

Article

Comparing measures of private rental growth in the UK: Oct to Dec 2016

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

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1 . Summary

This release updates the series first presented in the article [Comparing measures of private rental growth in the UK](#). 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.

Countrywide PLC

Countrywide has over 1,300 offices nationwide operating under locally recognised brands. Countrywide regularly publishes a [monthly new lets average rental price](#), which is based on 4,000 to 5,000 properties let in the reference month by letting agencies under the Countrywide umbrella. The data are weighted and stratified by regions and number of bedrooms. The regional weights are derived from the English Housing Survey (EHS) and the number of bedroom weights are calculated using Countrywide data. Countrywide also manages a portfolio of 75,000 properties and publishes an occupied lets and a renewal average rental price based on this portfolio of properties.

HomeLet

HomeLet is a private company that provides tenant referencing and insurance for letting agents, landlords and tenants. Since January 2009, it has published a UK new lets monthly index called the [HomeLet Rental Index](#), which is based on achieved private rental prices collected from its tenant referencing services (around 29,000 per month). In August 2016, HomeLet re-launched this index incorporating a methodology which stratifies by property type and geography, a historic series was also made available.

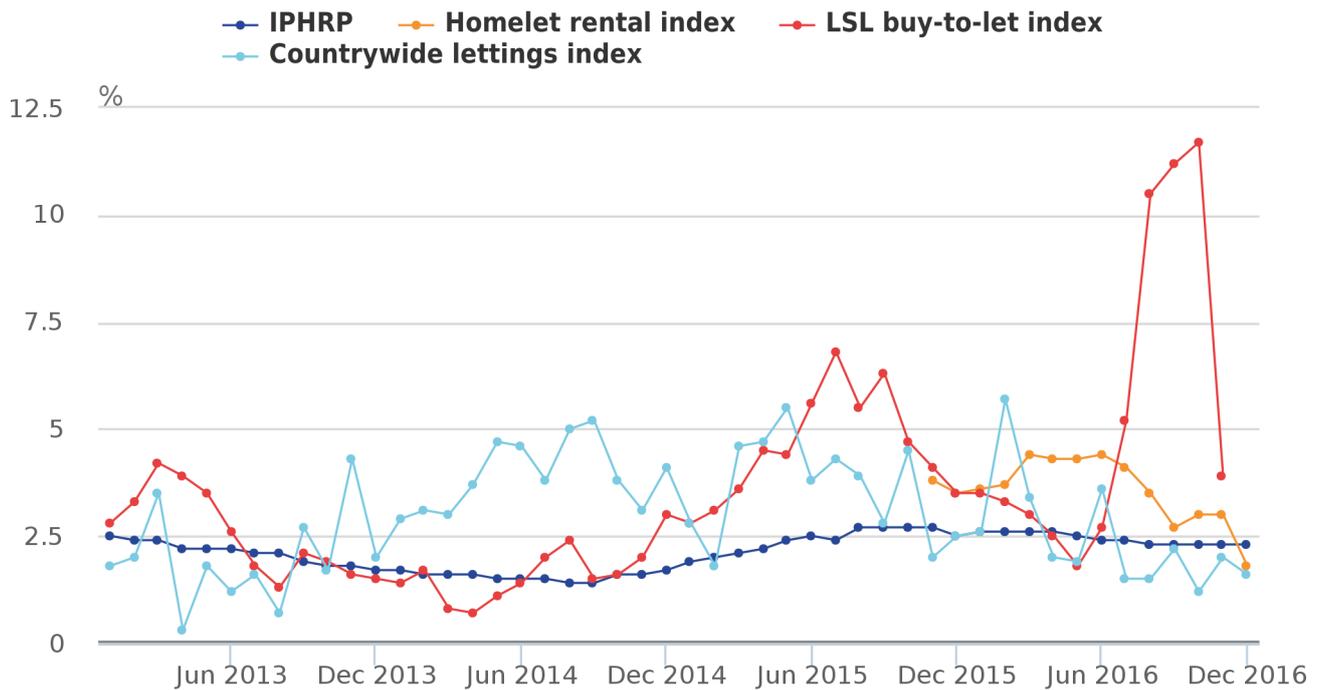
LSL Property Services

LSL Property Services is a provider of residential property services, including residential lettings. Its estate agency arm trades under a number of brands. LSL has commissioned a monthly private housing rental index since January 2011 called the [Buy-to-Let Index](#), which is based on around 7,000 new lets in a month, collected from the mix of rental services that it provides across England and Wales. The sample is stratified and weighted by [government regions](#) and by property type. The weights for regions are derived from the EHS, whereas property type weights are derived from LSL's database of privately rented properties spanning a number of years.

Figure 1 shows how IPHRP compares with these private sector comparators.

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

UK, 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.

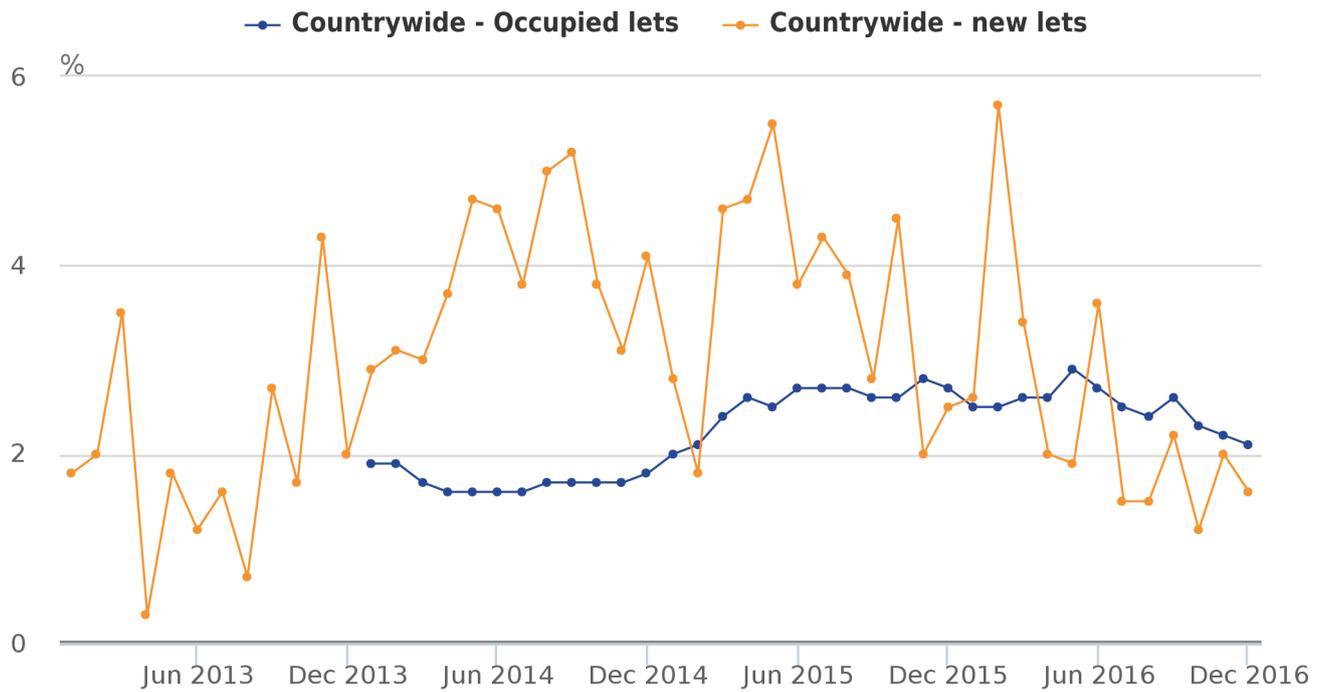
The higher level of private sector measures and their volatility can be primarily explained by what the different data are showing. Almost all of the private sector measures primarily focus on newly let properties. There is evidence that [the greatest price rises occur when properties are newly let](#), 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 December 2016

UK, 12-month percentage change

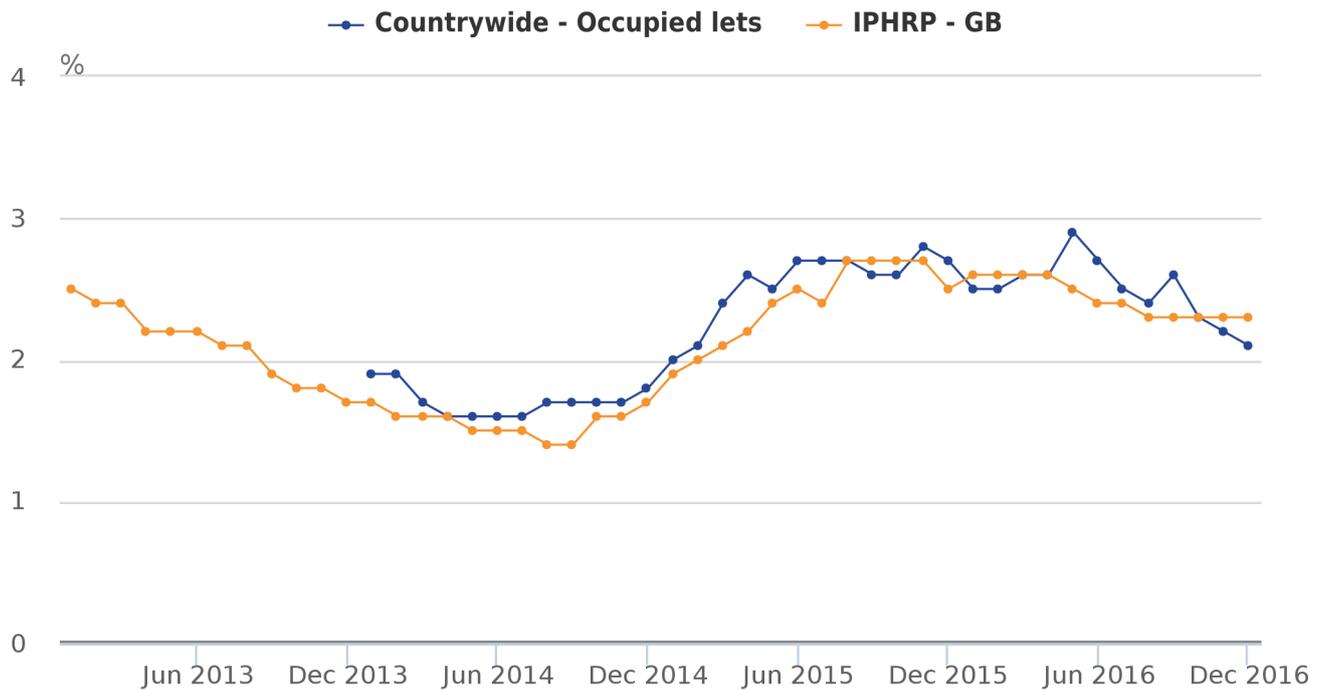


Source: Countrywide PLC

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 December 2016

UK, 12-month percentage change



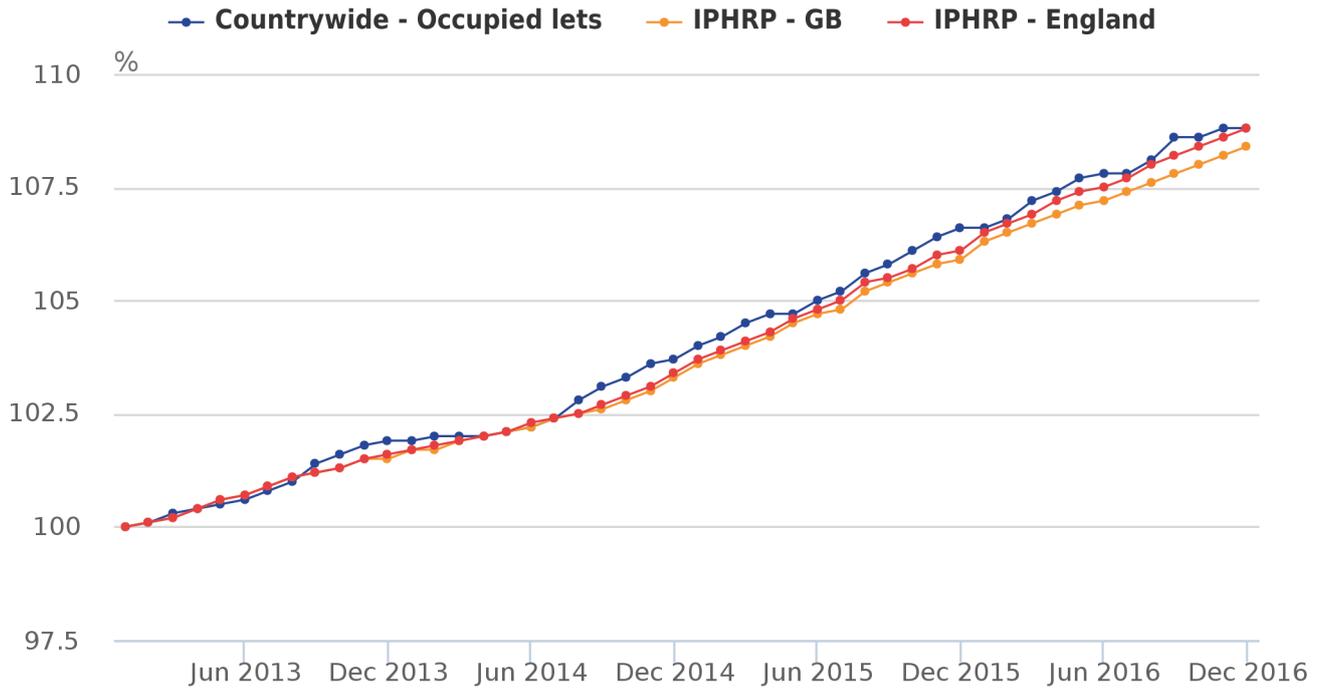
Source: Countrywide PLC and IPHRP

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

Although the IPHRP and Countrywide's occupied lets series cannot be compared in monetary terms due to data restrictions, both can be expressed as an index. Figure 4 compares the IPHRP with the Countrywide occupied lets series with both series expressed as an index referenced to January 2013 equals 100.

Figure 4: IPHRP and Countrywide occupied lets indices, January 2013 to December 2016

UK, Index values (January 2013=100)



Source: Countrywide PLC and IPHRP

The series seem to move relatively consistently with minimal drift between the series over time. The next update to this release is scheduled for 11 April 2017, which will focus on comparisons below the national level.