

Calculation of the Annual Variation Rate of the Reference Index for the Annual Updating of Residential Tenancy Agreements (IRAV)

Methodology

December 2024

Calculation of the Annual Variation Rate of the Competitiveness Assurance Index

Calculation of the Annual Variation Rate of the Reference Index for the Annual Updating of Residential Tenancy Agreements (IRAV)

The annual variation rate of the reference index for the annual updating of residential tenancy agreements (by its Spanish acronym, IRAV) shall be the **minimum value between**:

- the annual variation rate of the Consumer Price Index
- the annual variation rate of the underlying Consumer Price Index
- the adjusted average annual variation rate, calculated using the following formula:

$$TVAMA^{mt} = \min(\beta + \alpha \times (TVIPC^{mt} - \beta), \beta + \alpha \times (TVIPCS^{mt} - \beta))$$

Where

$TVAMA^{mt}$, is the adjusted average annual variation rate, in month m of year t,

$TVIPC^{mt}$, is the annual variation rate of the Consumer Price Index in month m of year t,

$TVIPCS^{mt}$, is the annual variation rate of the underlying Consumer Price Index in month m of year t,

α , is a parameter that, at the joint proposal of the Directorate General for Housing and Land of the Ministry of Housing and the Urban Agenda and the Directorate General for Economic Policy of the Ministry of Economy, Trade and Enterprise, will take the value 0.5, in consideration of the circumstances of the housing rental market.

β , is a parameter that, at the joint proposal of the Directorate General for Housing and Land of the Ministry of Housing and the Urban Agenda and the Directorate General for Economic Policy of the Ministry of Economy, Trade and Enterprise, will take as a value 2, which is the medium-term inflation target of the European Central Bank.

The annual variation rate of the Reference Index for the annual updating of housing rental agreements (IRAV) shall be published on a monthly basis, according to the publication calendar available on the INE website.

Some practical examples

1. If the annual CPI rate and the underlying CPI rate are both higher than 2%

If both rates are above β (currently 2%) then neither rate will be used for the update. The benchmark to be used will be the lower of the Adjusted Average Annual Variation Rate (AARR).

Example:

The annual rates of change of the CPI and Underlying CPI are:

$$CPIVR = 2.50\%$$

$$UCPIVR = 2.20\%$$

Then, the reference rate will be the lower of the two values:

$$\beta + \alpha \times (TVIPC^{mt} - \beta) = 2,25\%$$

$$\beta + \alpha \times (TVIPCS^{mt} - \beta) = 2,10\%$$

2. If one of the two rates (the annual rate of the CPI or the annual rate of the underlying CPI) is higher than 2% and the other is lower than 2%

If one of the two annual rates is below β (currently 2%) then this variation rate will be used for the update.

Example:

The annual rates of change of the CPI and Underlying CPI are:

$$CPIVR = 2.10\%$$

$$UCPIVR = 1.92\%$$

The benchmark will then be the UCPIVR value, as the adjusted values would be higher:

$$\beta + \alpha \times (TVIPC^{mt} - \beta) = 2,05\%$$

$$\beta + \alpha \times (TVIPCS^{mt} - \beta) = 1,96\%$$

3. If the two annual rates of CPI and underlying CPI are less than 2%

If both annual rates of change are below β (currently 2%), then the benchmark will be the lower of the two.

Example:

The annual rates of change of the CPI and Underlying CPI are:

$$CPIVR = 1.94\%$$

$$UCPIVR = 1.92\%$$

The benchmark will then be the lower of the two rates. In this case, the UCPIVR value. The adjusted values would be higher:

$$\beta + \alpha \times (TVIPC^{mt} - \beta) = 1,97\%$$

$$\beta + \alpha \times (TVIPCS^{mt} - \beta) = 1,96\%$$

GENERAL RULE: THE ADJUSTED AVERAGE ANNUAL VARIATION RATE (AARR) IS ONLY USED WHEN THE ANNUAL RATES OF VARIATION OF THE CPI AND THE UNDERLYING CPI ARE ABOVE THE VALUE OF β (currently 2%)