

Article

Private rental growth measures, a UK comparison: July to September 2018

Compares growth in the Index of Private Housing Rental Prices to other measures of private rental growth.

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1 . Introduction

[The Index of Private Housing Rental Prices](#) (IPHRP) measures the change in price of renting residential property from private landlords. The same private rent price indices are also used for the rental equivalence measure of owner occupiers' housing costs (OOH) in [Consumer Prices Index including owner occupiers' housing costs](#) (CPIH).

Superficially there can be considerable difference between the Office for National Statistics' (ONS's) measures of rents (the [Index of Private Housing Rental Prices](#) (IPHRP) and owner occupiers' housing costs (OOH)) and comparable indicators from the private sector. However, once adjustments are made for differences in what the indices are measuring, the ONS measures of rents are more closely aligned with the other sources of rental prices. This article is part of a series that explains the reason for these differences in more detail.

2 . Comparing ONS rents data and private sector data

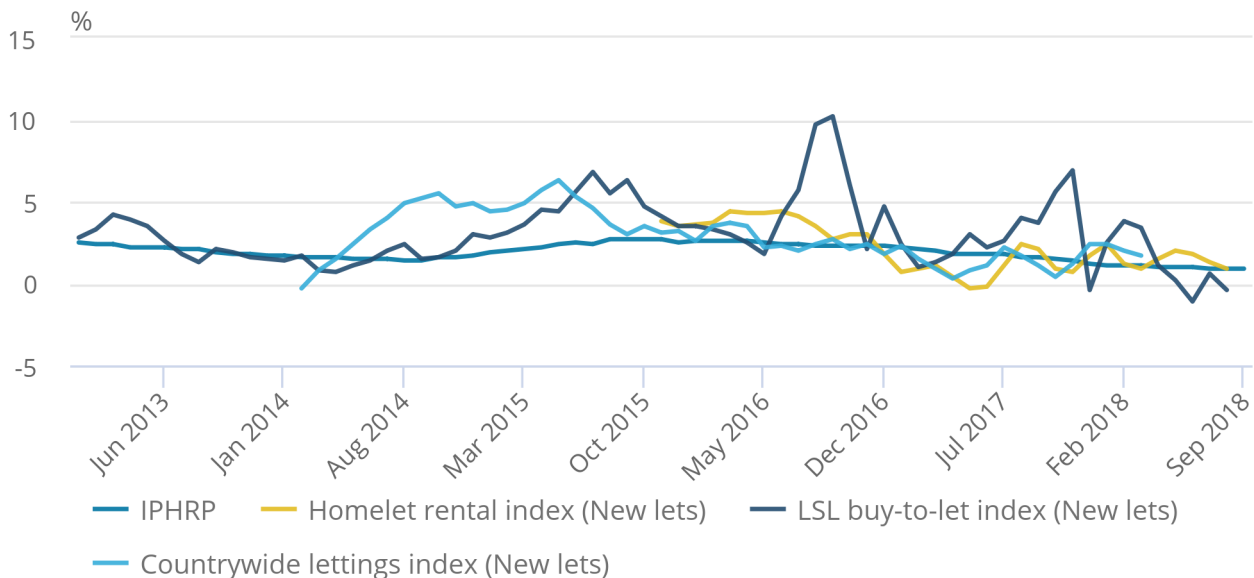
Many private sector organisations including estate agents and property companies produce estimates of changes in rental prices. These include [HomeLet](#), [LSL Property Services](#) and [Countrywide PLC](#). In addition, other companies such as Zoopla and Rightmove are a rich source of rental data. These sources provide an extensive range of rental data, but a closer look at these rental measures provides a diverse picture (Figure 1).

Figure 1: Index of Private Housing Rental Prices and private sector measures of rents percentage change over 12 months, January 2013 to September 2018, UK

12-month percentage change

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12-month percentage change



Source: Homelet, LSL Property Services plc, Countrywide plc and Index of Private Housing Rental Prices (IPHRP)

Notes:

1. The Countrywide lettings index is calculated as a 3 month rolling average rather than lets agreed in the last month.
2. The Countrywide lettings index latest available data is April 2018.

Historically the rent increases measured by the private sector measures have differed to those shown in Index of Private Housing Rental Prices (IPHRP) and tend to be more volatile. This is because the private sector measures primarily focus on newly let properties, whereas IPHRP includes a mixture of newly let properties and existing lets. This is important, as evidence obtained from Valuation Office Agency (VOA) rental officers suggests that the greatest price rises occur when properties are newly let, compared with existing tenants, who tend to see smaller price increases.

In early 2016, the VOA placed a question in the [BDRC Landlord Panel survey](#) whose respondents comprise [National Landlord Association](#) members with a wide range of portfolio sizes and geographies. The question asked, “What was the typical level of rent you were able to achieve in 2015?” broken down by “new tenants” and “renewals with existing tenants”. It was reported that 23% of new lets were charged at the same rate as the previous letting, however, 46% of renewals saw no increase. For those whose rent did increase, the average increase for new lets was 5.0% while for renewals this was lower at 3.4%. Similar results were found when this exercise was conducted again the following year.

To summarise, landlords were less likely to increase rents for existing tenants, and when rents were increased, it was by a smaller percentage. This is thought to happen because landlords make a considered business decision, preferring a small increase from a known reliable tenant, rather than experiencing a void period with no income and the associated cost of re-letting. Consequently, larger price increases tend to occur when the existing tenant moves out and the property is advertised.

In addition, analysis of contract length statistics finds that rental contracts tend to last for around 12 months. During this contract period a tenant’s rent is unchanged. IPHRP, as a measure of the stock of rental properties, includes all new lets, those renewing their contract and those within their existing contract. This results in a smoother series than those that simply focus on new lets, where there is more volatility between each month.

Further detail on these data sources and their differences is available in the [April to June](#) publication of this series.

3 . Comparison of Index of Private Housing Rental Prices 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 Index of Private Housing Rental Prices (IPHRP). Both are based on the same underlying private rents data collected by VOA rent officers for England.

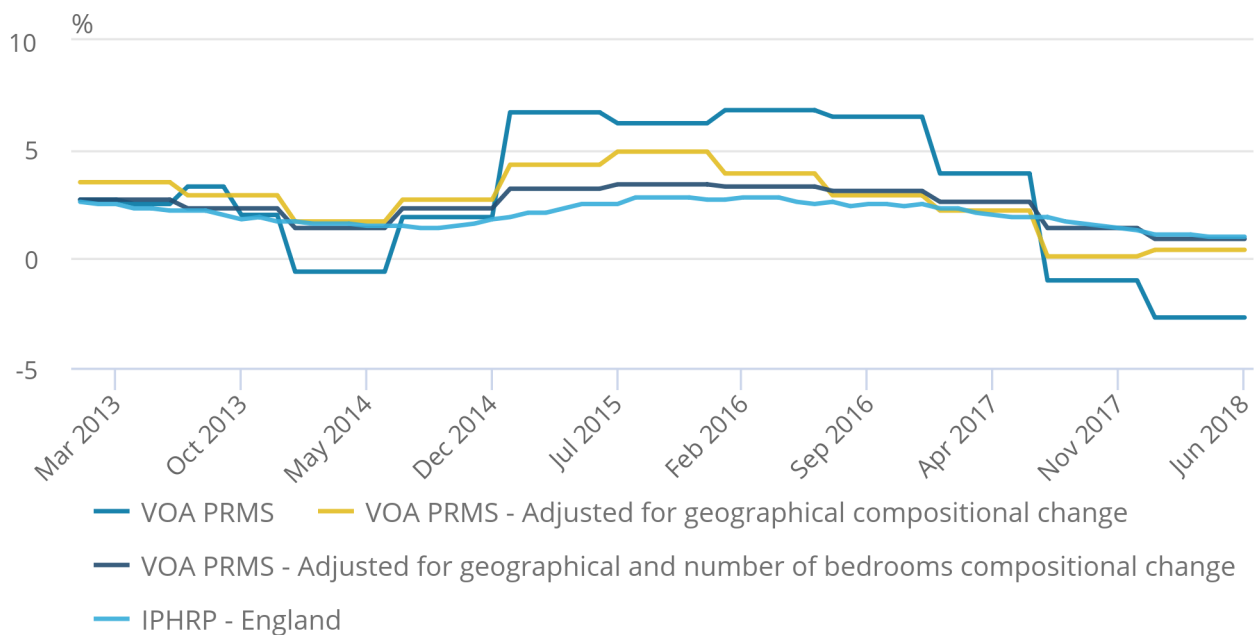
Figure 2 presents the 12-month growth rates for the VOA PRMS series and IPHRP (using the England IPHRP series for comparability). Two additional series are also shown, which adjust for changes in the composition of the VOA PRMS sample over time.

Figure 2: Valuation Office Agency Private rental market statistics adjusted for compositional change against IPHRP, percentage change over 12 months

12-month percentage change

Figure 2: Valuation Office Agency Private rental market statistics adjusted for compositional change against IPHRP, percentage change over 12 months

12-month percentage change



Source: Valuation Office Agency, Private rental market statistics and Index of Private Housing Rental Prices

Notes:

1. Analysis of compositional change was conducted at the local authority level using published data from the VOA PRMS .

There are clearly some major differences between the VOA PRMS series and IPHRP. This raises the question; "How can we have confidence in IPHRP if it diverges so much from VOA private rents series?" Well, these differences can be explained.

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

Over the period presented, the average annual growth rate of the VOA PRMS is 3.1% compared with an average annual growth rate in IPHRP of 2.0%. The difference of 1.1 percentage points can be accounted for as follows:

- geographical compositional effects (0.5 percentage points) – as shown by the lightest (yellow) line in Figure 2
- compositional changes relating to the number of bedrooms of properties in the VOA PRMS sample (0.2 percentage points) – as shown by the darker (blue) line in Figure 2
- coverage differences between PRMS and IPHRP (0.2 percentage points) – as shown in the article [Explaining private rental growth](#)

The remainder (around 0.2 percentage points) of the difference can be explained by:

- the application of price index methodology to calculate price indices (a matched sample and mix adjustment); this is discussed further in the article [Explaining private rental growth](#)
- changes in composition below the local authority level
- a general improvement in the quality of the private rental sector – changes in quality would impact an average price measure but are intentionally removed from a price index; in recent times, the size of the privately-rented housing stock has more than doubled and some of this supply has 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

We are therefore confident that we understand and can explain the differences between the tracks of the IPHRP and VOA PRMS, and are confident that IPHRP is a fair reflection of the increase in rental prices over time.

4 . Comparison of Index of Private Housing Rental Prices with owner occupiers' housing costs

The Index of Private Housing Rental Prices measures the change in price tenants face when renting residential properties from private landlords, but what about those who own and live in their own home? If we are specifically interested in the cost of purchasing a house, then the [UK House Price Index](#) will provide an estimate of the average price and how much they have increased (or decreased!).

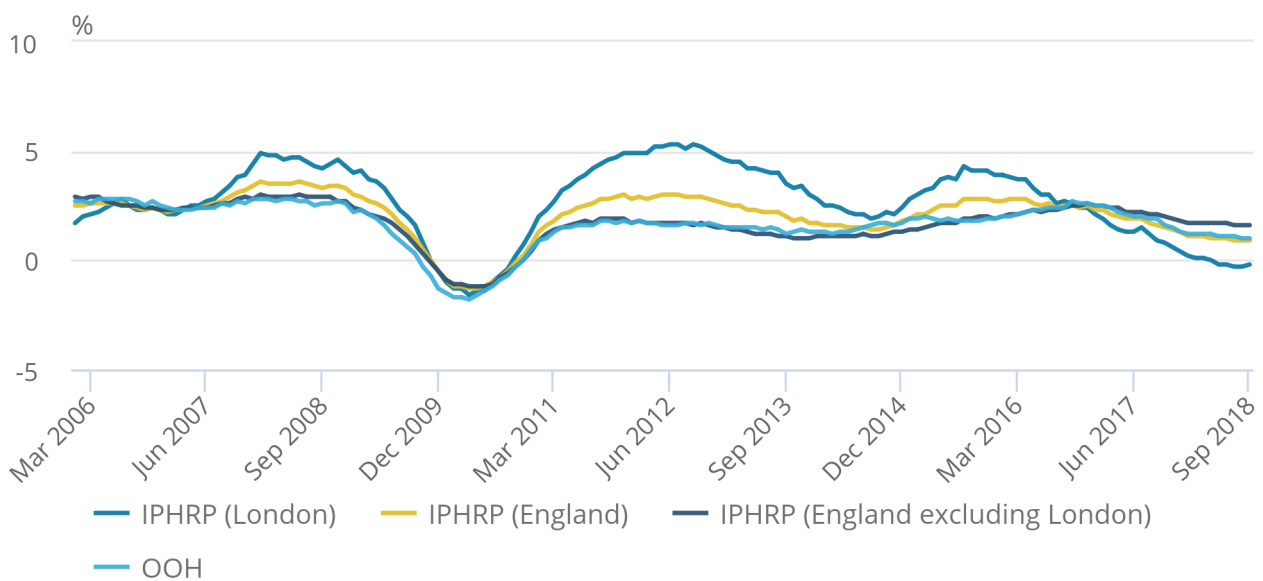
The measurement of costs associated with owning or living in a house (referred to as [owner occupiers' housing costs](#), or OOH for short), however, are somewhat [more difficult](#) as the cost of consuming housing services is different to the cost of purchasing an asset such as a house. The approach Office for National Statistics (ONS) favours for measuring OOH is known as rental equivalence, which assumes that the rent paid for an equivalent house can be used as an estimate of the cost of housing services. In calculating our OOH measure, we use the same rental data sources that are used in IPHRP, and so we might expect both series to show the same price development over time. Whilst they are similar (Figure 3), there are good reasons to explain why they differ.

Figure 3: 12-month growth rate for IPHRP, England and OOH, UK, January 2006 to September 2018

12-month percentage change

Figure 3: 12-month growth rate for IPHRP, England and OOH, UK, January 2006 to September 2018

12-month percentage change



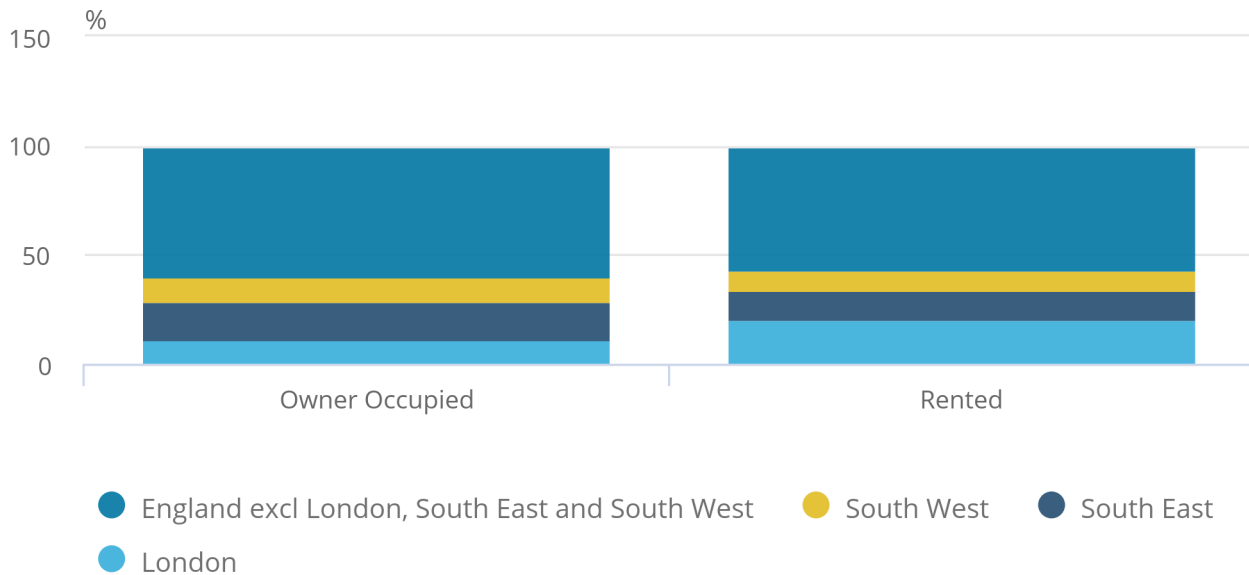
Source: Office for National Statistics

The main reason for the difference comes from the composition of the housing mix that represents the private-rented market compared with the owner-occupied market. The type and location of properties in the private-rented sector are different to the type and location of the properties in the owner-occupiers sector and we take this into account when calculating our estimates. If we just consider location as an example, London has a higher proportion of private-rented stock compared with owner-occupied housing stock. This means that rental growth in London has more of an impact on IPHRP than OOH. If we compare the IPHRP series “England excluding London” (Figure 3) with OOH they are very similar, highlighting the impact London is having on the IPHRP.

Figure 4 provides an indication of how the proportion of owner-occupied and private-rented stock differs for London, with private-rented stock being much larger. It is worth noting that Figure 4 is based on data from 2011, which are the latest [publicly available](#) although a similar trend still holds.

Figure 4: Dwelling stock proportions, by tenure and region

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Source: Ministry of Communities, Housing and Local Government

5 . Conclusion

Analysis as part of this series of articles has shown the wide range of sources available for rental data and highlighted the extent of similarities, and differences, that exist between them. Where differences exist they can be explained, which all points to the Index of Private Housing Rental Prices (IPHRP) being a high-quality and robust measure that is fit for purpose in measuring UK consumer price statistics.

There is still an ongoing requirement to ensure that IPHRP keeps up-to-date with any developments in the private rental market and that the statistics keep pace with the rapidly developing big data agenda. Section 7 of [Comparing measures of private rental growth in the UK: January to March 2017](#) provides further details on some of the aspects of the [work programme](#) that provide the ongoing assurance and development of rental price statistics.