figure 2 shows the annual 12-month growth rates.

The index for the owner occupiers' housing costs net acquisitions approach – OOH(NA) – has shown the strongest growth over the period (Figure 1). The payments approach – OOH(payments) – saw strong growth prior to the economic downturn in 2008 to 2009. However, of the three measures, it has also seen the largest fall since the economic downturn and has still not recovered its pre-downturn peak.

In the latest three months (October 2019 to December 2019), both OOH(NA) and OOH(payments) experienced a minor dip in the index before recovering in December to be within 0.1 index points of the index at September 2019. OOH(RE) experienced gradual growth over the same period.

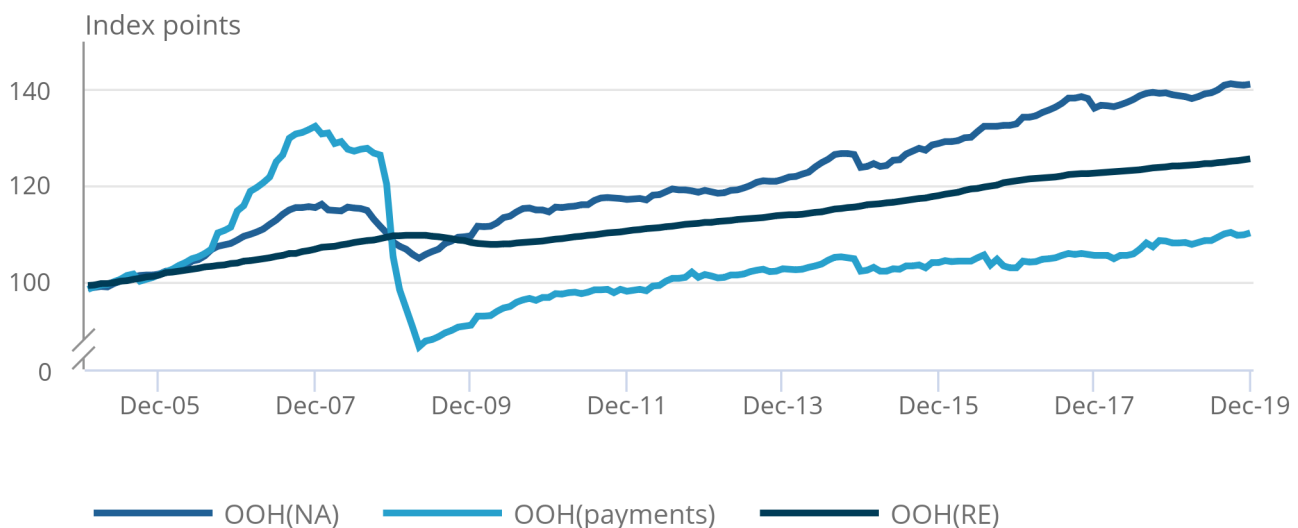
Over the period, the rental equivalence approach – OOH(RE) – experienced the fewest fluctuations in the 12-month growth rate (Figure 2). For two months in a row, October and November 2019, all three indices have shown very similar 12-month growth rates, with a maximum of 0.2 percentage points difference between them. However, they begin to deviate again in the 12 months to December 2019, where the growth rate of OOH(RE) was 1.2%, compared with 2.0% for OOH(payments) and 1.6% for OOH(NA).

Figure 1: The index for the net acquisitions approach – OOH(NA) – has shown the strongest growth over the period since 2005

UK, Jan 2005 to Dec 2019

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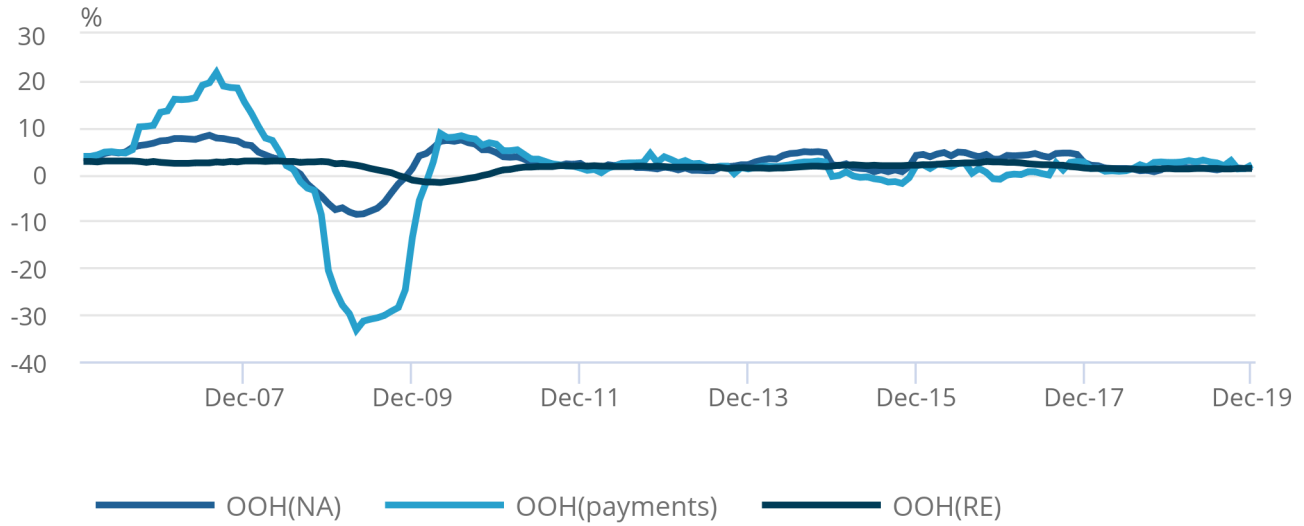
Source: Office for National Statistics

Figure 2: The 12-month growth rates for all three approaches are similar in October and November 2019, before deviating slightly in December 2019

UK, Jan 2006 to Dec 2019

Figure 2: The 12-month growth rates for all three approaches are similar in October and November 2019, before deviating slightly in December 2019

UK, Jan 2006 to Dec 2019



Source: Office for National Statistics

4 . What are the main contributions to these results?

Figure 3 shows the contributions to the 12-month growth rate for OOH net acquisitions – OOH(NA) – from January 2019 to December 2019.

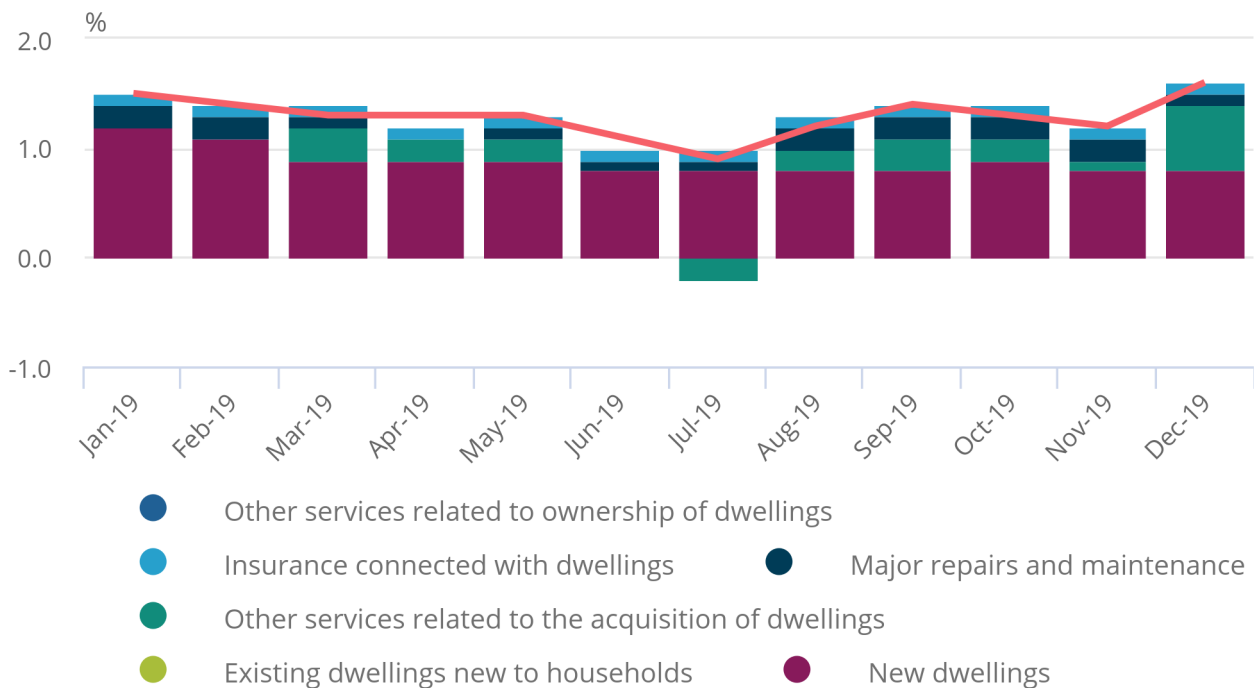
An increase in the contributions to growth from the “other services related to the acquisition of dwellings”, from 0.1 percentage points to 0.6 percentage points between November and December 2019, was the main factor in the rise seen in overall 12-month growth rate for OOH(NA) over the same period. “Other services related to the acquisition of dwellings” includes transfer costs and Stamp Duty.

Figure 3: The increase in the 12-month growth rate in December 2019 for OOH(NA) was driven by "other services related to the acquisition of dwellings"

UK, Jan 2019 to Dec 2019

Figure 3: The increase in the 12-month growth rate in December 2019 for OOH(NA) was driven by “other services related to the acquisition of dwellings”;

UK, Jan 2019 to Dec 2019



Source: Office for National Statistics

Notes:

1. “New dwellings” includes self-builds and renovations and the acquisition of new dwellings.
2. "Other services related to the acquisition of dwellings" includes transfer costs and Stamp Duty.

Figure 4 shows the corresponding contributions chart for OOH(payments).

In the latest quarter (October to December 2019), a decline in the contributions to growth from mortgage interest payments resulted in a fall in the 12-month growth rate, before picking back up in December 2019 again because of an increase in Stamp Duty.

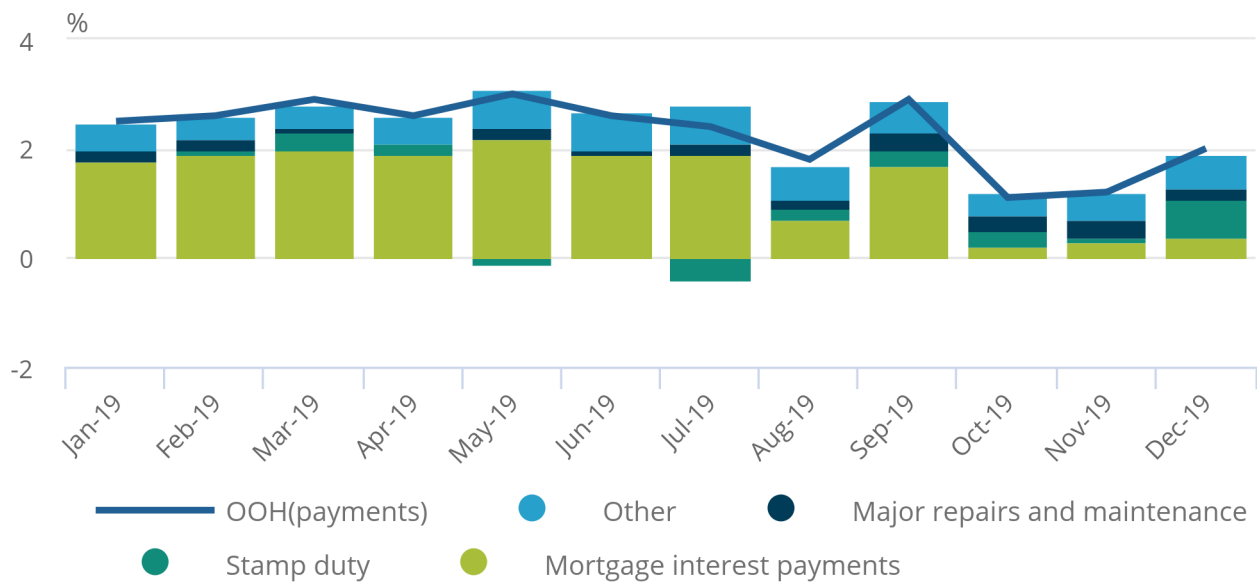
The [Bank of England base rate has remained stable over the period from August 2018 to December 2019, at 0.75%](#). This could explain why the contributions to the 12-month growth from mortgage interest payments decreased from 1.7 percentage points to 0.2 percentage points between September and October 2019. Stamp Duty increased from 0.1 percentage points to 0.7 percentage points between November and December 2019.

Figure 4: A decrease in the contributions to growth from mortgage interest rates resulted in a decrease in the OOH(payments) 12-month percentage growth in the latest quarter

UK, Jan 2019 to Dec 2019

Figure 4: A decrease in the contributions to growth from mortgage interest rates resulted in a decrease in the OOH(payments) 12-month percentage growth in the latest quarter

UK, Jan 2019 to Dec 2019



Source: Office for National Statistics

Notes:

- "Other" includes dwelling insurance, ground rent, estate agent fees, home-buyers survey and house conveyancing.

5 . Different approaches to measuring owner occupiers' housing costs (OOH)

The owner occupiers' housing costs 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. That is, 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 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 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

Rental equivalence	Payments	Net acquisitions
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 . Related links

The topics and links of the focused analyses (“Spotlight” sections) from 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](#)

[Improvements to Stamp Duty Index methodology](#)

The most recent Household Costs Indices results:

[Household Costs Indices, UK: second preliminary estimates, 2005 to 2018](#)