

Consultation on the development of a definitive house price index

December 2014

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.

The Greater London Authority (GLA) welcomes the integration of Land Registry and ONS sources to produce a common regional series. The GLA considers the inclusion of cash transactions and newly-built properties in the new index as important improvements to the development of the definitive house price index (HPI) for London. In London, many overseas buyers pay cash or obtain finance through a non-UK source not tracked by the Regulated Mortgage Survey, the main data source of the existing ONS house price index. Furthermore, in some areas of London new dwellings account for a larger proportion of sales and inclusion of these properties to the borough level data is helpful. In addition, the inclusion of an estimate of floor space for each property is a welcome improvement to the data series.

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

The proposed length of the time series does not meet the needs of users at the GLA; currently, the mix-adjusted house price index for London is available to 1968 Q2 and the proposal proposes that as a part of the development of a definite house price index, historic data for the new index would be published going back to 2010 only. For the purposes of understanding trends in the housing market in the Capital – something necessary given the Mayor's statutory responsibility in the area of planning - this is not sufficient.

For research into affordability, it will be particularly important to retain a break down by type of buyer at the London level. Furthermore, house price information by type of property at the London borough level would be useful to have going forward. The proposal suggests that both "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." However, for the GLA, it is important to be able to analyse information by both type of property and by type of dwelling at a borough level. Therefore, it would be unsatisfactory if the introduction of the new HPI resulted in a loss of any of the data by borough currently made available by the Land Registry. This would affect the GLA's policy functions and ability to respond to changes in the housing market on a local level.

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?

As an organisation, the Greater London Authority will require London-level statistics on house prices in some detail. The Mayor has a statutory responsibility to produce a regional spatial plan and one of the most important elements of this plan concerns housing. Therefore, it is very important that detailed house price data are available for London. The Mayor also has control over a substantial budget for house building and the Mayor is planning to invest around £1.4 billion to support the delivery of an estimated 42,000 homes per annum (Source: Mayor of London's statutory capital spending plan 2014-15). Furthermore, price data provides a very useful signal as to the interaction of housing supply and demand in the Capital and can therefore help to inform policy making on housing issues in London – influencing both the spatial plan and a significant level of GLA expenditure. There are also significant differences in house prices across London boroughs and this makes detailed price data important (the Land Registry data demonstrate this and, for example, in the London borough of Kensington and Chelsea the average price paid for a property in September 2014 was £1,341,854, whilst in Barking and Dagenham the average price was £262,122). Given the importance and size of London's residential property market compared to Scotland and Northern Ireland (according to the HMRC, in 2013, there were 145,000 residential property transactions in London compared to 85,000 and 19,000 in Scotland and Northern Ireland respectively) it is important to have detailed information on trends in prices not just across all the nations but also in London to fully understand trends in the UK's housing market.

According to the Census 2011 figures, the total number of households in London is 3.3 million, greater than in Scotland and Northern Ireland combined (3.1 million), whilst London's Gross Value Added (GVA) output in 2012 accounted for 22.5 per cent of the total in the UK, compared to 2.1 per cent in Northern Ireland and 7.7 per cent in Scotland. The latest population projections also suggest that the number of households in the Capital will continue to rise and the population will exceed its 1939 peak of 8.6 million in the next couple of years. For this reason, having a consistent time series of house price data is important for London's policy makers.

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).

Purchases of houses with short leases should be excluded from the HPI. The Land Registry price paid data does capture information on tenure type: leasehold, freehold, etc. and its HPI currently excludes sales with a lease under seven years. However, it is not clear from the proposal whether this is something that the new proposed method does account for. The current approach by the Land Registry should be the very minimum with the new HPI. For example, if comparing a 'basket of houses' and the lease duration of this basket changes over time, then it can lead to changes in the HPI that do not reflect the full market value of homes.

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).

From an analysis point of view, it is preferable that the method chosen enables full comparison of prices over time i.e. standardised uprated average prices. Data on price paid / actual transactions are still useful, for example, to calculate the impact of changes in stamp duty.

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

Publishing the data around six weeks after the reference period, in line with the current ONS publication schedule, is reasonable as long as the previously published Land Registry data are still made available on a London borough level. However, if the introduction of the new proposed house price index results in both a loss of data and causes a delay in the release of the data the impact on users would be unreasonable.

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).

The consultation proposal suggests that “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”.

The ONS analysis on weights between 2011 and 2014 (showing the three-year weights used in each of these years) suggest that there is some degree of variability in weights across years but also the variability is different across regions over the period. However, following the financial crisis the housing market recovery has been supported by a number of government policy initiatives (*Funding for Lending, Help to Buy, Large Sites Infrastructure Programme* and *Get Britain Building* among others) and the supply of new home building may differ substantially from the conditions prior to the crisis. Generally in ‘normal times’, the changes in the mix of properties transacted may not change substantially from year to year. If moving from three years to one year makes comparisons over time more difficult (even if it does make each individual year’s figures more representative of the mix sold in that year), given the use of the HPI for trend analysis retaining the three-year weights may still be more desirable.

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).

For policy making purposes having a far reaching historic data series is important and it helps to inform us about potential future trends. London’s population fell in the post-war period up to the 1980s and returned to growth in the 1990s before accelerating in the 2000s. Being able to analyse trends in the housing market over different periods of population growth/decline, as well as across different economic cycles, is useful in understanding the trends in the housing market. The proposal on the new HPI suggests that producing a full back series to 1969 or 1995 is not possible due to lack of available data but it is unclear whether a significant barrier exists to prevent a production of a consistent back series to 1996. To enable a thorough housing data analysis, the ONS and Land Registry should attempt to produce a longer historic series going back to 1996 if at all possible.

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?

The main concern is around losing data as a result of this merger of Land Registry and ONS data to produce a single data series. Despite the change in the reported indicators, it would be useful to be able to access the data series based on the old methodology. Land Registry data that are based on actual transactions is valuable in its own right; if we were analysing Stamp Duty collected on London sales, we would want to use house prices that reflect actual sales. Currently, Land Registry data also include information on type of tenure: freehold and leasehold but it is unclear whether this information will still be available if the two house price indicators are merged.

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).

There are potential opportunities for obtaining data that were not previously available. For example, including information on median price per square metre, median price by type of property (new or existing property) and median price by number of bedrooms would be useful to have. In addition, the number of

cash buyers and the average income of first-time buyers would be additional information that would add to the existing housing market analysis at the London level.

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

It would be useful to have more clarity and assurance that the proposed development of a single definitive house price index does not result in a discontinuity of other existing releases currently produced by the Land Registry and that these publications will continue to exist alongside the new HPI.