



Rent Setting Policy

Version 1

Approved by: Board
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1.0 Introduction

- 1.1 This Policy describes the methodologies for changing annual rents and for setting new rents.
- 1.2 Rents are set in line with statutory and regulatory requirements.
- 1.3 The terms 'we', 'our' and 'us' mean Optivo.

2.0 Social Rents

- 2.1 Social rents include general needs properties, housing for older persons, retirement housing and supported housing (that don't fall into the categories outlined in 3 – 8 below).
- 2.2 Formula for Social Rent (also known as Target Rent) are set based on:-
 - 70% of the average rent for the Housing Association's sector multiplied by relative county earnings compared to the national average multiplied by bedroom weighting*

Plus

- 30% of the average rent for the Housing Association's sector multiplied by the relative property values compared to the national average

*Bedroom weighting can be found in [Guidance on Rents for Social Housing](#) produced by DCLG in May 2014.

- 2.3 All the values were set in April 2000. The 'average sector rent' is increased by inflation each year.

Here is an example of how a Social rent would be calculated:

This example of setting a social rent is based on a 3 bedroom house in East Sussex

Average sector rent for the area is £89.17. 70% of this is **£62.42**
Local Average Earnings are £281.50, national average is £316.40
So £281.50 divided by £316.40 = **0.89**
Bedroom weighting (3 beds) is **1.10**

So **62.42 x 0.89 x 1.10 = £61.09**

Add to this

Average sector rent for the area is £89.17. 30% of this is **£26.75**
Relative property value of £86,670, national average is £49,750
So £86,670 divided by £49,750 = **1.742**

So **26.75 x 1.742 = £46.60**

Add these two together gives the target rent
£61.09 + £46.60 = £107.69

The maximum rent for new social rent properties is the 'social rent rate'.

- 2.4 The Government, through the Welfare Reform and Work Act 2016, directed social landlords to reduce social rents by 1% each year for the four year period 2016-2020. Supported Housing schemes are expected to apply the 1% decrease for the three year period 2017-2020.
- 2.5 Rents were initially reduced from a base set as the rent as at 8 July 2015. For new tenants of existing social rent properties with tenancies starting after the beginning of 8 July 2015, the maximum rent in the first relevant year was the higher of:
- The 'assumed rent rate', which was based on the rate that the previous tenant was paying on 8 July (or on an alternative permitted review date) or the rate that a previous tenant might have paid on those dates if the property was vacant at the time; a 1% reduction is then applied in each relevant year; or
 - The 'social rent rate', calculated by using the formula rent for 2015 to 2016 and applying a 1% reduction in each relevant year.

2.6 Alms houses are excluded from the rent reduction under the Welfare Reform and Work Act 2016. However, we've chosen to apply the rent reduction to our alms house properties at Julia Spicer and Eason Gruaz.

3.0 Affordable Rents

3.1 Affordable rents were introduced by the government in 2011. Affordable rents (including service charges) can be set at up to 80% of the open market rent. The maximum rent charged is no higher than the Local Housing Allowance (LHA) amount at the time of letting. Affordable rents will be set higher than Social Rents. The market rent rate is based on the Royal Institution of Chartered Surveyors valuation method. There are different types of affordable rents which have specific rules as outlined below.

3.2 **Affordable rent new build** - All newly built properties under specific development programmes will be let at an affordable rent at first let and any subsequent let.

The Greater London Authority (GLA) introduced additional forms of Affordable Rent. These will be available on some of our new build homes in London.

- Capped rents and discount rents - we'll set rents based on the GLA guidance
- London Affordable rents – are set by the GLA according to the number of bedrooms in the GLA area excluding service charges and updated annually by the Consumer Price Index (CPI) + 1%.

3.3 **Affordable rent conversions from social rent** - We have agreements with the Homes and Communities Agency (HCA) and Greater London Authority (GLA) to convert some homes from Social Rent to Affordable Rent when they become vacant. We invest the additional rent generated in building new homes. Affordable rent conversions will be let at up to a gross rent of 80% open market rent and in line in line with specific agreements.

3.4 Gross affordable rent includes service charges. When we consider whether to let a property at an Affordable Rent we'll consider future service charges and the impact on the income to be generated. If the estimated affordable rental income element is likely to be reduced to an uneconomical level we'll review whether it is practical to offer at an Affordable Rent.

3.5 Properties where the affordable rent level implies a rent below social rent in

the area, so effectively let at social rents, will be treated as social rent properties for this purpose. Such rent will not include service charges.

- 3.6 For the period 2016-2020 a 1% reduction is applied to the total rent and service charges. Personal service charges aren't included in the calculation.

4.0 London Living Rents (LLR)

- 4.1 London Living Rent is a rental product devised by the Mayor linking rents to local incomes. We expect to add this product to our development programme. The GLA has published maximum rents by number of bedrooms for new LLR homes (inclusive of service charges) in every ward in London, and will update these figures on an annual basis.
- 4.2 Rent levels are derived from average local incomes and ward-level house prices using a multi-stage process. Broadly, the rent for a two-bedroom property is based on one-third of the local median household income. Across London as a whole this comes to £968 a month, or 67% of the median monthly market rent in London (as reported by the Valuation Office Agency for 2015/16).
- 4.3 Rents for LLR homes vary according to their number of bedrooms. Using the two-bedroom rents for each ward as a benchmark, the rent for a one-bedroom home is 10% lower, for a three-bedroom home 10% higher and for a four-bedroom home 20% higher. As a final affordability safeguard, the rent for any individual unit must be at least 20% below its assessed market rent. This is the maximum rent that can be set for an LLR property. Rents can be set lower.

5.0 Fair Rents

- 5.1 A landlord or a tenant of a regulated or secure tenancy that started before 15 January 1989 can make an application to have a fair rent registered. The fair rent may be lower than market rent value.
- 5.2 Fair Rent registrations can be applied for every two years, or sooner if there are major changes to a property. The registered rent is the maximum a landlord can lawfully charge.
- 5.3 For Fair Rents where the current rent is below formula rent, we'll apply a rent increase in the usual way. This will be of up to Consumer Price Index (CPI) + 1%, being the last increase approved by the government, subject to Formula Rent and or Registered rent not being exceeded by this increase.

Otherwise the 1% cut applies.

6.0 Settled Homes (SHI) Rents

- 6.1 From 9 November 2012, if a council accepts someone as homeless they can be housed in settled accommodation in a private tenancy outside the councils' area.
- 6.2 SHI rents will be adjusted to either the lower of the applicable Local Housing Allowance or the social rent minus 1%. Both rates apply to the combined rent and service charge figure.

7.0 Intermediate Market Rent (IMR)

- 7.1 IMR is set at up to 80% of market rent. Rents will be increased by the relevant September CPI plus 1%.

8.0 Market Rents

- 8.1 Rents for individual properties will vary in accordance with individual agreements. They will be increased in line with the relevant September RPI plus 0.5%.

9.0 Void Rent

- 9.1 Void rent should continue at the last let rent unless this is below the formula rent in which case it may be increased for a new letting to the formula rent.

10.0 Shared Ownership

- 10.1 The relevant annual increase rate for the rented element of a shared ownership property will be determined by the terms of the lease for the property.
- 10.2 Leases for shared ownership equity sales under the GLA's London Shared Ownership scheme must contain fundamental clauses set out in the GLA Capital Funding Guide. Initial rents on unsold equity can be no more than 2.75% of the value of the unsold equity at the point of the initial sale.

11.0 Garages

11.1 Rents for garages are not subject to social rent regulation. These are reviewed each year to ensure income reflects value.

12.0 Commercial Rents

12.1 Commercial rents as they relate to shops and offices are in the main managed externally by our Commercial Managing Agent. Rent increases will be defined in leases or set following discussion with the relevant commercial department under the Development and Sales directorate.

12.2 We manage student, keyworker and hostel accommodation in house along with some shops. These aren't subject to the rent reduction outlined in [section 2.3](#). The annual rent changes will be managed and set by the relevant commercial department under the Development and Sales directorate. Rents will be set in accordance with contractual and commercial considerations as appropriate.

13.0 Review

13.1 We will review this Policy to address legislative, regulatory, best practice or operational issues.