



Information Note

Rent Structures and Rent Harmonisation

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Purpose of Note

In this information note tenants are introduced to how landlords vary the rents of tenants' homes to reflect differences between them. The differences could be about the number of rooms or the types of house among other things. It is quite common in Scotland for landlords to have inconsistencies in the levels of rents they charge. There are many reasons why this might happen. Council and housing association landlords are required to gradually sort out those inconsistencies. The process is sometimes called rent harmonisation.

This Information Note will be of particular interest to tenants, if

They believe there is unfairness or inconsistency in the range of rent levels their landlord charges,

Their landlord has already decided that there are problems which have to be tackled,
or

Communities Scotland, as housing regulator, has criticised their landlord for not dealing with inconsistencies in rent levels.

Having a Structure for Rent Levels

You would expect landlords to charge a higher rent for larger homes than smaller ones. It is also usual to charge a higher rent for “own door”^{**} type housing than flats and maisonettes. There is quite a variation among different landlords. For example, some landlords have as much as £7 of a difference in rent for an additional bedroom. With others, this could be lower, say about £3 for each additional bedroom.

^{**}In this Information Note, the phrase “own-door” will be used to describe house types which are sometimes also called “low-door”, “semis”, and “cottage type”.

Judgements have to be made about the amount of difference in rent arising from house size and type. On one hand it may seem reasonable to reflect the different costs of providing and maintaining different sizes of homes. Alongside that care is needed not to make the largest homes unaffordable for families with many children. Usually own-door house types are more popular with tenants, offering more privacy and sometimes private gardens. Judgements are needed about what difference to make to rent levels to reflect the popularity of different types of homes.

Other factors could be brought into the judgements. For example, the age or condition of tenants’ homes, the location in terms of popularity or proximity to amenities. This adds to the complexity.

Whatever set of judgements are used, the result is called a rent structure. Here are two examples of rent structures, where size and type are the factors used. In each of the tables you can read off the rent charged by looking along and down the columns.

Example 1 – Weekly rent

Size Type	1 Bedr	2 Bedr	3 Bedr	4 Bedr	5 Bedr
Own-door	£59	£63	£67	£71	£75
Flat	£51	£55	£59	£63	£67
Maisonette	£49	£53	£57	£61	
Deck access	£47	£51	£55		

Example 2 – Weekly rent

Size Type	1 Bedr	2 Bedr	3 Bedr	4 Bedr	5 Bedr
Own-door	£56	£63	£70	£77	£81
4-in-a-block Flat	£48	£55	£62	£69	£62
Tenement flat	£44	£51	£58	£65	
Maisonette	£40	£47	£54	£54	
Multi-storey	£38	£45	£52		

Have a browse at these tables and see how fair you feel the differences in rent are taking account of the type of homes and their different sizes. The two examples show two very different rent structures.

Using a Points System

Many landlords use a points system to set different rents for different types and sizes of houses. For example each house may start with say 50 points. Then each bedroom may add 5 more points to reflect differences in house sizes. Points could be added to reflect house type. For example an own-door house may mean adding 12 points while a tenement flat may have 4 points added. In this example, a three bedroom tenement flat may be scored 69 points ($50 + 5 + 5 + 5 + 4$).

This approach allows other factors to be taken into account. For example, homes with new kitchens and bathrooms may have an extra 8 points added to the total. This is just one way to show a difference for different housing conditions. If the stock of homes is categorised into different levels of popularity, points may be added for the most popular areas, while no extra points get added for the least popular area.

Here is an example of how the points might accrue in a points system.

Starting number of points	= 50
Own-door house type	= 12
2 bedrooms (2 times 5 points = 10)	= 10
New kitchen installed	= 4
Medium popularity area	= 6
Points total	= 82

This shows a two bedroom own-door house type with a new kitchen in a medium popularity area having 82 points. Other homes with different features or attributes would have a different points score.

Each year at rent review time, the points have to be converted into weekly rent amounts. To do this, each point has to be given a value. For example, say each point converts into 75 pence per week. A home with 82 points would then have $82 \text{ times } 75 \text{ pence} = \text{£}61.50$ per week rent.

Following the 75 pence per point example, a home with 91 points would produce a rent of $\text{£}68.25$.

Let's say, at rent review time the landlord decided to increase rents by 4% (that means 4 pence in the pound). A 4% increase in the value of a point from 75 pence would be 78 pence. After the rent increase is applied the 82 point two bedroom semi-detached cottage would have a rent increase from $\text{£}61.50$ to $\text{£}63.96$. The new rent is calculated by taking 82 multiplied by 78 pence. Check the calculation for yourself.

Devising a Rent Structure

If a landlord has inconsistencies or unfairness in its rent structure, the first thing to do is devise a new rent structure. For this, the factors or attributes which count must be decided. Here are some options.

Size

Type

Age

Condition

Amenities

Location

Each of these will now be considered in turn.

Size

Size will always be a factor in a rent structure. The issue is what weight to give to it – how much difference in rent per extra room. A distinction could also be made between a single and a double bedroom. For example there is quite a big difference in size between a three bedroom home which has 1 double bedroom and 2 single bedrooms from one which has 3 double bedrooms. The difference is not only in the sizes of two bedrooms, the rest of the house will be designed with the number of occupants in mind as well.

Landlords usually have accurate records of the number of bedrooms of all their property, including whether the bedrooms are single or double.

The larger a home, the more it would have cost to build and the more it will cost to maintain and update. For example the number of radiators in a central heating system and the size of the boiler will vary with house size. Were differences in cost to provide and maintain the only factor, quite large rent differences could result in a rent structure. Affordability for tenants is always an important factor. Care has to be taken to ensure the larger homes do not become much harder for tenants to afford than smaller homes.

Type

There can be differences in the cost of providing homes of different types. Own-door house types take up more land than flats in most cases. However, multi-storey blocks cost more to run because of lifts and caretaking. Multi-storey flats would be come much harder to let, if cost of providing was the main yardstick in deciding on rent differences associated with house type. Usually, the differences reflect the relative popularity of different types of home.

There is a choice about how detailed a breakdown of house-types to have in a rent structure. The examples given in this Information Note show this. Own-door house types could be detached, semi-detached or terraced cottages. Flats will be on different levels. Often, first floor flats are the most popular in a block with walk-up flats 5 stairs up least popular. In most areas in Scotland, 4-in-a-block flats are more popular than tenement flats and have more private ground with them.

Devising a Rent Structure

A balance has to be struck between keeping a rent structure simple and reflecting the type differences in a housing stock. Landlords' records have to include anything about house type it is decided to include in a rent structure.

Age

Newer houses will have cost more to provide than older houses. But over time, older houses may have been upgraded. Age may reflect condition, or may not. Most landlords will have accurate records of the age of their housing stock, but not always. There isn't usually a strong link between age and popularity. Age is therefore a difficult factor to include in a rent structure.

Condition

On the face of it, it may seem fair to reflect the condition of houses in the rent charged for them. There is a requirement to meet the national standard for rented housing in Scotland, the "Scottish Housing Quality Standard" or SHQS by the year 2015. Work is therefore ongoing to deal with poor housing conditions. If condition is used as a factor or attribute, the condition of all houses has to be accurately known. From a maintenance point of view, knowledge of housing conditions is also important. The key issue is what to do when housing conditions change. For example, a house just fitted with a new kitchen, bathroom, central heating system and electric wiring will be in much better condition than before this work was undertaken. Over time these aspects of a home will no longer be new. A difficulty then arises in how to deal with gradual change in housing conditions. This makes it difficult to allocate points for housing conditions in a rent structure.

Amenities

Both the amenities within a house and within the neighbourhood may be relevant factors. For example, a home with a shower over a bath may be thought better than one without a shower. A home with private garden ground may be regarded as having better amenities than one without. Proximity to shops schools etc could all be considered. It may seem fair to include amenities in a rent structure because it could produce rents more closely related to what tenants get. On the other hand, it introduces a degree of complexity, usually with a need to build up a whole bank of new information to help set the points for each house. There could also be controversy about the judgements made – for example how close to shops would you have to be to have extra points added to a home's points' score? And what shops would need to be in the group?

Devising a Rent Structure

Location

Location is an attribute linked to amenities. For example proximity to shops or bus services, health centres and so on could be attractions of particular homes. There is usually quite marked differences in popularity between homes in different neighbourhoods. Given the difficulty in waiting list applicants gaining access to the most popular locations, some may feel that there should be higher rents for the more popular homes. This attribute would however add complexity and controversy to a rent structure. Judgements will be subjective to a degree and over many years, the popularity of an area may change significantly.

Housing in rural settings compared to urban settings, or in small groups compared to large estates may be considered quite different places to live. Consideration could be given to different points for this. But again difficult judgements would be called for.

Key Issues about Attributes

If any factor becomes an attribute in a rent structure, the information about it must be known in accurate records
any changes to the attribute must be tracked
it should be widely felt to be fair to include it.

Together the attributes chosen should not make a rent structure so complicated that people cannot understand it or use it.

In Summary

House type and size will always feature in rent structures. Other factors or attributes, such as condition, amenities and location may also be included. Care needs to be taken to keep a system relatively simple, ensure it is widely regarded as fair and is supported by accurate information about the housing stock.

Inconsistencies in Current Rent Structures

Most housing associations will have adopted a rational rent structure when they first set up, and possibly have amended it in light of experience over the years. With councils, most homes were built when rents were linked to gross annual values. Gross annual values were used as part of the system of local rates to work out differences in the value or worth to occupants of different houses. The rates charged related directly to the gross annual value applied to each home. Most councils made a direct link between the gross annual values of their homes and the rents charged. Many houses have been built since domestic rates were abolished and many more have been altered substantially. In addition, there has been no updating of gross annual values. Any link between gross annual values and rent is now obsolete.

Where houses have been transferred to new or other landlords in stock transfer processes, any anomalies will have been carried forward. There could be disparities between typical rents in the rents of a landlord and additional homes acquired in stock transfers. There have been several local government reorganisations and new towns like Cumbernauld and Glenrothes have been wound up. These changes have all merged ownership of groups of public sector homes which started with different rent structures. At the time these changes were made, nothing was done to tackle the anomalies.

It is therefore common in Scotland to find out-dated rent structures. With regulation of council and housing association homes by Communities Scotland, problems with rents structures will be identified during inspections of housing services, with an expectation that they are sorted out.

Harmonising Rents

The process of harmonising rents means adopting a modern rent structure and gradually linking the rents of homes to it. The process means that some tenants would face extra rent increases, while others would find a downward adjustment in rents takes place. The result should be a fairer system, as long as the rent structure devised was seen to be fair in the first place.

Where the difference between the calculated harmonised rent and the current actual rent is very large, it is essential to make the change gradually to allow tenants to adjust. For example if a harmonised rent is £5 a week more than the actual rent currently charged, this would be a large increase if applied at once, bearing in mind also, that annual rent increases to cover inflation will also apply. In Scotland at the present time, it is common for annual rent increases to be at least 1% above the rate of inflation. Sometimes they are even higher where additional rent is required to pay for the extra work needed to bring many homes up to the Scottish Housing Quality Standard.

One simple approach is to take a period, for example 10 years, and reduce the difference step by step over that time. In the case where a £5 increase was needed to achieve the harmonised rent, the rent could be increased by an extra 50 pence each year for ten years.

Another approach is to freeze or hold back annual inflationary rent increases for those tenants on higher rents than the harmonised rents, while imposing higher than inflationary rents on those tenants whose rents are less than the harmonised rents.

Within these broad approaches, judgements have to be made about how to deal with new tenants, tenancy transfers and new houses. Take an example of a row of own-door houses where the rents had to be increased to get to the harmonised level and a decision had been taken to impose the increase in a series of steps over several years. If there is a tenancy turn over, should a new tenant face the same rent as her or his neighbours, or should the harmonised rent be applied from the start of this new tenancy? Judgements are needed about what is fair. This type of example becomes even more complex when considering the case of a tenant transferring from one home to another in the same landlord's stock. Should they benefit from the gradual change or should the harmonised rent be applied from the start of the new tenancy?

There are some circumstances in Scotland, usually arising from stock transfer, in which landlords have given tenants rent guarantees. For example rent rises of no more than inflation plus 1% a year for say five years. In those cases, rent harmonisation processes cannot properly start until after the guarantee period has lapsed.

Tenant Participation in Reviews of Rent Structures and Rent Harmonisation

As in all tenant participation processes, it is best to ensure tenants have a place in the process from the start. Rent harmonisation processes are only likely to happen very occasionally. Most tenants are likely to be affected significantly. As we have seen, any new rent harmonisation proposals involve difficult judgements about what is fair. For these reasons a major effort should be made to ensure tenants can influence any new proposals.

A review of rent structures is likely to take between one and two years. It will start with information gathering and proceed through considering options before a draft proposal may emerge. Even when a proposal emerges, a great deal of thought will be needed on the gradual phasing in of any changes.

A good option for ensuring tenant involvement throughout is to have a joint working group co-ordinating the process. This group would have to include tenants' representatives as well as senior people from the landlord's side. The landlord's representatives in this group would be consulting more widely within the landlord organisation on issues being considered. Tenants' representatives ought to be doing the same thing, so that the ideas and views of a wide variety of people are brought to the working group table.

For tenants' representatives, they need good links with local tenants and residents associations and other actively interested tenants. Various ways to involve tenants – in discussion groups or in conferences could also be considered.

At the stage of new proposals emerging, opportunities for all tenants to comment are necessary, with sufficient time for understanding proposals, and responding. Tenants' representatives on any joint working group have to stay in tune with tenant opinion as it evolves. With the depth of consideration of issues they will have undertaken, they may also want to make recommendations to tenants more widely.

How Can TIS Help?

We can both provide advice about options in rent structure reviews and how to involve tenants in any given circumstances. That assistance may be little more than a phone call or two. But our help could also extend to becoming appointed as independent tenants' advisers for the duration of the review. Where we have done that, we have assisted tenants gain a thorough grasp of the issues and become very influential in shaping the new proposals.

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