

Consultation on the development of a definitive house price index

7 October 2014

This consultation is conducted in partnership with: [Land Registry](#); [Land & Property Services, Northern Ireland](#); and [Registers of Scotland](#).



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1. Background

- 1.1 The UK housing market has a large and important impact on the economy and on society as a whole. Therefore statistics on house prices are of key importance in the UK and there is a clear need for a definitive official measure of house prices that provides comprehensive coverage of UK residential property¹.
- 1.2 There are a number of current official statistics covering house prices. These different statistics are published by:
- i. Office for National Statistics (ONS)² publishes monthly figures for mix-adjusted average house prices and house price indices for the UK, its component countries and regions. The index is calculated using mortgage financed transactions that are collected via the Regulated Mortgage Survey by the Council of Mortgage Lenders.
 - ii. Land Registry³ publishes a monthly house price index using sales data collected on all single residential housing transactions sold for full market value, whether for cash or with a mortgage, in England and Wales since 1995. Data is published at a national, regional, county and London borough level.
 - iii. Registers of Scotland publish quarterly housing market statistics⁴ which provide comprehensive summary statistics covering the price of all market value sales of residential properties registered in the quarter (where the selling price lies between £20k and £1m).
 - iv. Land & Property Services, Northern Ireland (LPSNI) publish the quarterly residential property price index⁵, which is designed to provide a measure of change in the price of residential property sold in Northern Ireland.
- 1.3 These various measures can sometimes lead to contradictory messages for users who are unfamiliar with the differences in methodology and scope of each measure. This in turn can make decision making difficult based on the house price data available. This difficulty was highlighted in the [National Statistician's Review of House Price Statistics](#)⁶ (2010), which led to a recommendation that 'a single definitive house price index and accompanying statistics should be produced by the official statistics producer community'.
- 1.4 In response to the 2010 recommendation, a Working Group comprising members from the four aforementioned organisations have been investigating how such a single definitive index might be produced. This work has identified a potential methodology for the joint production of a new definitive index and each department has agreed in principle to consult with users to gather views on the proposed methodology.
- 1.5 The purpose of this joint consultation is therefore to provide details regarding the proposed methodology for a single definitive House Price Index (HPI), and to gather views on whether this proposed methodology meets their requirements. It would also be helpful to understand the impact on users of removing the indices currently published by Land Registry and ONS.
- 1.6 The outcome of this consultation will allow the proposed methodology to be improved where necessary and to refine the costs associated with the development of a single definitive HPI.

¹ The measurement of commercial property prices is not covered by this consultation.

² <http://www.ons.gov.uk/ons/rel/hpi/house-price-index/index.html>

³ <http://landregistry.data.gov.uk/app/hpi>

⁴ http://www.ros.gov.uk/public/news/quarterly_housing_market_statistics.html

⁵ <http://www.dfpni.gov.uk/lps/index/about-lps/publications/statistics-and-research-publications.htm>

⁶ <http://www.statisticsauthority.gov.uk/national-statistician/ns-reports--reviews-and-guidance/national-statistician-s-reports/national-statistician-s-review-of-house-price-statistics.pdf>

These costs will then be assessed against department resources and priorities before a final decision is made whether to take forward the development.

2. A new definitive House Price Index

2.1 This section of the consultation provides an overview of the current situation with the publication of official house price statistics⁷ and puts forward the proposal for how a new, single definitive HPI would be produced and published.

2.2 The impact of publishing a new HPI on the current published official statistics is detailed later on in this consultation document.

2.3 The [National Statistician's Review of House Price Statistics](#) (2010) provides full details covering the users and uses of house price statistics, the challenges in measuring house prices and what current measures are available. Importantly the review defined what an official house price index should measure and provides a framework for how this can be achieved.

2.4 The proposed framework suggests that a definitive house price index should:

- I. Represent the prevailing market price of residential property at completion of sale;
- II. Measure both house prices and house price inflation based on the price paid for transacted properties;
- III. Have UK coverage;
- IV. Generate estimates at least monthly;
- V. Be timely with minimal revisions;
- VI. Be available as a seasonally adjusted and unadjusted series;
- VII. Provide a consistent index series to enable trend analysis;
- VIII. Provide robust sub-regional estimates;
- IX. Provide comparable estimates for sub-sets of transactions or properties.

2.5 The investigation work to date has assumed the above criteria still reflects the user requirements for a definitive house price index. Therefore a methodology has been proposed that would allow these criteria to be met as far as possible, whilst also conforming to recommended international best practice⁸.

2.6 Rather than repeat the detail included in the 2010 review of house price statistics, this consultation document will simply highlight the main points regarding the current official house price indices, highlighting areas where each index could be improved if development was to take place. These potential areas for improvement have contributed to the development of a proposed methodology for the new definitive HPI.

2.7 The house price index published by the ONS⁹ is calculated using information on mortgage transactions collected via the Regulated Mortgage Survey by the Council of Mortgage Lenders¹⁰. The data supplied to the ONS covers the majority of, but not all, lenders and does not include any transactions for residential property purchased using cash. The sample size of the ONS dataset is not considered robust enough to produce monthly estimates below a regional level and the ONS HPI is the last of the official indices to be published each period. The methodology used by the ONS index produces an arithmetic mean average house price.

⁷ This consultation only covers house price statistics produced by official producers and ignores those produced by private companies such as Halifax and Nationwide

⁸ http://epp.eurostat.ec.europa.eu/portal/page/portal/hicp/methodology/hps/rppi_handbook

⁹ <http://www.ons.gov.uk/ons/rel/hpi/house-price-index/index.html>

¹⁰ <http://www.cml.org.uk/cml/home>

2.8 The house price index currently published by the Land Registry¹¹ is calculated from the Land Registry price paid dataset of completed sales using a repeat sales methodology. The use of a repeat sales methodology means that the index excludes new build houses and may under-represent houses that are seldom transacted as by definition, only properties which have been traded more than once since 1995 can be included. The number of variables held in the Land Registry dataset is limited, which in turn limits the sub-categories of house price data that can be produced. The methodology used produces a geometric mean standardised house price.

2.9 Registers of Scotland¹² publish a quarterly set of summary statistics for all market value sales of residential properties which are registered during the reference period. These statistics include house types and an arithmetic mean and median price but does not include a price index for residential property or adjust for the change in the mix of the housing market over time, which makes historical comparisons of house prices difficult. Similar to the data held by Land Registry, the Registers of Scotland dataset is limited in the number of variables held, which in turn limits the sub-categories of house price data that can be produced. The frequency of publication (quarterly) is also seen as a limitation.

2.10 The house price index published by LPSNI¹³ is the newest of the official sources having been first published in May 2012. This index is generally accepted to have the methodology that best meets recommended international best practice using a detailed hedonic regression (for example, that includes floor space as a characteristic). The average price published by LPSNI is derived using a geometric mean formula and this is a major difference when comparing house prices from ONS and LPSNI (along with the inclusion of cash sales in the LPSNI index). The main limitations with the LPSNI HPI are the lack of breakdown by type of buyer (first-time buyer or existing owner) as these characteristics are omitted from the source data, and the frequency of publication (quarterly).

2.11 Given that each of the above measures differs slightly in the methodology used and the scope of the price index it follows that there are differences in the measure of average house prices published. This can make it difficult for users in determining the most suitable source to use when making decisions regarding the UK housing market.

2.12 Further details regarding the methodology and main differences between each of the above statistics is available in the 2013 article '[Official House Price Statistics Explained](#)'¹⁴.

2.13 To address the potential confusion for users, the limitations listed above and to meet the criteria for a definitive house price index, the four current producers of official house price statistics have worked closely over the past 18 months to investigate the available options for production of a new HPI. This work has involved reviewing the current data sources and methodology used to produce each official measure, investigating potential supplementary sources of house price data (for example, datasets that provide a measure of the floor surface of properties), reviewing international best practice for the production of house price data and finally considering how each department could work together to produce a joint, definitive house price index.

2.14 There have been a number of issues that needed to be resolved during this period of investigation. Most of the issues have centred on the timeliness and availability of source datasets and the potential for sharing these between organisations. Further consideration was also required to agree the most suitable methodology that could be used, and to agree a production and publication model that would allow each department the opportunity to retain responsibility for reporting on their own area of concern.

¹¹ <http://www.landregistry.gov.uk/public/house-prices-and-sales>

¹² http://www.ros.gov.uk/public/news/quarterly_statistics.html

¹³ <http://www.nisra.gov.uk/housepriceindex/HPI.html>

¹⁴ <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/hpi/official-house-price-statistics-explained.pdf>

2.15 These discussions led to a proposed methodology for the joint production of a new, single definitive house price index. This proposal will be discussed in more detail in the forthcoming sections, however, to summarise briefly the new index would allow for the production and publication of consistent house price data at a national, regional and sub-regional level across the UK. The national and regional data will be broken down by type of dwelling (detached, semi-detached, terraced, flat), type of buyer (first-time buyer or existing owner), age of property (new dwelling or old dwelling), and type of sale (cash or mortgage). Provided sample sizes are adequate, the sub-regional data may also be broken down in a similar way. This proposal ensures for the first time, that an official source of house price data has full coverage of UK residential property transactions.

2.16 Publication of such a new index will have an impact on existing users of house price statistics published by official sources. This impact will be considered later in the consultation document but ultimately if the new index moves forward to production and publication it will replace the HPIs currently published by the Land Registry and Office for National Statistics.

Publication responsibility

2.17 This proposal sets out the methodology and data sources that will be used in the production of a new house price index. It should be noted that a final decision to implement the new index will only be made once the responses to this user consultation have been evaluated and the potential cost of development assessed against resource constraints and priorities in each department.

2.18 The proposed new index will be a collaborative production by the current official producers¹⁵ of house price statistics. While the responsibility for the production of the estimates will sit with the Office for National Statistics and LPSNI (using similar methodology¹⁶), each department will retain responsibility for the publication of detailed house price data relevant to their own territory. Once house price estimates have been produced each period by ONS and LPSNI, the data will be shared between the departments in preparation for publication. This will ensure consistent house price data is both produced and published each period (in this context consistent means produced using similar methodology so that sub-regional data is in-line with aggregates for the regions, and the regional data is in-line with the national data etc.).

2.19 The following matrix summarises the proposal for how house price data will be published each period and by which department. Please note that the detailed breakdown of house price data for Northern Ireland (i.e. data below the national estimate) will only be published every quarter. In relation to Scotland, the final decision on the frequency of publication of the detailed breakdown of house price data will only be made once the responses to this user consultation have been evaluated and the potential impact on resources assessed.

¹⁵ Land Registry, Office for National Statistics, Registers of Scotland and Land & Property Services Northern Ireland.

¹⁶ There will be slight differences in the methodology due to the sources of data available for Great Britain and Northern Ireland. However, these differences are insignificant.

Publication matrix – how data will be published

Coverage	Office for National Statistics	Land Registry	Registers of Scotland	Land & Property Services, Northern Ireland
United Kingdom	Monthly	-	-	-
England	Monthly	Monthly	-	-
England Region	Monthly	Monthly	-	-
England Sub-Region	-	Monthly	-	-
Wales	Monthly	Monthly	-	-
Wales Sub-National	-	Monthly	-	-
Scotland	Monthly	-	-	-
Scotland Sub-National	-	-	Quarterly*	-
Northern Ireland	Monthly	-	-	-
Northern Ireland Sub-National	-	-	-	Quarterly

* Potentially this data could be published monthly
 Yellow cells = same data being published

2.20 Based on this proposed publication model, each organisation will be responsible for the following regular publication of house price data. Each organisation will release data concurrently, so for example, the detailed sub-regional estimates for England and Wales will be released by Land Registry at the same time alongside the national estimates published by the ONS:

- ONS will lead each month publishing national house price estimates. The ONS release will publish the latest monthly house price data for the UK, Great Britain, component countries (England, Scotland, Northern Ireland and Wales) and nine English regions.
- Land Registry: alongside the UK release each month, Land Registry will publish the latest house price data for England, Wales and the nine English regions (for these areas, the data will be the same as published in the ONS release) along with detailed house price data at a national, county, local/unitary authority, London borough and metropolitan borough level.
- Registers of Scotland: alongside the UK release in a quarter month (February, May, August and November), Registers of Scotland will publish detailed Scotland house price data at a national and local authority level.
- LPSNI: alongside the UK release in a quarter month (February, May, August and November), LPSNI will publish detailed Northern Ireland house price data at a national and sub-national level, as currently.

2.21 Each publication will be consistent¹⁶ and publish house prices and price indices by type of property (new or old), type of buyer (existing owner or first time buyer), type of dwelling (detached, terraced etc.) and cash or mortgage purchase. However, it is worth noting that at the lowest level of publication, some of the detailed breakdown may not be suitable for publication due to the sample of data not being robust enough to produce estimates although further consideration regarding a suitable quality threshold is required.

2.22 Under this proposed model, the ONS publication would be the definitive official source of national house price estimates, Land Registry the definitive source of house price estimates for England and Wales, Registers of Scotland the definitive source of sub-national house price estimates for Scotland and LPSNI the definitive source of sub-national house price estimates for Northern Ireland.

Data sources

2.23 The proposed new index will continue to make use of the data sources used in the construction of the current official house price statistics as follows:

- The ONS HPI is calculated using data collected from the Regulated Mortgage Survey (RMS) that is run by the Council of Mortgage Lenders. It is based on mortgage completions data provided by mortgage companies in the UK, but some lenders do not allow their data to be passed to ONS. As a consequence, the data provided to ONS covers around two-thirds of all mortgage transactions each period. The RMS data set includes details on the property purchased via a mortgage (such as price, location, size) along with details of those making the purchase (such as recorded income on the mortgage application, size and duration of mortgage, whether a buyer is a first time buyer or existing owner etc.).
- Calculated using repeat sales regression, the Land Registry HPI is derived from sales data collected on single residential property transactions, whether for cash or with a mortgage. It includes details of over 19 million properties in England and Wales which have sold and been registered with Land Registry since January 1995. Some property transactions are excluded from the dataset based on evidence found in the registration documents, a full list of these exclusions can be found via the GOV.UK website¹⁷.
- Registers of Scotland's house price statistics are calculated using data collected as part of the land registration process. This data includes address and price paid information. Residential sales are extracted from the data and undergo quality assurance to check addresses and prices and strip out any non-market value sales where possible (e.g. sales of part of a property or transfers between family members). House type information is also added using methodology created by the Geographic Information Team. In order to minimise the impact of high or low-end market sales, Registers of Scotland currently only includes in the statistics sales where the selling price lies between £20k and £1m. Data from all sales is available, however. It is also possible to identify cash sales, where no mortgage has been submitted for registration. Registers of Scotland's statistics are currently based on date of registration and not date of entry to the property.
- The NI residential property price index is calculated by LPSNI using residential sales recorded by Her Majesty's Revenue & Customs (HMRC) for stamp duty purposes. This includes all sales irrespective of how they are purchased (e.g. auction sales are included). However, there are a small number of property sales which do not require notification to HMRC, these include: transactions where no money changes hands, property that's left in a will, and transfers of property in a divorce or when a civil partnership is dissolved. In the modelling of prices each sale is combined with the property characteristics held in the Valuation List database. These characteristics include: size of property (living space), class of property (private/public sector), type of property (detached, semi-detached, terrace, apartment), location (housing market areas and neighbourhood), neighbourhood of property (Acorn category geo-demographic segmentation of area).

2.24 There is a further requirement to supplement these data sources to include additional property attributes for England, Wales and Scotland to bring the data in line with Northern Ireland source

¹⁷ <https://www.gov.uk/about-the-price-paid-data#data-exclusions>

data (namely to include an estimate of floor space (m²) for each property for use in the proposed hedonic regression model). Therefore an additional source of data is required that provides the required attributes for an adequate coverage of these countries.

2.25 A number of potential sources have been identified and considered. A final decision has yet to be made regarding which source will be used should the development of a new definitive HPI get approved. Each of the three sources¹⁸ detailed below provides the necessary attributes data required for use in the production process although there are some potential limitations around the supply of each source (such as cost or data sharing legislation). A final decision on the preferred source will be taken based on the availability, ongoing cost of supply and quality of data.

- Valuation Office Agency (VOA). The VOA is an executive agency of HM Revenue & Customs (HMRC). It provides the Government with valuations and property advice for England and Wales required to support taxation and benefits. In performing this role, it collects information about each residential property, including floor area. Legislation (Commissioners of Revenue and Customs Act 2005) restricts access to any of the data (bulk or individual records) beyond enabling the Agency to carry out its function as also specified in legislation (in the case of Council Tax, Local Government Finance Act); in particular this restriction covers property attribute data including floor area.
- Energy Performance Certificates (EPC). Since mid-2007, sellers of property must provide an EPC for their property. An EPC contains information about a property's energy use and typical energy costs and, among the data collected, records the floor area of the property. An EPC is valid for 10 years. Legislation restricts access to bulk EPC data so that it is only made available to users for purposes specified in legislation. Different rules exist for Scotland and England & Wales.
- Commercial sources. There are a few private companies that collect information on property size. Coverage tends to be less good than for VOA and EPCs (although still adequate); and modelling of floor area may be needed for properties for which actual floor space is not available. As far as data access is concerned, there are no issues around legislation, although any data provided by these companies will be subject to normal commercial considerations and charging rates.

2.26 This process of combining each set of data will produce a rich and robust source of property transaction and attributes data for use in the calculation of a definitive house price index. It is worth noting here that this property attributes dataset will not be published in its raw form. However, this does not affect the ongoing publication of current raw data such as the Land Registry Price Paid data¹⁹, which will continue to be made available.

2.27 There are some limitations with the production of this matched dataset. In particular there will be limited information available on the type of buyer transactions (whether a first-time buyer or existing owner) as the only current source of data for this is the RMS which only covers mortgage transactions. This means that any estimates produced in the new definitive HPI by type of buyer (first-time buyer or existing owner) will be based only on mortgage transactions.

Please provide comments on the proposed publication of the new index by each department. Specifically, would you be content for both Scotland and Northern Ireland detailed (sub-national) data to be published quarterly?

¹⁸ More than three sources were considered initially, however, the three presented in this document reflect the most suitable choices (based on quality of data, coverage and availability).

¹⁹ <https://www.gov.uk/government/collections/price-paid-data>

Methodology

2.28 The new definitive HPI will be produced in two stages. ONS will produce estimates for England, Wales and Scotland whilst LPSNI will continue to produce Northern Ireland estimates. The methodology used will be, where possible, consistent so that the two datasets can be combined to produce UK figures. There will be some unavoidable differences in the methodology due to the availability of data for use in the production of estimates in Great Britain compared to Northern Ireland. However these differences are not considered to have a significant impact on results. The methodology (detailed further below) will be based closely on the current LPSNI methodology²⁰ (the only notable changes for LPSNI will be the adaption of their methodology to potentially include indicators on the type of buyer, age of property (new/old) and to produce a monthly estimate to feed into the monthly UK release). The data is not currently available to allow this adaption, however LPS are investigating suitable sources.

2.29 In line with the criteria for a definitive house price index, the proposed new HPI will be based on the transaction price for residential properties sold at full market value. The index will include all purchases for owner-occupation, buy-to-let properties and repossessions (if available) but would exclude remortgages (as the 'price' is effectively a valuation) and purchases by sitting tenants (as these transactions are probably at a discounted rate to the market value).

2.30 In line with the current publication of official house price indices, the new index will not produce valuations of the entire housing stock. Whilst it is acknowledged that for some purposes this is the concept of interest, where an average price of all stock is needed it is assumed that the traded values are representative of prices of all stock.

2.31 The property dataset detailed in paragraph 2.25 above will be used to produce the monthly UK house price estimates (quarterly for NI and possibly Scotland). A hedonic regression²¹ model will be run on this property dataset (similar to the regression model used in the current LPSNI²² and ONS²³ house price indices). The chosen model has the log of the sale price as the dependent variable and the following independent variables:

- i. Log of floor area
- ii. Property type/style
- iii. New/old property
- iv. First time buyer/former owner occupier
- v. Cash/mortgage purchaser
- vi. Local authority
- vii. ACORN²⁴ area classification (where ACORN identifies, for each postcode, the most prevalent type of neighbourhood in that postcode area)

2.32 Full technical details of the final hedonic regression model will be published when the methodology is finalised following the user consultation.

²⁰ <http://www.nisra.gov.uk/housepriceindex/LPSHousePriceIndexMethodologyFinal.pdf>

²¹ Hedonic regression is a technique to adjust for the mix of attributes that a property has. It is assumed that a house can be decomposed into characteristics such as number of bedrooms or type of property. A hedonic regression equation treats these attributes (or bundles of attributes) separately, and estimates prices for each of them.

²² There are some differences in the LPSNI approach compared to the proposed approach for Great Britain, but these are not considered to have a significant effect on the resulting estimates. Specifically, LPSNI use the floor area rather than its log, and run separate models for flats and houses. More details can be found in: <http://www.dfpni.gov.uk/lps/lps-nisra-residential-property-price-index-methodology-report-may-2012-126kb.pdf>

²³ <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/hpi/hedonic-model.pdf>

²⁴ <http://acorn.caci.co.uk/what-is-acorn>

2.33 The definitive house price will be mix-adjusted to compensate for the variation in the characteristics of houses sold in any one period. Modelled prices will be produced for a fixed basket of property transactions (this is the mix-adjustment and will cover the previous complete year's transactions as described further in paragraph 2.45) for the current month and the base month (which will be January of the same year). These modelled prices will be geometrically averaged and will be produced for each local authority area, region, country and explanatory variable listed in point ii to v above if possible. The house price index for each variable will then be calculated as the ratio of the mean prices for the current and base periods, and chain-linked to produce a continuous time series.

2.34 As mentioned previously the Great Britain data will be processed by ONS and the Northern Ireland data will continue to be processed by LPSNI. The methodology used in each production will be consistent where possible²⁵. These datasets will then be combined each month to allow aggregate UK estimates to be produced and published, whilst a detailed regional breakdown for Northern Ireland will be published each quarter.

2.35 Both price indices and average property price levels will be published each period, at the geographical levels detailed above. However, there is further investigation required regarding the presentation of average price levels and users are asked to comment on their preferred approach. The next few paragraphs explain the issue and options available:

2.36 Statistically, the new House Price Index will be an annually chain-linked Laspeyres index. Each year a fixed basket of property transactions from an earlier period is selected and the changing average price of that fixed basket calculated (also known as mix-adjustment).

2.37 These mix-adjusted average prices are then used to calculate a series of in-year price indices, which always compare prices to January of the current year. These in-year price indices are then linked together to produce a long-term and fully comparable price index (known as chain-linking).

2.38 Each January, the fixed basket is updated to reflect changes in the composition of properties being sold (i.e. the mix of properties). This means that the average prices produced from a fixed basket in 2014 are not directly comparable with the average prices produced using the 2013 basket as they will reflect a different mix of properties being traded (although the price index calculated using these values is fully comparable over time. This process is explained further in section 3.4 of the article 'Official House Price Indices Explained'²⁶).

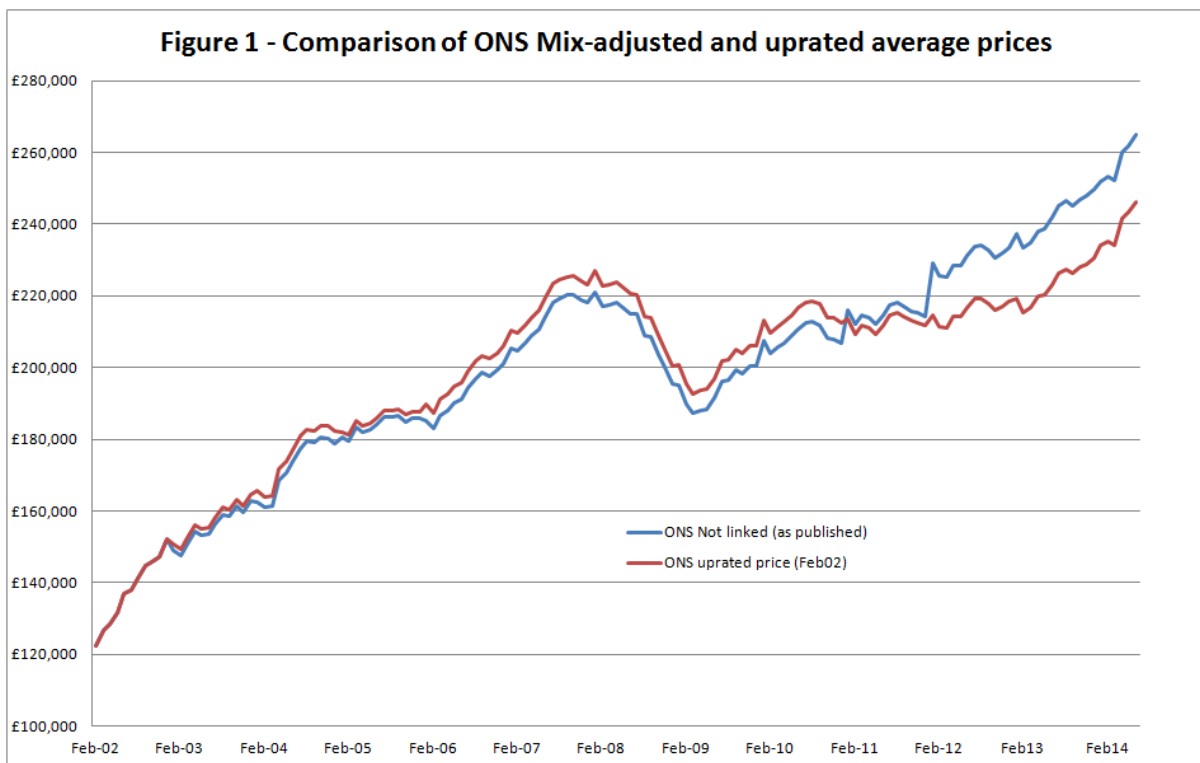
2.39 These in year mix-adjusted average prices can be published, and is the approach currently taken by ONS each month. These prices represent the typical price of property being traded in the current market. However; this can cause difficulty for users as they are unable to directly compare published price levels between years.

2.40 An alternative approach to the publication of mix-adjusted average price levels is also available. This approach continues to calculate the price index as detailed above using the fixed basket approach. However, these mix-adjusted average prices are not then directly used for the publication of price levels. Instead, a standardised average price from the index reference period (for example April 2005, or where the price index = 100) is updated by the movement in the price index. This method of calculating average prices answers the question what would a property from April 2005 (for example) cost today and has the advantage that the published price levels are fully comparable over time. However, this approach can mean that the updated average price published in the latest period can differ slightly from the actual properties being transacted.

²⁵ There will be slight differences in the methodology due to the sources of data available for Great Britain and Northern Ireland. However, these differences are insignificant

²⁶ <http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/hpi/official-house-price-statistics-explained.pdf>

2.41 Figure 1 attempts to show the effect of both these methods of presenting average prices based on the UK all-dwellings house price published by ONS. The blue line represents the current published ONS UK mix-adjusted average price (so non-comparable between years) and the red line represents the ONS UK mix-adjusted price for February 2002 uprated by movements in the ONS UK house price index (so this reworked series is comparable over time). As can be seen, towards the end of the series the two methods diverge. This is caused by London and the South East having a greater weight in the mix of properties in later years compared to the mix of properties sold in early 2002. A further variation on these approaches would be to base the standardised average price on the most recent year, and revise earlier years' average prices annually to align with the new year. This would answer the question what would the price of a property traded in the current year have cost in earlier periods? A limitation with this final approach is the likely annual revisions to historic prices.



Please provide comments on the proposed methodology to be used in the construction of a new, single definitive house price index.

How would you prefer house price levels to be presented?

2.42 The production of a definitive house price index will continue to be a lagged indicator. The price index will represent the transaction price of properties traded in the reference period. Given the need to collate data from a number of different sources, it is proposed that the new index is published to a monthly timetable that is similar to the current ONS publication schedule. The ONS house price index is generally published on the second Tuesday of the second month after the reference period (roughly 6 weeks after the reference period, so for example, March house price data would be published mid-May). This will have the biggest impact for current users of the Land Registry house price index, which is currently published twenty working days after the reference period (roughly 4 weeks after the reference period, so for example, March house price data would be published late-April/early-May). It is hoped that users will accept this delay in timeliness (compared to the current Land Registry publication schedule) in light of the improved quality and coverage the definitive house price index would provide. This proposed publication schedule for a

definitive index is more or less in line with the current publication timetable for Registers of Scotland and LPSNI.

Please provide comments or concerns regarding the proposed timeliness of the new, single definitive house price index?

2.43 The new definitive index will predominantly be calculated using data collected through the registration of a property sale with the appropriate country's land registry. There can unfortunately be a time lag between property completion or date of entry and registration (particularly for new properties) and therefore the new index will be subject to revision. It is anticipated that the new index will be subject to revision in subsequent months as more complete data is received. Each of the current published house price indices are also subject to revision, so there is no change for users in this respect. The new index would follow a similar pattern to the current ONS HPI. The new index would be published as provisional in the first month, and then potentially be subjected to small revisions in each of the next two months (so data first published in January would be potentially revised in February and March, with the March version being the final estimate)²⁷.

2.44 In-line with both the criteria for a definitive house price index, and the indices currently published, the new definitive house price index will be available as a seasonally adjusted series alongside the main unadjusted series. The exact level of seasonal adjustment has yet to be decided and will in part need to be considered further once unadjusted data has been produced by the new model (to assess where seasonality is present and what method of adjustment is required). In developing the new index, there will be a commitment to at least try and replicate the current level of seasonal adjustment published in the current HPIs.

2.45 The mix-adjustment weights (effectively the weights used to fix the basket of properties described in 2.33 and 2.38 above) will be updated in the January index of each year. The weights will be calculated based on the relative numbers of transactions during the previous complete 12 month period (it is assumed that complete data for the latest calendar year would not be available in time for the annual production of updated weights each year. Therefore the 12 month dataset for weighting purposes is likely to run from October to September of the previous years). This proposal for the update of weights is different to the current method used by ONS, where a three year period is used to calculate the weights. The use of a single year's data for the weights will make the index more responsive to changes in the mix of properties sold, but may introduce greater discontinuities in the average prices recorded for different years, as there will be no overlap in the properties covered by successive years' weights.

Please provide comments on the proposal to use one year's worth of transactions to weight the new house price index?

2.46 The production of the new definitive index will include the calculation of a consistent back series using the new methodology and data sources. However, due to resource constraints and the availability of consistent data it will not be possible to process a full back series (such as rerunning the model back to 1969 or 1995). The current proposal is to run the new model and data sources to reproduce a house price series from 2010 (where 2010 will also reflect the new index reference period of 100). Prior to 2010, a back series will be derived by linking the new index onto the current published indices. The exact method is yet to be decided, but this consultation would welcome user input regarding how far back a consistent house price series should be produced.

How far back would you like to see the back series produced for the new house price index? Please note that the production of back series is constrained by the availability of data.

²⁷ Although please note that any accompanying seasonally adjusted series would be subject to regular revision in line with the usual seasonal adjustment process.

3. Impact of producing a new definitive house price index

3.1 The purpose of this consultation is to gauge if the proposal to produce a new house price index meets user requirements. While there is no firm commitment to implementation at this stage, it is hoped that the feedback received will allow the methodology and development costs to be finalised so that each department can then commit to the implementation.

3.2 Should the development get approval, it is anticipated that a new definitive index will be ready for publication in early 2016. This will clearly have implications for the current official house price statistics published by Land Registry, ONS, Registers of Scotland and LPSNI.

3.3 Whilst a formal transition plan will be developed (and clearly published for users) should the development get approval, it is worth considering the potential impact further at this stage.

3.4 The proposed development of a new definitive house price index will have the biggest impact on the indices currently published by Land Registry and ONS. Effectively the new index will replace these indices once it has been developed (with both departments jointly publishing the new data as detailed above). There will be a commitment to ensure the disruption to users is minimal during the transition process, and as detailed above, further analysis is taking place to ensure a full back series is produced for the new index that would replace what is already published in these indices.

3.5 There is less of an impact for the house price data currently published by Registers of Scotland and LPSNI. In terms of Registers of Scotland, this will be the first official house price index published for Scotland, and there will again be a commitment to ensure the transition to the new price data is as smooth as possible for users. For the LPSNI index, there is likely to be very little change, as the methodology used in the production of the current index will remain the same (LPSNI will continue to produce and publish their house price index, providing the data for inclusion in the new monthly UK index). The likely impact for LPSNI is to make a small adjustment to their methodology to introduce data for type of buyer (first-time buyer or existing owner) and age of property (new or old), which will provide users with an additional level of published data not currently available. Whilst this data is not currently available to make the adjustment, LPSNI are investigating sources. LPSNI will also need to review and assess their current production process against current resources to enable the production of monthly data for inclusion in the new monthly UK HPI.

3.6 It is difficult to accurately assess the exact impact for users before a final decision to implement the new index has been made. However, it would be useful to understand any concerns users may have with the introduction of such a new index and therefore users are invited to comment on this. It is again worth remembering that the development of a new definitive house price index is intended to improve the quality of house price data currently available and to remove the confusion that having a number of official sources of data causes. It is therefore hoped that users see this potential development as a positive step towards better meeting user needs in such an important area of the UK economy and a good example of cross government working.

Do you have any concerns regarding the introduction of the new house price index, specifically the prospect of the new house price index replacing the current Land Registry and ONS indices?

4. Additional analysis and publication of data

4.1 Each of the current producers of official house price data publishes supplementary analysis alongside their main house price estimates. For example, Land Registry publish data covering sales volumes, repossessions and the raw 'price paid data' used in the compilation of the index whilst ONS publish annual analysis covering the size and distribution of mortgages. Further details on the supplementary information available by each department can be found on their respective websites.

4.2 Where possible, each department will be committed to ensuring this additional analysis continues to be published, although there may be some slight changes to the format, scope and timeliness compared to the current publications. Users are invited to comment on the importance of this additional analysis and highlight any concerns they may have should this analysis not be published alongside the new definitive price index.

Please provide comments on the additional analysis you would like to see published alongside the new definitive house price index.

5. Consultation timetable

5.1 This consultation will run from Tuesday 7 October until 5pm on Friday 12 December 2014

6. How to respond

6.1 When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents in the appropriate area of the consultation response form and, where applicable, how the views of members were assembled.

6.2 The consultation response form is available electronically:
<https://www.surveymonkey.com/s/HousePriceStats>.

Responses to the consultation can also be submitted by post or electronically by email to:

Christopher Jenkins

Room 2.001, Office for National Statistics

Government Buildings, Cardiff Road

Newport

NP10 8XG

Tel: +44 (0)1633 455474

Email: christopher.jenkins@ons.gsi.gov.uk or HPI@ons.gsi.gov.uk

7. Summary of questions for consultation

7.1 Users are asked to respond to the following questions. These questions are also repeated in the consultation document alongside the relevant section of the methodology or proposal.

Question 1 – Please provide comments on the proposed development of a new, single definitive house price index by the current producers of official house price statistics.

Question 2 – How satisfied are you that the proposed new house price index meet your needs for house price data?

Question 3 – Please provide comments on the proposed publication of the new index by each department (see paragraph 2.20 of this document for detail). Specifically, would users be content for both Scotland and Northern Ireland detailed sub-national data to be published quarterly?

Question 4 – Please provide comments regarding the proposed methodology to be used in the construction of a new, single definitive house price index (see paragraphs 2.28 to 2.41).

Question 5 – Please provide comments on how you would prefer house price levels to be presented (please refer to paragraphs 2.36 to 2.41).

Question 6 – Please provide comments on the proposed timeliness of the new, single definitive house price index (see paragraph 2.42).

Question 7 – Please provide comments on the proposal to use one year's worth of transactions to weight the new house price index (see paragraph 2.45).

Question 8 – How far back would you like to see the back series produced for the new house price index? Please note that the production of back series is constrained by the availability of data (see paragraph 2.46).

Question 9 – Do you have any concerns regarding the introduction of the new house price index, specifically the prospect of the new house price index replacing the current Land Registry and ONS indices?

Question 10 – Please provide comments on the additional analysis you would like to see published alongside the new definitive house price index (see paragraph 4.1).

Question 11 – Are there any aspects of the proposal for a new, single definitive house price index that concerns you?

8. After the consultation

8.1 We will publish a summary of the comments made approximately 12 weeks after the consultation closes.

8.2 This consultation document represents the first step towards the implementation of a new definitive house price index. The views and feedback received in response to this document will be used to refine the methodology and proposal (where necessary) and to finalise a business case for the development of the new index. A formal response to the user consultation feedback is expected to be published within twelve weeks of the consultation closing.

8.3 This business case will then be presented to the Executive Board of each of the official producers of house price statistics. This business case will include the detailed costs associated with development and implementation of the proposed index which will be carefully assessed against the ongoing resource constraints and priorities each department is facing. Should the business case for development be approved, the next stage of work will be to develop the production system for the new index and to begin testing the methodology. It is anticipated that the new, definitive house price index would first be published in early 2016 should the index get the necessary approval and funding.

8.4 Users will continue to be kept informed of progress via the regular publication of the current house price indices. However, further detail or information is available by contacting:

Christopher Jenkins – Tel. +44 (0)1633 455474
Christopher.jenkins@ons.gsi.gov.uk or hpi@ons.gsi.gov.uk

9. Confidentiality and data protection

The basics...

As someone who is interested in ONS statistics, we'd welcome your views. We may ask you to tell us who you are so that, where appropriate, we can follow up on the feedback you give. Your response might be made available if required under a Freedom of Information request, but we would only do so in a way that was within the law. All findings will be anonymised when we report the outcomes of this consultation.

The details...

The information you send us may be passed to colleagues within ONS and other parts of Government.

Information provided in response to this consultation, including personal information, may also be published in accordance with access to information legislation including the Freedom of Information Act 2000 (FOIA).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply. This Code, amongst other things, deals with confidentiality. Because of this it would help if you gave us a short explanation of why you think confidentiality is necessary. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

Please ensure that you email ons.communications@ons.gsi.gov.uk if you wish your response and your name to be kept confidential. Confidential responses will be included in any summary of numbers of comments received and views expressed.

10. Getting in Touch

If you have any queries about the proposals detailed in this consultation document, please contact Christopher Jenkins (tel. +44 (0) 1633 455474 or christopher.jenkins@ons.gsi.gov.uk).

Alternatively, queries can be addressed to any of the official producers of house price statistics:

- Land Registry: Lorna Jordan (Lorna.Jordan@landregistry.gsi.gov.uk or +44 (0) 300 006 8084)
- Land & Property Services, Northern Ireland: Stephanie Harcourt (Stephanie.Harcourt@dfpni.gsi.gov.uk or +44 (0) 28 9033 6049)
- Registers of Scotland: Ailsa Robertson (ailsa.robertson@ros.gov.uk or +44 (0) 141 306 1541)

If you have any queries or comments about the consultation process, please email Simeon Bowen at ons.communications@ons.gsi.gov.uk or call +44 (0) 0845 601 3034.

You can also write to us at the following address:

Customer Contact Centre,
Office for National Statistics,
Government Buildings,
Cardiff Road,
Newport,
South Wales,
NP10 8XG.

For further information on ONS consultations, please visit [http://www.ons.gov.uk/ons/about-
ons/get-involved/consultations/index.html](http://www.ons.gov.uk/ons/about-ons/get-involved/consultations/index.html)

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