

ADVISORY PANEL ON CONSUMER PRICES – TECHNICAL

Implementation of private rental price controls in the UK

Expected publication: Alongside minutes.

Purpose

1. This paper outlines the emerging risk that rental controls implemented in Scotland (with Wales currently consulting on implementation of rental controls) reduce the appropriateness of measuring owner-occupiers' housing costs using the rental equivalence approach (for measuring consumer price inflation statistics).
2. This paper describes the implementation of rental controls in Scotland, sustained rising private rental price annual inflation for Scotland (reported in ONS' Index of Private Housing Rental Prices (IPHRP)), and Scottish Government's consequent concerns that IPHRP may be over-estimating private rental price annual inflation in Scotland.
3. This paper summarises the evidence gathered, analysis conducted, and challenges arising from data collection limitations relating to Scottish Government's concerns.

Actions

4. Members of the Panel are invited to comment on the introduction of rent controls in the UK:
 - a. Is the introduction of rent controls in parts of the UK a significant enough change to warrant re-evaluating the suitability of rental equivalence for measuring OOH costs?
 - b. If so, what further analysis would be required for a re-evaluation?
5. Noting that a change in IPHRP methodology would affect headline UK consumer price inflation statistics, members of the Panel are invited to comment on Scottish Government's recent concern that IPHRP may be over-estimating Scotland's private rental price inflation.
 - a. Does the evidence presented in this paper show that comparability of the Scotland series to other UK nations has significantly degraded?
 - b. If so, what are the Panel's views on the importance of addressing this concern and the appropriate approach to do so?

Background

6. The Office for National Statistics (ONS) publishes a monthly index of private rental prices and annual percentage change for the UK, its countries and English regions. This experimental statistic is the UK Index of Private Housing Rental Prices (IPHRP).
7. ONS is currently redeveloping its private rental prices statistics (previously presented in APCP-T(21)13), making better use of existing data sources, improving methods and developing new systems. The published [intended methodology](#) of the transformed private rental prices statistics system outlines the methods intending to be used by the new system.

8. IPHRP outputs are used to inform the owner occupiers' housing (OOH) costs element of the Consumer Prices Index including OOH (CPIH), the ONS's lead measure of consumer prices inflation, as well as the "actual rentals for housing" aspect of Consumer Prices Index (CPI) and CPIH, and "rent" in the Retail Prices Index (RPI). It is anticipated that outputs from the rents transformation project will eventually be used to measure these in future.
9. ONS uses the rental equivalence approach to measure OOH cost inflation for UK consumer prices statistics. The rental equivalence approach relies on the private rental market being a free market. It is possible that the rental equivalence approach to measuring OOH could introduce a downward bias on the index if rent controls are introduced that set rental price rises at a level below the market rate.

Section 1: Rental controls

Section 1.1: Impact on measuring OOH

10. The CPIH Compendium states that "should the government introduce rental controls, rental equivalence may no longer be an appropriate measure for OOH costs, although it is thought that this is unlikely to happen".
11. However, in response to the cost of living crisis, rental controls have been implemented in Scotland since late 2022. The [Cost of Living \(Tenant Protection\) Scotland Act 2022](#) introduced a temporary, variable rent cap to in-tenancy rent increases in Scotland to protect tenants by stabilising their housing costs.¹ This cap was initially set at 0% for rent-increase notices served from 6 September 2022 until 31 March 2023. Private landlords could alternatively apply for a rent increase of up to 3% to help cover certain increases in costs in defined and limited circumstances. The Act has since been extended to 30 September 2023, with an in-tenancy rent-increase cap of 3% from 1 April 2023. Private landlords can apply for a rent increase of up to 6% to help cover certain increases in costs in defined and limited circumstances. The Scottish Government has set out its reasons to the Scottish Parliament to extend the rent cap for a final six-month period to 31 March 2024.² The Scottish Government is also committed to implementing longer term rent controls as set out in the 'New Deal for Tenants' Draft Strategy Consultation document published on 20 December 2021.³
12. On 6 June 2023, the Welsh Government launched a consultation on "[Securing a path towards adequate housing including fair rents and affordability](#)", which includes consulting on implementation of rent controls in Wales.
13. Scotland currently contributes around 7% to the UK total for owner-occupiers' housing costs, while Wales contributes around 3.5%.
14. The decision to use a rental equivalence method for measuring OOH costs dates back to 2012, when following a public consultation, the National Statistician recommended this as the most appropriate approach for the UK. There is still no international consensus on the most suitable methodology for measuring OOH costs. Where OOH is included in a national

¹ [Cost of Living \(Tenant Protection\) \(Scotland\) Act 2022 - 2nd proposed extension: statement of reasons - gov.scot \(www.gov.scot\)](#)

² [Cost of Living \(Tenant Protection\) \(Scotland\) Act 2022 - 2nd proposed extension: statement of reasons - gov.scot \(www.gov.scot\)](#)

³ [A New Deal for Tenants - draft strategy: consultation - gov.scot \(www.gov.scot\)](#)

measure, [the majority of countries](#) are using a rental equivalence approach. Some are also using a net acquisitions approach (which is to measure the spending on net purchases of the consumer element of housing and accompanying costs), and Eurostat have been exploring this method for inclusion in its harmonised index of consumer prices – although to date they have been unable to implement it into the main measure.

15. The justification for using rental equivalence in the UK is comprehensively detailed in section [S1 of the CPIH compendium](#). This decision to use rental equivalence was made by considering each of the main methods to measure OOH in terms of theoretical appropriateness and the practicality of measurement in practice, aligning these decisions to quality dimensions set out by the Government Statistical Service. In summary, rental equivalence was the preferred approach because it excludes asset prices, the underlying data to calculate the index are of good quality to allow the measure to be reliably estimated and the rental equivalence approach is consistent with National Accounts methods and widely used internationally.

Section 1.2: Stock vs flow

16. The measurement of private rental prices can be considered from two perspectives,⁴ the flow of rents (newly let properties that reflect the market in the current month) or the stock of rents (reflecting the average price of renting and covering existing tenants who are tied into long-term contracts and the flow). There is no consensus on which measurement approach is conceptually the best for OOH, although at the time of development in the UK the use of a stock approach was consistent with wider best practice. Moreover, ONS is not currently able to distinguish between existing rents and new lets data in existing datastreams. Privately produced measures of private rents, such as by Zoopla are based on advertised rental prices.
17. The 2015 [review of UK Consumer Price Statistics](#) by Paul Johnson noted that international research at the time was looking into the different approaches to measuring rental prices for OOH, looking specifically at the flow and an opportunity cost approach. Both of these approaches require agreed rent price data for newly let tenancies in the month the let started, which is not currently available. In this respect the ONS still feels that the current approach to measuring OOH, using a stock-based rental equivalence method, is appropriate.

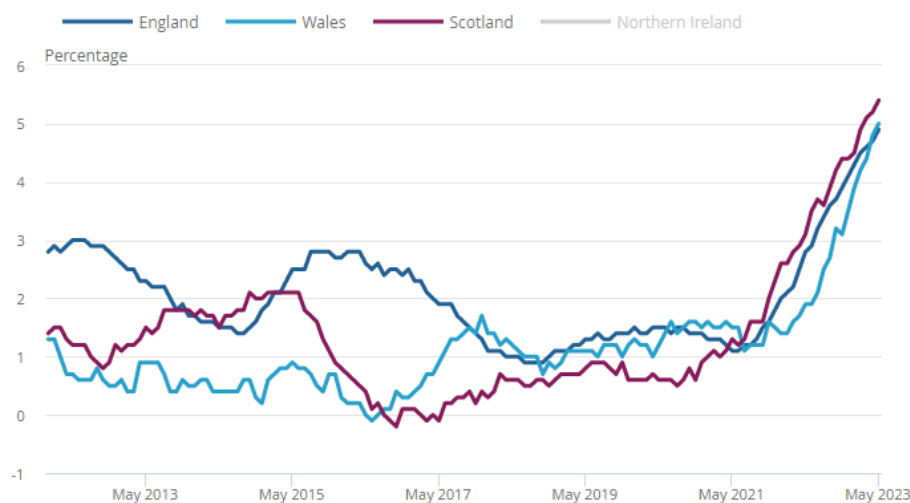
Section 2: Scottish Government's concerns

Section 2.1: Source of concern

18. ONS' IPHRP reported that Scotland private rental price annual inflation started to increase from the end of 2020, doubling between October 2020 (0.8%) and October 2021 (1.6%). By October 2022, Scotland's annual inflation was 4.2% in the 12 months to October 2022, having risen at a faster pace than during the previous 12 months and higher than the annual inflation reported for England or Wales.

⁴ <https://blog.ons.gov.uk/2022/05/18/measuring-rents-stock-vs-flow/>

**Index of Private Housing Rental Prices percentage change over 12 months
for countries of the UK, January 2012 to May 2023**



Source: [IPHRP, ONS](#)

19. Despite Scotland introducing in-tenancy rent-increase caps through the [Cost of Living \(Tenant Protection\) Scotland Act 2022](#) passed in October 2022, IPHRP has continued to report rising annual inflation for Scotland (reaching a record high of 5.4% in the 12 months to May 2023) and has remained slightly above the annual inflation rates for England and Wales.
20. Consequently, Scottish Government have queried why IPHRP is still showing rising annual inflation for Scotland, at a higher rate than in England and Wales despite rent controls implemented in Scotland since October 2022, and have expressed concern that IPHRP may be over-estimating Scotland rental price inflation.
21. Scottish Government have requested ONS consider whether the current IPHRP methodology (Appendix A) remains the most appropriate method for measuring private rental price inflation in Scotland.

Section 2.2: Why IPHRP has reported rising annual inflation for Scotland

22. ONS believes that the main driving factor behind Scotland's rising annual rental price inflation is due to data collection limitations:
 - a. The Cost of Living (Tenant Protection) Scotland Act 2022, set a rent-increase cap for existing tenancies, but there is no restriction in place for raising rental prices between new tenancies (i.e. for new lets).
 - b. The majority (87%)⁵ of rents price data collected by Scottish Government is new lets data (i.e. advertised rental price data for when a new tenancy is advertised), which are not subject to any rent-increase cap.
 - c. Since the Act does not place restrictions on new lets rent-increases in Scotland, and Scotland data collection is predominantly new lets data, IPHRP will reflect price changes driven by new lets to a greater extent than it would if a greater proportion of Scotland's

⁵ [Private Sector Rent Statistics, Scotland, 2010 to 2022 - gov.scot \(www.gov.scot\)](#)

data collection was existing lets data (like in England and Wales), thus better reflecting the pattern of tenancy turnover in Scotland.

- d. Since new lets price inflation tends to be higher than existing lets price inflation, this will tend to provide an upwards pressure on IPHRP's annual inflation estimates for Scotland that is difficult to quantify precisely and adjust for beyond the measures already in place within IPHRP's existing methodology.
23. ONS and Scottish Government (SG) have engaged regarding SG's concerns that IPHRP may be overestimating Scotland's annual rent price inflation.⁶
 24. ONS commented that they believed the most statistically robust approach to address Scottish Government's concerns would be to increase Scotland's data collection of existing lets data and the implementation of procedures to actively seek to recollect data for previously-collected properties (as done in England).
 25. Scottish Government confirmed that there are no immediate plans to change Scotland's data collection, although proposals to collect more comprehensive data to inform future rent controls were set out in the New Deal for Tenants Draft Strategy Consultation document.⁷ Scottish Government alternatively requested that ONS consider if current IPHRP methodology remains the most appropriate method for Scotland.
 26. Specifically, Scottish Government have questioned the continued validity of "time rent price remains unchanged" model assumption period (referred to as the validity period⁸) of 14 months for Scotland.
 - a. In December 2017, new legislation made all new tenancies open-ended in Scotland, rather than consisting of a fixed term initial period.
 - b. Scottish Government believes that following this change, tenants tend to remain renting a particular property for longer (based on "time at address" data in Appendix B).
 - c. Scottish Government believes that many landlords do not increase rent prices in-tenancy for multiple years (based on Nationwide's RentBetter research and English Private Landlord Survey 2021 data in Appendix C).
 27. Consequently, Scottish Government believe that the 14-month validity period should be reviewed for Scotland and that increasing the validity period beyond 14 months would better reflect the time appropriate to assume rent price remains unchanged and account for changes in tenancy turnover, and believe this would lead to a reduction in IPHRP's reported annual inflation for Scotland. However, it has proven difficult to obtain a precise measure of the average time rent price remains unchanged to verify that 14-months is no longer appropriate.
 28. Scottish Government also question whether it is appropriate to use a single value for the validity period because this does not reflect the distribution of tenancy turnover and associated rental increases in the Scottish private rental sector, which can change over time. ONS notes that this is

⁶ Following this engagement, narrative has been included in the IPHRP bulletin: [Index of Private Housing Rental Prices, UK - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/indices/articles/2023/04/2023-04-13-iphrp-bulletin)

⁷ [A New Deal for Tenants - draft strategy: consultation - gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/new-deal-for-tenants-draft-strategy-consultation/pages/10.aspx)

⁸ The validity period is an assumption used in the calculation of IPHRP. When a rental price is collected, it is assumed to remain the same for 14 months (the validity period). If an updated price is not received within this period then the property is replaced in the sample

difficult to measure precisely and difficult to implement in either the existing IPHRP methodology or the new private rental price system being developed.

29. In the meantime, ONS and Scottish Government have agreed wording for the IPHRP bulletin that reflects Scottish Government's concern that the 14-month validity period may be too short: "if the average time between rental price changes is above the assumed 14 months, then IPHRP methodology will present higher estimates of rising rental costs in the overall market in Scotland". The following wording was also added to reflect the limitations of the Scottish data used in the IPHRP index: "There are also compositional differences between the Scotland rental data and Scotland's rental sector".⁹

Section 2.3: Summary of evidence

Section 2.3.1: Time at address and rent-increase behaviour (Appendix B)

30. In Scotland, a landlord or letting agent cannot increase the rental price of a privately-rented property in-tenancy more than once a year. Consequently, 12 months can be considered as the lower limit for an appropriate validity period assumption.
31. Scottish Housing Survey (SHS) 2021 data indicates that the average time at address has generally increased over time in Scotland. While 59% of adults in privately-rented households in Scotland spend 2 years or less at the same address (64% using a 3-year rolling average), a substantial proportion remain "at address" for longer than 2 years, with a noticeable increase over recent years in those spending 3 to 4 years and 5 to 10 years "at address". Appendix B contains the full discussion.
32. Scottish Government believes this SHS data indicates that the use of an average median 14-month rental price validity period should be reviewed.
33. However:
- a. The median time at address remains within the category "1 to 2 years", with the majority of households remaining at address for 2 years or less.
 - b. "Time at current address" is not equivalent to "time rent price remains unchanged" required by the model. Rent price could change multiple times while a tenant remains at the same address (although there is some evidence that suggests 36% of landlords and 17% of letting agents increase rents only when the tenant changes, and that only 13% of landlords in Scotland increase rents once a year, compared with 34% of letting agents).¹⁰
34. ONS believes this evidence indicates that the "true" value of the average validity period for Scotland lies between 12 months and 24 months, but that it is difficult to be more precise. The current 14-month validity assumption lies within this range (albeit at the lower end of that range).

Section 2.3.2: Rent-increase behaviour (Appendix C)

⁹ [Index of Private Housing Rental Prices, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

¹⁰ [Microsoft Word - Landlord and Letting Agent survey report Wave 1 published.docx \(indigohousegroup.com\)](#)

35. Scottish Government has presented evidence from Nationwide’s RentBetter research project and the English Private Landlord Survey (EPLS) 2021, which they believe supports increasing the validity period beyond 14 months.
36. In Nationwide’s RentBetter 2019 research in Scotland (survey based on 447 landlords and 92 letting agents), around 17% of 526 respondents reported that they never increase rents and around 32% only do so at a change of tenancy. Additionally, Nationwide’s RentBetter research reported that only around 16% of respondents increased rents once a year.¹¹
37. However, 83% of the 539 participants were landlords, 40% of whom let out a single property. Therefore the combined (landlord and letting agent) estimates may over-weight small landlords and not be representative of the Scotland PRS.¹²
38. Nationwide’s RentBetter research also showed that 59% of the 65 tenants surveyed reported their rent price had remained the same since they had moved in.^{13,14} However, this sample size was very small (65 participants) and the sample population was not representative of the Scotland PRS.
39. Due to these limitations, ONS advises caution when interpreting findings from this source for consideration of model assumptions aiming to reflect the entire Scotland PRS population. Appendix C contains the full discussion.
40. EPLS 2021 reported, similarly, that 63.9% of landlords kept rent price the same in the most recent renewal or extension in England.¹⁵ However,
 - a. England PRS behaviour (fixed term contracts) does not necessarily reflect Scotland PRS behaviour (open-ended tenancies).
 - b. The validity period aims to reflect the length of time it is appropriate to assume rent price remains valid (i.e. has remained unchanged). It would therefore not be appropriate to carry the rent price forward unchanged beyond the point it is considered likely that a rent review or renewal has taken place or a fixed term contract period has expired.

Section 2.3.3: Average rental price percentage increase (Appendix D)

41. Appendix D presents preliminary results from unpublished (and ongoing) investigations of Scotland rental price data¹⁶ (based predominantly on newly-advertised rents). This analysis indicated that for properties that experienced a price increase (where price updates have been received within 14 months), the average price percentage increase has continued to increase since the Act was implemented.

¹¹ [Microsoft Word - Landlord and Letting Agent survey report Wave 1 published.docx \(indigohousegroup.com\)](#)

¹² [Microsoft Word - Landlord and Letting Agent survey report Wave 1 published.docx \(indigohousegroup.com\)](#)

¹³ [Wave-2-Executive-Summary-AE100522.pdf \(nationwidefoundation.org.uk\)](#)

¹⁴ [Wave-2-Tenant-qualitative-AE030522-for-publication.pdf \(indigohousegroup.com\)](#)

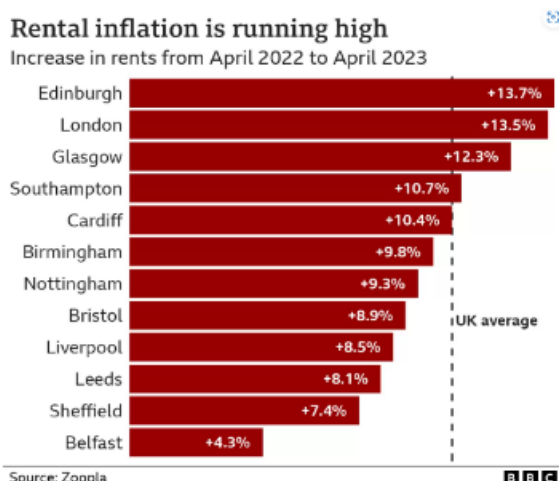
¹⁵ [English Private Landlord Survey 2021: main report - GOV.UK \(www.gov.uk\)](#)

¹⁶ Scotland analysis based on method used for England analysis published in March 2023: [Changes in private rental sector behaviour, England - Office for National Statistics \(ons.gov.uk\)](#)

42. Since rental price increases tend to be driven by new let price increases (and 87% of Scotland data is for new lets), this indicates that the average magnitude of price increases for new lets has continued to increase since October 2022.
43. This will be putting upwards pressure on the annual inflation rate for Scotland and, since IPHRP's methodology aims to estimate a stock measure which lags behind the 'flow', IPHRP's annual inflation for Scotland would be expected to have continued to rise while new lets inflation continues to feed into the stock.

Section 2.3.4: IPHRP is dampening inflation relative to private sector measures of new let inflation

44. Private sector measures of new let inflation¹⁷ report that annual inflation for Scotland is above the UK average. It should be noted that data coverage is not fully understood and may be disproportionately representative of urban areas.
- Homelet: Annual inflation of 13.4% in May-23 for Scotland compared with 10.0% for UK.
 - Zoopla: Annual inflation of 13.1% in Apr-23 for Scotland compared with 10.4% for UK.
 - Zoopla reported that Edinburgh had the highest new lets annual inflation in the UK (13.7%), with the increase in Glasgow (12.3%), also higher than the UK average.

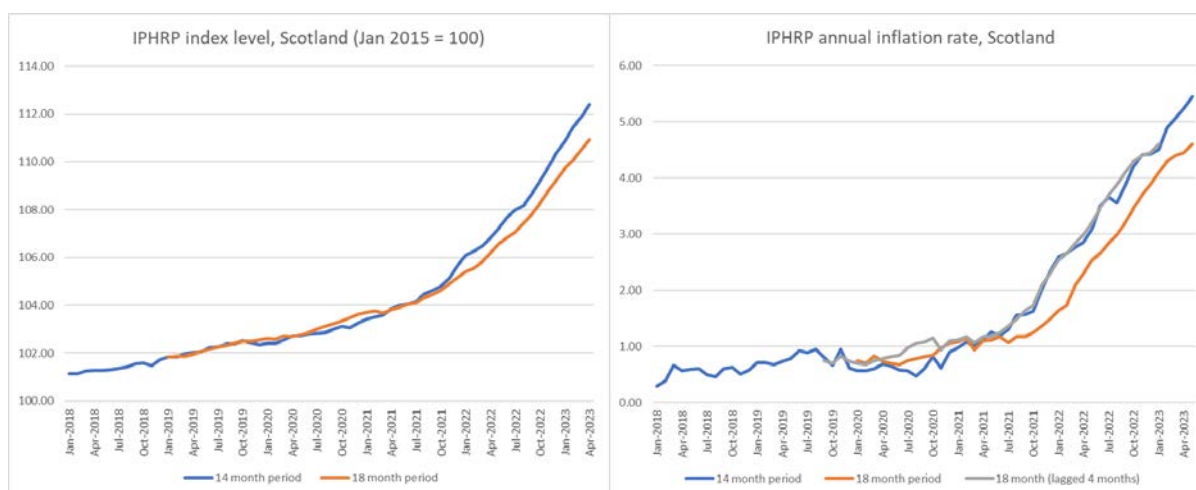


- IPHRP has also reported London's annual inflation has been rising rapidly since early 2022, indicating that IPHRP is reflecting general trends reported by private sector measures of new lets inflation (on a lag due to time taken for new let inflation to feed into the stock).
45. These private sector measures of new let annual inflation are more than double IPHRP's (stock) annual inflation for the same period (IPHRP annual inflation: 5.0% in May-23; 4.8% in Apr-23). This shows that despite Scotland data collection limitations, IPHRP's existing methodology is working well to "dampen down" new let inflation to estimate a stock figure for Scotland.

Section 2.3.5: Impact on Scotland inflation from extending the validity period

¹⁷ Note these are based on advertised prices

46. Setting the assumption of the validity period to 18 months was used in IPHRP’s early lifetime. The outputs were criticised as being too unresponsive to sudden substantial changes in the private rental sector, so the assumption was reviewed and reduced to the current 14 months. “Shortening the validity period from 18 months to 14 months... has made the index more responsive to turning points in the market as comparable replacements are made sooner...”.¹⁸
47. Even at 14 months, there is an observable lag between substantial changes in the private rental sector (for new lets) and reflection in IPHRP (e.g. impact of the coronavirus pandemic – private sector flow measures showed a rise in annual inflation for new lets around 9 months before IPHRP’s stock measure started to rise).
48. Extending the limit to beyond 14 months would extend this ‘lag’ even further. The existing lag is already challenging to explain to users who query why IPHRP does not respond as quickly to private sector measures (which are based on new lets). ONS explains this in each monthly bulletin, publishes an annual comparison article, and has published a blog to explain the differences between stock and flow measures, but critics are still concerned that IPHRP (using a 14-month period) is not responsive enough.
49. Scottish Government has suggested that ONS review how appropriate the use of a median 14-month average is for Scotland, believing that it does not capture dynamics in the Scottish market of existing lets as well as new lets and how this has changed over time and how it has been affected by rent controls.
50. To better inform decision-making and assess the impact of potentially extending the validity period assumption, ONS has produced (unpublished) results for IPHRP’s Scotland index using an 18-month limit for the period Jan-19 to May-23.¹⁹



¹⁸ Section 3 and Annex D

https://webarchive.nationalarchives.gov.uk/ukgwa/20160106041638mp_/http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/improvements-to-the-measurement-of-owner-occupiers--housing.pdf

¹⁹ This period was selected to capture a period of stable annual inflation and the recent period of rising annual inflation.

51. The results from this impact analysis were similar to findings from several years ago when the validity period was previously reviewed and shortened from 18 months to 14 months.²⁰

Increasing the period to 18 months:

- a. Produced a smoother index and annual inflation rate, less responsive to market changes.
- b. Led to the Scotland rental price index increasing by an average of 0.4 percentage points per year²¹ less than the (published) index output from using a 14-month validity period.
- c. Between Jan-19 and Jun-21 (generally stable annual inflation), using a 18-month validity period led to an index average increase that was consistent (0.0pp per year difference) with the 14-month output. This is consistent with the previous 18-month vs 14-month UK analysis.²²
- d. Between Jun-21 and May-23 (rising annual inflation), using an 18-month validity period led to an index average increase that was 0.8pp per year lower than the 14-month output, although noting this divergence occurs around mid-2021 and remains constant.

52. This evidence shows that increasing the validity period beyond 14 months may lower the annual inflation rate for Scotland during periods of rapidly rising annual inflation (such as being currently experienced). However:

- a. When the 18-month annual inflation series is brought forward by four months, the output is shown to be very close to the 14-month output. This shows that increasing the validity period does not lower annual inflation overall in the long term, but rather delays the rise in annual inflation by four months.²³ This would lead to an increased lag in IPHRP estimates, rather than a lower inflation estimate in the long term.
- b. During periods of slowing annual inflation, using an 18-month validity period would likely lead to IPHRP reporting a higher annual inflation than a 14-month output would for a given month. The analysis illustrated this between Nov-19 and Aug-20.
- c. Due to the increased lag, if new lets annual inflation slowed in future, using an 18-month validity period would lead to IPHRP continuing to report rising annual inflation for longer than a 14-month output would.
- d. Using an 18-month validity period reduces the responsiveness of IPHRP to market changes, potentially 'over-smoothing' the series, which was criticised in the past.

²⁰

https://webarchive.nationalarchives.gov.uk/ukgwa/20160106041638mp_/http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/improvements-to-the-measurement-of-owner-occupiers--housing.pdf

²¹ Covering the period January 2019 to May 2023

²² Section 3 and Annex D

https://webarchive.nationalarchives.gov.uk/ukgwa/20160106041638mp_/http://www.ons.gov.uk/ons/guide-method/user-guidance/prices/cpi-and-rpi/improvements-to-the-measurement-of-owner-occupiers--housing.pdf

²³ Since Scotland predominantly collects only new lets data and does not actively revisit properties, a price update would likely still be from a new advertised rent, only the record replacement would be delayed another 4 months.

Section 2.4: Finding a way forward

53. Given that outputs from IPHRP inform consumer price inflation statistics, ONS believes that to justify any change to the 14-month validity assumption for Scotland, strong and clear evidence would be required that:
- a. Demonstrates 14 months is outside the time period range within which lies the ‘true’ average time rent price remains unchanged.
 - b. Gives a precise figure for what the assumption length should be changed to, if not 14 months.
 - c. If the Panel advises consideration of an approach that uses a distribution for the validity period assumption, suitable evidence must be available that provides a precise distribution for this model assumption.
54. The analysis above indicates that the “time at address” has generally increased since changes to Scotland’s private rental sector were implemented in 2017, but that 14-months lies within the likely range where the ‘true’ value lies. Unfortunately, the existing data gap makes it difficult to obtain a more precise estimate for the “time rent price remains unchanged” validity period model assumption used in IPHRP.
55. The analysis outlined above indicates that increasing the 14-month validity period would lead IPHRP to report lower annual inflation for Scotland from mid-2021 to May-23 (as hypothesised by Scottish Government), although this effect predates the introduction of rental controls in September 2022.
56. ONS cautions that this is primarily due to the increased lag that would arise from this methodology change (meaning the rise in annual inflation is slower over a longer period of time and will take longer to reach a peak than from using a shorter validity period). During periods of slowing annual inflation in new lets, use of a longer validity period would lead to taking longer for IPHRP to reflect that change in the rental market behaviour and hence an 18-month output would report generally higher annual inflation for Scotland than a 14-month output.
57. ONS believes that the greatest risk of potential ‘over-estimation’ in IPHRP for Scotland (and greatest source of potential reduction in IPHRP’s annual inflation estimates for Scotland stock in the long-term) arises from data collection limitations. Specifically, the limited collection of existing lets data and the lack of data collection procedures to actively seek to recollect data for previously-collected properties.
58. ONS believes that improved data collection would be the most statistically sound approach to ensure IPHRP better reflects rental price inflation dynamics for Scotland stock, and would likely to lead to a reduction in IPHRP’s estimate of annual rental price inflation for Scotland overall (rather than delaying the annual inflation rise and fall, which would result from extending the 14-month assumption).

Section 3: Conclusion

59. The Panel are invited to comment on rental controls and measurement owner-occupiers’ housing costs.

- a. Is the introduction of rent controls in parts of the UK a significant enough change to warrant re-evaluating the suitability of rental equivalence for measuring OOH costs?
 - b. If so, what further analysis would be required for a re-evaluation?
60. ONS requests the Panel's advice on how to proceed regarding Scotland's concerns.
- a. Does the Panel believe there is sufficient evidence to justify an IPHRP methodology change to increase the "time rent price remains unchanged" model assumption to beyond 14 months for Scotland?
 - b. If so, what figure would the Panel agree most appropriate for Scotland?
 - c. Does the Panel believe that the use of a single value (median average) for "time rent price remains unchanged" ought to be reviewed to consider whether it sufficiently takes into account changing trends in PRS tenancy turnover and rent control periods in Scotland?
 - d. Does the Panel believe that the current narrative in the IPHRP bulletin relating to Scotland's annual inflation accurately reflects the situation?

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July 2023

Appendix A: IPHRP existing methodology

61. In IPHRP, rental price for a given property in the sample is assumed to remain unchanged until either an updated record is received for that property or 14 months have passed, after which time it is considered likely that the rental price may have changed. After 14 months have passed without a price update, the old price record is replaced by a 'comparable property' (e.g. matching postcode sector, number of bedrooms and property type) from more recent data (from the 'substitution pool').
62. The majority (87%) of rents price data collected by Scottish Government is new lets data (i.e. advertised rental price data for when a new tenancy is advertised).²⁴ Additionally, while Rent Officers in England actively seek to collect a price update for a property (most commonly 12-14 months following the previous update), Scotland do not actively attempt to revisit the same properties. In theory, this means that a price update is likely only identified if a tenancy has ended and the property is being advertised for a new tenancy.
63. Since price inflation for new tenancies tends to be higher than for existing tenancies, the lack of existing lets data collection in Scotland means that when the 14-month limit is exceeded, the probability that a replacement property will be a new let and have a higher price than the outgoing record will be higher for Scotland than for England.
64. Annex D of [Improvements to the measurement of owner occupiers' housing costs and private housing rental prices](#) contains the methodology justification for the 14-month validity assumption used in IPHRP.
- a. Average fixed contract initial period (used as proxy for "time rent price remains unchanged")

Countrywide analysis reported in 2014 that in Scotland, 64% of contracts had a fixed period of 6 months and 36% had a fixed period of 12 months. Countrywide reported that mean contract length was 8 months in Scotland and 11 months for the UK.
 - b. Operational data collection limitations

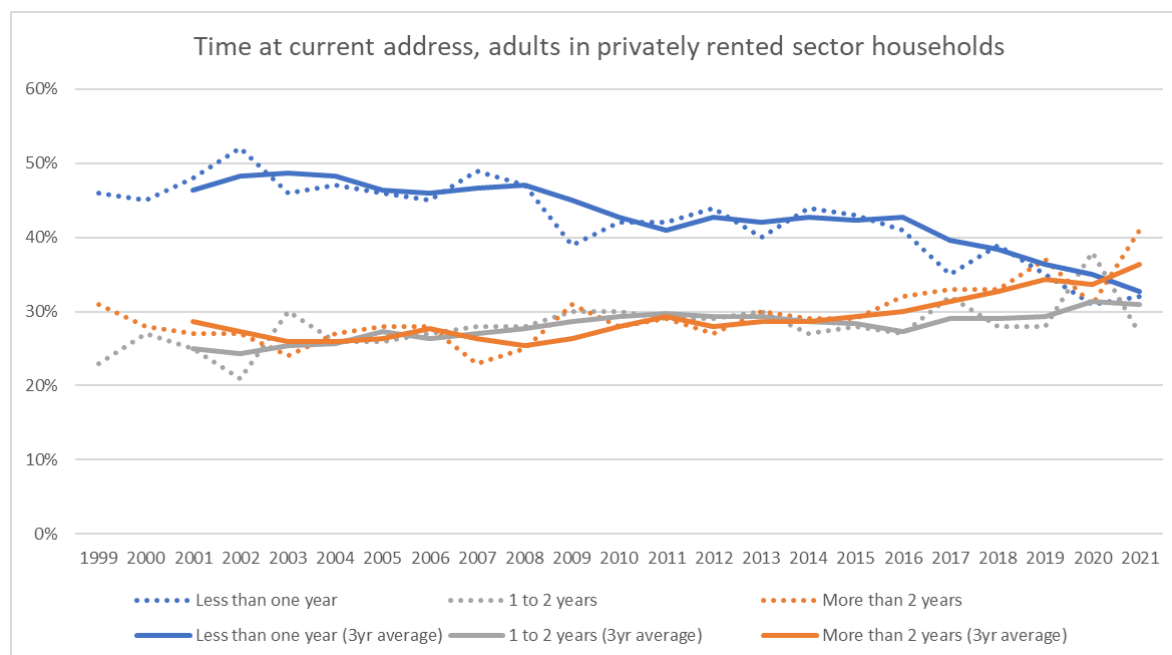
Rent Officers in England and Wales attempt to re-collect data on particular properties 12-14 months after data was last collected (~80% properties successfully revisited are revisited within 14 months²⁵). To ensure true price changes are captured (as opposed to sample composition changes), 14 months was agreed as the most suitable time period for rent price to remain unchanged (and hence the data point to be carried forward up to 14 months).
65. In 2021, the 14-month assumption was reviewed during the redevelopment of private rental prices statistics project. It was agreed that 14 months remained appropriate because:
- a. The [English Private Landlord Survey 2018](#) reported that the average contract length in England is 9-10 months. In August 2020, [Goodlord](#) reported that the average fixed contract length for the UK is 10 months (14 months in London, 9-11 months for other English regions and Wales).

²⁴ [Private Sector Rent Statistics, Scotland, 2010 to 2022 - gov.scot \(www.gov.scot\)](#)

²⁵ [Improvements to the measurement of owner occupiers' housing costs and private housing rental prices](#)

- b. Operational data collection limitations remained.
- c. Reducing the assumption to 10 months (in line with reported average contract length for England and Wales) led to unrealistic volatility in the prototype rental price index (from the redevelopment project) due to sample composition changes arising from 10 months being too short to capture true property price changes from updated data.

Appendix B: Scottish Housing Survey (SHS) “time at address” data



Source: [SHS Data Explorer \(shinyapps.io\)](https://shs.dataexplorer.shinyapps.io/), [Scottish Household Survey 2021 - Supporting Documents - Tables - Housing](#)

66. SHS' latest (2021) estimate is that 59% of adults in privately-rented households in Scotland spend 2 years or less at the same address. Using a 3-year rolling average, this increases to 64% spending 2 years or less at the same address.
67. Scottish Government believe this SHS data indicates that the “time rent price remains unchanged” should be extended beyond 14 months. However,
- a. Despite the average time at address having generally increased over time in Scotland, the median time at address remains within the category “1 to 2 years”, with the majority of households remaining at address for 2 years or less.
 - b. “Time at current address” is not equivalent to “time rent price remains unchanged” required by the model. Rent price could change multiple times while a tenant remains at the same address. ONS therefore believes that this “time at address” evidence provides an upper limit of “time rent price remains unchanged” at 24 months.
68. Since this evidence reports “time at address” for the median household as between 12 months and 24 months years (in-tenancy), ONS believes that the “true” value of the average “time rent price remains unchanged” for Scotland to be between 12 months and 24 months, but that it is difficult to be more precise.

69. Since 14 months lies between 12 months and 24 months, and that “time at address” is an upper limit on “time rent price remains unchanged”, ONS does not believe there is evidence to increase the “time rent price remains unchanged” assumption longer than 14 months.

Appendix C: Rent-increase behaviour

70. The [English Private Landlord Survey \(EPLS\) 2021](#) reported that, for landlords and agents setting rents for existing tenants in the most recent renewal or extension, 63.9% kept rent price the same, while 26.4% increased the rent price.²⁶
71. Scottish Government believe that this supports increasing the validity period beyond 14 months. However, the validity period assumption aims to reflect the length of time it is appropriate to assume rent price remains valid (i.e. has remained unchanged). It would therefore not be appropriate to carry the rent price forward unchanged beyond the point it is considered likely that a rent review or renewal has taken place, or a fixed term contract period has expired.
72. Therefore, although this EPLS 2021 evidence indicates that the majority of contract renewals lead to unchanged rent price, ONS does not believe this supports extending the validity period beyond the initial tenancy term up to the point of rent review or renewal in Scotland. ONS believes this lies within the 12-month to 24-month range from the evidence above. EPLS 2021 reports that the length of initial fixed term for most recent letting for England was 10 months (mean) or 12 months (median).²⁷
73. Scottish Government also believe that Nationwide RentBetter Project research supports increasing the validity period beyond 14 months.
74. Nationwide RentBetter research reported that 59% of tenant respondents reported their rent price had remained the same since they had moved in.^{28,29} However,
- a. The sample size is very small. Only 65 tenants were interviewed (between Sep-21 and Feb-22) and the report stated that “As is typical, the sample sizes are smaller than those used for the quantitative surveys, and the intention is not to be statistically representative.”
 - b. The sample population is not representative of the PRS population in Scotland. The sampling framework targeted tenants with gross household income levels of no more than £20,000 to £30,000 (depending on household type). The research objectives were met by reaching tenants on low incomes and in housing need including others with less ‘power’ in the market such as disabled people and those from minority ethnic groups.
 - c. Of the 65 participants, 32% had been in-tenancy between 0-2 years, while 14% had remained in-tenancy for over 10 years. This is compared with SHS’ 2021 estimate that 59% of tenants had been “at address” for 0-2 years, while 9% had been “at address” for over 10 years. This difference in sample composition could lead to results not reflecting overall average Scotland PRS behaviour.
75. In Nationwide’s RentBetter 2019 research in Scotland (survey based on 447 landlords and 92 letting agents), around 17% of 526 respondents reported that they never increase rents and

²⁶ 3.7% decreased the rent price and 6.0% had not previously renewed or extended a tenancy.

²⁷ [English Private Landlord Survey 2021: main report - GOV.UK \(www.gov.uk\)](#)

²⁸ [Wave-2-Executive-Summary-AE100522.pdf \(nationwidefoundation.org.uk\)](#)

²⁹ [Wave-2-Tenant-qualitative-AE030522-for-publication.pdf \(indigohousegroup.com\)](#)

around 32% only do so at a change of tenancy. Additionally, Nationwide’s RentBetter research reported that only around 16% of respondents increased rents once a year.³⁰

76. However,

- a. The majority of the 539 survey participants were private landlords (83%) and the report showed behavioural differences between landlords and letting agents.
- b. The research reported that landlords were more likely to increase rents only when the tenant changed (36% of landlords, 17% of letting agents), while letting agents were more likely to increase rents at a higher frequency, increasing rents once a year (34% of letting agents, 13% of landlords) or once every couple of years (39% of letting agents, 23% of landlords).
- c. The research showed that landlords most commonly let out a single property (40% of 436 landlords), and 79% let out 5 properties or fewer. Equivalent analysis was not presented for letting agents, but letting agents are likely to be involved with letting out numerous properties. Therefore the contribution of landlord responses to the overall estimate is likely to be higher than the proportion of privately-rented properties in Scotland that are let directly from a private landlord, and so may not be representative of the Scotland PRS.

77. Since findings are not representative of the Scotland PRS population, ONS advises caution when interpreting findings from this research project and does not believe this evidence is sufficient on its own to justify extending the 14-month validity period, nor does it provide a precise value to extend it to.

Appendix D: Preliminary results from (ongoing) Scotland price updates analysis

78. Preliminary results from unpublished (and ongoing) investigations of Scotland rental price data³¹ indicate that for properties that experienced a price increase (where price updates have been received within 14 months), the average price percentage increase has continued to generally increase since the Cost of Living (Tenant Protection) Scotland Act 2022 was implemented in October 2022.

³⁰ [Microsoft Word - Landlord and Letting Agent survey report Wave 1 published.docx \(indigohousegroup.com\)](#)

³¹ Scotland analysis based on method used for England analysis published in March 2023: [Changes in private rental sector behaviour, England - Office for National Statistics \(ons.gov.uk\)](#)



Note: Readers are advised to note that the y-axis of this chart does not start at 0%.

79. Since 87% of Scotland data is for new lets, which are not subject to the rent-increase cap implemented by the Act, it is not surprising that ONS has not measured a substantial easing of the average rental price percentage increase observed when a price update is received for a property.
80. This analysis indicates that the average magnitude of price increases for new lets has continued to increase since October 2022. Since rental price increases tend to be driven by new let price increases, this will be putting upwards pressure on the annual inflation rate for Scotland in IPHRP.
81. Additionally, since IPHRP's methodology aims to estimate a stock measure which lags behind the 'flow', IPHRP's annual inflation for Scotland would be expected to have continued to rise while the high new lets inflation continues to feed into the stock.
82. This analysis also showed that the proportion of properties experiencing a price increase was higher in England (~52% since Oct-22) than in Scotland (~36% since Oct-22) and Wales (~34% since Oct-22). The proportion of properties experiencing a price decrease was higher in Scotland (~14% since Oct-22) than in England (~3% since Oct-22) and Wales (~3% since Oct-22).
83. Combined, this may indicate that we would have expected to see a smaller increase in Scotland's rental price index since October 2022 than compared with England or Wales. However, IPHRP reported that Scotland's index increased by more (3.5%) since October 2022 than for England (3.1%) or Wales (3.2%). There are two reasons that explain this:
- Scotland's average price percentage increase (where properties had experienced a price increase) was higher in Scotland (~10.8% since Oct-22) than in England (~9.1% since Oct-22). This would have provided an upwards driving factor to Scotland's rental index compared with England, although it would be difficult to estimate how large the upwards contribution would be. Additionally, the average price percentage increase was higher in Wales (~11.1% since Oct-22) than in Scotland and these nations had a similar proportion experiencing a price increase, so all else being equal, we might have

- expected Wales' rental index to have increased by a slightly higher percentage than Scotland's. This was not observed, so this is likely to be a minor driving factor.
- b. The main driver behind Scotland's higher rental price index percentage increase must therefore arise from the only other source of price changes in IPHRP: comparable replacements.
84. In IPHRP, when a record exceeds 14 months without a price update, the record is replaced with a more recent 'comparable replacement' property record.
- a. In England and Wales, a high proportion of data is for existing lets and Rent Officers attempt to recollect data for previously-collected properties, so there is a high probability that the comparable replacement will be for an existing let.
 - b. In Scotland, a very low proportion of data is for existing lets and there is no attempt to recollect data for previously-collected properties, so there is a very high probability that the comparable replacement will be for a new let.
85. New let annual inflation tends to be higher than existing let annual inflation, so replacement properties are more likely to be associated with a price increase in Scotland than in England and Wales. This is the main driver behind Scotland's high IPHRP annual inflation, arising from the lack of existing lets data.
86. Increasing the "time rent price remains unchanged" beyond 14 months is unlikely to significantly reduce Scotland's IPHRP annual inflation in the long-term because it would only delay the timing of the property "replacement". The replacement property would predominantly still be a new let, which is the main contributor to Scotland's higher annual inflation (compared with England and Wales).