IMPACT OF RENT CONTROLS: A report prepared by Savills for the Chartered Institute of Housing Scotland February 2023

1. Introduction

This commentary and analysis was instructed by the Chartered Institute of Housing Scotland (CIH Scotland) in November 2022 in anticipation of the Scottish Government's consideration of whether to extend the statutory rent freeze on in-tenancy rent increases beyond 31 March 2023.

In December 2022, Patrick Harvie MSP, Minister for Zero Carbon Buildings Active Travel and Tenants' Rights, announced that the social sector rent cap would not be extended[1]. Regulations introduced in January 2023 amended the legislation, allowing social landlords to increase rents from the end of March 2023. The rent cap was also removed from purpose built student accommodation (PBSA) but will be extended for a further six months for the private rented sector (PRS) with a revised cap of three percent. This could be extended for a further six months if Ministers still deem the cap to be proportionate and necessary. The impact of the legislation will continue to be reviewed with reports to Parliament informing decisions on whether to

Registered Social Landlords (RSLs) and local authorities had not had social rent increases constrained by the cap because annual rent increases tend to be implemented in April, though some do let Mid Market Rent (MMR) properties that have been and will continue to be affected.

While the rent cap for social landlords has been expired, the discussion around affordability in the sector remains relevant and the Scottish Government is still actively considering the role of rent caps through the rented sector strategy, A New Deal for Tenants, which is under development. Therefore, this paper is being published as a useful commentary on the financial challenges being faced by social landlords and how these relate to decisions on business planning, service delivery and rent setting. It will provide useful context for any future debate on rent capping.

2. Areas of enquiry

The specific areas addressed within this paper are set out below:

1. An estimate of inflation assumptions built into current social landlords' business plans.
2. An assessment of key determinants of social landlord costs and of likely inflation in them over the years 2022/23 and 2023/24, in comparison with Consumer Price Index (CPI) inflation.
3. An assessment of the level of the percentage rent increase required in April 2023 to meet expected costs, meet business plan requirements, including an assessment of the range of such forecasts.
4. Commentary on outliers (i.e. landlords with significantly greater cost pressures, landlords without new build programmes, landlords in the care business).
5. Highlight considerations relating to service charges and service charge increases.

[1] https://www.parliament.scot/chamber-and-committees/questions-and-answers/question?ref=S6W-13389

6. Summary of how members and boards are viewing 2023 rent increases and associated affordability assessments in light of cost of living pressures on tenants.
7. Commentary on implications for longer-term rent policy (setting and increasing rents) and implementation by landlords.
8. Consider any options for restraining rent increases that the sector might offer (or government might propose), and their implications.

3. Methodology

We have drawn evidence from a range of social landlords, both RSLs and local authorities, and have cross-referenced this with other pieces of work undertaken by the sector.

We have engaged directly with social landlords in relation to differences between urban and rural provision, and between general needs accommodation and supported housing.

We have also gathered feedback from social landlords in relation to the perceived intentions of their boards and members, so as to capture a sense of the “mood of the sector”.

We have referred to business plans in place prior to the announcement of a potential statutory rent freeze from April 2023, and those in development at the time when statutory restrictions on rent increases were being considered.

4. Concerns raised by the social and private rented sector

Prior to the announcement of emergency legislation, social landlords were already considering how to approach 2023 rent increases, particularly in the light of the prevailing cost of living crisis affecting tenants which has seen essential goods and services, particularly food and energy, subject to significant inflationary pressures in recent years, and which is likely to continue. Social landlords are of course themselves operating in a high inflation environment, with expenditure pressures exerted on landlords experienced through 2022-23 and likely to carry on into the near-term future.

PRS landlords have raised concerns that the freeze will lead to reduced availability of private rented accommodation, as landlords are unable to recover increased costs (of debt finance, repairs etc.) via rent. Social landlords are conscious of this insofar as reduction in PRS provision affects levels of demand for their services, whether this is affordable housing provision or homelessness services.

The result of expenditure pressures being far greater than prospective rent increases will lead to revenue losses for landlords. The potential level, range and extent of these are explored in this paper.

5. Recent rent increases

Social housing rents have increased by on average 2.5 percent per year over the last six years. Data released by the Scottish Housing (SHR) can be used to show how social housing rent increases relate to the rates of Consumer Price Index (CPI) and Retail Price Index (RPI) inflation that applied in the month of rent increase[2].

[2] Rent increases by Scottish social landlords A thematic review, September 2022

In the last six years average increases have been behind prevailing CPI in three years and ahead in three years.

Table 1: Average rent increase in the social rented sector compared to CPI and RPI

	April 2017	April 2018	April 2019	April 2020	April 2021	April 2022
LAs	2.6%	3.3%	2.8%	2.9%	1.5%	1.6%
RSLs	2.2%	3.2%	3.0%	2.4%	1.2%	3.3%
All social landlords	2.3%	3.2%	3.0%	2.5%	1.2%	3.0%
CPI						
April	2.7%	2.4%	2.1%	0.8%	1.5%	9.0%
Previous Sept	1.0%	3.0%	2.4%	1.7%	1.4%	3.1%
Previous Oct	0.9%	2.8%	2.4%	1.8%	0.7%	4.2%
RPI						
April	3.6%	2.9%	4.5%	2.3%	2.1%	13.1%
Previous Sept	2.6%	3.7%	3.3%	3.2%	1.5%	3.0%
Previous Oct	2.6%	3.8%	3.4%	2.8%	1.2%	5.2%

Social landlords necessarily set rent increases prior to the month in which they are applied. The rate of inflation (RPI or CPI) at the time they are considering business plans (usually the previous autumn) will be taken into account. The exact approach depends on custom and practice in individual organisations – with RPI commonly being used still. Broadly we see rents on average increasing slightly faster than those rates of CPI inflation and behind RPI. The rent increase applied will reflect the balance between business needs/priorities and affordability that landlords discuss with tenants before setting the increase.

In the 2022-23 financial year, social rents on average increased by much less than prevailing inflation, with local authorities constraining increases even more than RSLs. In contrast, private rents have increased a little ahead of general CPI inflation.

Private rental inflation in Scotland in the 12 months to September 2022 was 12.1 percent, which is the same as the UK overall[3] (CPI 10.1 percent). However, rental growth in Scotland was still accelerating in October 2022, while in the UK average growth may have peaked as it has been at 12.1 percent for the last four months.

The most recent figures for Glasgow and Edinburgh show PRS rental inflation in the 12 months to August at 13.3 percent and 12.2 percent respectively; ahead of Scottish average growth in the same period of 10.5 percent (CPI 9.9 percent). Rental growth was also still accelerating in Glasgow in August, but looks like it peaked in Edinburgh in June.

6. Business plan inflation assumptions for rents and income

Rent increase assumptions

Social landlords often begin business planning by considering inflation in September or October of the year prior to their April increase. CPI figures for September and October 2022 were 10.1 percent and 11.1 percent respectively; and RPI 12.6 percent and 14.2 percent respectively.

[3] Source: Zoopla Rental Index powered by Hometrack

The Monetary Policy Committee, in its most recent forecast[4], predicted CPI inflation of 10.1 percent in Q1 2023, reducing to 4.0 percent by Q1 2024 and 1.2 percent by Q1 2024. Social landlords (and their tenants) are therefore going to be exposed to high inflationary pressures for some time to come.

Table 2: Estimated CPI 2023-25

	Q1	Q2	Q3	Q4
2023	10.1%	9.5%	7.9%	5.2%
2024	4.0%	1.1%	1.2%	1.4%
2025	1.2%	0.8%	0.6%	0.0%

In their business plans, landlords adopt a variety of approaches in setting out the longer-term trajectory of rent increases.

Official sources (Bank of England etc.) for inflation provide annual projections for around three years, with a long-term trajectory assumption stated beyond that. Accordingly, social landlords tend to use these as a basis for assumptions in business plans. We see a mix of CPI and RPI used, with rental assumptions often set either at inflation or "inflation plus". Local authorities as a group tend to use September RPI, with more mixed practices amongst RSLs.

Some social landlords agree multi-year rent settlements with tenants, and so these would state two years of agreed increases before returning to externally sourced assumptions.

Business plans prepared last year with official inflation assumptions as an input would have assumed rental inflation much lower than would now be derived from current rates. In summary, landlords preparing business plans on this basis would have been projecting a rent increase of below four percent within their business plans for April 2023 and April 2024.

Rent levels

There is no prescribed method for setting or increasing a social rent in Scotland. The vast majority of properties already have a rent set. For new properties, social landlords will have their own methods to derive rents by using local data and affordability tests, but the Scottish Government also has a strong influence here.

There is an expectation that rents for new build homes supported by grant funding will satisfy the Scottish Government's RSL social rent benchmark assumptions, with flexibility of up to five percent (and 10 percent with justification). These are based on an original calculation of an affordable rental level for three-person accommodation, which have been uprated initially by CPI inflation and then two percent each year since 2017-18.

Table 3: Effective weekly rents under Scottish Government benchmarks

	2022-23	2023-24	2024-25	2025-26
1 bed (2 person)	£ 79.04	£ 80.62	£ 82.23	£ 83.88
2 bed (3 person)	£ 88.50	£ 90.27	£ 92.08	£ 93.92
2 bed (4 person)	£ 96.48	£ 98.41	£ 100.38	£ 102.39
3 bed (5 person)	£ 102.23	£ 104.28	£ 106.36	£ 108.49
3 bed (6 person)	£ 106.21	£ 108.34	£ 110.50	£ 112.71
4 bed (7 person)	£ 115.06	£ 117.36	£ 119.71	£ 122.10

[4] Bank of England Monetary Policy Report November 2022

Local authority average rents tend to be lower than RSL average rents. The median weekly average local authority rent for 2022-23 was £79, compared with £88 for RSLs.

Plans and ambitions for investment programmes have a strong influence on rent levels, whether this is for new supply or existing homes. In the last 10 years or so, wage increases within local authorities have been frozen or very low, and as wages are a large part of operating costs, this has reduced pressure to increase rents to cover such costs. Some RSLs describe that they factor a wage increase into business planning, and that the increase given to staff will be in line with the agreed rent increase.

It is common practice for landlords to consult tenants on three options for rent increases: the amount they believe is required to deliver the stated business strategy, a higher amount that will deliver defined additional investment, activities or improvements, and a lower cost amount with an illustration of the impact working with fewer resources.

This approach effectively gives landlords some ability to 'catch up' if they need extra money for business priorities in later years, subject to consultation with tenants.

25 RSLs (18 percent) and five local authorities (20 percent) froze rents during Covid-19 (i.e. 2021-22), as a support measure for households – with the local authorities covering many more properties. Four of the five local authorities also froze rents in 2022-23, with one other newly implementing a freeze. In 2022-23, average local authority rent increases were noticeably lower than RSL increases (1.6 percent and 3.3 percent), reflecting policy decisions relating to cost of living pressures due to rapidly increasing inflation at the time.

For example, around 22 of 26 (85 percent) of authorities are thought to have increased their rents by less than the national average in April 2022[5], including the rent freezes in place in five local authorities.

A few, but by no means all, social landlords applied higher than average rent increases in the year after a freeze. This suggests that whilst the ability to 'catch up' income foregone does exist, landlords have not generally made a concerted effort to do this.

Impact on business plans

Social landlords adhered to usual practice and continued to prepare 2023-24 rent increase options for consultation with tenants, informed by business plan modelling.

When considering rent increases for April 2023, all landlords have recognised that inflation has been over 10 percent in the autumn. Most landlords now have a good understanding of what rent increase would be required to sustain business commitments and what capacity they have to constrain increases in order to reduce financial pressure on tenants. There is quite a wide range of figures being considered by different landlords. Whilst most are not contemplating increases in line with inflation, some consider that they do require high increases to sustain their business and will consult on this basis.

We understand that many have recognised that a rent increase at five percent plus would be above the level of rent increase for 2023-24 that was previously included within their business plan.

However, expenditure inflation as it affects landlords' key expenditure areas is actually running at or above CPI (see below), and certainly at a higher level than projected in plans.

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[5] *Scottish Housing Regulator thematic review*

Therefore, there is also deep concern about net losses that would be sustained as a result of a freeze or other constraint on rent increase.

7. Assessment of key determinants of social landlord costs and of likely inflation in them, in comparison with inflation-based business plan inflation assumptions for rents

We held discussions with a range of landlords to explore the drivers of cost inflation applying to the delivery of housing landlord services. Some landlords simply apply the same inflation assumption across all areas of the cost base. We feel that a more granular approach may be beneficial. Areas of particular concern were materials and construction costs, especially in more remote areas where there are additional pressures on the supply chain.

Housing management and services

The primary cost driver relates to pay and salaries. Our estimate is around two thirds of housing management costs are driven by employee costs. In the RSL context, this also applies to central and corporate costs, and in the local authority context, recharges to the Housing Revenue Account (HRA) from central and corporate functions.

The remaining costs of housing management fall into the general categories of external contractors, supplies and materials, and utility/energy costs, and whilst the proportion of each varies depending on circumstance, location and service delivery model, around one third of each type applies to non-employee budgets.

Repairs & maintenance

The primary cost driver affecting repairs expenditure is external contractor costs.

Our estimate of employee cost drivers informing pay awards of direct repairs employees is around one quarter of costs. Clearly, for a large local authority with large direct labour force (for example), the employee cost element will be much greater (perhaps up to two thirds).

For a repairs service that is entirely outsourced, the employee driver is likely to be around 10 percent or less. Therefore, 25 percent appears to be reasonable view of the sector average.

We estimate that around one quarter of costs of repairs relate to materials.

Major repairs and construction

Whilst there is occasional use of in-house staff on major works and construction/development programmes, the overwhelming majority of work is outsourced to contractors. Whilst some element of “capital management” is charged to programmes, particularly development programmes, and inflation here may be driven by pay awards, we find the pay ranges of programme managers tend to be in line with wider inflation in the construction market.

For ease of illustration, we would assume that all major repairs and all development costs are driven by the wider inflation in the construction market.

Employee costs

Pay award offers have not been announced for those local authority employees affected by national pay structures, with the pay deal for 2022-23 having only recently been agreed.

The flat rate agreed for the current year will affect different authorities in different proportions with authorities with relatively lower paid staff experiencing a higher percentage increase.

Forming assumptions on wage increases is difficult in a time of heightened industrial relations activity. However, we find local authorities expecting little or no increase for 2023-24, on the basis that the 2022-23 increase was hard won; with some citing assumptions of around 2.5 percent. We see RSLs projecting increases in line with the rent rise; and that they are very conscious they have a responsibility to support staff affected by cost of living pressures and that low wage increases may have negative consequences for staff retention and operational delivery.

Contractors and suppliers

Experience varies widely in terms of indexation rates and new contract tender prices, but we are aware that contractors and suppliers are affected by the shortage of labour, both skilled and unskilled trades

Whilst many new contracts may exhibit price inflation well above CPI, the overall experience is felt to be at or around the level of CPI.

Materials

Similarly, materials and supplies are affected by shortages earlier within the supply chain. In some cases, this is leading to interruptions in supply, and in others significant inflationary drivers.

The experiences in some parts of the overall supply chain may be very challenging, but in general overall inflation around 10 percent as a minimum for modelling purposes appears appropriate. Island landlords experience pressures in this area particularly acutely, with some citing 25 percent cost increases.

Utility/energy costs

For energy costs, the experiences are significantly exacerbated.

There is likely to be some general negotiation down around proposed prices, but our estimate of 30 percent increases in 2022/23 and 100 percent increases in 2023/24 are based on the very lowest end of expectations.

Assumptions used by other professionals

We have presented for reference up to date assumptions being utilised to inform security valuations for RSL stock in charge to lenders.

8. Assessment of the level of the percentage rent increase required in April 2023 to meet expected costs, meet business plan requirements

There is a wide range of rent increase figures identified as landlords have considered what is required to meet costs and business plan needs.

In general, landlords feel they would need a rent increase in line with inflation in order to stay on track with business plan requirements. Some larger landlords are better able to take a financial hit, simply pushing next year’s planned spend into later years and assuming the plan can still be delivered. Concerns for these landlords relate more to capacity to initiate future development and investment programmes rather than sustaining current ones.

However, other larger landlords are certainly not in this position. Some smaller landlords describe that even a five percent increase would lead to them being unable to survive beyond a few years.

Impact of financial market movements

Movements in lending markets, base rates and gilt yields since the UK government's 23 September 'mini budget' have led to volatility and unpredictability around the costs of finance to be assumed going forward[6].

Whilst 73 percent of borrowing in the RSL sector is at fixed interest rates (i.e. hedged against increasing interest rates in the short-medium term), rising interest costs will significantly reduce financial capacity, as well as lead to more short-medium risk as RSLs turn to shorter-term loans with associated refinancing risks.

For some, the pressure of below-inflation rent increases will drive them to potentially breach covenants.

Social landlords that need to re-finance in the next two years anticipate a four to five percent increase in borrowing costs. There is a wider concern about how reduced income combined with increased debt costs will impact capacity.

Those local authorities that already have high debt costs, or who need to secure new borrowing soon, will also be affected by upward movement in debt costs.

Where RSLs and local authorities need to respond to such increases (or pressure on covenants), a combined programme of revenue savings and cutting back on capital investment is likely.

Responses to prospective losses

LAs and RSLs seeking to respond to costs foresee cuts in development programmes, which in some cases will be hundreds or even thousands of new homes over a 10 year period.

Landlords committed to development programmes with the Scottish Government are likely to feel pressure from three directions: construction cost inflation, challenges in programme delivery timescales given labour and supply chain shortages or contractor liquidations, and increasing borrowing costs. These are prevailing issues irrespective of any restriction on rent increase but will need to be addressed in the light of net reductions in operating margins.

Social landlords also anticipate pushing zero carbon works further out, but are acutely aware of the EESSH2 2032 milestone and impending review/tightening of those targets.

Where landlords deliver to a standard above SHQS, consideration is being given to dropping this.

Some landlords are experiencing recruitment difficulties, and can hold vacancies to manage costs. However, this does not help with service delivery and puts pressure on remaining staff.

Those landlords anticipating the most immediate and severe impacts are considering whether and how to cut costs by reducing standards of property maintenance (to statutory minimum level), staffing levels, staff terms and conditions, as well as development and forward-looking investment programmes. These landlords are acutely aware of the likely longer-term consequences of such decisions for stock condition and tenant experience.

Those in more rural areas are also aware of the impact on their local community if they reduce expenditure e.g. impact on other local businesses as well as employment opportunities and relatively larger impact of reduction in development output.

Summary

The “minimum rent increase required to stand-still” as stated by local authorities and RSLs engaged as part of this research covers a wide range, reflecting the diversity of social landlords.

The combined impact of frozen/constrained rent increases compared to increases in revenue and capital expenditure, and increasing financing costs, is likely to lead to significant challenges for many local authorities and RSLs in restoring resilience and flexibility to their business plans.

For smaller and less resilient landlords, the choices may be insufficient to support continued operation. If they can be sustained, cuts are likely to be focused on immediate expenditure reductions, with longer-term consequences for properties, tenants and local communities.

9. Commentary on outliers (i.e. landlords with significantly greater cost pressures, landlords without new build programmes, landlords in the care business, etc)

Developing landlords

For RSLs with large development programmes, the combined impact of net reductions in operating margin from the interplay between restricted rent increases and higher inflation on costs together with increased borrowing costs is likely to lead them to reconsider the scale of programmes, certainly beyond the current funded programme period.

The impact of restricted rent increases would therefore likely impact activities on those RSLs with the greatest range of programmes. Those with lower reliance in new build programmes may be more likely to focus on their revenue and reserves position.

Energy efficiency and decarbonisation

Significant focus has been on decarbonisation of stock and energy efficiency, with capital investment programmes financed directly from operating income or financed via borrowing being focused towards the existing stock under these headings.

There is significant uncertainty around the future EESSH2, and an inability to cost for works until the new standard is known.

For RSLs the net reduction in interest cover across the board will be felt across both covenant approaches and lead to significant pressure in working through the implications of capital investment into the stock.

Given that energy efficiency programmes are deemed essential in order to comply with legislation, and are also subject to 10 percent inflationary pressures, this is likely to focus the recovery of operating margins within RSLs towards savings in day to day management and service costs. Delay to decarbonisation work necessarily impacts the nascent supply chain and will create delivery pressures down the line.

For some landlords, given the pressures arising from net reductions in income, it will be necessary to provide direct capital grant support of these programmes are to be sustained and completed.

Rural and island landlords

These smaller landlords tend to be less resilient to financial pressures but make a large and much needed contribution to their local communities. They may be the only local affordable housing provider, their activities support the local economy, and although development programmes may be small they make a difference to the local area. They are more exposed to cost pressures, as island communities feel these more strongly. Reduction or cessation of their contribution would have a big impact.

10. Considerations relating to service charges and service charge increases

As a result of inflation in energy, repairs and housing management costs, it is likely that service cost inflation is running well above CPI. For those service charges with a high component of energy costs, we would expect these to be much higher. For example, if communal heating charges are (say) £5/week in 2022/23, a five-fold increase passed on directly would increase that component of the service charge to £25/week.

Not all landlords have service charges, even where they provide services. In particular, local authorities tend to cover service costs through their rents, and would be more exposed to inability to recover costs due to rent restraint.

A large component of service costs relates to communal heating, lighting and electricity. Best practice offered by landlords would recover service costs pound for pound, usually through a mechanism in which a budgeted amount is charged in one year and the actual adjusted in the subsequent year. Where landlords have multi-year contracts they are protected from inflation to some extent, but other costs will be subject to in-year changes in the market. Social landlords that practice full cost recovery recognise that absorbing cost increases is not beneficial for their business plan and overall ability to deliver for tenants, but are conscious of the cost pressures on tenants and are considering the best approach as part of current business planning.

11. Feedback as to how members and boards are viewing rent increases in the light of cost of living pressures on tenants

Cost of living mitigations

A large number of tenants are on some form of Housing Benefit/Universal Credit support for rents and benefitable service charges. Many landlords have recognised that a rent increase in April 2023 would be covered to this extent by benefits, focusing hardship on those required to pay their rent, particularly those on partial benefit.

Some landlords have hardship funds, and would prefer to use these to target help at households that most need it, rather than using their business plan to support a blanket freeze for all tenants.

Landlords are conscious that the Scottish Government has increased targeted cost of living support for households and feel that there are a range of pots to draw on to help households. Where officers are close to tenants they can help to maximise uptake.

Other business considerations

In overall terms, the Scottish Government remains focused on the growth of supply in affordable housing and implementation of EESSH2, and is therefore likely to want to test the impact of a proposed cap on rent increases on future delivery. We have highlighted some examples of the potential impact above.

The combined impact of intervention in future rent policy with increased cost of debt is likely to mean that landlords will be cautious about committing to large programmes – and in the latter case there are likely to be additional impacts on delivery timeframes given the challenges around supply chains and contractors.

There is a particular concern that by beginning to intervene in rent policy, Government is tying the hands of landlords to respond to a range of prevailing headwinds that act against them and hinder investment in new and existing homes. If social landlords are not able to exercise rent flexibility to support locally consulted business plan priorities, they are likely to need additional financial support to deliver Government priorities.

12. Commentary on implications for longer-term rent policy and implementation by landlords

Social landlords' control over future rent increases is central to their ability to manage the effects of a short term freeze or constraint in the 2023-24 period.

Rent increase 2024-25 and beyond

Many commentators have tended towards a projection of CPI which falls back through 2023 and is below the long-term two percent OBR target by mid 2024 i.e. by the time 2024-25 rent increases are implemented.

The implications of policy announcements towards energy price caps (domestic and business) could have a significant impact on the level of CPI over the next year. For example, one report has suggested that the cap on energy prices could have as much a five percent impact on overall the level of CPI[7].

If inflationary pressures on tenants and landlords have subsided, social landlords have much better ability to manage rent increases in a way that supports long term business plans whilst also ensuring affordability to tenants. Rents may need to increase above inflation to offset the impact of a 2023-24 freeze, but the approach would be agreed with tenants and affordability tested.

If further capacity is taken out of business plans, e.g. by a new government rent policy that prescribes and/or constrains rent increases, then landlords would expect to cut back on their service expenditure to protect medium to longer term viability.

It is also possible that landlords are pushed away from a long tradition of long-term financial planning into one of short-term budget management, more reflective of practices in the public sector which can mitigate against focus on long term gains and improvements for local communities.

[7] BBC report 23/9/22

13. Consideration of any options for restraining rent increases that the sector might offer, and their implications

There is no doubt that without a freeze or cap most landlords would have exercised restraint on rent increases. The Scottish Housing Regulator has stated that RSLs should continue with rent consultation exercises, and early feedback from these indicates a wide range of approaches informed by analysis of business plan capacity and priorities.

There is sufficient flexibility within the current rent setting regime for RSLs to catch up rents via slightly elevated increases over time, if tenant consultation indicates support for this. Similarly, rents for new lettings could be set at a slightly higher level.

However, affordability considerations may be a brake on such a move. It is unclear for how long tenants will experience the current acute cost of living pressures, because even a return to more stable inflation does not mean a reduction of prices in relation to household incomes. Current affordability tests (around 30 percent of income) may not be a good measure of affordability in future, given increased cost of living.

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Annex 1

Valuation assumptions November 2022 (Quarter 4)

Savills Assumptions November 2022 - CPI Base			Major Works Cost Growth		Maintenance Cost Growth	
	Annual CPI (general)	Q4 CPI (rents)	Nominal	Real	Nominal	Real
2022/23	**8.50%**	**7.00%**	**8.10%**	-0.40%	**8.35%**	-0.15%
2023/24	**6.25%**	**5.25%**	**5.55%**	-0.70%	**5.45%**	-0.80%
2024/25	3.00%	2.50%	**4.80%**	1.80%	**3.80%**	0.80%
2025/26	2.50%	2.50%	**3.65%**	1.15%	**3.00%**	0.50%
2026+	2.00%	2.00%	**2.50%**	0.50%	**2.75%**	1.00%