

Article

Private rental growth measures, a UK comparison: January to December 2020

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

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1 . Main points

- The [Index of Private Housing Rental Prices \(IPHRP\)](#), as a measure of the stock of private rents, is a more stable index compared with the newly let private measures.
- London rental price growth has slowed since the start of the coronavirus (COVID-19) pandemic.
- The high proportion of private rented stock compared with owner-occupied housing stock in London drives the difference between owner occupiers' housing costs (OOH) and IPHRP measures.

2 . Overview

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 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 (IPHRP, OOH and the Private rental market summary statistics (PRMS)) 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.

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 provides confidence that the Index of Private Housing Rental Prices (IPHRP) is a high-quality and robust measure that is fit for purpose in measuring UK consumer price statistics.

Furthermore, the coronavirus (COVID-19) pandemic has impacted the private rental market in 2020. IPHRP and private measures have reported a slowdown of private rental price growth in 2020, especially within London.

3 . Comparing ONS rents data and private sector data

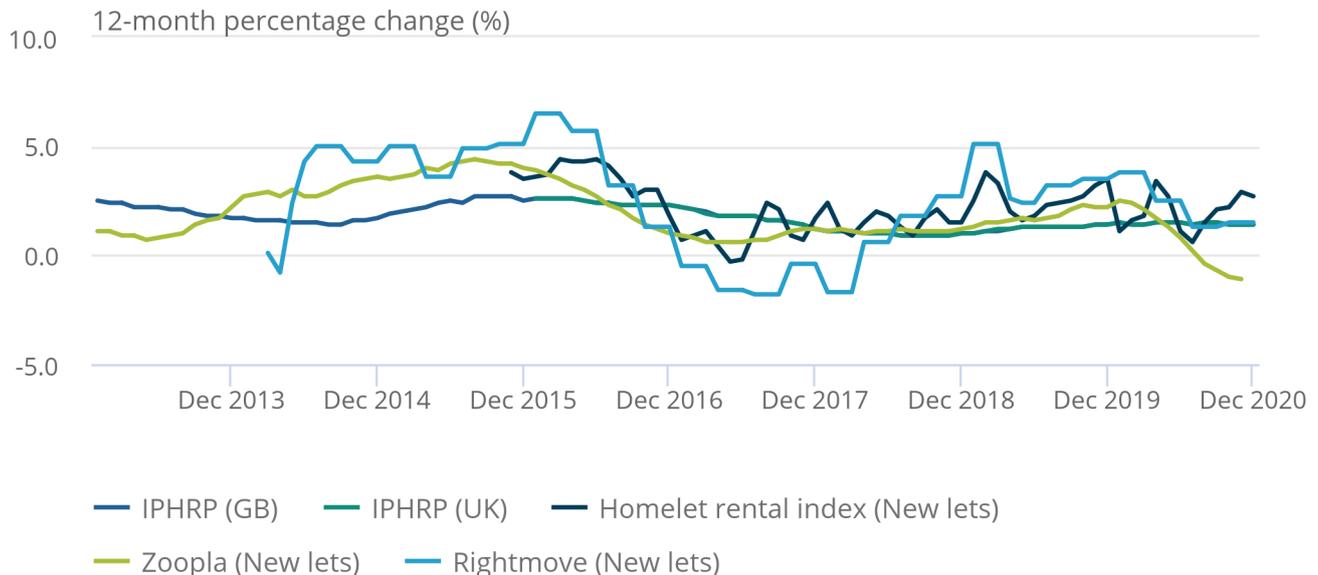
Many private sector organisations, including estate agents and property companies, produce estimates of changes in rental prices and have a rich source of rental data. These include [HomeLet](#), [Rightmove](#) and [Zoopla](#). These sources provide an extensive range of rental data, but a closer look 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 2020, UK

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 2020, UK



Source: Zoopla, Homelet, Rightmove and Office for National Statistics – Index of Private Housing Rental Prices

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, more detail on this can be found in our recent blog on [measuring the UK housing market](#). 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.

According to the [English Private Landlord Survey 2018](#) (PDF, 1.45MB) and [GoodLord's Rental Index August 2020 report](#) (PDF, 306KB), the average rental contract length is around 10 months. During this contract period a tenant's rent is fixed and remains 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. Accounting for all three groups results in a smoother series for IPHRP than for other measures that simply focus on new lets, where there is more volatility between each month.

In addition, since price changes led by new lets do not impact tenants within their existing contract until the contract term has come to an end, it takes time for changes in the new lets rental market to influence the overall stock monitored by IPHRP. Therefore, it tends to take time for rental impacts observed in the new let private measures to impact the overall stock and be shown in IPHRP's measure.

4 . Comparison of Index of Private Housing Rental Prices with 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.

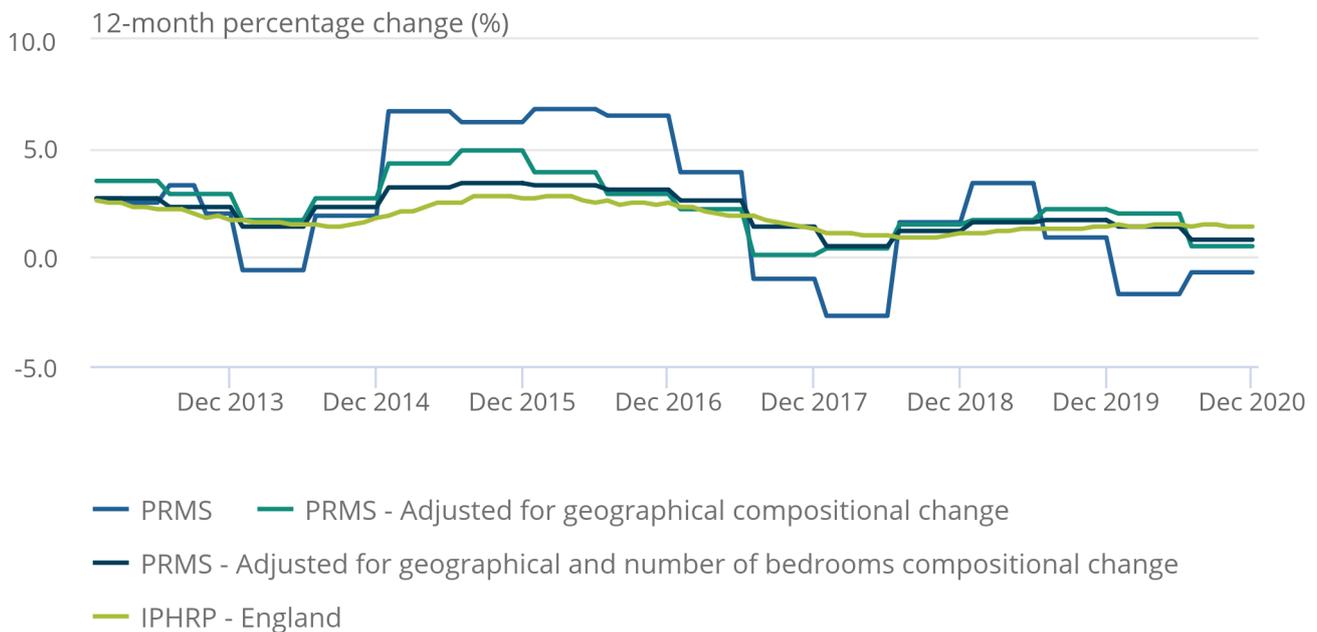
Figure 2 presents the 12-month growth rates for the PRMS series and IPHRP (using the England IPHRP series for comparability). Two additional series are also shown, which adjust for changes in the composition of the PRMS sample over time.

Figure 2: Private rental market summary statistics and IPHRP follow the same pattern after accounting for differences in measurement

Private rental market statistics adjusted for compositional change against IPHRP, percentage change over 12 months, January 2013 to December 2020, UK

Figure 2: Private rental market summary statistics and IPHRP follow the same pattern after accounting for differences in measurement

Private rental market statistics adjusted for compositional change against IPHRP, percentage change over 12 months, January 2013 to December 2020, UK



Source: Valuation Office Agency – Lettings Information Database, Office for National Statistics – Index of Private Housing Rental Prices and Private rental market summary statistics (PRMS)

There are clearly some major differences between the PRMS series and the IPHRP. This raises the question, "How can we have confidence in the IPHRP if it diverges so much from the PRMS series?" 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 and are not directly comparable over time.

Over the period presented, the average annual growth rate of the PRMS is 2.3% compared with an average annual growth rate in the IPHRP of 1.8%. The difference of 0.52 percentage points can be accounted for as follows:

- geographical compositional effects (0.05 percentage points), as shown by the lightest (green) line in Figure 2
- compositional changes relating to the number of bedrooms of properties in the PRMS sample (0.21 percentage points), as shown by the darker (blue) line in Figure 2
- coverage differences between PRMS and IPHRP (0.25 percentage points)

The remainder (around 0.01 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)
- 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.

5 . Comparison of Index of Private Housing Rental Prices with 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.

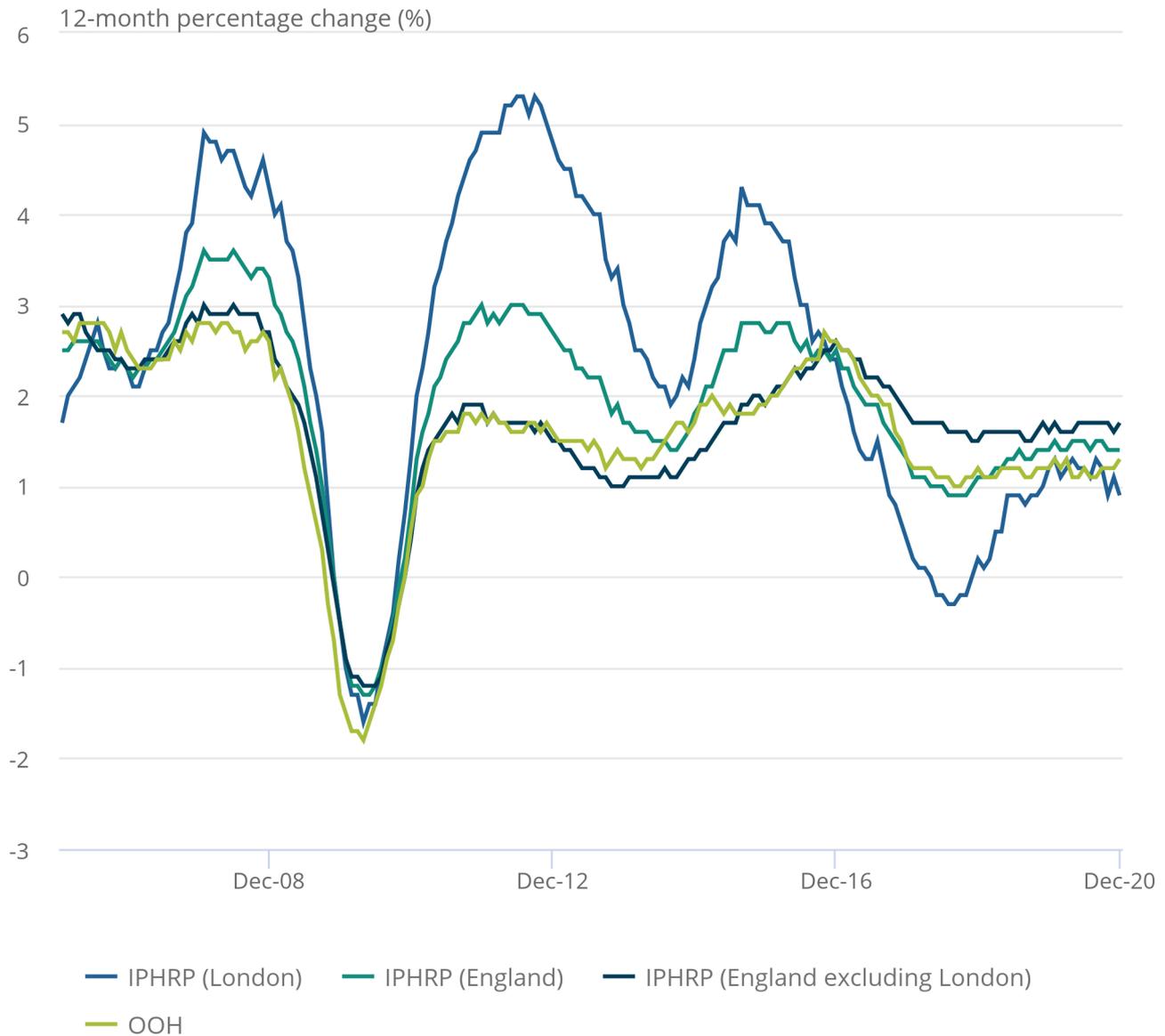
The measurement of costs associated with owning or living in a house - referred to as [owner occupiers' housing costs](#) (OOH) - is more difficult, as the [cost of consuming housing services](#) is different to the cost of purchasing an asset, such as a house. The approach the Office for National Statistics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

IPHRP compared with OOH, percentage change over 12 months, January 2006 to December 2020, UK

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

IPHRP compared with OOH, percentage change over 12 months, January 2006 to December 2020, UK



Source: Office for National Statistics – Index of Private Housing Rental Prices and Owner Occupiers' Housing costs

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 2019, which are the latest [publicly available](#) (Table 109).

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

Dwelling stock proportions, by tenure and region, England, 2019

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

Dwelling stock proportions, by tenure and region, England, 2019



Source: Ministry of Housing, Communities and Local Government – Dwelling stock (including vacants)

6 . The coronavirus pandemic impact on the private rental market

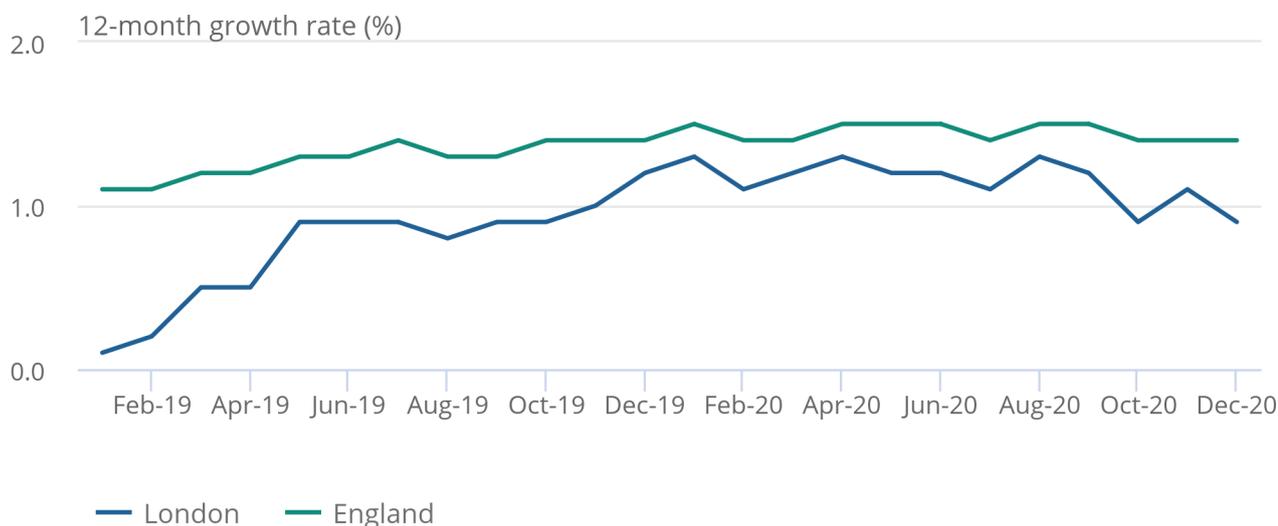
It is worth remembering that the Index of Private Housing Rental Prices (IPHRP) measures the stock of rents, so any impact of the coronavirus (COVID-19) pandemic on private rental prices may still take a few months to be fully reflected. However, we are beginning to see the impact of the coronavirus pandemic on private rental prices in the IPHRP.

Figure 5: London rental price growth slowed from March 2020, while England's growth remained steady

Index of Private Housing Rental Prices: London and England, percentage change over 12 months, January 2019 to December 2020, UK

Figure 5: London rental price growth slowed from March 2020, while England's growth remained steady

Index of Private Housing Rental Prices: London and England, percentage change over 12 months, January 2019 to December 2020, UK



Source: Office for National Statistics – Index of Private Housing Rental Prices

Private rental prices' annual percentage growth slowed in London during 2020, as shown in Figure 5; slowing from 1.2% in the 12 months to March 2020 to 0.9% in the 12 months to December 2020. However, IPHRP reported that the annual percentage change in private rental prices in England remained stable; between 1.4% and 1.5% growth. IPHRP shows that although the coronavirus pandemic slowed private rental price growth in London, private rental price growth increased in other parts of the UK, particularly in most northern regions.

The [Royal Institution of Chartered Surveyors' \(RICS'\) March 2020 Residential Market Survey](#) reported that tenant demand was more or less stable in the three months to March 2020 for the UK. However, RICS reported that tenant demand declined sharply in April 2020. RICS reported in September 2020 that although tenant demand rose for the fourth month in succession, London stood out as the only area with a negative trend in tenant demand in September.

In addition, Zoopla and Rightmove have reported a reduction in UK private rents annual percentage growth since March 2020. Figure 1 shows Zoopla reported a reduction in annual growth from 2.1% in March 2020 to negative 1.1% in November 2020, indicating that private rental prices in the UK were lower in November 2020 than in November 2019. Rightmove also reported a reduction in annual growth from 3.8% in Quarter 1 (Jan to Mar) 2020 to 1.5% in Quarter 4 (Oct to Dec) 2020. The decrease in rental price growth reported by Zoopla and Rightmove were both driven by rental prices in London.

7 . Glossary

Index of Private Housing Rental Prices (IPHRP)

The Index of Private Housing Rental Prices (IPHRP) measures the change in the price tenants face when renting residential property from private landlords.

Administrative data

Administrative data are data that people have already provided to the government through day-to-day activities, for example, health records, social security payments or educational attainment information.

Owner occupiers' housing costs -- rental equivalence approach

Assumes a dwelling is a capital good and therefore not consumed, but instead provides a flow of services that are consumed each period. Rental equivalence imputes owner occupiers' housing costs from the rents paid for equivalent rented properties. Measures the ongoing consumption of owner occupiers' housing services.

Local authorities

Shires, metropolitan districts, the Council of the Isles of Scilly, unitary authorities, London boroughs and the City of London are local authorities.

8 . Data sources and quality

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 with 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 records 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. 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 and as such is sensitive to current market fluctuations, whereas IPHRP's measure is stabilised by slower-changing existing let prices.

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 that stratifies by property type and geography and a historical series was also made available.

9 . Future developments

Following the [Digital Economy Act 2017](#), the Office for National Statistics (ONS) gained access to the VOA private rental microdata. Consequently, the ONS aims to re-develop the Index of Private Housing Rental Prices (IPHRP) and private rental market statistics (PRMS) to produce mix-adjusted average rental prices that are comparable over time and geography down to lower geographic levels, to better meet user needs.

More information and a timetable for these developments is available in the [Private rental prices development plan: updated January 2021](#). If you have any queries or feedback on these developments, please email hpi@ons.gov.uk.

10 . Related links

[Index of Private Housing Rental Prices: December 2020](#)

Bulletin | Released 20 January 2021

An experimental price index tracking the prices paid for renting property from private landlords in the UK.

[Consumer price inflation, UK: December 2020](#)

Bulletin | Released 20 January 2021

Price indices, percentage changes and weights for the different measures of consumer price inflation.

[Private rental market summary statistics in England: October 2019 to September 2020](#)

Bulletin | Released 11 December 2020

Summary of monthly private rent statistics by region, local authority and bedroom category for England.

[Private rental prices development plan: updated January 2021](#)

Article | Released 19 January 2021

The priorities, aims and methodology under development for private rental prices statistics, including a broad timeline of the planned work.

[Measures of owner occupiers' housing costs, UK: January to March 2020](#)

Bulletin | Released 17 June 2020

The different approaches of measuring owner occupiers' housing costs associated with owning, maintaining and living in one's own home.