



RIP RPI?

Following on from an interesting update in an article discussing the Government's response (together with the UK Statistics Authority) to last year's consultation on reforming the Retail Prices Index (RPI) calculation, I thought a quick reminder of the Government's plans for RPI would be useful.

Proposed Changes to RPI calculations

The Government has now issued proposals to reform the calculation of the RPI. The proposed changes would bring the method for calculating the RPI closer to that of the Consumer Prices Index (CPI) in order to promote consistency in inflation statistics.

The Government is aiming for the proposed changes to take effect in early 2030. The property industry does now therefore have an opportunity to consider how this variation to the calculation of RPI might impact us and what might need to be done in order to minimise the effects of this change from a landlord's perspective.

Comparison with CPI calculations

Over the last 10 years or so, the RPI's measure of inflation has been on average around 1% higher per year than CPI. Accordingly, if the method for calculating RPI to align it with CPI does take effect in 2030, this will likely result in a lower measure of inflation than currently arises when using RPI.

Effects in the Landlord & Tenant arena?

RPI has been and continues to be used as a measure to assist parties in calculating rental increases (instead of open market rent reviews), as well as being utilised to calculate increases to service charge caps. The current proposal to align RPI to CPI could therefore give rise to lower rent increases than might originally have been anticipated by the parties – which is good for tenants, but unfavourable for landlords.

Many landlords may not see this change as an immediate cause for concern in respect of new lease negotiations, as most tenants are pressing for shorter term leases that will not require rent reviews of any sort. However, any existing leases containing RPI based reviews extending beyond 2030 may need to be revisited to assess whether they contain provisions which, following a material change in the index, permit the substitution of a different method for calculation of the RPI.

In any event, both landlords and tenants should be alert to this potential new method for calculating RPI in the

future, in order that where the use of an index based review is mooted, consideration is given at the outset of any new lease negotiations as to the best index to be utilised.

If you have any questions about the effects of the proposed changes, contact our Real Estate solicitors at 01202 702645 or by emailing online.enquiries@LA-law.com.