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Spatial Economics Research Centre

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Rising Rents

This morning the Guardian reports on the [LSL Buy-to-let index](#) suggesting that [rents have hit a record high](#).

The paper correctly identifies that the fundamental problem underlying the rise in rents is the lack of supply (102,750 new homes completed last year a time when the UK's population increased by nearly half a million). Through the New Homes Bonus (and other changes), the government is trying to do something about this under supply. As I explained a few months ago, it is too early to tell whether the NHB is working, but if supply figures continue to fall as low it is clear that the government may need to consider changes sooner rather than later. Indeed, in an interesting report published earlier this week the Centre for Cities are already [calling for a substantial increase in the payments](#), before the scheme has even got going.

The other thing which I find interesting in the rental figures is the fact that the price effects are being felt quite strongly in a number of places across the country. London saw the highest increases, but was quite closely followed by the North and Midlands. This is in strong contrast to what is happening with house prices. The most [recent land-registry figures](#) show that in the year to April 2011 house prices in London rose 5.0% and in the South East by 0.5%. Every other region saw house prices fall in the same period: down a little over 2.5% in the East and West Midlands, down over 4% in Yorkshire and the North West, down over 8% in the North East. The average for England and Wales was a 1.3% fall.

The difference between the two trends likely has a few explanations. First, as house prices fall people decide to rent rather than buy so switching demand from owner occupation to the rental side of the market. Second, to the extent that this changes the composition of the rental market (e.g. towards houses) the characteristics of the properties underlying the index improve, mechanically driving up house prices. Third, within the regions, there's presumably a similar effect with some sample selection in the underlying rental data towards areas where the rental market is currently more active.

These caveats aside, it's clear that even with the recession, housing supply constraints continue to bite and that government will need to be ready to act quickly if current policy reforms turn out not to be effective in addressing this problem.

Posted by [Prof Henry G. Overman](#) on [Friday, July 15, 2011](#)

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