



Business News > Latest > Economy > India's CPI Reform Still Misses the House Rent Reset Problem

# India's CPI Reform Still Misses the House Rent Reset Problem

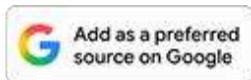
The revised CPI continues to capture the average rent paid by incumbent tenants rather than the marginal rent faced by new entrants. The resultant lag in capturing real rental inflation could impact monetary policy setting significantly.

ADVERTISEMENT



**Venkatesh Panchapagesan and Soudeep Deb**

Updated Apr 18, 2026 2:55 PM IST



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED





*Most Indian leases include predetermined escalation clauses – typically 5-10% annually. When tenants continue, rents rise mechanically according to these pre-agreed escalation terms.*

India's consumer price index (CPI) overhaul, formalised in the January 2026 Expert Group report, represents the most consequential modernisation of inflation measurement in more than a decade. The housing component – long debated – has been substantially revised. Rural rents are now included alongside urban rents. Employer-provided accommodation has been excluded to avoid unnecessary distortions. Dwelling-type weights will be derived from Census 2011. Dissemination has been expanded across rural, urban and combined segments. These are meaningful improvements that strengthen transparency and international comparability.



ADVERTISEMENT

**bt Business Today**



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED



Yet despite these reforms, one structural feature of rental markets continues to be ignored in our computation of the housing index: rent stickiness embedded in housing leases.

Most Indian leases include predetermined escalation clauses – typically 5-10% annually. When tenants continue, rents rise mechanically according to these pre-agreed escalation terms. When tenants vacate, rents reset to prevailing demand–supply conditions. That reset is what captures the real inflationary or disinflationary pressures in the housing market.

The divergence between house rent changes faced by continuing and new tenants has a real and significant impact on how we measure house price inflation. An index constructed from a fixed sample of dwellings is likely to contain a high share of continuing tenants. Changes in the index, therefore, are more likely driven by contractual escalations than by real changes in housing market conditions. In short, the index measures the average rent paid by incumbent tenants rather than the marginal rent faced by new entrants.



ADVERTISEMENT



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED



A widely cited media report in the not-so-distant past described “the curious case of rising rents and falling housing inflation,” observing that CPI housing inflation “does not align with the real rise in rentals seen on the ground.” When brokers and tenants report double-digit rent increases, but official inflation appears subdued, the credibility of the inflation signal gets questioned.

International evidence reinforces the concern. Academic researchers have shown that US shelter indices systematically underrepresent new tenants and overrepresent sitting tenants. They estimate that survey-based rent measures can lag market rent indices by close to one year. During the Global Financial Crisis, this lag was economically meaningful. Official inflation was estimated to be overstated by between 1.7 and 4.1 percentage points in 2008-09 because shelter inflation declined far more slowly than market rents. Monetary easing therefore occurred later than underlying housing conditions warranted.



ADVERTISEMENT



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED



India's revised CPI addresses several earlier weaknesses. But by ignoring a key feature in rental markets, it continues to capture the average rent paid by incumbent tenants rather than the marginal rent faced by new entrants. The resultant lag in capturing real rental inflation could impact our monetary policy setting significantly. Housing carries significant weight in the CPI basket. If housing inflation lags market dynamics, headline inflation will also lag at cyclical turning points. Policy tightening may be delayed during rapid rent increases, and easing may be postponed when markets soften. Over time, such lags can influence expectations formation and the credibility of the inflation target itself.

By explicitly identifying tenant changes within the sample and separating rent resets from continuing contracts, we could mitigate some of this lag. Statistical models could infer current market rent for dwellings whose leases have not turned over, using nearby reset transactions as benchmarks. The index would then combine observed reset rents with model-implied market rents.



**Mutual Funds FY26:  
Midcaps outperform  
others - why your fun...**

RECOMMENDED



rentals (bit.ly/4rjy7Cl). Extending this to housing is challenging but feasible, and it would give policymakers a cleaner read of the inflation renters face when they move.

ADVERTISEMENT

A longer-term redesign would embed tenant changes directly into the sampling design. Rent resets would be tracked as primary observations. For continuing leases, market rent would be estimated using comparable properties within the same micro-market. Location-level averages would then be aggregated nationally. This approach recognises that rental markets are spatial and dynamic rather than static contractual averages.

Reforming the CPI is not merely a technical exercise. Housing carries a large weight in the consumption basket, and delays in measuring rent inflation can blur turning points – when markets are heating up or cooling down. If the next CPI series records tenant turnover



resets as the primary investment tool for... becoming a top equity market for...

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED



estimates for dwellings that have not turned over, India's inflation statistics will track housing cycles more faithfully. That would sharpen monetary policy signals and, equally important, strengthen public confidence that the CPI reflects the costs households actually face.

*(Venkatesh Panchapagesan is Professor of Finance and Head, Real Estate Research Initiative, IIM Bangalore and Soudeep Deb is Associate Professor of Decision Sciences, IIM Bangalore. Views are personal)*

SPOTLIGHT



Tata Power, Suzlon Energy, NTPC, CESC, Power Grid, IEX, Inox Wind: Q4 results...



Published on: Apr 18, 2026 2:55 PM IST



Follow Us on

Channel

ADVERTISEMENT



Why GIFT City is becoming a top investment route for...

RECOMMENDED



Mutual Funds FY26: Midcaps outperform others - why your fun...

RECOMMENDED



**POST A COMMENT(0)**

### Tiredness changing who you are?

Getting grumpy? Snapping at your loved ones? Don't blame yourself. Exhaustion ...

ResMed | Sponsored

[Buy Now](#)

### Past 5-year Benchmark Returns 31.69%\*

New fund alert: BSE 500 Enhanced Value 50 Fund. Past 5-year benchmark returns ...

Canara HSBC Life insura... | Sponsored

[Apply Now](#)

### Gold CFDs or Futures? Here's What Every Trader Should Know

Explore the differences between Gold CFDs and Futures to understand how each works...

IC | Sponsored

[Learn More](#)

### Luxury villa plots on Devanahalli Main Road from ₹1...

Secure your future with luxury villa plots from 1200 sq.ft designed for ...

Sumadhura Group | Sponsored

[Learn More](#)

### End to End Interiors

Get beautiful designer kitchens starting at ₹1.75L! with delivery i...

HomeLane | Sponsored

[Get Quote](#)



### M.Tech in AI and Data Science from PES University

Weekend classroom program for working professionals with career assistance.

PES University | Sponsored

[Apply Now](#)

### SNN Estates Felicity: 1.5, 2, 2.5, 3 & 4 BHK Apartments @1.4Cr\*

Premium 1.5, 2, 2.5, 3 & 4 BHK Apartments with natural light & ventilation, Full-...

SNN | Sponsored

[Learn More](#)

### Indians over 65 are switching from hearing aids to this new device.

Recommended by audiologist

Hearing Aids | Sponsored

[Learn More](#)



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED





Follow us:



### POPULAR CATEGORIES

- Market Today
- Economy
- Tech Today
- Money Today
- Corporate
- Visual Stories
- Trending
- Magazine
- Start-Ups
- BT TV
- Industry
- Auto
- Jobs

### TOP TRENDING STOCKS

- Tata Motors Share Price
- Adani Power Share Price
- HDFC Bank Share Price
- Tata Steel Share Price



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED



- Sensex
- Nifty Bank

- Nifty 50
- Nifty Small Cap 100

### MOST SEARCHED COMPANIES

- Tata Motors Share Price
- HDFC Bank Share Price
- Infosys Share Price
- Icici bank share price
- Tata Power Share Price
- Adani Power Share Price
- Tata Steel Share Price
- SBI Share Price
- Wipro Share Price

[About us](#)
[Contact us](#)
[Advertise with us](#)
[Privacy Policy](#)
[Terms and Conditions](#)
[Partners](#)

Copyright © 2026 Living Media India Limited. For reprint rights: Syndications Today. India Today Group.

Design Partner:  
**THINK**



**Why GIFT City is becoming a top investment route for...**

RECOMMENDED



**Mutual Funds FY26: Midcaps outperform others - why your fun...**

RECOMMENDED

