

Article

Private rental growth measures, a UK comparison: October to December 2019

Compares growth in the Index of Private Housing Rental Prices (IPHRP) with other measures of private rental growth.

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Notice

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The latest data will be published on a quarterly basis in the [Index of Private Housing Rental Prices](#) bulletin, as well as publishing an annual article each January that presents a more detailed analysis of private rental comparisons.

Table of contents

1. [Introduction](#)
2. [Office for National Statistics rents data and private sector data](#)
3. [Index of Private Housing Rental Prices and private rental market summary statistics](#)
4. [Index of Private Housing Rental Prices and owner occupiers' housing costs](#)
5. [Conclusion](#)
6. [Looking ahead](#)

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 a considerable difference between the Office for National Statistics' (ONS) measures of rents (IPHRP and 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 . Office for National Statistics rents data and private sector data

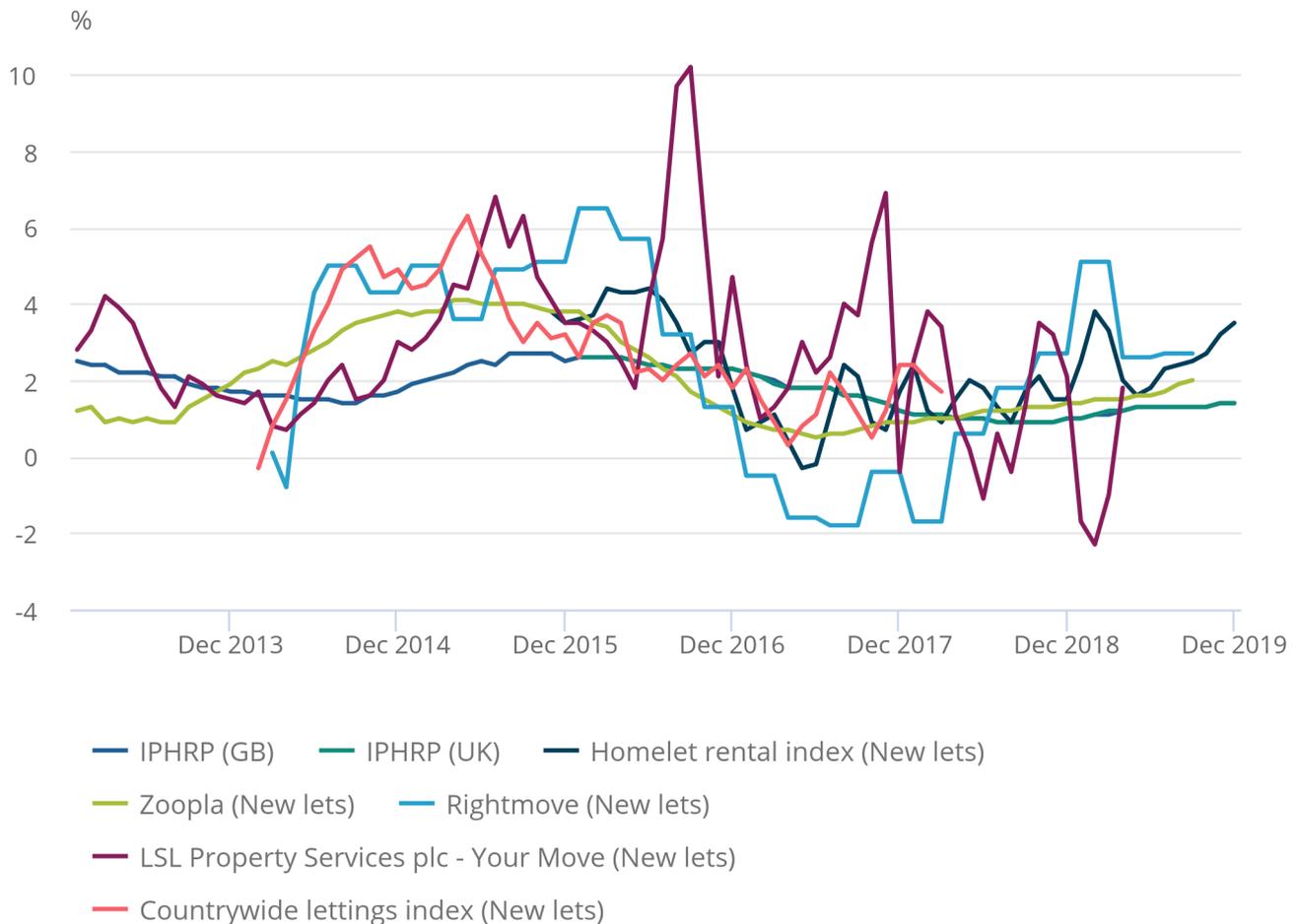
Many private sector organisations, including estate agents and property companies, produce estimates of changes in rental prices. These include [HomeLet](#), [LSL Property Services](#), [Your Move](#), [Countrywide PLC](#), [Rightmove](#) and [Zoopla](#). These sources provide an extensive range of rental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

Figure 1: Index of Private Housing Rental Prices measure is more stable

Index of Private Housing Rental Prices and private sector measures of rents, percentage change over 12 months, January 2013 to December 2019, UK

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Index of Private Housing Rental Prices and private sector measures of rents, percentage change over 12 months, January 2013 to December 2019, UK



Source: Homelet, LSL Property Services plc or Your Move, Countrywide plc and Index of Private Housing Rental Prices

Notes:

1. The Countrywide lettings index is calculated as a three-month rolling average rather than lets agreed in the last month.
2. The Countrywide lettings index latest available data are March 2018.
3. LSL Property Service plc / YourMove have ceased the production their England and Wales rental tracker. The last available data was for April 2019.

Historically, the rent increases measured by the private sector measures have differed to those shown in the Index of Private Housing Rental Prices (IPHRP), and some tend to be more volatile. This is because the private sector measures primarily focus on newly let properties, while the 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 was, "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 reletting. 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. The 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 Homelet, LSL Property Services plc/Your Move, Countrywide plc and the IPHRP data sources and their differences is available in the [April to June 2018 publication](#) of this series.

Details on Zoopla and Rightmove measures and their methods are summarised below.

Zoopla

Zoopla is a property website covering the residential property market, which focuses on providing users with the resources they need to make better-informed property decisions. Launched in 2008, the Zoopla website is a searchable directory of UK residential properties, and is one of the leading online destinations for property consumers to search for homes and do their market research.

Zoopla publishes their [rental market report](#) on a quarterly basis. The index uses over 125,000 rental data points per month. Comparing Zoopla's series to the IPHRP, both series follow the same trend, however Zoopla leads IPHRP by between five months to one year. Zoopla's data are comprised of new lets, which tend to change in price more rapidly than a portfolio of rents containing new and existing lets, which IPHRP collects. Zoopla's data are also based on advertised let prices, which are likely to be collected ahead of when a property is initially let. In contrast, IPHRP data record prices at date of collection, which may be later than the initial let date of the property. This difference in data composition and collection may explain the time lag between the Zoopla series and the IPHRP series.

Rightmove

Rightmove is a property website covering the residential property market, which focuses on providing users with the resources they need to empower their decisions around property. Launched in 2000, the Rightmove website is a searchable directory of UK residential properties and is one of the leading online destinations for property consumers to search for homes and do their market research.

Rightmove's rental trends tracker series is published quarterly with all short lets removed. Rightmove's series shows a similar trend to the IPHRP, leading it by around six months, however seasonal variations are more pronounced. Rightmove's rental trends tracker is compiled from the asking rents of properties coming onto the market on [rightmove.co.uk](#) at the beginning of the rental process. For this reason, it is sensitive to current market fluctuations, whereas IPHRP's measure is stabilised by more slowly changing existing let prices.

3 . Index of Private Housing Rental Prices and private rental market summary statistics

In evaluating measures of rental price, some users have focused on the difference between the average rental prices published in the [Private rental market summary statistics](#) (PRMS) publication, and the Index of Private Housing Rental Prices (IPHRP). Both are based on the same underlying private rents data collected by Valuation Office Agency (VOA) rent officers for England. Since December 2019, the Office for National Statistics (ONS) has taken over the publication of PRMS from VOA.

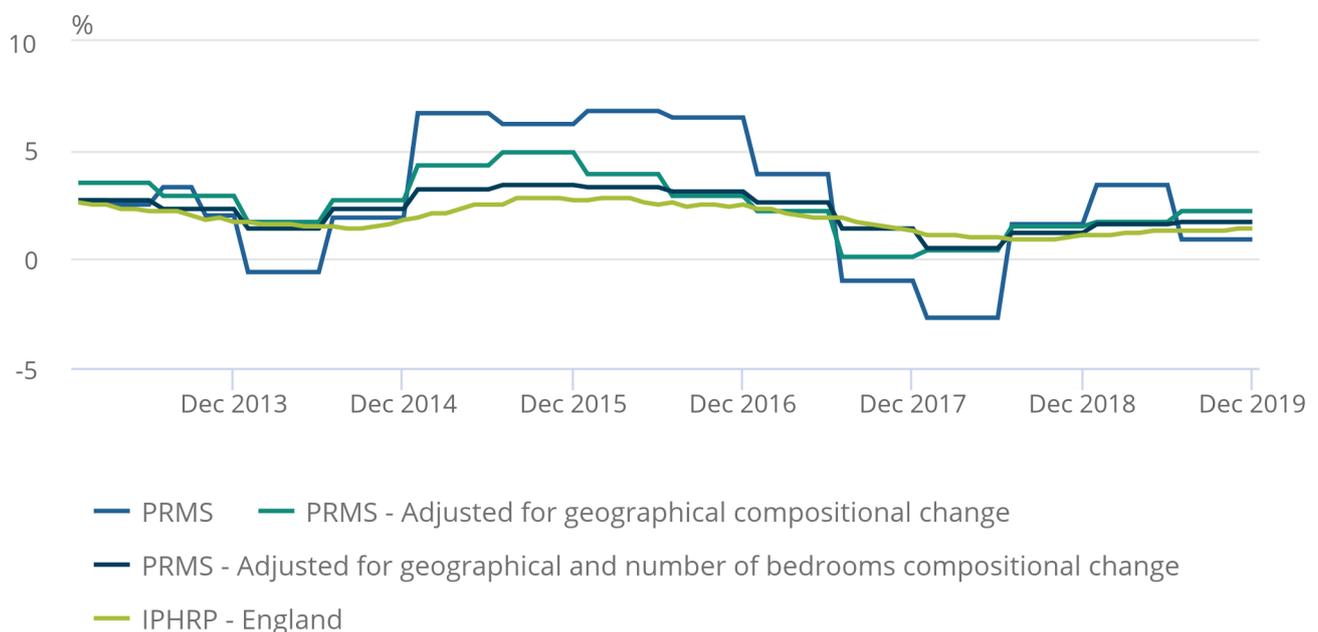
Figure 2 presents the 12-month growth rates for the PRMS series and IPHRP (using the England IPHRP series for comparability). Two additional series are also shown, which adjust for changes in the composition of the PRMS sample over time.

Figure 2: Private Rental Market Summary Statistics and IPHRP follow the same pattern when measured on similar basis

Private rental market statistics adjusted for compositional change against IPHRP, percentage change over 12 months, England, January 2013 to December 2019

Figure 2: Private Rental Market Summary Statistics and IPHRP follow the same pattern when measured on similar basis

Private rental market statistics adjusted for compositional change against IPHRP, percentage change over 12 months, England, January 2013 to December 2019



Source: Private rental market summary statistics (PRMS) and Index of Private Housing Rental Prices

Notes:

1. Analysis of compositional change was conducted at the local authority level using published data from our [Private Rental Market Summary Statistics](#)

There are clearly some major differences between the PRMS series and the IPHRP, but these differences can be explained.

The IPHRP is a "price index", in that it seeks to make pure price comparisons, while the 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 PRMS is 2.8%, compared with an average annual growth rate in the IPHRP of 1.8%. The difference of 1.0 percentage points can be accounted for as follows:

- geographical compositional effects (0.4 percentage points), as shown by the lightest (yellow) line in Figure 2
- compositional changes relating to the number of bedrooms of properties in the PRMS sample (0.2 percentage points), as shown by the darker (blue) line in Figure 2
- coverage differences between PRMS and IPHRP (0.3 percentage points), as shown in the article [Explaining private rental growth](#)

The remainder (around 0.1 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 the PRMS, and that the IPHRP is a fair reflection of the increase in rental prices over time.

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

The Index of Private Housing Rental Prices (IPHRP) 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, the [UK House Price Index](#) will provide an estimate of the average price and how much it has increased, or decreased.

The measurement of costs associated with owning or living in a house -- referred to as [owner occupiers' housing costs](#) (OOH) -- is more difficult, as the [cost of consuming housing services](#) is different to the cost of purchasing an asset, such as a house. The approach the Office for National Statistics (ONS) prefers 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.

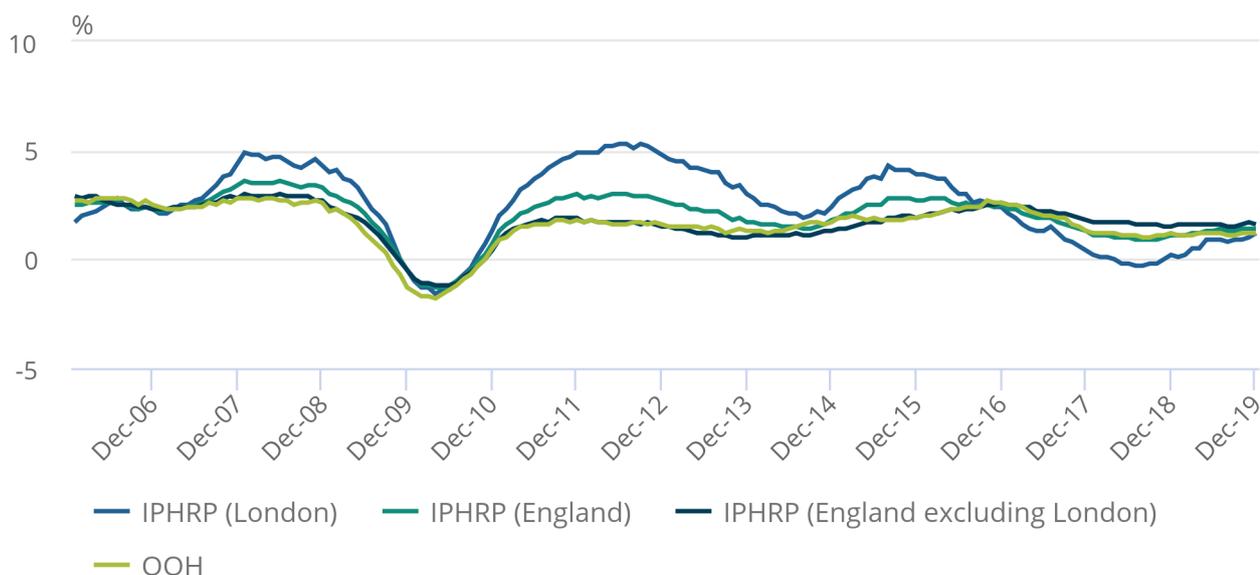
In calculating our OOH measure, we use the same rental data sources that are used in the IPHRP, and so we might expect both series to show the same price development over time. While they are similar (Figure 3), there are good reasons to explain why they differ.

Figure 3: IPHRP and OOH differences explained by different mix of properties

12-month growth rate for IPHRP, England and OOH, UK, January 2006 to December 2019

Figure 3: IPHRP and OOH differences explained by different mix of properties

12-month growth rate for IPHRP, England and OOH, UK, January 2006 to December 2019



Source: Index of Private Housing Rental Prices, Owner Occupiers' Housing costs, 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 the 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 \(XLS, 40KB\)](#), which are the latest publicly available, although a similar trend still holds.

Figure 4: London accounts for higher proportion of the private rented dwelling stock

Dwelling stock proportions, by tenure and region, England, 2011

Figure 4: London accounts for higher proportion of the private rented dwelling stock

Dwelling stock proportions, by tenure and region, England, 2011



Source: Dwelling stock (including vacants) - 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 exists 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.

6 . Looking ahead

On 18 January 2019, we published an article, [UK private-rented sector: 2018](#) that brought together existing UK data sources on the private-rented sector, to assess comparability, coherence and data limitations. In the article, we listed several planned medium- and long-term improvements to statistics on the private-rented sector, which include:

- developments to the Index of Private Housing Rental Prices, including publication of more granular breakdowns for areas of the UK
- consistency between [private rental market summary statistics](#) and the Index of Private Housing Rental Prices (IPHRP), and the development of a methodology to produce comparable measures of rental prices over time

In order to enable these developments, the Office for National Statistics (ONS) required access to Valuation Office Agency's (VOA) private rental market microdata. As of December 2019, we now publish the private rental market summary statistics, which used to be published by the VOA. We also now have access to this microdata which will also enable improved assurance of the data used in the construction of the IPHRP and the owner occupiers' housing component of Consumer Price Index including owner occupiers' housing costs (CPIH).

More information and a timetable for these improvements will be released once we have had an opportunity to analyse the rental microdata further.

If you have any queries or feedback on these developments or this article, please contact hpi@ons.gov.uk.