

Rent Setting Policy



Rent Setting Policy

1. Purpose

To provide clear guidance on how Legal & General Affordable Homes (LGAH) sets rent during key stages of the lifecycle of a property. This includes

- Setting rents for new properties to be let to tenants
- Setting rents for existing properties to be let to tenants
- Setting rents for new properties to be let to shared owners
- Setting rents for staircasing events and resales
- Annual rent reviews

2. Policy Aims

LGAH's aim is to set rents which are affordable for customers enabling them to comfortably cover rent payments whilst meeting other household expenses. It is important to LGAH to minimise financial hardship for customers; therefore rents need to be set at a level which is comparative to local markets whilst ensuring LGAH can maintain its financial returns.

3. Legal Framework

In determining rents, LGAH will ensure it complies with any relevant s106 agreement in place in addition to legislative guidance below:

- Regulator of Social Housing (RSH) Rent Standard 2020 (or equivalent)
- Ministry of Housing, Communities & Local Government (MHCLG) Policy Statement on rents for social housing
- Housing and Regeneration Act 2008
- Regulatory Framework for Social Housing in England (April 2015)

4. Rent Setting for New Lets and Relets

LGAH rent setting provisions will vary depending upon the type of rent product being delivered. Although the 2020 Rent Standard sets the overall requirements for rent setting (excluding intermediate rent and shared ownership) there are elements for calculating initial rent provisions which differ between products. In all cases where a property valuation is needed to calculate rents, LGAH will use a RICS Valuation Standards (Red Book) as a consistent and transparent approach to market rent valuations.

- 4.1 **Social rent** - since 2001, rents for properties let at social rent have been set based on a formula set by government. This creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. The aim of this formula-based approach is to ensure that similar rents are charged for similar social rent properties.
- 4.2 **Affordable rent** - in 2011, the government introduced 'affordable rent' which permits rents to be set at up to 80% of market rent (inclusive of service charges). In setting affordable rent levels, LGAH will consider a number of additional factors:

- Average market rent
- Property size and location
- Average income levels in the area
- The impact of the benefit cap
- Any local restrictions of market analysis from the relevant Local Authority
- Local Housing Allowance levels
- S106 provisions

In all cases, an Affordable Rent should be no lower than the rent calculated based on the formula rent. In cases where an Affordable Rent would otherwise be lower than the formula rent, the formula rent will constitute a 'floor' for the rent to be charged.

At relet an assessment will take place on rent levels as a percentage of market rent. In all cases, any new rent adjustment must not exceed 80% or any s106 provision which supersedes this.

- 4.3 **London Affordable Rent (LAR)** - as per the affordable housing model above, London Affordable Rent is a similar model introduced by the Greater London Authority (GLA) as a low-cost rental option for households on low incomes. The rent setting provision however differs from above, where rents levels are set annually using a weekly rent 'benchmark' figure for each property type at London-wide level. LGAH will set its rents in line with the published GLA benchmark figures.
- 4.4 **London Living Rent (LLR)** - is an intermediate affordable housing product introduced as part of the Mayor of London's 'Homes for Londoners' initiative with rents based on one third of average local household incomes. The GLA publishes maximum monthly rents by number of bedrooms for new LLR homes (inclusive of service charges) in every ward in London, and updates these figures each September. LGAH will set its rents in line with the published GLA benchmark figures for London Living Rent properties.
- 4.5 **Intermediate Rent** - this tenure is not governed by the Regulator for Social Housing's Rent Standard. Intermediate rent accommodation is set at or below 80% of market rent. The levels at which rents can be set and then inflate are often different from one development to the next. LGAH will always ensure that it sets rents in line with the guidance relevant to that property.
- 4.6 **Shared Ownership Rent** - where properties are offered as Shared Ownership by LGAH a leaseholder may purchase an equity share of between 10% and 75% of the full market value of the property. LGAH will charge a rent based on the unsold equity.

Rents on the unsold equity will be calculated in accordance with the relevant s106 agreement or the Homes England Capital Funding Guide, with the s106 agreement taking priority:

- Where the s106 agreement does not specify, rent will usually be set at 2.75% (but will not exceed 3.0%) of the market value of the unsold equity at the initial point of sale
- Where an assessment of affordability for a scheme indicates that the total rent, service charge and mortgage costs would be unaffordable for a typical resident LGAH may set a rent at a lower level

The market value for the property will be set by an Independent Valuer registered with the Royal Institute of Chartered Surveyors

5. Annual Rent Adjustments

When adjusting rents on an annual basis LGAH will ensure all rents comply with the relevant policy governing any adjustment for the tenure of the property.

- a. **Social rent** – For social rent LGAH will increase rents by up to CPI plus 1% every April, in line with the Rent Standard (or any legislative/regulatory changes which supersede this guidance), with the relevant prescribed notices given to tenants as stipulated within their tenancy agreement clauses.
- b. **Affordable rent** – For affordable rent LGAH will increase rents by up to CPI plus 1% every April, in line with the Rent Standard (or any legislative/regulatory changes which supersede this guidance), with the relevant prescribed notices given to tenants as stipulated within their tenancy agreement clauses.
- c. **London Affordable Rent (LAR)** – LGAH will increase rents by up to CPI plus 1% every April, in line with the Rent Standard (or any legislative/regulatory changes which supersede this guidance) with the relevant prescribed notices given to tenants as stipulated within their tenancy agreement clauses.
- d. **London Living Rent (LLR)** – Where LGAH has delivered London Living Rent properties, in accordance with the Homes for Londoners guidance rents will increase by up to CPI (excluding the additional 1% uplift).
- e. **Intermediate Rent** – Although rent adjustments for this tenure sits outside of the Rent Standard, LGAH will generally seek to increase annual rents by rates equivalent to the RSH Rent Standard every April in line with tenures detailed in clause 5a to 5c. This will be subject to Board consideration with the Board free to adopt an alternative increase should it wish to.
- f. **Shared Ownership** – Rent charged on unsold equity will be increased in line with the relevant lease agreement clause. This will either be by RPI + 0.5% or CPI + 1%.. If RPI or CPI are nil or negative the rent will be reviewed in accordance with the relevant lease provisions.. Annual increases will be made on 1 April and will be calculated using RPI or CPI from the previous September.
- g. **Stock Acquisition** – Where housing stock is acquired with annual review provisions which do not fall in line with f, calculations will be made in line with the specific lease provisions.
- h. **Fair Rent** – Where required, the relevant application will be made to the Valuation Office Agency (VOA) in advance of the new rent being calculated.
- i. All inflation calculations will be subject to any relevant clauses in S106 agreements and, where appropriate, with relevance to the performance of wider market rents where appropriate.

6. Service Charges

Some tenancies will be subject to service charges which are either included within the overall rent or as a separate charge. The provision for setting service charges are covered within the LGAH Service Charge Policy. LGAH will always give consideration when setting rents to the combined cost of rent and service charge to its customers.

7. Rent setting following Staircasing or Resale

When there is a staircasing event, the rent charged to the shared owner will reduce dependant on the increased percentage share purchased. This will be determined by reviewing the current rent charged against the change in ownership percentage.

If a property is resold, the rent charged to the new shared owners will remain at the same amount as charged to the previous owner, unless there is a pending annual rent adjustment or the new shared owner wishes to staircase.

8. Consideration of Annual Rent Adjustments

The Board of the relevant LGAH Registered Provider will carefully consider the proposed annual adjustments of rents across its portfolio annually in advance of rents being adjusted from the 1st April following the Board's approval being granted.

For homes where the annual rent adjustment sits outside of the 1st April review cycle, the Board of the relevant LGAH Registered Provider will delegate approval of the annual adjustment to the Investment Manager. This is capped at a ceiling of 200 units per rent year.

9. Tenancies and Leases

The tenancies and leases issued to LGAH customers are governed under the LGAH Tenancy policy. Where a shared owner's lease or a tenant's tenancy states an approach to rents that is different from this policy, the lease or tenancy takes precedence.

10. Notification to Customers

Tenants and Shared Owners will receive written notification of an annual rent increase before the increase is applied and in compliance with the relevant lease or tenancy agreement. Notification will include the new rent to be charged, the date from which it is payable and the calculation method..

11. Appeals

Any Tenant or Shared Owner who feels that their rent has not been set in accordance with the policy or their lease can appeal through the LGAH Complaints policy.

12. Equality and Diversity

The implementation of this policy will take into account LGAH's Equality and Diversity policy and strategy.

13. Related Documents

Document	Link
Connected policies and procedures:	<ul style="list-style-type: none">• Affordability Policy• Tenancy Policy• Service Charge Policy• Shared Ownership Charges Policy• Complaints Policy• Equality and Diversity Policy
Accountable Director	Shaun Holdcroft
Approval Date	January 2023
Review Date	January 2025
Review Completed	October 2024
Next Review Date	October 2026 <i>(or subject to any changes in regulatory, legislative and/or areas of best practise where a review is required sooner than the stipulated review date)</i>