

Article

# Measures of owner occupiers' housing costs, UK: October to December 2018

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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## Correction

**2 May 2019 13:43**

A correction has been made to the net acquisitions approach for calculating owner occupiers' housing costs – OOH(NA). This was due to a small error when aggregating the sub-indices. You can see the original content in the superseded version. We apologise for any inconvenience.

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# 1 . Main points

- Owner occupiers' housing costs (OOH) in the UK according to the rental equivalence approach have grown by 1.1% in Quarter 4 (Oct to Dec) 2018 compared with the corresponding quarter of the previous year.
- OOH according to the net acquisitions approach have grown by 2.5% in Quarter 4 2018 compared with the corresponding quarter of the previous year.
- OOH according to the payments approach experienced growth of 4.0% in Quarter 4 2018 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 several "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 so 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 year-on-year quarterly growth rates. Figure 1 shows that the index for the payments approach (OOH(Payments)) has been consistently lower than the net acquisitions approach (OOH(NA)) and rental equivalence approach since Quarter 1 (Jan to Mar) 2009.

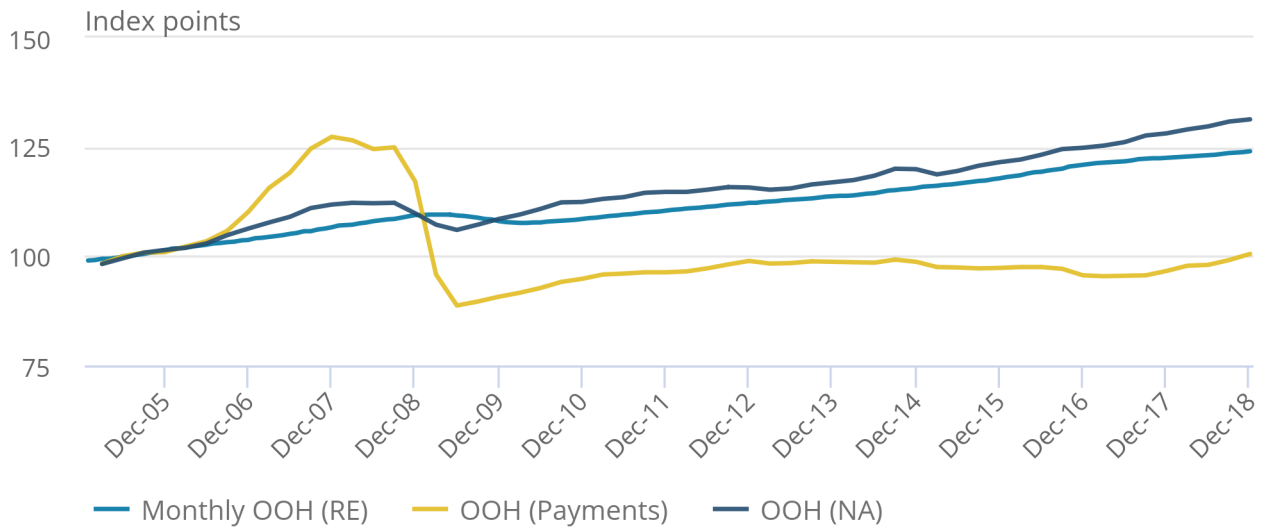
The year-on-year quarterly growth rate of OOH(payments) was 4.0% in Quarter 4 (Oct to Dec) of 2018. This is the highest growth rate of OOH(payments) since Quarter 1 2011. The year-on-year quarterly growth rate of OOH (NA) was 2.5% in the fourth quarter of 2018. The year-on-year quarterly growth rate of OOH(RE) remained unchanged at 1.1% in Quarter 4 2018.

**Figure 1: OOH rental equivalence (RE), OOH net acquisitions (NA) and OOH (payments) indices**

UK, Quarter 1 (Jan to Mar) 2005 to Quarter 4 (Oct to Dec) 2018

## Figure 1: OOH rental equivalence (RE), OOH net acquisitions (NA) and OOH (payments) indices

UK, Quarter 1 (Jan to Mar) 2005 to Quarter 4 (Oct to Dec) 2018



Source: Office for National Statistics

Notes:

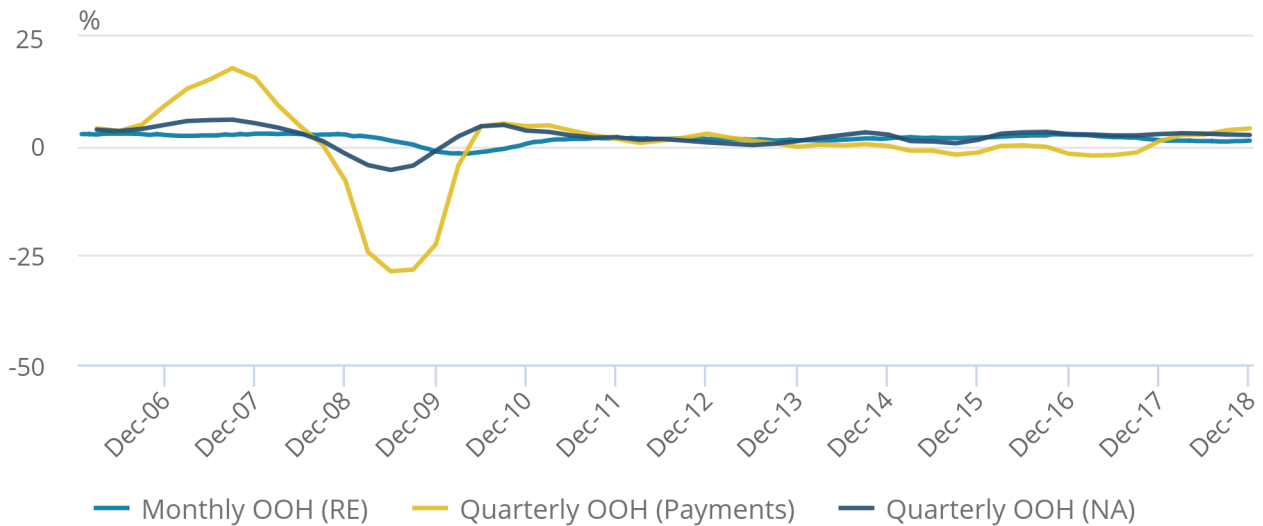
1. Q1 refers to Quarter 1 (Jan to Mar); Q2 refers to Quarter 2 (Apr to June); Q3 refers to Quarter 3 (July to Sept); and Q4 refers to Quarter 4 (Oct to Dec).

**Figure 2: 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 4 (Oct to Dec) 2018

Figure 2: 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 4 (Oct to Dec) 2018



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 (OOH(payments)) and the net acquisitions approach (OOH(NA)). Because of the methodology used to calculate the rental equivalence approach of owner occupiers' housing costs – 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

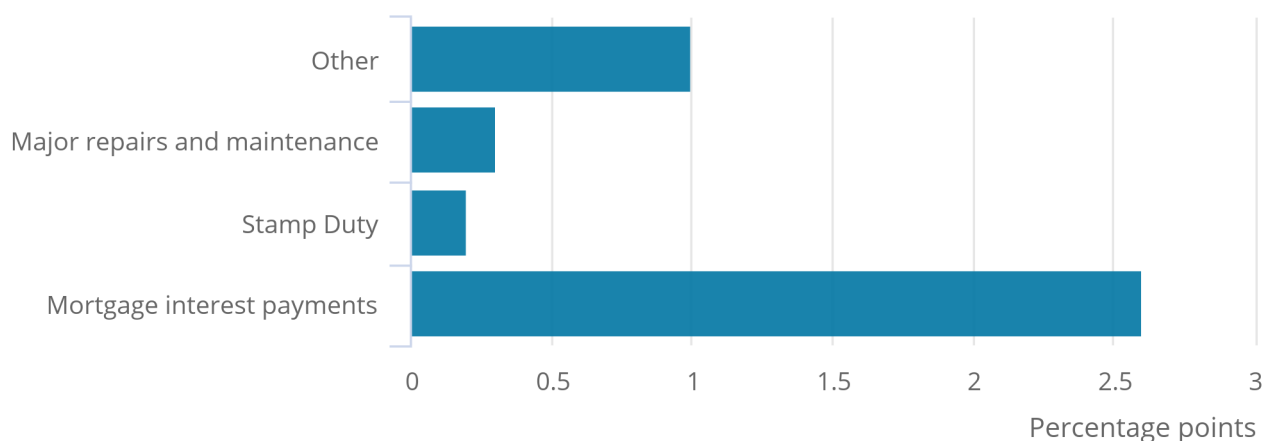
Figure 3 presents the contributions of the OOH(payments) sub-indices to the quarterly growth rate of OOH (payments). Mortgage interest payments contributed the most to the quarterly growth rate of OOH(payments) in Quarter 4 (Oct to Dec) 2018, with a contribution of 2.6 percentage points. Major repairs and maintenance continued to make a positive contribution in Quarter 4 2018 at 0.3 percentage points. Stamp Duty contributed 0.2 percentage points in the fourth quarter of 2018.

### Figure 3: Contributions to year-on-year quarterly growth rate of OOH (payments) from component sub-indices

UK, Quarter 4 (Oct to Dec) 2018

#### Figure 3: Contributions to year-on-year quarterly growth rate of OOH (payments) from component sub-indices

UK, Quarter 4 (Oct to Dec) 2018



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

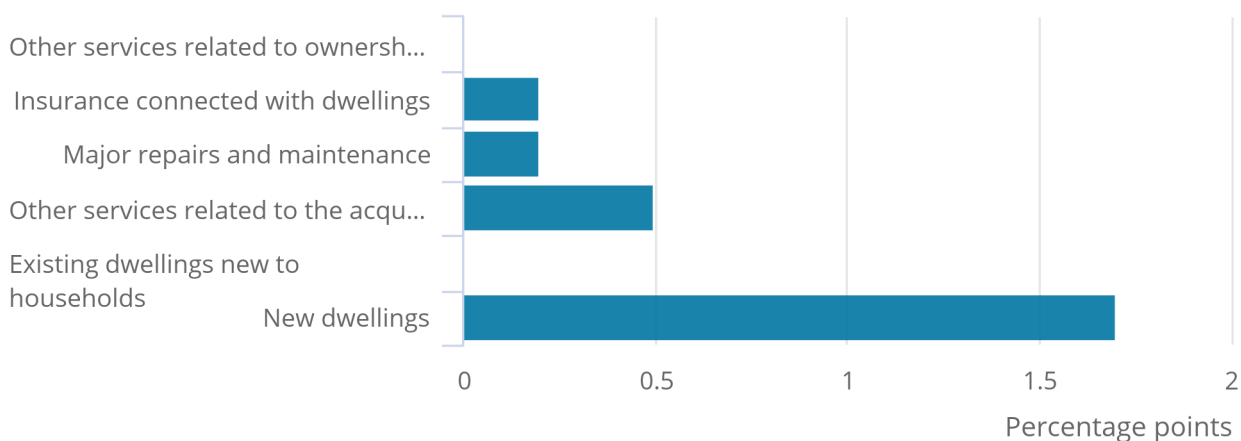
Figure 4 shows the contributions of the OOH(NA) sub-indices to the year-on-year quarterly growth rate of OOH (NA) in Quarter 4 2018. New dwellings remained the largest contributor to the quarterly growth rate of OOH(NA) at 1.7 percentage points. The components “existing dwellings new to households” and “other services related to ownership of dwellings” are not included due to lack of data and therefore contribute 0 percentage points.

### Figure 4: Contributions to the year-on-year quarterly growth rate of OOH net acquisitions (NA) from component sub-indices

UK, Quarter 4 (Oct to Dec) 2018

#### Figure 4: Contributions to the year-on-year quarterly growth rate of OOH net acquisitions (NA) from component sub-indices

UK, Quarter 4 (Oct to Dec) 2018



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 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](#)