

Article

Private rental growth measures, a UK comparison: 2016

This article compares growth in the Index of Private Housing Rental Prices to other measures of private rental growth.

Contact:
Rhys Lewis
hpi@ons.gsi.gov.uk
+44 (0)1633 456400

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1 . Summary

Superficially there can be a considerable difference between growth in the Office for National Statistics's (ONS's) private rental indices such as the [Index of Private Housing Rental Prices](#) (IPHRP) when compared with alternative sources of information on private rents. However, once we have corrected for differences in what the indices are measuring, the ONS measure of rents is more closely aligned with other sources of rental prices.

Some of the differences can be explained by compositional changes and quality changes in the stock of rental properties. Both compositional change and quality change are specifically excluded from IPHRP to ensure that only pure price change is captured. Put another way, the ONS aim is to compare like with like.

In addition there are methodological differences in the way rental prices can be measured. One approach is to measure the stock of rents, that is, aiming to capture the price of all properties in the rental market. The second approach is to measure the flow of rents, in other words, to capture the price of new lettings made in the reference period. Both approaches yield different results.

2 . Comparison of IPHRP with private sector organisations

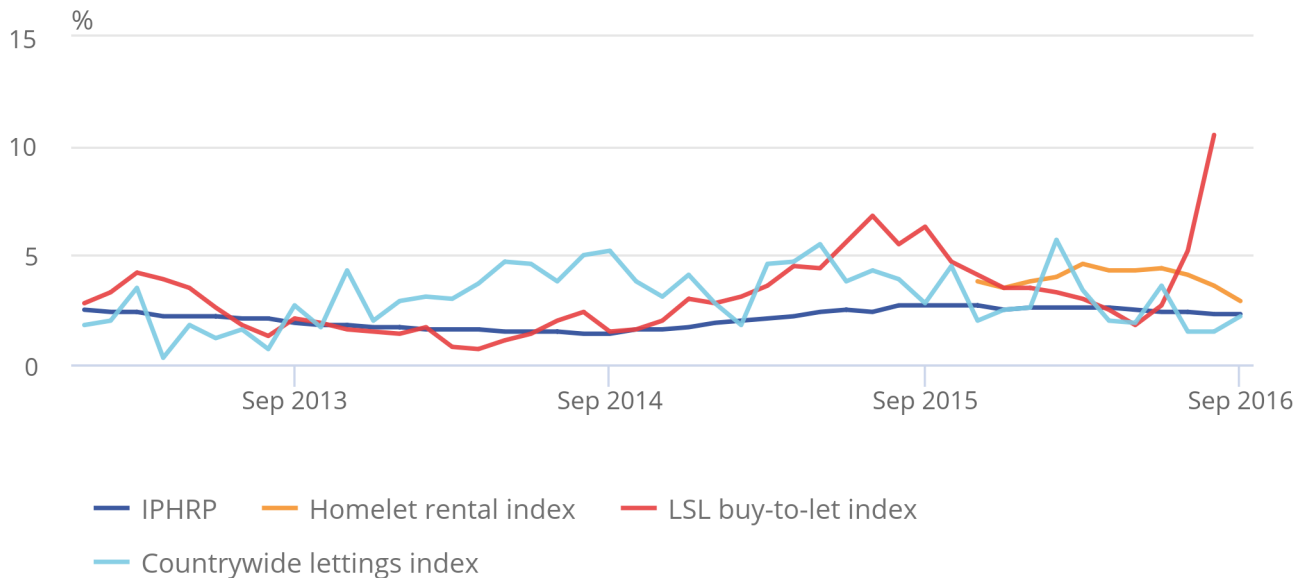
A number of private sector organisations – estate agents and property companies – produce estimates of changes in rental prices. Figure 1 shows how IPHRP compares with a number of those private sector comparators.

Figure 1: IPHRP and private sector measures of rents percentage change over 12 months, January 2013 to September 2016

12-month percentage change

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12-month percentage change



Source: Homelet, LSL Property Services plc, Countrywide plc and IPHRP

Rent increases measured by the private sector have tended to be higher than shown in IPHRP. The private sector measures are also more volatile than IPHRP which can make comparisons challenging.

The higher level of private sector measures and their volatility can be primarily explained by what the different data are covering. Almost all of the private sector measures primarily focus on newly let properties. There is evidence that [the greatest price rises occur when properties are newly let](#), that is, when new tenants move into a property. IPHRP picks up a mixture of newly let properties and existing lets, for example, where the tenant is renewing their lease. These existing tenants tend to see smaller price increases.

This difference in coverage can make comparing IPHRP with private sector indicators difficult. One of these private sector measures, Countrywide, also publish an [“occupied lets”](#) series which captures the position for existing tenants.

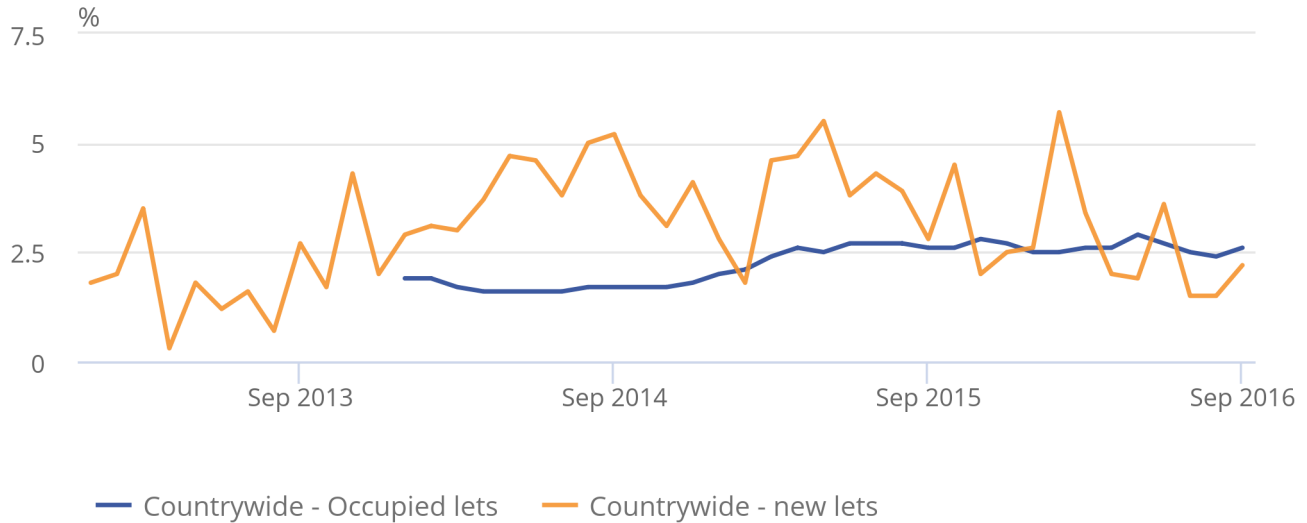
Data from Countrywide in Figure 2 shows that newly let properties tend to have both higher and more volatile growth patterns compared with its “occupied lets” series.

Figure 2: Countrywide new lets and occupied lets percentage change over 12 months, January 2013 to September 2016

12-month percentage change

Figure 2: Countrywide new lets and occupied lets percentage change over 12 months, January 2013 to September 2016

12-month percentage change



Source: Countrywide PLC

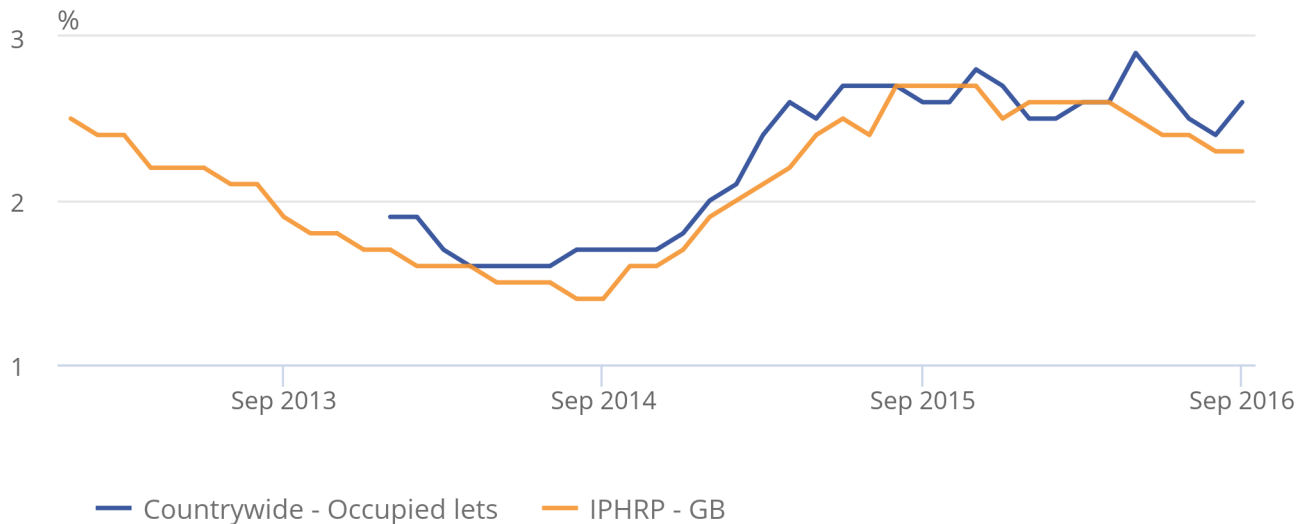
Figure 3 compares the IPHRP with the Countrywide occupied lets series. As you can see, on this basis, the Countrywide data is much more similar to the IPHRP.

Figure 3: IPHRP and Countrywide occupied lets percentage change over 12 months, January 2013 to September 2016

12-month percentage change

Figure 3: IPHRP and Countrywide occupied lets percentage change over 12 months, January 2013 to September 2016

12-month percentage change



Source: Countrywide PLC and IPHRP

Some small differences still remain which are likely to be caused by other differences between the data such as coverage and methodology applied.

3 . Comparison of IPHRP with VOA private rents data

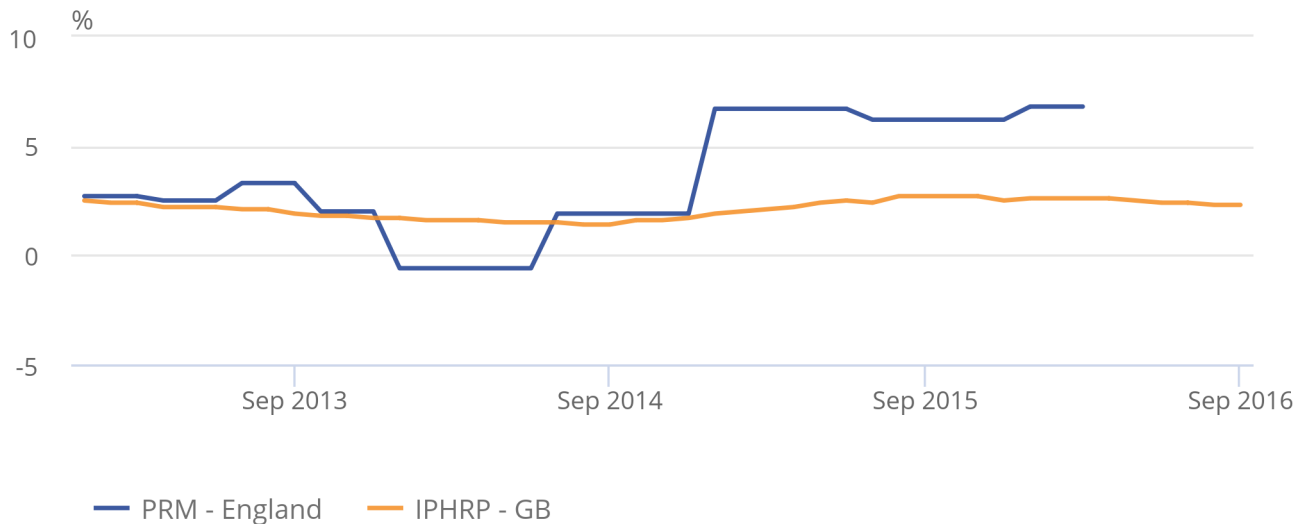
In evaluating measures of rental price, some users have focused on the difference between the average rental prices published by the [Valuation Office Agency](#) (VOA) as part of their [Private Rental Market Statistics](#) (PRMS) publication and the IPHRP. Both are based on the same underlying private rents data collected by VOA Rent Officers for England. The 12-month growth rates for the 2 series are presented in Figure 4.

Figure 4: IPHRP and Valuation Office Agency Private Rental Market Statistics percentage change over 12 months, January 2013 to September 2016

12-month percentage change

Figure 4: IPHRP and Valuation Office Agency Private Rental Market Statistics percentage change over 12 months, January 2013 to September 2016

12-month percentage change



Source: Valuation Office Agency Private Rental Market Statistics and IPHRP

IPHRP is a price index, in that it seeks to make pure price comparisons while VOA's PRMS is a simple average of transactions collected during the period, which is designed to provide a "snapshot" of the rental market over the previous 12 months.

This means that the differences between them can be due to:

- compositional change: how the mix and location of properties in the private rental market changes over time
- quality change: improvements or a deterioration in the quality of the properties in the private rental sector
- methodology: VOA PRM statistics are simple averages while the IPHRP is weighted to reflect the private rental sector

The article [Explaining Private Rental Growth](#) explored these differences and found that the main reason for differences in the 12-month growth rate between IPHRP and VOA's PRM statistics is compositional change. This is because more rental properties in more affluent areas are now included in the sample. The impact of this is to increase an average rents measure, however, these effects are intentionally excluded from a price index measure that compares "like with like". A simple illustration of this is presented in Table 1.

Table 1: Example showing how compositional change can impact on average rents

	Local Authority 1		Local Authority 2		Simple average rent
	Rent	Number of records	Rent	Number of records	
Year 1	£500	50	£1,000	50	£750
Year 2	£500	40	£1,000	60	£800

Source: Office for National Statistics

In the example in Table 1 there are 2 Local Authorities (LA); LA 1 has monthly rent of £500, LA 2 has double the monthly rent at £1,000. The monthly rent is the same in both year 1 and year 2 for the 2 LAs. However, the relative weights between the 2 years change, with LA 2 accounting for 50% of the total market in year 1 but 60% in year 2. The average rent has increased from £750 in year 1 to £800 in year 2 (a 6.7% increase), all due to a compositional change in the population. But there has been no increase in rent prices, which means that a rent price index would show no increase in price between periods 1 and 2.

Analysing the difference between the growth in average price of the properties used in the IPHRP sample and that of the price index, it was found that the sample average rent grew by around 35% between 2010 and 2015. Of this, 11% can be explained by index growth (pure price growth) while an additional 17% was explained by changes in the composition of the sample between years. This analysis focused on compositional shifts at the Local Authority level; unaccounted for compositional shifts below this level might explain some of the remaining difference.

An improvement in the quality of the private rental sector has been [proposed as an additional potential reason](#) that might explain some of this remaining difference. Some of the evidence previously presented points towards an increase in quality in the private rents sector. For example, in recent times, the size of the private rented housing stock has more than doubled and some of this supply has probably come from the owner occupied market which is generally in better repair than the rental market. Evidence from the English Housing Survey suggests that rented properties are now better maintained than they were a few years ago. Given the available data, it is difficult to quantify the direct impact of improvements in the quality of the rental stock, but the evidence mentioned provides some support that the rental stock has been improving.

While the majority of the difference between IPHRP and VOA's PRMS can be explained some more work still remains to fully explain and break down the remaining difference.