Resolution Foundation
BRIEFING

Through the roof

Recent trends in rental-price growth

Cara Pacitti

April 2024

Acknowledgements

Conversations with staff at the Office for National Statistics, the Bank of England, HM Treasury, Zoopla and the Tenancy Deposit Service, as well as James Gleeson, Neal Hudson and Professor Ken Gibb are gratefully acknowledged. Many thanks also go to colleagues at the Resolution Foundation for their comments and thoughts, including Torsten Bell, Molly Broome, Ian Mulheirn, Simon Pittaway, James Smith and Gregory Thwaites. Particular thanks go to Mike Brewer and Lindsay Judge for their contributions, research direction and support throughout the project. However, all errors and omissions are the author's own.

Download

This document is available to download as a free PDF at:

resolutionfoundation.org/publications

Citation

If you are using this document in your own writing, our preferred citation is:

C Pacitti, *Through the roof: Recent trends in rental-price growth,* Resolution Foundation, April 2024

Permission to share

Summary

Rental prices for new tenancies have risen by nearly a fifth since the beginning of 2022, and rental prices for all rents are currently rising at their fastest pace on record. Millions of families are now living in the UK's least affordable tenure type: nearly 30 per cent of below-average-income families headed by someone aged 30-49 were renters in 2021-22, up from just 11 per cent in the mid-1990s. So this briefing note explores the nature of the dramatic rent rises we've seen, why they're happening, and what will happen next.

Some have been keen to pin the blame for recent rent rises on the rising costs of servicing Buy-to-Let mortgages, which landlords have passed on to tenants. Many landlords will have wanted to recoup those higher costs (although it should be noted that 38 per cent of landlords hold no debt), but it's just not the case that the UK's landlords can unilaterally set prices: although there are clear power imbalances in landlord-tenant relationships, the ability of landlords as a whole to increase prices is constrained by the wider rental market. If this weren't the case, then landlords would have been increasing rents long before the recent rise in interest rates.

A second theory is that, where they have been unable to cover their increased costs, landlords are leaving the sector altogether en masse. Bank of England research does suggest a very modest shrinking of the private rental sector (PRS) of around 47,000 properties since mid-2019, but this amounts to less than 1 per cent of its total size. In any case, landlords selling out of the sector can't be a long-term driver of rental prices: if a PRS landlord sells a property into the owner-occupier sector, then there will be a corresponding reduction in the demand for private-rental properties.

A final theory that does not bear weight is that there's been a wider reduction in housing supply in the UK. This is not currently borne out by the data. The UK may well not have enough properties, but the number of homes per 1,000 families in England stood at 780 by 2022, essentially the same as it was at the turn of the millennium (and actually an improvement on housing availability a decade ago). The changes in the population since then may have changed this picture slightly, but it remains unlikely that population growth could have outstripped supply by enough to explain the striking effect on aggregate private rents that we have seen since 2022.

Instead, we should focus on the other key drivers of rents, the most important of which is earnings, the most crucial determinant of renters' ability to pay higher housing costs. In the long term, rental prices tend to rise in line with average earnings: the ratio of rents-to-earnings in the UK has remained broadly stable from the turn of the millennium to the eve of the pandemic. At the beginning of 2020, the ratio sat just 0.1 percentage points below its long-run trend.

With that in mind, it is worth revisiting what has happened to the UK over the two consecutive periods of economic upheaval the UK has witnessed since the early 2020s: the Covid-19 pandemic and the cost of living crisis. The pandemic was a period of profound disruption to the UK's housing market: the rental market was locked in stasis, with (welcome) legislation to lengthen notice periods for evictions and halt possession proceedings; furlough and lockdowns lowered labour market mobility; and there were dramatic changes in local markets as cities emptied and many returned to families elsewhere in the country or overseas. The result was a weakening of rents relative to earnings, putting the rent-to-earnings ratio well below trend: at the start of 2022, average rents were around 5 per cent (or £50 per month) lower than we would have expected were the relationship between rents and earnings in keeping with longer-term trends. So it is highly likely that at least some of the recent surge in rental prices is a 'correction', returning the rent-to-earnings ratio back to its pre-pandemic trend.

And a return to pre-Covid-19 norms explains some of the extremely high rental-price growth we've seen at a subnational level in urban areas. Using data on the average rent across rental properties, Inner London local authorities accounted for eight of the bottom ten local authorities in terms of rental price rises over the pandemic. However, London has since seen the fastest rise in rents of any region, with three London local authorities appearing in the top ten local authorities by rental price rises since the pandemic, joining areas of Greater Manchester and Leicester in seeing rental prices grow by over a fifth since January 2022.

More recently, the period of high inflation since early 2022 eventually led to rapid growth in (nominal) earnings, with average earnings up by 13 per cent since the beginning of 2022, the fastest growth in a generation. In the context of a Covid-19 catch-up and the unprecedented growth in earnings we've seen since 2022, rental growth among new tenancies of 18 per cent is much more understandable.

However, if we step back and look through the Covid-19 impact, then rents for new tenancies have grown by over 30 per cent since January 2020, which is still stronger than (nominal) growth in average earnings over that period, at 23 per cent. This may, in part, be due to an over statement of rental-price growth in the measurement of prices for new tenancies. However, another possible explanation is offered by research by the Bank of England that looks at how the markets for owner-occupied and rental housing interact with each other when interest rates rise. In particular, although the research is clear that higher interest rates reduce both house prices and rents in the long term, the dynamics of adjustment can mean that rents rise temporarily. Here, the primary mechanism is that house prices fall relatively slowly, meaning that higher interest rates temporarily price some would-be first-time buyers out of home ownership, thereby increasing demand in the PRS. However, these impacts should unwind as house prices fall (as, indeed, they are doing now).

So what should we expect to happen next to rental prices? Growth in market rents for new tenancies have already begun to ease, falling from a peak of 10.4 per cent over the year to June 2023 to 7.5 per cent over the year to March 2024, and leading market commentators to predict further cooling this year (Rightmove predicts rental-price growth of 3 per cent over 2024 in London, and 5 per cent for the rest of the UK, and Zoopla suggests that rental-price growth will roughly halve over the next twelve months). This is precisely what we would expect as the post-Covid-19 correction comes to an end, earnings growth slows, and housing markets move towards their new, higher-interest-rate, equilibrium.

Importantly, though, this does not mean pressures on renters as a whole will subside: even if the rate of growth for new tenancies falls, the average rent paid by the whole population of renters will continue to rise – and potentially rise faster than average earnings growth – as renters who have yet to see the large rent hikes reach the end of their tenancy, or are forced to accept within-tenancy price rises. This is exactly what has happened in the US where the surge in rental prices began earlier, and has since reversed, with rental prices for new tenancies in the US now rising at a lower rate than earnings while the average rent among all renters grows more rapidly. If we assume the ratio of rents to earnings in the UK will return to its pre-pandemic level in three years' time (Q4 2026), then the total 'stock' of rents would need to see over 13 per cent price growth over the next three years (compared to the 7.5 per cent growth in earnings expected), or 4.2 per cent growth a year on average, even if rent rises for new tenancies grow by less. So the pressure on renters as a whole will likely continue for another few years yet, and these price rises will be difficult for many renters to adjust to given that other essentials, including food and energy, are taking up more of families' wages than they were back in 2022, meaning that families have less flexibility in their budgets to cope with higher housing costs.

There have also been important geographical variations, with rental price rises particularly keenly felt in certain areas of the country: Bristol, South Gloucestershire, Leicester and several areas of Greater Manchester, for example, have seen rents increase by around half, or more, since 2016. By contrast, some local authorities, including West Lancashire, Richmond upon Thames, Redcar and Cleveland and Blackpool, have seen increases of under 15 per cent in rents since 2016. Although Local Housing Allowance was re-linked to local rents in April 2024 – a key policy tool for ensuring that lower-income families are not priced out of high-growth areas – thousands will not receive this full payment due to the benefit cap, which has been uprated only once since 2013;

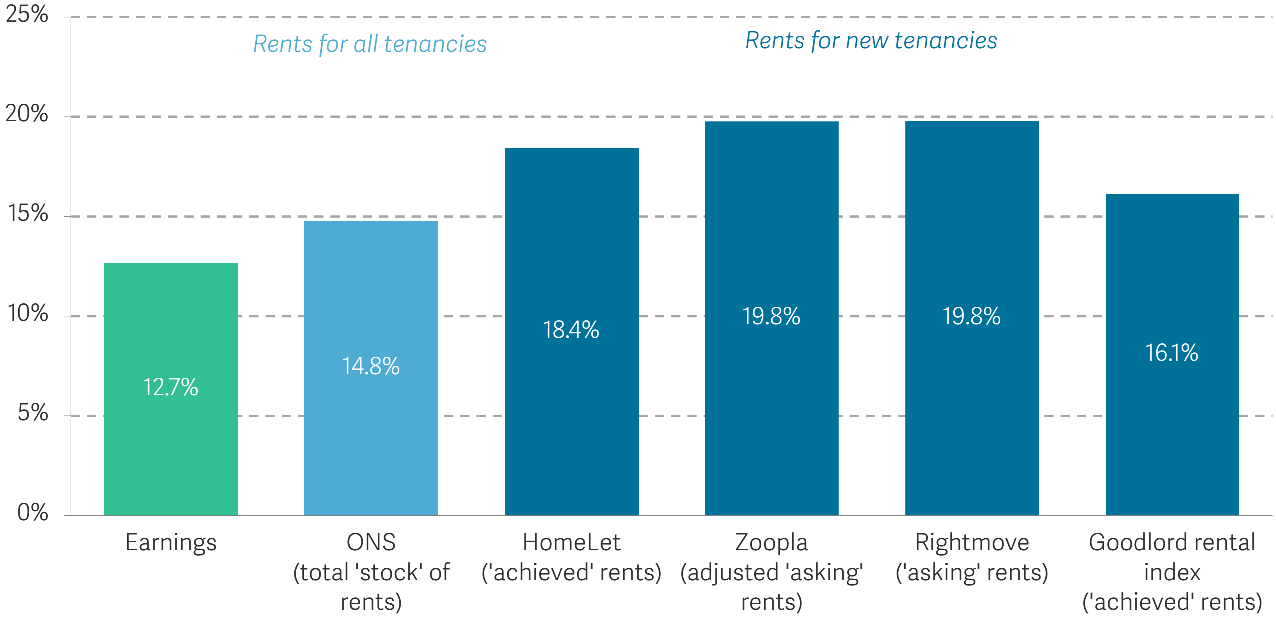
more concerningly, the Government plans to freeze LHA rates in April 2025 and beyond. Scrapping the benefit cap, and committing to consistently uprate LHA in line with local rents would go some way to insulating many low-income renters from rental-price growth in the years ahead. But all governments' longer-term priorities must be to address the barriers to home ownership and the lack of availability of social housing that together leave too many private renters trapped in this high-cost, low-quality, tenure.

Rental-price growth has been particularly high in recent months

Since the pandemic, rental prices have risen dramatically. There are several different ways of measuring private rents (Box 1 sets out the differences between these, and the complexities of comparing these metrics), but all suggest that prices have been rising significantly over the past two years. According to the ONS' latest data on private rents, average rents have risen by 15 per cent since January 2022, and are currently rising at their fastest rates on record, growing by 9 per cent over the year to February 2024. Meanwhile, various market estimates for rents for new properties report price rises of closer to a fifth since January 2022.

FIGURE 1: **Private rents for new tenancies have increased by nearly a fifth since January 2022**

Earnings and private rental-price growth, various metrics: January 2022 - January 2024



NOTES: Earnings and ONS data relates to Great Britain; HomeLet, Zoopla and Rightmove data relates to UK; Goodlord data refers to England. Zoopla rental prices are based on asking rents, adjusted to reflect achieved rents. Rightmove data is published quarterly, so 'Rightmove' bar illustrates growth between Q4 2021 and Q4 2023.
SOURCE: RF analysis of ONS, Labour Market Statistics; ONS, Price Index of Private Rents; HomeLet Rental Index; Rightmove Rental Trends Tracker; Goodlord Rental Index; Zoopla Rental Market Report.

BOX 1: The challenges of measuring private rents

A key challenge in any analysis of trends in the private rental sector is the lack of reliable and comparable rental price data, particularly at a local level. The fact that renting does not involve straightforward transactions or the collection of data by HMRC for taxation purposes means that rental price data has historically been scarce, and particularly so compared with house price data (which is reliable and plentiful).

We can measure the level of rents in two ways. Rental price data published by the ONS measures the average price paid by all renters, which will be a mixture of new and long-standing tenancies (and we can think of this as being data on the 'stock' of all PRS properties). The ONS has recently updated its methodology for producing rental price data (replacing their matched-pairs approach with a hedonic regression model) and has begun publishing rental price data at a local authority level (albeit only since 2015), which is a significant improvement in data availability.[1] This new methodology increases the ONS' estimate of recent rental-price growth significantly, by over two percentage points in the latest data (for example, the ONS' estimate of UK rental-price growth over the year to January 2024 was 6.2 per cent using its old methodology (known as IPHRP), and is 8.5 per cent using its updated method).

The alternative is to measure rents only for new tenancies, or the 'flow' of new rents, and this is what is typically done by the commercial estimates of rental prices. These 'flow' measures will see more rapid changes during periods where prices in the market are adjusting, whereas market pressures can take time to feed through into the stock of all rental prices simply because the rents charged in ongoing tenancies might change only once a year, or perhaps even less frequently. For example, over the year to September 2023, the ONS reported that 63 per cent of properties in England revisited within the year had seen a price change since the last time they were sampled.[2] This means that 37 per cent had paid the same rent (or less) over the period.

There are also two other factors to bear in mind when looking at the commercial estimates of rental inflation. First, estimates of the rents charged on new tenancies vary between those based on the 'asking price' for which tenancies are initially being advertised, and those based on (the more meaningful) 'agreed'

1 ONS, Private rent and house prices, UK, March 2024.
2 This analysis was based on properties where rental data had been collected twice within 14 months of the property initially having been visited, for England the median time between these visits was 12 months. For more details see ONS, Changes in private rental sector behaviour, England and Wales: February 2022 to September 2023, November 2023.

prices that are eventually paid by tenants. Second, measures based on proprietary data are not generally based on a random sample of household or new tenancies. Many private companies adjust their sampled data to better reflect the total stock of new tenancies (or all rents across the UK), but the raw data they use to do this will reflect a certain sub-set of tenancies (such as tenancies the company has advertised, or provided referencing services for).

These fast-growing rental prices impact the living standards of a growing share of the population

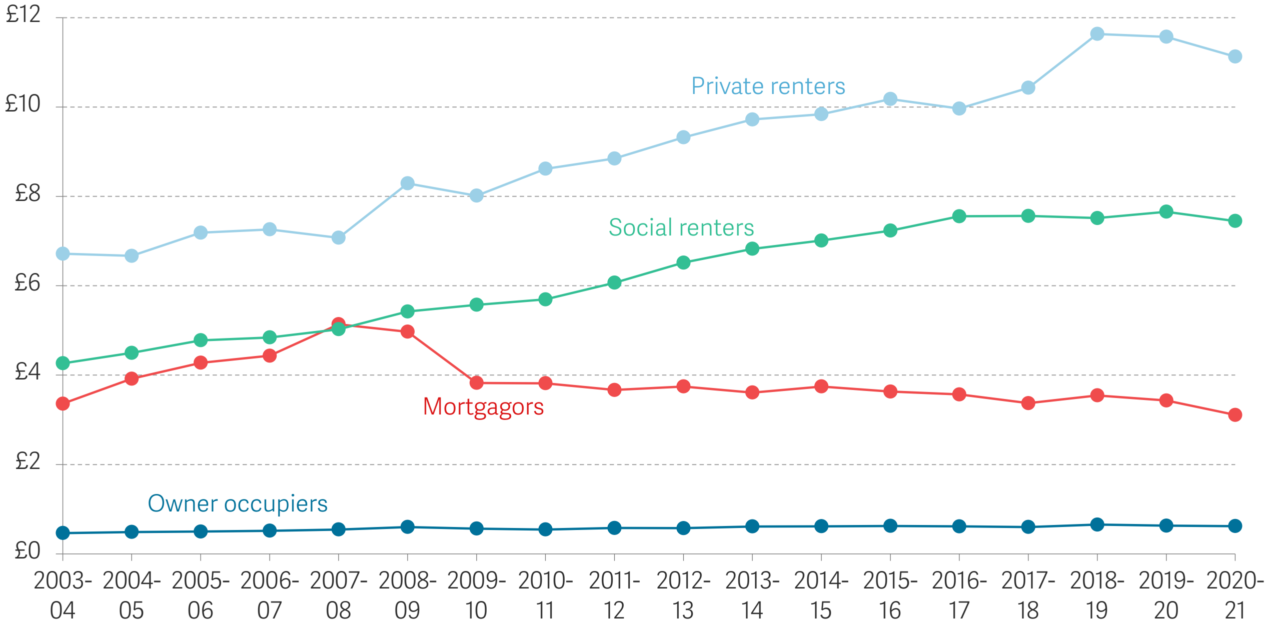
This rapid rise in rental prices is concerning, as private renting has long been the least affordable form of housing, with the average private renter spending around a third (33.8 per cent) of their income on housing costs, compared to the 10 percent of income spent by the average mortgagor.[3] Moreover, these high costs are not associated with larger properties. The average housing cost per square metre paid by a private renter in England stood at just over £11 in 2020-21 (Figure 2), more than triple the £3.10 paid by the average mortgagor. And private renters have been getting less for their money over time: renters have seen the cost of a square metre of space in their homes rise by nearly two-thirds over the past twenty years, up from £6.70 per square metre twenty years ago. Although housing quality has improved across all tenure types over time, private renters are more than twice as likely than average to live in a home with problems with damp, and nearly 7 percentage points more likely to living in a 'non-decent' property).[4] Add to this the inherent instability of the sector – including 'no-fault' evictions that can require renters to vacate their home at two months' notice – and private renting appears an unattractive proposition.

3 This excludes costs associated with paying down the principal of the mortgage, on the basis that this creates an asset (as opposed to interest-related mortgage costs, or rental costs which do not). Source: RF analysis of DWP, Households Below Average Income.

4 Source: DLUHC, English Housing Survey 2022-23. A 'non-decent' home is defined in the survey as one that fails to meet the Decent Home Standard that applies in the social rental sector, i.e. that fails to meet the statutory minimum standard for housing (e.g. containing a 'Category 1' safety hazard), does not provide a reasonable degree of thermal comfort, is not in a 'reasonable' state of repair or does not have 'reasonably modern' facilities and services.

FIGURE 2: **Private renting remains the most expensive tenure type**

Average housing costs per square metre, by tenure: England, 2003-04 to 2020-21



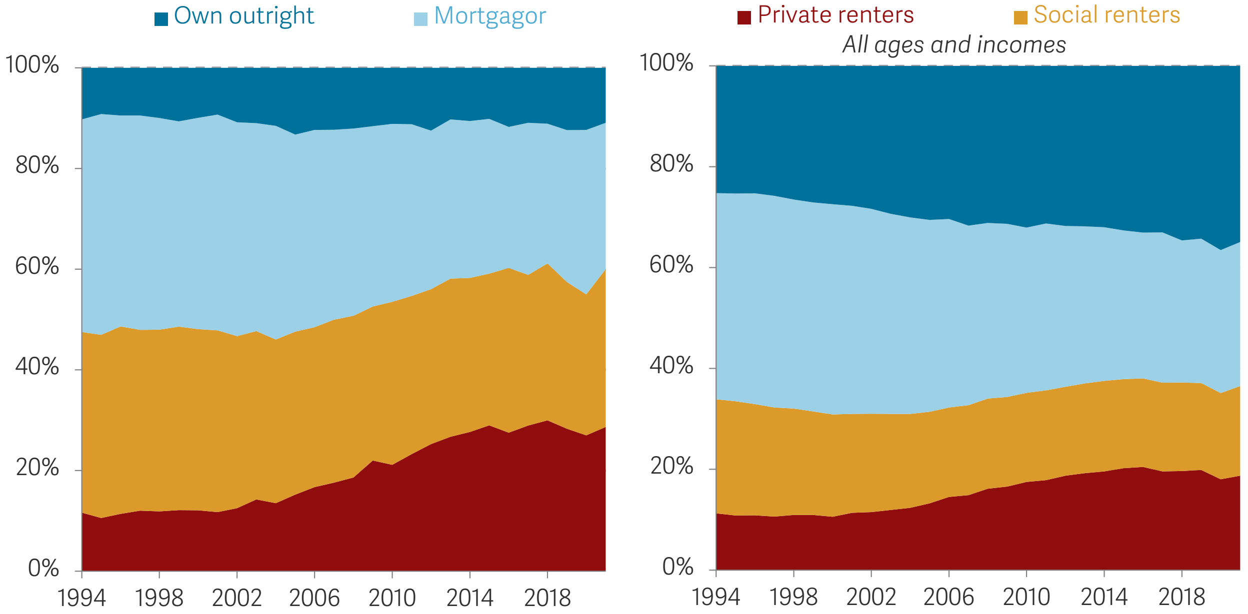
NOTES: Outright-owner housing costs include water, ground rents, service charges and structural insurance.
SOURCE: RF analysis of DWP, Households Below Average Income; DLUHC, English Housing Survey.

Private renting has historically been seen as a tenure for the young, for whom the flexibility and mobility that the private rental sector (PRS) offers is desirable (and potentially worth the high costs, low quality and instability). This idea increasingly bears little resemblance to reality, as barriers to homeownership and scarce social housing provision mean that a growing proportion of the population find themselves living in the PRS.

As the right panel of Figure 3 illustrates, the proportion of families privately renting has nearly doubled from 11 per cent in the late 1990s, to nearly one in five today. The effect of increasingly unaffordable house prices and a depleted social housing stock is even more pronounced among lower-income families. As shown in the left panel of Figure 3, nearly 30 per cent of below-average-income families headed by someone aged 30-49 were renters in 2021-22, up from just 11 per cent in the mid-1990s.

FIGURE 3: **Private renting has become more common over time, boosted by lower homeownership and a scarcity of social housing**

Housing tenure of families, those with below median household income headed by someone aged 30-49 and all families: GB/UK, 1994-95 to 2021-22



NOTES: Years refer to financial years (so 1994 refers to 1994-95). GB before 2002-03; UK after.
SOURCE: RF analysis of DWP, Households Below Average Income.

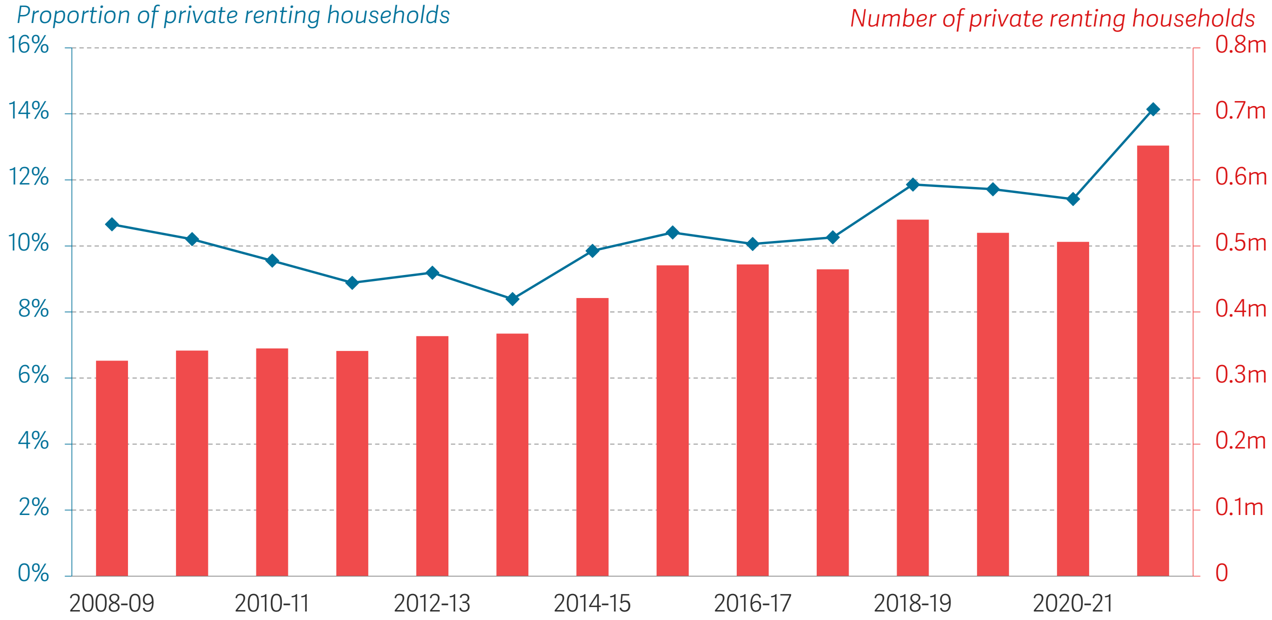
As a result of the growth in the PRS, people are renting for much longer than they used to. Figure 4 shows the growing number (and proportion) of private renting households who have lived in the sector for ten or more years in England, rising from around one-in-ten renters in the years following the financial crisis (or 326,000 households), to nearly one-in-seven renting households today, a near-doubling to over 650,000 households. Renting later in life poses particular challenges for raising children, with the proportion of families living in this expensive and insecure tenure type with young children rising from under ten per cent in the early 2000s to over a fifth of families with children today.[5]

Given that families are increasingly spending much more of their lives in the PRS, and costs are high in levels terms to begin with, it's important to understand recent burst of high rental-price growth. The following sections will unpack what might be driving high rental prices, what renters can expect to happen to prices going forwards, and how policy can look to mitigate the effect of high price growth for the most vulnerable families living in the sector.

5 RF analysis of DLUHC, English Housing Survey 2022-23.

FIGURE 4: **Private renters are living in the sector for much longer than they used to**

Number and proportion of private renting households who have been renting for over ten years: England, 2008-09 to 2021-22



SOURCE: RF analysis of DLUHC, English Housing Survey 2021-22.

What explanations for surging rental prices should we treat with caution?

To begin, we consider several theories for what may be driving surging rental prices that do not, in isolation, plausibly explain the rises in rental prices we've seen since early 2022. We look at theories including: landlords hiking prices to cover the costs of servicing Buy-to-Let mortgages; an exodus of landlords from the PRS; and a wider population increase relative to the supply of housing in the UK.

Landlords hiking rents to cover higher mortgage costs

Some have suggested that the source of higher rents is a straightforward one – the higher interest rates needed to lower inflation have pushed up the costs of servicing Buy-to-Let mortgages, and this has forced landlords to hike up rents.

It is certainly true that many landlords will have wanted to recoup the higher costs they might be facing, but there are two major reasons why this is not, in isolation, a plausible explanation for the rental-price growth we've seen. First, it is by no means the case that all landlords face higher costs. In 2021, more than a third (38 per cent) of landlords in England had no debt of borrowing, and these borrowing-free landlords together let out 29 per cent of all English tenancies.[6] Second, and more importantly, it's just not the case that the UK's landlords can unilaterally set rental prices. It is, of course, clearly the case that there are power imbalances in landlord-tenant relationships which can give individual landlords a great deal of power over some tenants. But landlords as a whole are constrained by the wider rental market – if they increase rents above market rates, then they won't let their property. If this weren't the case, and landlords could increase rents at will, then landlords would have been increasing rents long before the recent rise in interest rates.

Landlords selling out of the private rental sector

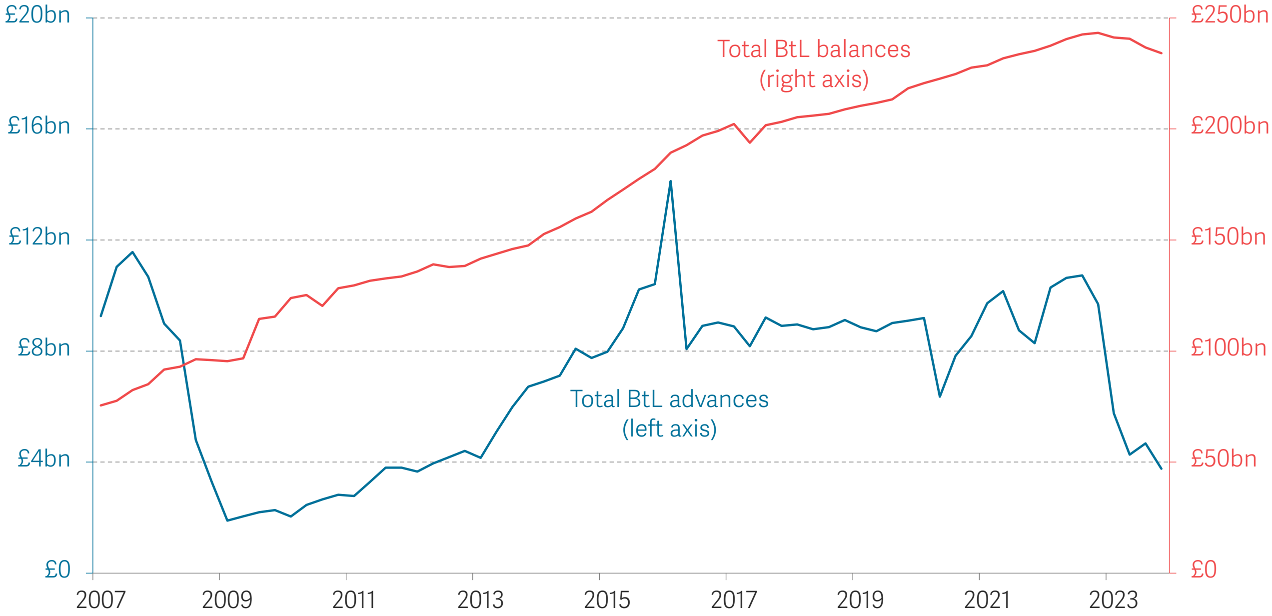
Landlords may not be unilaterally driving the increases in rents we've seen, but it is true that recent years have ushered in a period of significant change for landlords, and some will be facing significant costs related to servicing Buy-to-Let mortgages. In addition, the long-overdue Renters' Reform Bill is currently set to introduce (welcome) changes to the landlord-tenant relationship including the scrapping of no-fault evictions. There has therefore been speculation that these additional pressures on landlords have resulted in a significant number 'selling out' of the sector, and that this reduction in supply has been pushing up rents.[7]

Identifying whether this is actually happening, though, is difficult to pin down in the available data, as there is no centralised register of landlords in England.[8] As shown in Figure 5, there has been a fall in Buy-to-Let mortgages being taken out, from 13 per cent of all loans to individuals in 2019 (around £9 billion worth of mortgages), to an average of 8 per cent of all loans taken out in 2023 (under £5 billion of mortgages). The overall balance of outstanding Buy-to-Let mortgages in the UK has also shrunk (in nominal terms), from £243 billion in Q4 2022 to £234 billion by Q4 2023.[9] This is consistent with the idea that landlords are selling (mortgaged) properties, or are not entering the PRS (with mortgages) in as large numbers as previously.

6 DLUHC, English Private Landlord Survey 2021: main report, May 2022.
7 See, for example: M Brignall, Landlords sell up in Great Britain as buy-to-let market sours, The Guardian, 13 November 2023; T Dunstan, Fifth of landlords consider selling up due to increased costs, The Financial Times, 30 October 2023; K Peachey, More pain for renters as landlords look to sell up, BBC News, 8 June 2023.
8 The Renters (Reform) Bill proposes a Private Rented Sector Database that could make tracking trends in the size of the PRS easier in the future. Both Wales and Scotland currently have policies of compulsory landlord registration, however data from these registers is not publicly available in full.
9 Source: Financial Conduct Authority, Mortgage lending statistics, March 2024.

FIGURE 5: **Since late 2022, the volume of Buy-to-Let mortgages being taken out has fallen significantly**

Total Buy-to-Let balances (right axis) and total Buy-to-Let advances (left axis): UK, Q1 2007 - Q4 2023



SOURCE: RF analysis of FCA, Mortgage lending statistics – March 2024.

However, even if some mortgaged landlords are selling their properties, that does not mean that the PRS has to shrink: mortgaged landlords might sell their properties to other landlords who don't need a mortgage. Recent work by the Bank of England attempted to measure directly net additions to the stock of private rental properties in England and Wales by matching property transactions data with properties advertised for rent. This allows the researchers to identify properties that have been rented then sold, or vice versa, which in turn means they can identify landlord-to-landlord flows of properties (within the PRS), and – more importantly – to identify landlord-to-owner-occupier flows (exits from the PRS) and owner-occupier-to-landlord flows (properties entering the PRS).[10]

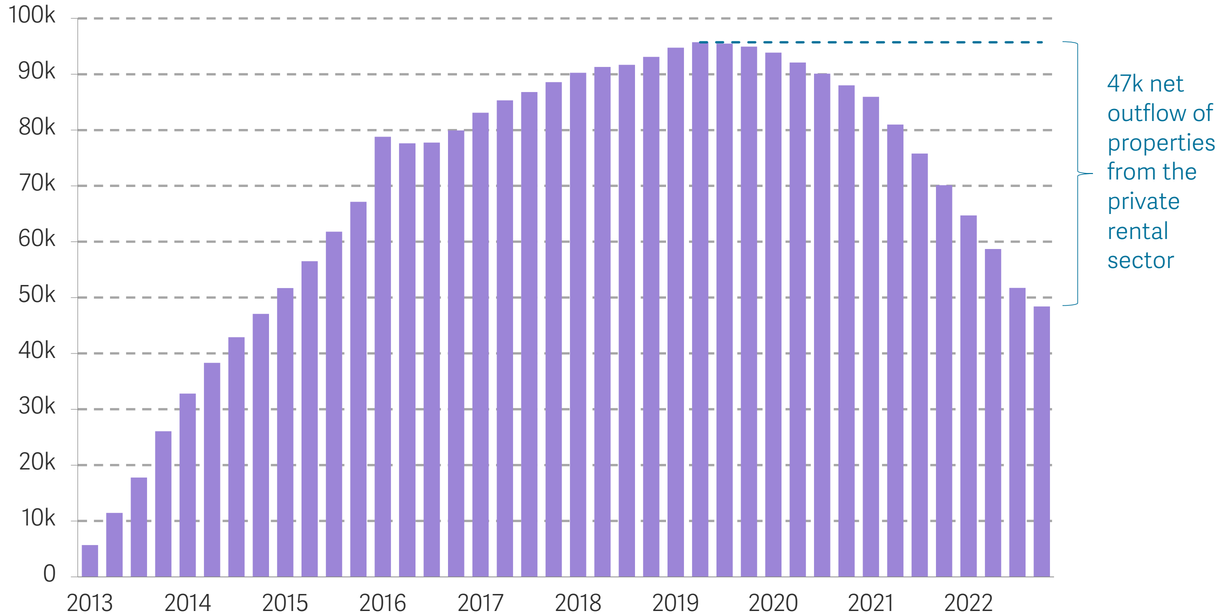
The Bank's analysis focuses on the cumulative net inflow of properties into the sector since 2013 (Figure 6), and shows that this peaked at over 95,000 properties by Q2 2019. The Bank's measure suggests that there has since been a net outflow of around half this number of properties, suggesting a net outflow of 47,000 properties from the PRS since mid-2019. Although there are significant data challenges in identifying whether

10 For more details, see: Bank Overground, Has the private rental sector been shrinking?, September 2023; G Zemaityte, E Hughes & K Blood, The buy-to-let sector and financial stability, Quarterly Bulletin 2023, Bank of England, December 2023.

rental properties have been sold to owner-occupiers, it appears there has been a modest shrinking of the PRS. But this change is a less-than-1 per cent shrinkage of the sector – not the 15 or 20 per cent number thrown about by some commentators – something that would (if true) simply return the PRS to its size back in 2015.

FIGURE 6: **There has been a net outflow of landlords from the PRS since mid-2019, but this is less than 1 per cent of the total sector**

Estimated cumulative net inflow of properties to the PRS: England and Wales, Q1 2013 - Q4 2022

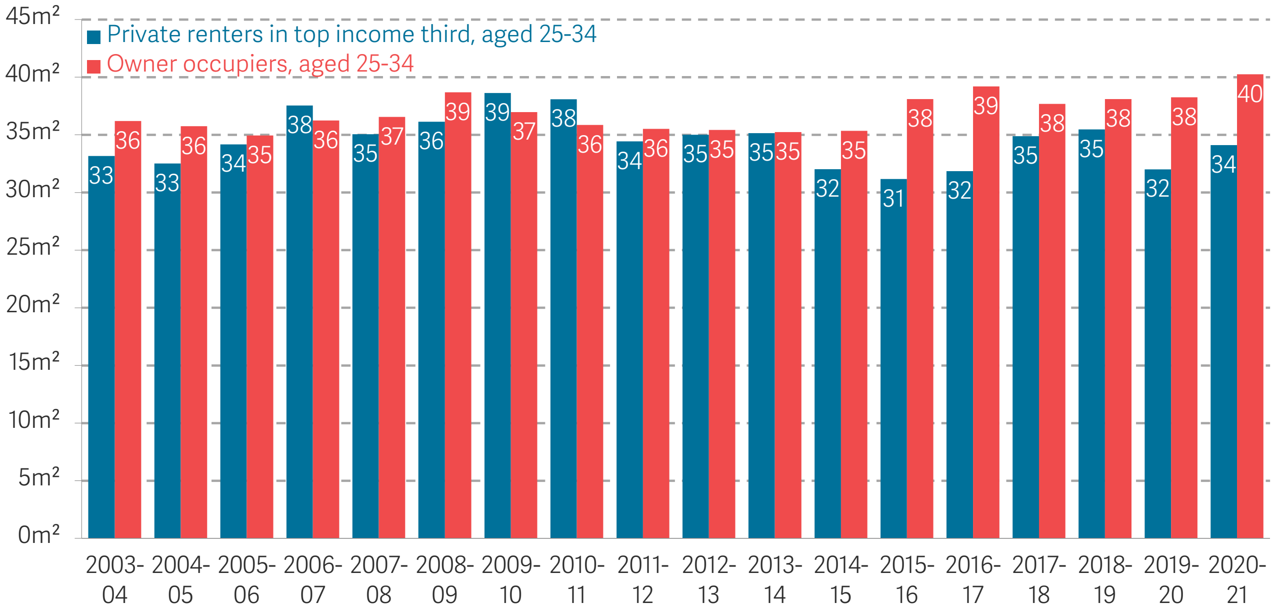


NOTES: This measure covers properties sold in England and Wales. Data is provisional from Q3 2018 onwards, and will be subject to revision when new data is released within four years of date shown, due to the time lag between sale and rent. Underlying data starts in November 2008 and includes data up to 31 December 2022. Data excludes demolitions, and may not capture build-to-rent. For more details on the Bank of England's approach to modelling this measure, see Box A in: G Zemaityte, E Hughes & K Blood; The buy-to-let sector and financial stability, Quarterly Bulletin 2023, Bank of England, December 2023.
SOURCE: RF analysis of G Zemaityte, E Hughes & K Blood; The buy-to-let sector and financial stability, Quarterly Bulletin 2023, Bank of England, December 2023, which uses HM Land Registry and Zoopla-Whenfresh data.

Moreover, the impact on private rents from any shrinking of the PRS is likely to be even smaller than this less-than-1 per cent fall in the number of properties available to rent might imply. A property moving from the PRS to become owner-occupied should also involve a corresponding fall in the demand for private rented housing if, for example, a previously renting household leaves the sector to become owner-occupiers either directly, or in the wider chain related to the transaction. So probably the only long-run impact of the properties shifting from the PRS to owner-occupation arises because homes that are owner-occupied tend to be less intensively occupied than those in the PRS. As illustrated in Figure 7, owner-occupiers currently enjoy around 40 square metres of floorspace per person, compared to just 34 metres per person in the PRS among similarly-aged individuals. Looking over the last five years, on average the PRS has been around 15 per cent more densely occupied than owner-occupied housing.[11] If this ratio holds among the 1 per cent of homes that have left the PRS since early 2019, then we might a shrinking of the PRS relative to demand of just 0.15 per cent.

FIGURE 7: **Private renters tend to more 'densely' occupy properties than owner-occupiers**

Average floor space per person for higher-income renters and owner-occupiers aged 25 to 34, in metres squared: England, 2003-04 to 2020-21



SOURCE: RF analysis of DLUHC, England Housing Survey.

This impact of landlords exiting the PRS on the demand for and supply of properties would be greater than we suggest above if properties are being sold into short-term or holiday letting, rather than owner-occupation. However, given that the entire size of the short-term and holiday lettings sector in England is estimated to be around a quarter of a million properties, these effects are likely to be small at a national level.[12] Overall, it seems likely that the net outflow of properties from the PRS will have had only a very small impact on aggregate supply and demand, and is therefore highly unlikely to be the main driving factor behind the significant increases in rental prices since 2022.

11 This analysis looks only at higher-income renters (in the top third by income), on the basis that these are the private renters who are most likely to become homeowners, and so are most directly comparable to homeowners of the same age.

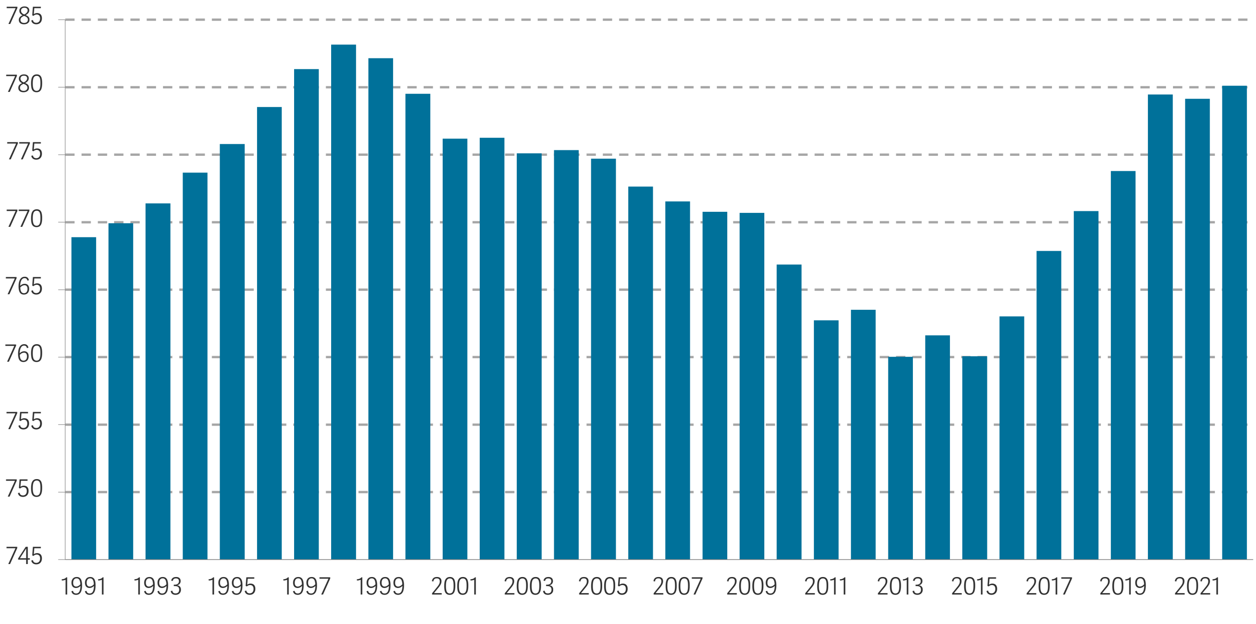
12 There is uncertainty around the exact size of the short-term and holiday lettings sector in the UK. The estimate of 257,000 properties originates from: Department for Culture, Media and Sport and Department for Digital, Culture, Media & Sport, Developing a tourist accommodation registration scheme in England, April 2023.

Wider changes in population relative to housing supply

Although the supply of homes in the PRS seems unlikely to have changed by enough to drive the burst of rental-price growth in recent years, others have suggested that rental-price growth has been driven by a wider imbalance in supply and demand for housing in the UK. However, it is hard to conclude that, at an aggregate level, there is a trend of population growth outstripping growth in housing supply. As we show in Figure 8, the ratio of housing supply relative to the number of families in England has remained roughly unchanged since the late 1990s.[13] Although the number of homes per 1,000 families in England fell between 1998 and 2013 – indicating increasing pressure on, or demand for, the housing stock – this statistic has since improved, rising from 760 homes per 1,000 families in 2013 to 774 in 2019, and the ratio of homes to families in England appears to have risen markedly again during the Covid-19 pandemic, jumping to nearly 780 homes per 1,000 families (although this may reflect issues in the quality of migration data over the Covid-19 period).[14]

FIGURE 8: **Housing supply relative to population is largely in line with levels seen in the late 1990s**

Stock of dwellings per 1,000 families: England, 1991 - 2022



NOTES: Family units are calculated using ONS data on living arrangements, looking at those aged over 16 and assuming each co-habiting couple and all individuals not living in a couple represent a separate family unit. Data pre-2001 splices on earlier 2014-based ONS population estimates to extend the time series.
SOURCE: RF analysis of DLUHC, Live tables on dwelling stock (including vacants); ONS, Population estimates by marital status and living arrangements, England, January 2024; ONS, Household projections for England: 2014-based.

13 The 'housing stock to families' ratio is a better measure of availability than 'housing stock to household' ratio; see: L Judge, The one million missing homes? Resolution Foundation, January 2019. In particular, looking at the number of 'benefit units' or families in England (here defined as a single adult or couple along with any dependent children) allows us to take into consideration 'suppressed households' including adults living with their parents, or families sharing a home with others.

14 The Migration Observatory, Where did all the migrants go? Migration data during the pandemic, February 2021.

It remains possible that recent population flows have changed this picture — the latest population estimates from the ONS are that the UK population stands at 68.4 million people in 2023, a 570,000 increase on their previous estimates, and that it is growing more quickly than previously forecast.[15] However, it seems unlikely that population growth could have outstripped supply to a large enough extent to cause the marked rise in private rents that we have seen since 2022.[16] It remains possible that in local rental markets there have been short-term supply issues that have been sizeable enough to result in increases in rental prices, but this is unlikely to be a key driver of the dramatic rises we've seen in prices at an aggregate level.

Earnings are a much more important driver of rental price rises

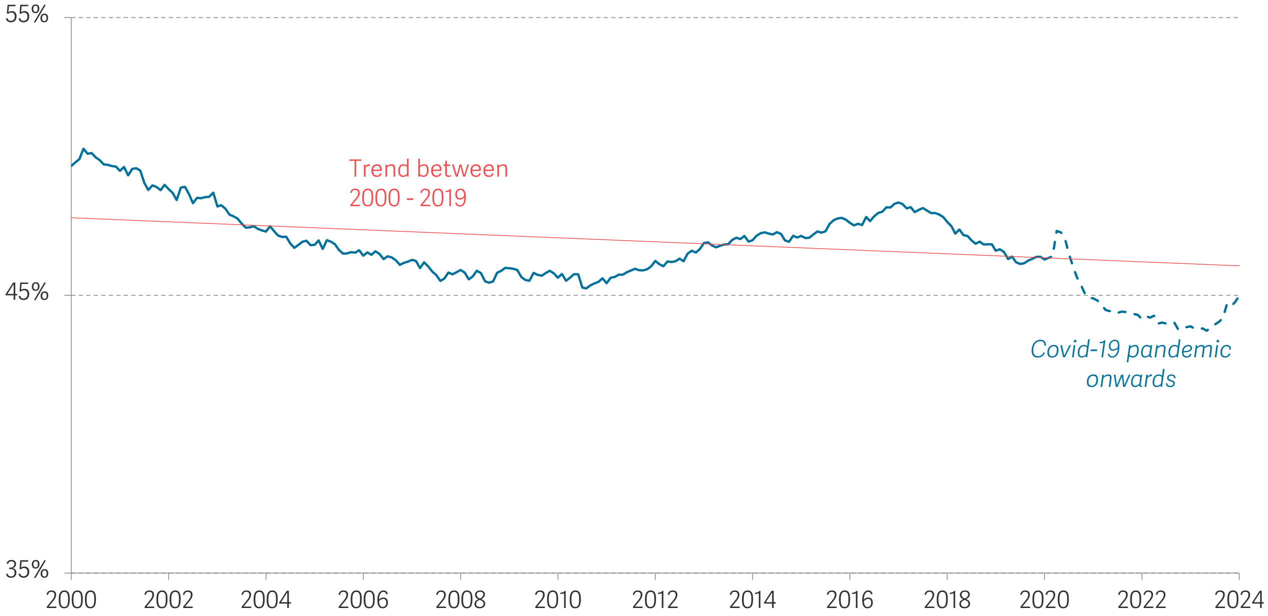
To help us reach a more plausible explanation for the recent surge in rental prices than those set out above, it is important to look at how rental prices tend to behave over the longer term. Although the lack of reliable and granular rental price data in the UK makes drawing out the drivers of rental prices over the long term challenging (see Box 1), there is significant empirical evidence both in the UK and globally that, over the long term, rents tend to rise broadly in line with earnings.[17] This is shown in Figure 9, which illustrates that, although the ratio of rents to earnings has fluctuated over time (particularly around periods of economic instability such as the financial crisis), the trend in the rents-to-earnings ratio has remained broadly stable (with a small downward trend) between 2000 to the eve of the pandemic. At the beginning of 2020, the ratio sat just 0.1 percentage points below its long-run trend.

With this long-term trend in mind, it is worth revisiting what has happened to rental prices and earnings in the UK over the two consecutive periods of economic upheaval we've experienced since the early 2020s: the Covid-19 pandemic and the cost of living crisis.

15 ONS, National population projections: 2021-based interim, January 2024.
16 For more on UK migration patterns and the housing market, see: The Migration Observatory, Migrants and Housing in the UK, September 2022; and: J Perry, The growth in migration to the UK and its effects on housing, in M Stephens et al. (eds.), 2024 UK Housing Review, Chartered Institute of Housing, March 2024.
17 See, for example: H G Overman & X Xu, Spatial disparities across labour markets, The IFS Deaton Review, February 2022; A Bentley et al., What drives rents in New Zealand? National and regional analysis, Housing Technical Working Group, August 2023; J V Duca, J Muellbauer & A Murphy, What drives house price cycles? International experience and policy issues, Journal of Economic Literature 59 (3), September 2021; and: D Miles & V Monro, UK house prices and three decades of decline in the risk-free real interest rate, Economic Policy, 36, pages 627-684, 2021.

FIGURE 9: **Rents have remained broadly stable as a proportion of earnings since the millennium**

Average private rents as a share of average earnings: GB



NOTES: Average private rents use ONS, Price Index of Private Rents from January 2011 onwards, and are indexed in line with the 'actual rents for housing' component of CPIH before this point. Earnings are seasonally-adjusted AWE regular pay.
SOURCE: RF analysis of ONS, Average weekly earnings in Great Britain: March 2024; ONS, Private rent and house prices: March 2024; ONS, Inflation and price indices.

Unwinding of pandemic changes in the rental market

The Covid-19 pandemic saw profound changes in daily life across the UK, and consequently on households' demand for housing. Looking at the dotted 'Covid-19 pandemic onwards' in Figure 9, the pandemic period saw a deviation from long-run trends in rents and earnings, with rents falling significantly as a share of earnings. This could be due to issues with the quality of earnings data over the Covid-19 period, but is also symptomatic of significant changes in demand in the rental market. The rental market was essentially 'frozen' with (welcome) legislation to lengthen notice periods for evictions and halt possession proceedings; furlough and lockdowns lowered labour market mobility; and some young renters returned to living with their parents and some migrants living in the PRS left the UK.[18] The result is that the rents to earnings ratio has averaged around 1.5 percentage points below its long-run trend since the pandemic, and, at the start of 2022, rents were sitting around 5 per cent (or £50 per month) lower than we would have expected were the relationship between rents and earnings to have kept up with longer-term trends. It is unsurprising, then, that we have seen a significant 'burst'

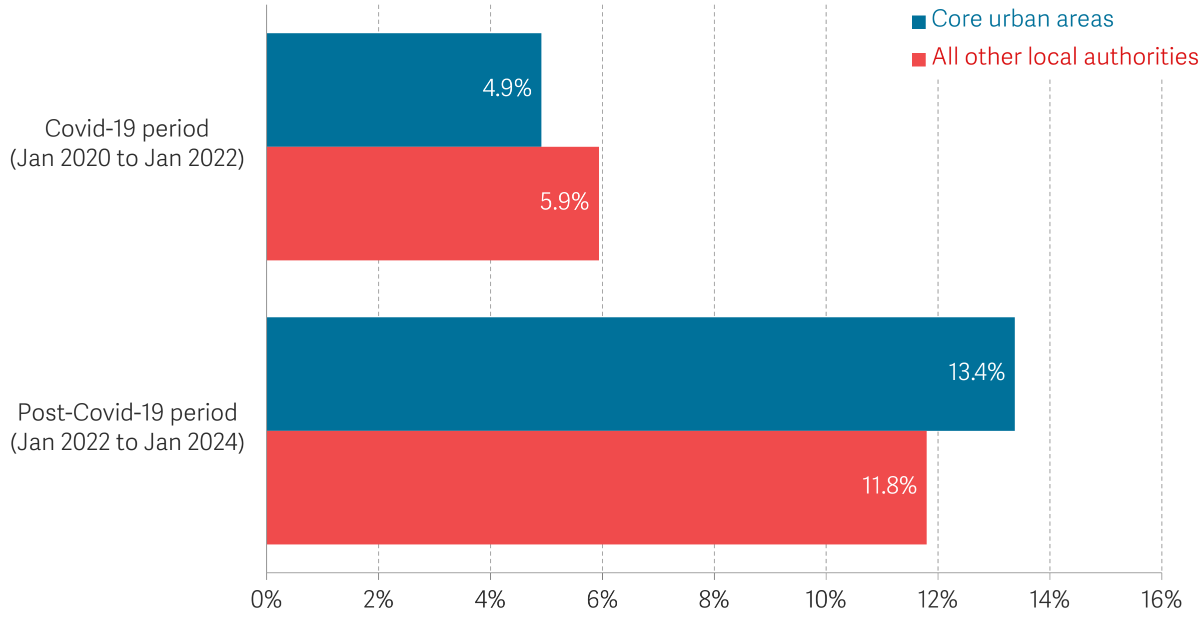
18 For more on legal protections for tenants during the pandemic, see: Shelter England, Coronavirus (COVID-19) and housing, accessed 3 April 2024; and see: L Lei & S J South, Who returned home? The Covid-19 pandemic and young adults' residential transitions, Advances in Life Course Research, December 2023, for evidence of trends in young adults returning to live with their parents during the pandemic in the US.

of rental-price growth in recent months, to 'correct' for Covid-19-related departures from longer-term trends in the relationship between rental price and earnings growth.

And a return to pre-Covid-19 norms explains some of the extremely high rental-price growth we've seen in urban areas. Urban areas of the country saw significantly lower demand for housing during the pandemic. Our previous research illustrated the effects this had on house prices, with urban areas seeing slower growth over the pandemic period, and these patterns are equally apparent in rental prices.[19] As shown in Figure 10, core urban areas of the UK saw 4.9 per cent growth in rental prices (for all rents) between January 2020 and the beginning of 2022, lower than the 5.9 per cent average growth seen in other local authorities. However, these urban areas have since seen a significant 'bounce-back', with core urban areas seeing average rental-price growth of 13.4 per cent between January 2022 and January 2024, 1.6 percentage points higher than the growth seen in other local authorities over this period.

FIGURE 10: **Core urban areas saw weaker rental-price growth during the Covid-19 pandemic, but have seen a stronger rebound since**

Private rental-price growth, by core urban and other local authorities: England and Wales



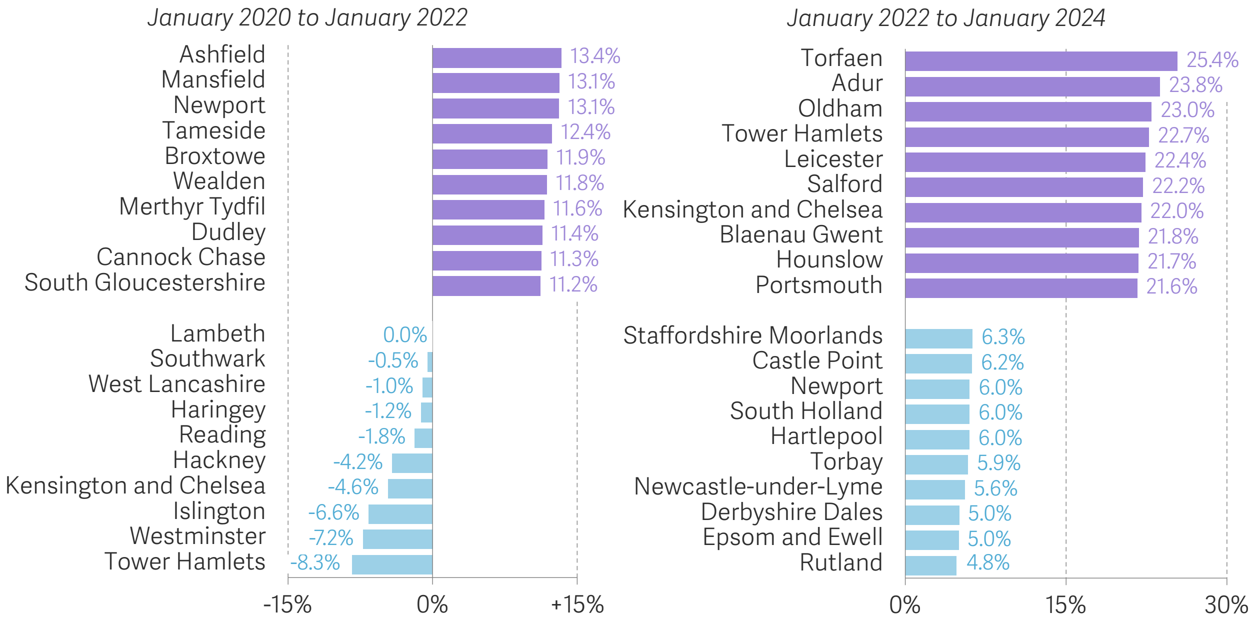
NOTES: 'Core urban areas' refers to local authorities categorised as being within core functional urban areas of cities in England and Wales, according to the OECD classifications.
SOURCE: RF analysis of ONS, Private rent and house prices, UK: March 2024.

19 L Judge & C Pacitti, Housing Outlook Q2 2021: The impact of Covid-19 on housing demand across the UK, Resolution Foundation, May 2021.

Unsurprisingly, this effect has been particularly pronounced in London. Inner London local authorities including Tower Hamlets, Westminster, Islington, Kensington and Chelsea, Hackney, Haringey, Southwark and Lambeth accounted for eight of the bottom ten local authorities in terms of rental price rises over the pandemic period (see Figure 11).[20] Since then, London has seen the highest rises in rents compared to any other region, with Tower Hamlets, Kensington and Chelsea and Hounslow all appearing in the top ten local authorities by rental price rises since 2022. The continued unwinding of pandemic-related disruption to the long-term relationship between rents and earnings is likely to form at least part of the explanation for the high rental-price growth we've seen since the pandemic.

FIGURE 11: **Local authorities in London have seen a particularly strong rental price rebound since the end of the Covid-19 pandemic**

English and Welsh Local authorities with highest and lowest private rental-price growth over various periods



SOURCE: RF analysis of ONS, Private rent and house prices, UK: March 2024.

The impact of the cost of living crisis and higher interest rates

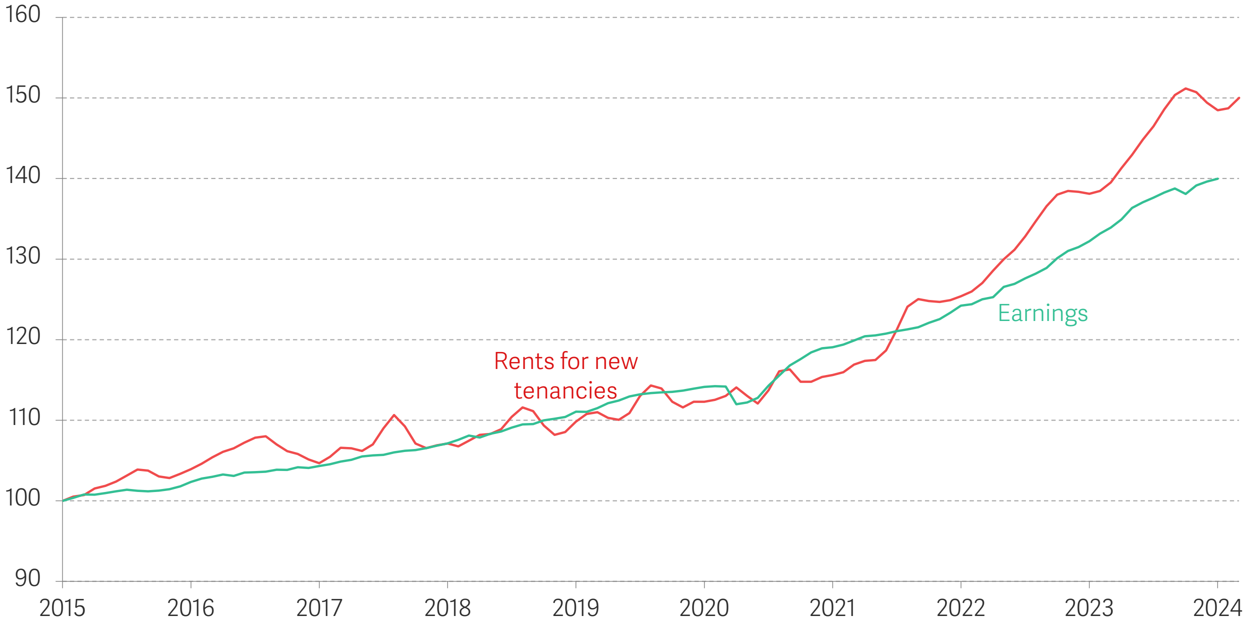
During the recent cost of living crisis, the initial surge in inflation led to rapid growth in average (nominal) earnings. Earnings have grown by 13 per cent since the beginning of 2022, their fastest annual growth rates in a generation. Given the longer-term trend for rents to increase in line with earnings growth, plus the Covid-19 catch-up mentioned above, rental growth among new tenancies of over 18 per cent is much more understandable.

20 For more on the impact of the pandemic on London's population, see: M Lange, Escape to the country? How Covid changed London's population, March 2024.

However, if we strip out the impact of Covid-19 by looking at changes in earnings and rents since the start of 2020, then Figure 12 shows that rents for new tenancies have grown by over 30 per cent since January 2020, stronger than (nominal) growth in average earnings over that period of 23 per cent. This leaves us with the remaining question of why we might be seeing a divergence from long-standing trends in the relationship between rents and earnings since the pandemic, and what might be driving the extra 'burst' of growth in rents for new tenancies that we've seen over and above earnings growth.

FIGURE 12: **Private rents have risen more rapidly than earnings since 2020**

Index of average weekly earnings and private rental prices for new tenancies (January 2015 = 100): UK



NOTES: 'New tenancies' uses data from HomeLet on prices recorded for new tenancies across the UK. Earnings are seasonally-adjusted AWE regular pay. Last data point is March 2024.
SOURCE: RF analysis of HomeLet, HomeLet Rental Index, March 2024; ONS, Labour Market Statistics.

This may, in part, be due to an over-statement of rental-price growth in the measurement of prices for new tenancies. However, work by Bank of England researchers on the impact of interest rates on private rents may provide a plausible explanation.[21] This research shows that temporary hikes in interest rates can result in short-term increases in rental prices. Based on this modelling, the authors estimate that a 1 percentage point increase in interest rates pushes up rental prices by around 1 per cent over the following 12 months.

21 D Albuquerque & J Lenney, Is UK monetary policy driving private housing rents?, Bank Underground, 20 December 2023.

This is explained via a complex combination of mechanisms. The researchers suggests that supply might fall temporarily if landlords with Buy-to-Let mortgages remove their property from the private rental market but fail to find buyers, as housing transactions slow (although we showed earlier that, if this happened in the UK, its impact is less than 1 per cent of the total stock of housing in the PRS). Meanwhile, the researchers also find evidence that demand from tenants rises in the immediate wake of interest rate rises: because prices for owner-occupied houses fall relatively slowly, some prospective first-time buyers are (temporarily) priced out of ownership in a world of more expensive mortgage rates, and remain in the PRS, thereby increasing demand.

Crucially, as mentioned above, the paper finds that this upward pressure on rental prices due to higher interest rates is temporary, with interest rates ultimately leading to lower house prices and rents in the long-term. This is partly because falling house prices ultimately enable new landlords to enter the market and offer lower rents, but also because private renting households become increasingly unable to afford high rents as the effects of monetary policy on their incomes builds.

Growth in rents for new tenancies will likely slow, but rising overall rental prices will remain a feature of the years ahead

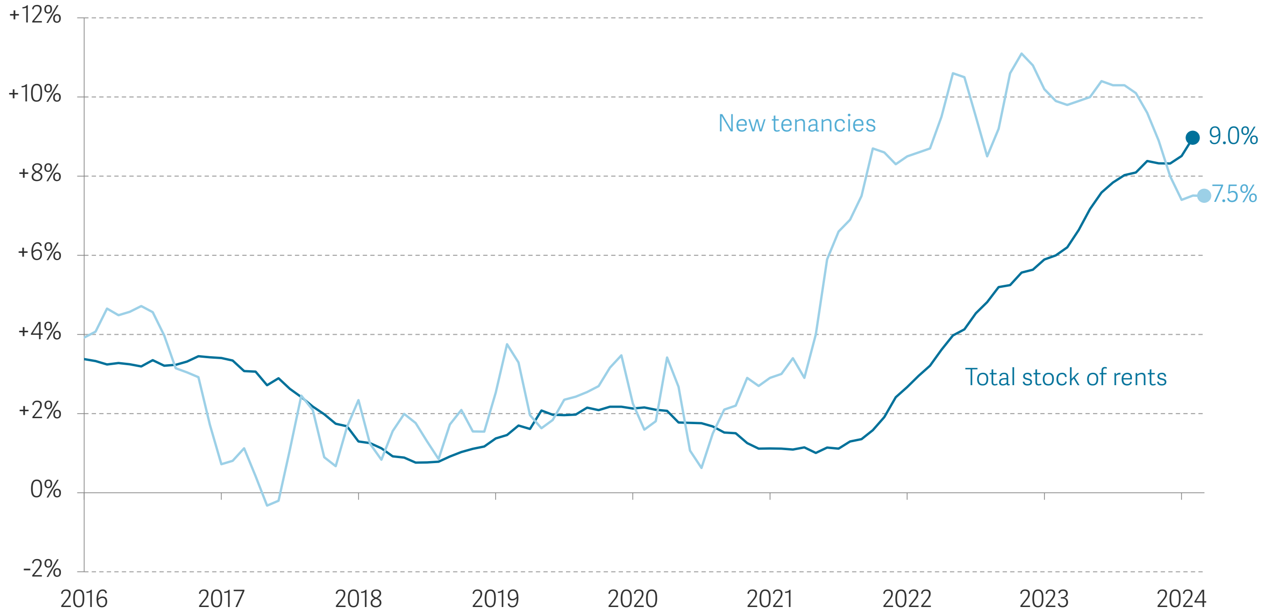
Rental-price growth for new tenancies is likely to cool in the coming months

So if the recent changes to rents are largely explained by a post-pandemic correction and a response to the rapid growth in earnings, what can we expect over the next few years? Given that it is at least two years since the pandemic ended, and that high interest rates are now beginning to put the brakes on the UK economy, with earnings growth cooling, it seems very likely that the period in which rental-price growth for new tenancies outstripped earnings growth is coming to an end.

We can feel more confident about this interpretation for three reasons. First, the most recent data for new tenancy rental prices suggests a rapid cooling-off of price growth in recent months. As Figure 13 illustrates, rental-price growth has fallen from its recent peak of annual growth of 10.4 per cent over the year to June 2023 to 7.5 per cent over the year to March 2024.

FIGURE 13: **Rental-price growth for new tenancies has fallen in recent months**

Private rental-price growth for new tenancies and the total stock of rents: UK / GB



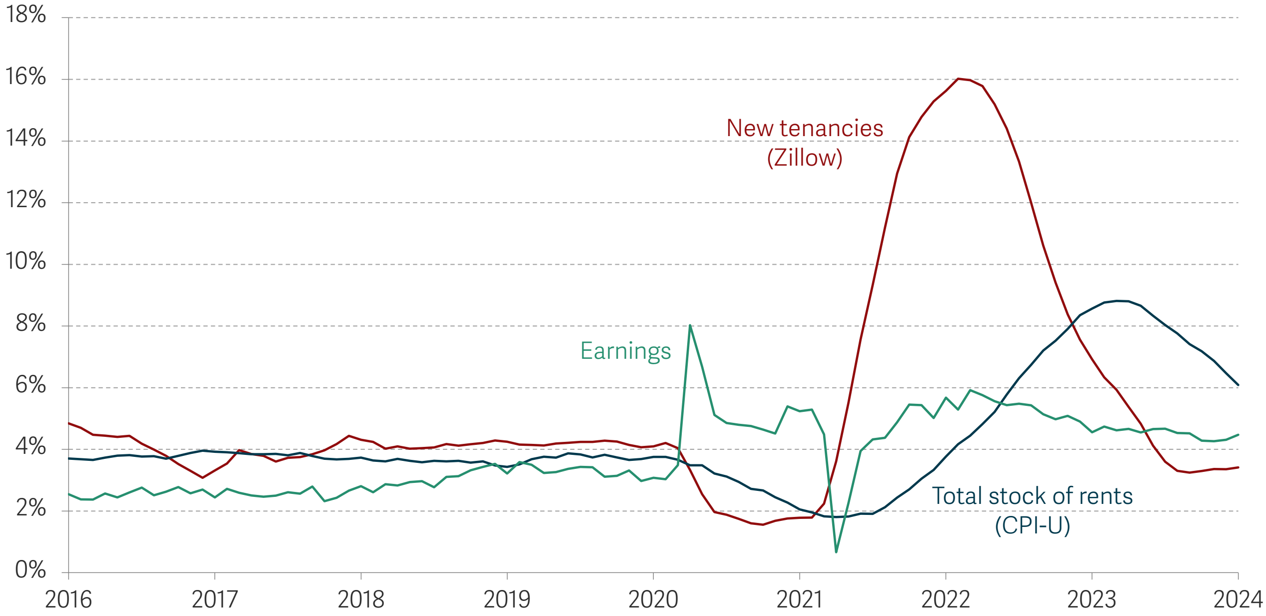
NOTES: 'New tenancies' uses data from HomeLet on prices recorded for new tenancies across the UK. 'Total stock of rents' uses the ONS' PIPR measure for Great Britain, which records average rental prices across all rents, including those that have not changed between years. Last data point is March 2024.
SOURCE: RF analysis of ONS, Private rent and house prices, UK: March 2024; Homelet, HomeLet Rental Index, March 2024.

Second, leading market commentators predict further cooling of rents over 2024. Rightmove predicts rental-price growth of just 3 per cent over 2024 in London, and 5 per cent over the rest of the UK, with Zoopla suggesting that rental-price growth will roughly half over the next twelve months.[22] Thirdly, it is also informative to look at other countries' experience. For example, in the United States, rental prices for new tenancies exhibited a similar pattern to that seen in the UK in the years following the pandemic, with rental-price growth for new tenancies exceeding earnings growth between April 2021 and May 2023 (Figure 14). However, rental-price growth for new tenancies has since cooled rapidly, and is now much lower than earnings growth.

22 Rightmove, Rental Price Tracker Q4 2023, January 2024; and: R Donnell, Rental Market Report: March 2024, Zoopla, 20 March 2024.

FIGURE 14: **In the US, rental-price growth for new tenancies has also seen a sharp fall**

Earnings growth and private rental-price growth for new tenancies (Zillow) and the total stock of rents (CPI-U): US



SOURCE: RF analysis of Zillow; US Bureau of Labor Statistics.

Overall, then, if the recent experience of rents for new tenancies exceeding earnings growth is only a temporary departure from long-term trends, then we'll likely see the UK follow the path seen in the US, with rental-price growth for new tenancies slowing significantly in the months to come.

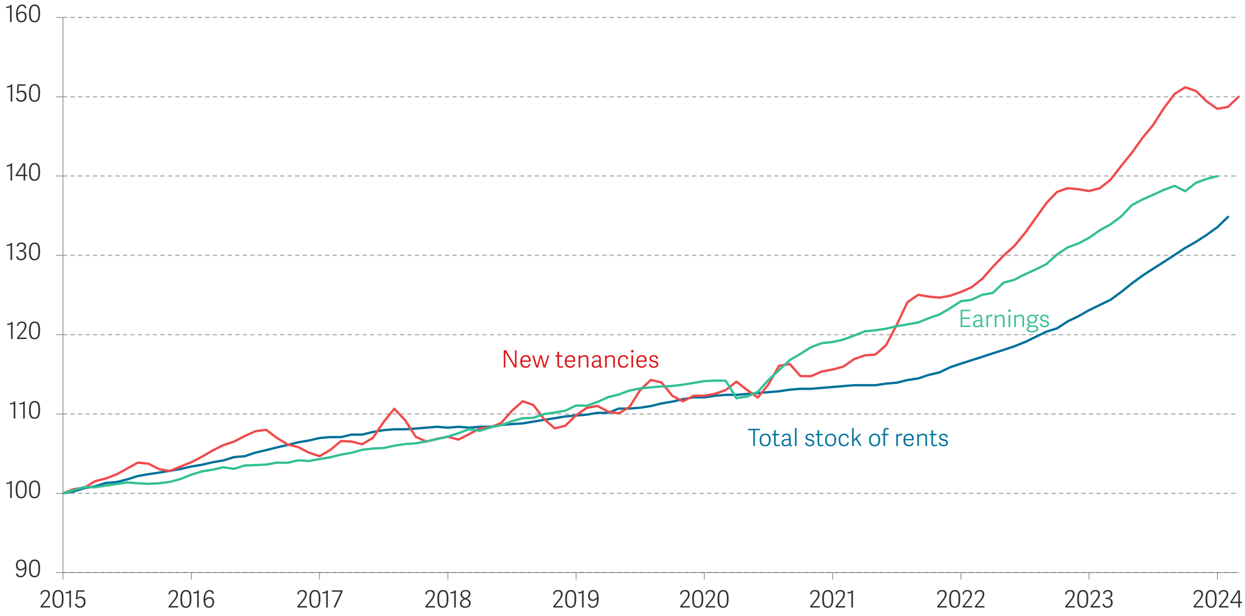
Even if rental-price growth for new tenancies cools, rental prices for the total 'stock' of rents will continue to rise

Importantly, though, even if rental-price growth for new tenancies cools, this does not mean pressures on renters as a whole will subside, because the average rent paid by the whole population of renters will likely continue to rise.

This is simply because the 'stock' measure of rents takes much longer to reflect changes in the rental market, given that it includes many renters who have not yet faced the high market prices for new tenancies, with landlords who have not increased their rents in line with market rates. As illustrated in Figure 15, the total 'stock' measure of rents has grown much more slowly than both rents for new tenancies and earnings over the 2020s, rising by less than a fifth since January 2020, compared to the 23 per cent growth in earnings, and the 32 per cent growth in rents for new tenancies we've seen over this period.

FIGURE 15: **The total 'stock' of rents has risen much more slowly than rents for new tenancies, or earnings**

Index of average weekly earnings and private rental prices for new tenancies and the total stock of rents (January 2015 = 100): UK / GB



NOTES: 'New tenancies' uses data from HomeLet on prices recorded for new tenancies across the UK. 'Total stock of rents' uses the ONS' PIPR measure for Great Britain, which records average rental prices across all rents, including those that have not changed between years. Earnings are seasonally-adjusted AWE regular pay. Last data point is March 2024.
SOURCE: RF analysis of ONS, Private rent and house prices, UK: March 2024; HomeLet, HomeLet Rental Index, March 2024; ONS, Labour Market Statistics.

As shown above in Figure 14, the experience in the US is that, even as the rate of growth for new tenancies falls, the average rent paid by the whole population of renters will continue to rise rapidly – and potentially rise faster than average earnings growth – as renters who have yet to see the large rent hikes reach the end of their tenancy, or are forced to accept within-tenancy price rises. It seems highly likely that the UK will follow this pattern, with continued strong rental-price growth in the 'stock' of rents, driven by individual renters who have so far been insulated from high rental prices seeing significant increases when they start new tenancies, renew existing tenancies or receive within-tenancy rent increases.

As a thought experiment, if we assume the ratio of rents to earnings in the UK will return to its pre-pandemic level in three years' time, then the total 'stock' of rents would need to see over 13 per cent price growth over the next three years (or 4.2 per cent a year on average), well in excess of the forecast 7.5 per cent growth in average earnings.

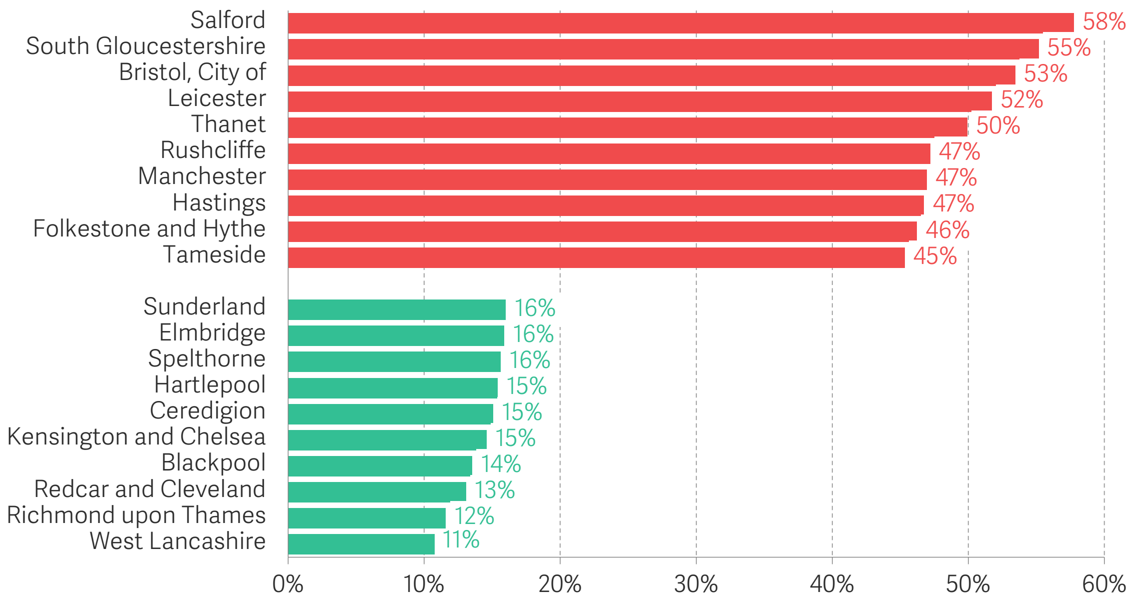
The pressure on renters is far from over, and the cost of living crisis – which has pushed up the price of many essentials - leaves families with less flex to use when coping with higher housing costs. Energy prices have risen by 55 per cent since January 2022, with food prices increasing by a quarter, both far in excess of growth in earnings. Even if we expect earnings growth and rental-price growth to eventually converge with each other (leaving the proportion of income households are spending on rent roughly consistent with pre-crisis levels), the fact that essential goods now take up a larger proportion of household incomes means that housing costs will feel less affordable.

Policy makers should address this ongoing pressure on renters, particularly those on low incomes and in areas with rapidly rising rents

The discussion above has focused on rental-price growth at the national level, but rising prices have also affected (and will likely continue to affect) certain areas of the country more acutely than others. As shown in Figure 16 the recent experience of rental price increases has been by no means uniform across local authorities in England and Wales. Some areas, including West Lancashire, Richmond upon Thames, Redcar and Cleveland, and Blackpool, have seen rents increase by less than 15 per cent since 2016, but others, including Bristol, South Gloucestershire, Leicester and several areas of Greater Manchester, have seen rents increase by around a half, or more. It is much more likely that households will struggle to keep pace with their housing costs in these localised hotspots of rental-price growth.

FIGURE 16: **Some local authorities have seen over 50 per cent rental-price growth since 2016**

Private rental-price growth, by local authority: highest and lowest ten local authorities in England and Wales, January 2016 - January 2024



SOURCE: RF analysis of ONS, Private rent and house prices, UK: March 2024.

Policy measures that could be put in place to protect current tenants in these areas include 'light-touch' rent stabilisation – where landlords, for example, are able to set a market rent at the beginning of a tenancy but increase it no faster than inflation for the following three years, as set out in previous Resolution Foundation policy proposals.[23] However, dealing with the underlying issue of surging housing costs in high demand areas requires a wider policy response, including an expansion of housing supply in areas experiencing rapid economic growth.[24]

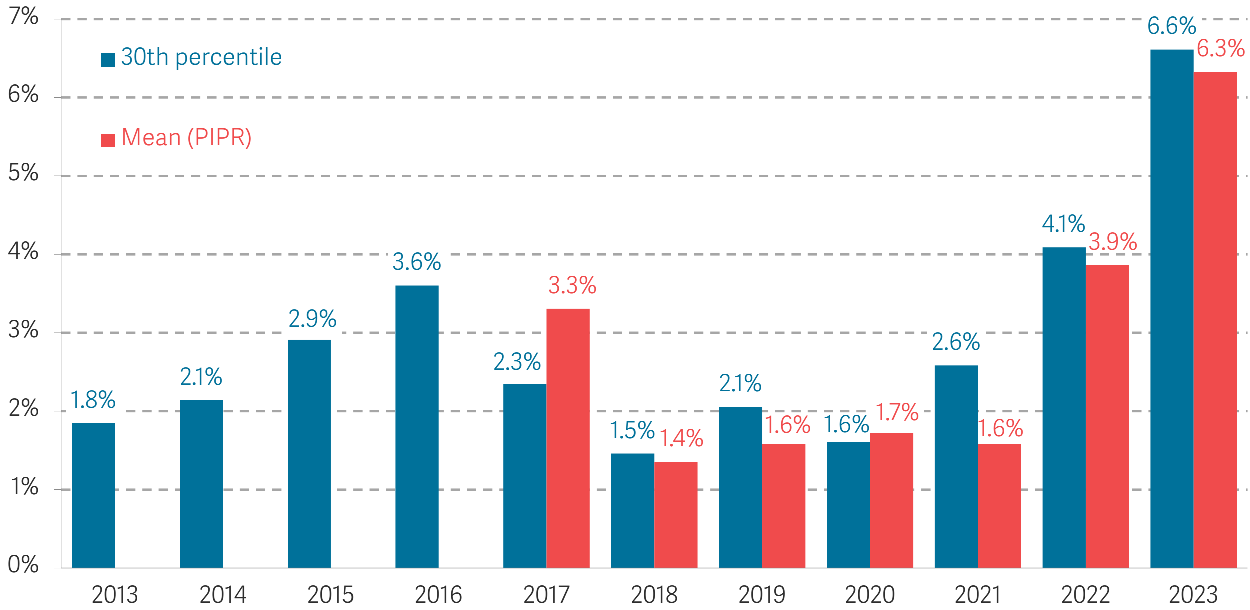
And the existence of widely-varying increases in rents throws attention on another policy lever that is absolutely crucial in determining the affordability of rents for low-income households: Local Housing Allowance (LHA). In the 2023 Autumn Statement, the Chancellor made the welcome announcement that LHA rates would be realigned to the 30th percentile of local rents from April 2024, after four years of frozen rates, a measure which provides the most help in those areas that have seen the fastest growth in rents. As Figure 17 illustrates, private rents in the lowest 30th percentile of local rents (i.e. those which LHA covers) have also seen similar, if not higher, rises than average rents over the past two years, rising by 4.1 per cent for a three-bedroom property over the year to September 2022, and 6.6 per cent over the year to September 2023.

However, the Government's commitment to uprate LHA in line with local rents has only been a temporary one, with LHA currently set to be frozen indefinitely at the April 2024 rates. Moreover, while the policy commitment to uprate LHA in line with local rents this year will go some way to insulating the lowest income households against the high rental costs we've seen over recent months, thousands of households set to see their housing support increase will run against the benefit cap. This has only been uprated once since 2013, which means that in high housing cost areas, this will restrict the incomes of many private renters from keeping pace with rising rents.[25] For example, a couple with two children on Universal Credit and paying rent at or above the Local Housing Allowance will now be 'benefit capped' in four-in-five (83 per cent) local areas, up from just over half (53 per cent) in 2023-24. Scrapping the benefit cap, and committing to consistently uprate LHA in line with local rents would insulate many low-income renters from rental-price growth in the years ahead.[26]

23 L Judge & D Tomlinson, Home improvements: Action to address the housing challenges faced by young people, April 2018.
24 Previous RF work looked at how an expansion of housing supply in the UK's growing second cities could help to mitigate future rises in housing costs, see P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond, September 2023 and P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, September 2023.
25 For more on the impacts of the upcoming LHA uprating, see A Clegg, A temporary thaw: An analysis of Local Housing Allowance uprating over time, December 2023.
26 For more on the importance of a consistent uprating of LHA in line with local rents, see: M Brewer et al., Sharing the benefits: Can Britain secure broadly shared prosperity?, July 2023. For more detail on the benefit cap and why it should be scrapped, see: L Try, Catastrophic caps: An analysis of the impact of the two-child limit and the benefit cap, January 2024.

FIGURE 17: **Rents at the 30th percentile have also seen significant increases, albeit at a lower rate than the mean**

Growth in private rental prices for a three-bedroom property at the mean and 30th percentile: England



NOTES: Mean private rental-price growth is the growth in average rents for the twelve months to September in each year from the ONS' Price Index of Private Rents (PIPR), while 30th percentile rents are a simple average of BRMA-level growth rates calculated from published tables of LHA rates.
SOURCE: RF analysis of ONS, Private rent and house prices, UK: March 2024; VOA, Local Housing Allowance (LHA) rates, various.

Finally, longer-term priorities must be to address the barriers to home ownership and the erosion of the social housing sector that have expanded the private rental sector over recent decades. Fundamentally, the UK needs a longer-term strategy that addresses the thorny issue of how to expand housing supply, including in the social rental sector, and which prevents private renters from being trapped in high-cost, low-quality, housing.

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:

Cara Pacitti
Senior Economist
cara.pacitti@resolutionfoundation.org

Resolution Foundation

2 Queen Anne's Gate
London SW1H 9AA

Charity Number: 1114839

@resfoundation
resolutionfoundation.org/publications