

Southside

FACTORING & RELATED SERVICES

Mid Market Rent Setting Policy

Issued: August 2018

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1.0 AIMS AND OBJECTIVES:

- 1.1 This policy provides guidance on how SHA's subsidiary, SFARS Ltd, will set rents for Mid Market Rent (MMR) properties.
- 1.2 SFARS will have an open and transparent basis for setting rent.
- 1.3 SFARS aim will be to set rents in reference to the Local Housing Allowance and to always have MMR rents that are lower than private rents.

2.0 CONTRACTUAL AND REGULATORY CONTEXT:

- 2.1 For some MMR properties, particularly new build developments, the basis of funding may set obligations on how rents are to be set, or may define initial rent levels.
- 2.2 Typically, this requirement will be linked to the Local Housing Allowance rates (LHA), but may also set requirements on how future rent increases are to be applied.

Example 1:

Rent was set for 380 - 390 Tantallon Road in Shawlands in accordance with the requirements within the lease with CCG. The condition of the funding stipulated that property rents be capped at 80% of the Local Housing Allowance.

Example 2:

Rent was set for Paisley Road West (Phase 1 of Portman Street) in accordance with Grant Funding conditions including that property rents be set at or below 100% of the Local Housing Allowance at first let.

- 2.3 From a Regulatory perspective, MMR must meet all costs and ensure that there is no ongoing subsidy from the charitable parent. The capital funding of this building or acquisition of property for MMR is a matter for the charitable parent (SHA), but once developed the MMR unit is expected to meet all revenue costs and provide a return to the parent at the rate originally agreed.

3.0 LOCAL HOUSING ALLOWANCE (LHA) AND LOCAL MARKET RATES:

- 3.1 The LHA will be the base reference point with all MMR rents. Glasgow City Council's definition of the LHA is

"Is the method of working out the maximum housing benefit entitlement a private tenant can receive"

However this policy recognises that the LHA has limitations as it is set on a whole local authority basis. It therefore fails to take account of local housing markets. The average and/or median private rent level in Shawlands will be different from Govanhill, and similarly Kinning Park and Cardonald will have different private rented markets. Therefore while the LHA will provide a key reference point and “ceiling” for MMR, the rent setting policy must also take cognisance of the local private rented market.

Local Private Rented Market

- 3.2 The local private rented market will be an important comparator and influence in MMR rent setting. SFARS staff will be expected to regularly monitor local private rents on a neighbourhood basis to ensure that MMR is appropriate to local circumstances.
- 3.3 Consequently, although LHA will be a universal base reference point, MMR rent levels will vary depending on local market conditions.
- 3.4 In addition to the rental charge a service charge is applied separately for white goods and carpets. This takes account of Southside Housing Association’s costs to purchase and replace white goods and carpets. The service charge also includes the cost to insure, pat test and maintain the white goods. The stand-alone white goods will then be gifted to the tenant after a period of 5 years.

4.0 PROPERTY CHARACTERISTICS:

- 4.1 In addition to the reference to LHA and neighbourhood market rents, the individual property characteristics will be a factor in setting rent levels. This will be less prescriptive in comparison to social housing rent settings but will be expected to influence the process. Key characteristics that may influence rent levels will include
 - (i) **Property size:** The number of bedrooms will be reflected in the rent level. (This follows the recognised criteria used in the LHA).
 - (ii) **Amenity space:** Private gardens, garages, etc may be factored into rent levels.
 - (iii) **Energy Efficiency and Heating Costs:** Properties with high insulation standards, and / or efficient central heating may attract higher rent levels.
 - (iv) **Property Type:** traditional, new build, mini multi tenement.
 - (v) **Condition of Property:** New kitchen with Integrated white goods

5.0 NON MMR PROVISION:

- 5.1 As the title suggests, MMR, assumes there is a recognisable 'mid' point between social rented rent levels and private rent levels. Although the 'mid' point is not used with any great exactitude, it assumes there is a general space in the pricing between social and private provision. In some neighbourhoods this may not be the case, and the gap between social rent levels and MMR may be narrow. In this case any provision by SFARS is more akin to the price of 'private' rented accommodation, and SFARS is competing with the private rented sector on quality, management and maintenance standards.
- 5.2 Commercial flexibility is required at an operational level to allow staff to make a judgement on whether to increase or decrease the rent for specific properties based on the attributable property characteristics. This will ensure that each property is pitched at the correct market level to reduce property turnaround times and ensure sustainability of tenancies. This is an important feature of rent setting with SFARS and a "commercial" subsidiary, as distinct from rent setting within regulated social housing. The MMR Rent Policy gives delegated authority to the MMR Manager to reduce rents by up to 15%. The Head of Finance approves all adjustments to property rents before marketing commences.

6.0 THE ROLE OF THE SFARS BOARD IN RENT SETTING:

- 6.1 The SFARS Board will not be involved in individual property rent setting. This will be the operational responsibility of staff. However the SFARS Board will be expected to review rent levels, at least annually, to ensure these are meeting contractual and regulatory obligations, and following the aspirations set out above in relation to setting a balance between local neighbourhood markets and Local Housing Allowance rates. Staff will therefore be expected to present the SFARS Board with an annual review of rents and this should include references to local market assessments as well as indicators of demand.
- 6.2 The SFARS Board will also be required to set any considerations on rent setting within the wider financial governance responsibilities in budget setting and monitoring and in reviewing the Business Plan.

Annual Rent Increase

- 6.3 Separately, as part of the annual budget setting process, the SFARS Board will be required to set an annual rent increase for MMR stock. This process is separate and distinct from the rent increase process considered by SHA for its social housing stock.

7.0 CONCLUSION:

- 7.1 Rent setting for MMR will be guided by references to LHA and informed by analysis

of neighbourhood private rented markets.

7.2 The SFARS Board will annually review rent levels on a neighbourhood basis.

7.3 The SFARS Board will annually set a rent increase linked to the annual budget setting process.