

Article

Measures of owner occupiers' housing costs, UK: April to June 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% in Quarter 2 (Apr to June) 2019 compared with the corresponding quarter of the previous year.
- OOH according to the net acquisitions approach have grown by 1.4% in Quarter 2 2019 compared with the corresponding quarter of the previous year.
- OOH compiled using the payments approach experienced growth of 2.8% in Quarter 2 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. Please submit any feedback on this release to cpi@ons.gov.uk.

The first article in the series provides more information about the [different approaches to measuring owner occupiers' housing costs](#) to help you understand the differences in concept and methodology. We have also produced a number of focused analyses on particular topics. For a list of subjects covered, please see the Related links section. We will continue to produce these as and when there is a need for them.

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](#).

3 . Results

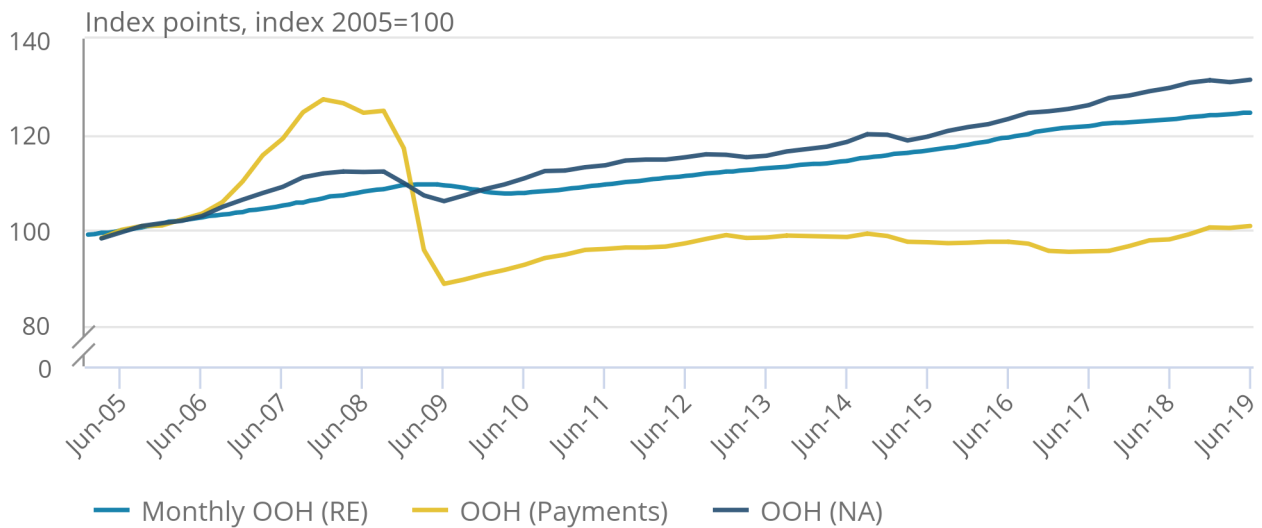
Figure 1 presents the cumulative indices for each approach, and Figure 2 shows the annual growth rates. The index for the owner occupiers' housing costs net acquisitions approach – OOH(NA) – has been consistently larger than the payments and rental equivalence approaches since Quarter 4 (Oct to Dec) 2009. Over the period, the rental equivalence approach – OOH(RE) – experienced the least fluctuations in the 12-month growth rate. The annual growth rate of OOH(NA) was 1.4% in the second quarter (Apr to June) of 2019.

Figure 1: 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 2 (Apr to June) 2019

Figure 1: 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 2 (Apr to June) 2019



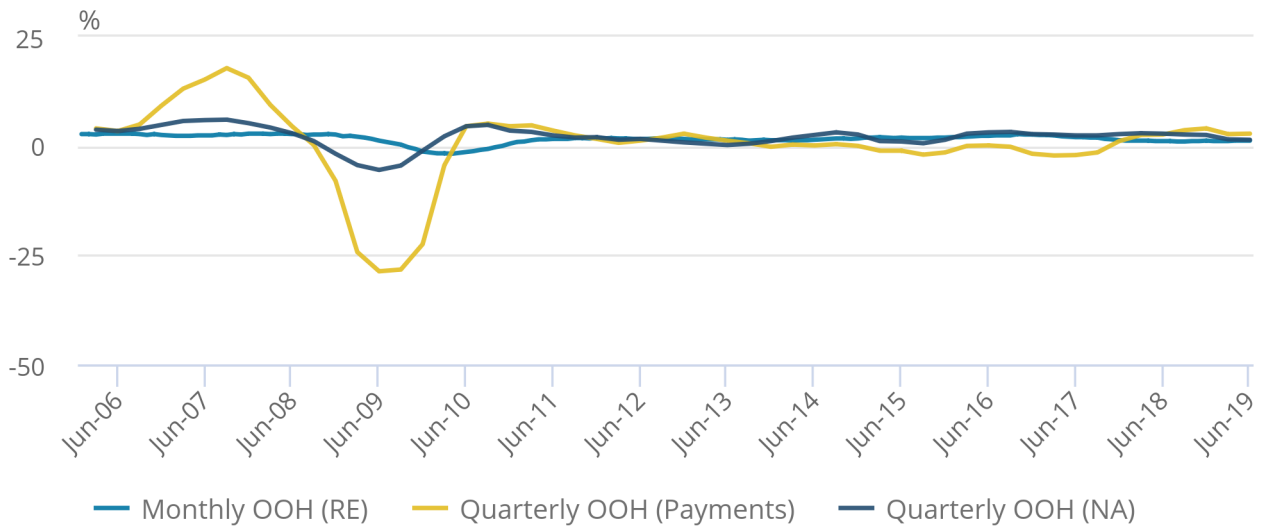
Source: Office for National Statistics

Figure 2: The annual growth rate of owner occupiers' housing costs net acquisitions approach - OOH(NA) - was 1.4% in the second quarter (Apr to June) 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 2 (Apr to June) 2019

Figure 2: The annual growth rate of owner occupiers' housing costs net acquisitions approach - OOH(NA) - was 1.4% in the second quarter (Apr to June) 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 2 (Apr to June) 2019



Source: Office for National Statistics

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 owner occupiers' housing costs 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 subindices 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

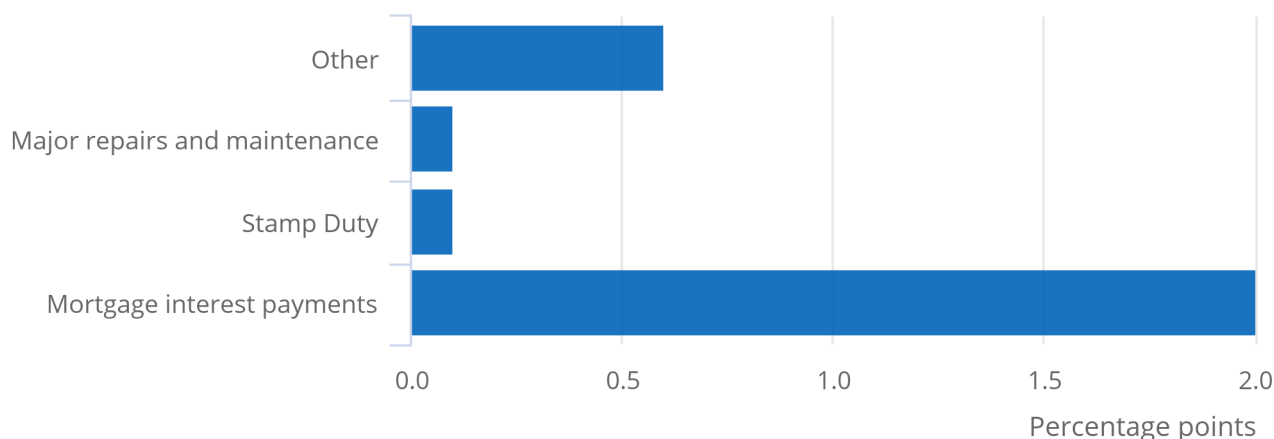
Figure 3 presents the contributions to the quarterly growth rate of OOH (payments) from the subindices used in its construction. The largest positive contributor to OOH (payments) in Quarter 2 (Apr to June) 2019 was mortgage interest payments, which contributed 2.0 percentage points to the quarterly growth rate. The “other” grouping is the second largest contributor at 0.6 percentage points, of which one component – dwelling insurance – contributes 0.5 percentage points to the year-on-year quarterly growth rate.

Figure 3: The largest positive contributor to owner occupiers' housing costs - OOH (payments) - in Quarter 2 (Apr to June) 2019 was mortgage interest payments

Contributions to year-on-year quarterly growth rate of OOH (payments) from component subindices; UK, Quarter 2 (Apr to June) 2019

Figure 3: The largest positive contributor to owner occupiers' housing costs - OOH (payments) - in Quarter 2 (Apr to June) 2019 was mortgage interest payments

Contributions to year-on-year quarterly growth rate of OOH (payments) from component subindices; UK, Quarter 2 (Apr to June) 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.

Net acquisitions approach

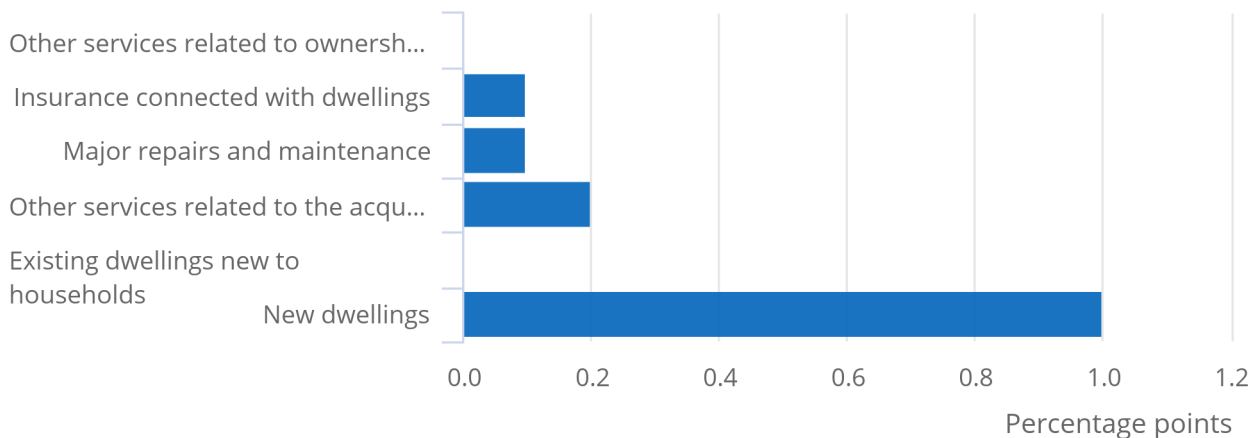
Figure 4 shows the contributions to quarter on corresponding quarter of previous year growth rate for OOH net acquisitions – OOH(NA). The “new dwellings” component remains the largest contributor to OOH(NA) growth, yet its contribution has decreased for the second consecutive quarter, from 1.2 percentage points in Quarter 1 (Jan to Mar) 2019, to 1.0 percentage point in Quarter 2 (Apr to June) 2019. The only other growth component to change from the previous quarterly publication, is the “other services related to the acquisition of dwellings”, which saw its contribution increase from 0.1 percentage points in Quarter 1 (Jan to Mar) 2019 to 0.2 percentage points in Quarter 2 (Apr to June) 2019. The components “existing dwellings new to households” and “other services related to ownership of dwellings” are not included because of a lack of data and therefore contribute 0 percentage points.

Figure 4: The new dwellings component is the largest contributor to owner occupiers' housing costs net acquisitions - OOH(NA) - growth in Quarter 2 (Apr to June) 2019

Contributions to the year-on-year quarterly growth rate of OOH (NA) from component subindices; UK, Quarter 2 (Apr to June) 2019

Figure 4: The new dwellings component is the largest contributor to owner occupiers' housing costs net acquisitions - OOH(NA) - growth in Quarter 2 (Apr to June) 2019

Contributions to the year-on-year quarterly growth rate of OOH (NA) from component subindices; UK, Quarter 2 (Apr to June) 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.

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 from previous publications are as follows:

[The relationship between private rents and house prices](#)

[Owner occupiers' housing costs in the RPI](#)

[Analysis of revisions to OOH\(RE\) expenditure weights](#)

[Changes to methodology](#)

[Exploratory analysis of the impact of errors in the OOH stratum weights](#)

[Changes to methodology of the OOH\(payments\) approach](#)

[Changes to OOH revisions policy](#)