

# THE REGULATORY FRAMEWORK FOR SOCIAL HOUSING IN ENGLAND FROM APRIL 2012

Annex A: Rent Standard Guidance

March 2012

# **The regulatory framework for social housing in England from April 2012**

## **Annex A: Rent Standard Guidance**

### **Context of this document**

This guidance forms part of the regulatory framework for social housing in England from April 2012. It consolidates previous guidance issued by the regulator pertinent to the Rent standard.

# **The regulatory framework for social housing in England from April 2012**

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# 1 Introduction

The Rent standard requires that “registered providers shall charge rents in accordance with the objectives and framework set out in the Government’s direction to the regulator of November 2011.” The full wording of the standard is set out at Appendix 1 in this guidance.

This document – the Rent Standard Guidance - consolidates all of the previous guidance issued by the Housing Corporation and adopted by its successor body the Tenant Services Authority (TSA). It also incorporates guidance issued by the TSA in relation to Affordable Rent and includes the requirements of the Rent standard that applies from 1 April 2012. Unless it is specifically stated within this Rent Standard Guidance that they still apply, only this guidance is effective. Those other guidance documents are now superseded by this guidance and are listed in Appendix 2.

The Rent standard places a requirement on private registered providers (PRPs) to “set rents with a view to achieving... as far as possible: (conformity) with the pattern produced by the rent formula set out in rent influencing regime guidance”. Rent influencing regime guidance is defined as meaning “the Rent Influencing Regime Guidance (RIRG) published by the Housing Corporation in October 2001, and any guidance issued by the Housing Corporation or the TSA, or its successors, in relation to that document.” This document, the Rent Standard Guidance, is guidance issued by the social housing regulator in relation to the RIRG.

This guidance sets out the following:

- **Key requirements**

These are those issues which are key elements of compliance with the RIRG and thus the Rent standard. This includes information about circumstances where those requirements do not apply. These issues are set out in these parts of this document:

- General guidance
- Social Rent guidance
- Affordable Rent guidance
- Appendix 3 – Calculating target rents
- Appendix 4 – Guidance on property valuation for target rents

- **Background issues**

These are those issues which are explanation of or assistance on how to understand the Rent standard and the RIRG, how to achieve compliance with them, and how to manage difficulties with compliance. These are all background matters; they are not part of the Rent standard. These issues are set out in these parts of this document:

- Introduction

- Further information
- Appendix 1 – Rent standard
- Appendix 2 – List of guidance and circulars
- Appendix 5 – RICS guidance on valuation

The key requirements (as listed above) are core elements of compliance and form part of the Rent standard. The background issues (as listed above) provide further guidance and clarification where necessary. Together, these form a comprehensive reference document to all current forms of social housing rents. Links are provided to other relevant documents, which provide additional context. It covers the long established regime now known as social rent ("Social Rent")<sup>1</sup>, as well as Affordable Rent which was introduced as a part of the 2011-15 Affordable Homes Programme.

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<sup>1</sup> Social housing is defined in ss.68-77 of the Housing and Regeneration Act 2008.

## **2 General guidance**

This section together with the other sections referred to above as ‘key requirements’ are core elements of compliance and form part of the Rent standard.

There are a number of considerations that are relevant to all forms of social housing and to all PRPs<sup>2</sup>.

### **Compliance with the Rent standard**

The regulator will take a risk based and proportionate approach in accordance with its published approach to regulating the economic standards.

### **Annual Rent Increases**

There is an annual limit – a Guideline Limit - for rent increases in social housing (including Affordable Rent) for any single year. That limit is the Retail Price Index (RPI) + 0.5%. The Guideline Limit for increases in rents is applicable to all low cost rental housing, including Social Rent and Affordable Rent.

The relevant rate of RPI to be applied for the year beginning 1 April is taken as the rate applicable for the previous September. The September RPI is released in the following October by the Office of National Statistics and the regulator notifies providers to confirm the new Guideline Limit each year.

The Guideline Limit is a ceiling, not a target. It is open to providers to increase rents by a lower figure where circumstances justify doing so.

The Guideline Limit remains in effect, until such time that Government’s Direction to the social housing regulator changes and consequent changes are made to the regulatory framework.

By way of background, providers are reminded that in the 2011-15 Affordable Homes Programme Framework, published by the Homes and Communities Agency (HCA) in February 2011, it was stated (at paragraph 4.23) that “the existing inflation-linked formula for annual rent increases in social rented housing will continue to apply throughout the 2011-15 Affordable Homes Programme period, as part of the Government’s rent restructuring policy.”

### **Insolvency**

In a situation (such as an insolvency) where there is a mortgagee in possession or receiver in place or where the PRP’s stock is sold to a non-registered landlord following intervention by the regulator, neither the mortgagee in possession, nor the receiver, nor the landlord to whom the stock

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<sup>2</sup> The Rent standard and this guidance do not apply to local authority social housing. Local authority landlords are subject to the rent restructuring framework but through different arrangements.

is sold will be bound by the Rent standard. That would be the case in relation to all social housing to which the regulatory framework had previously applied, including those properties let on Social and Affordable Rent terms. If the stock was transferred to another PRP, the regulator would discuss compliance with regulatory standards, including the Rent standard, as part of the transfer arrangements.

### **3 Social Rent guidance**

This section of the guidance covers the following:

- Key principles of Social Rent
- Applicability of Social Rent
- Compliance with rent restructuring

It is supported by these appendices:

- Appendix 3 – Detailed information on calculating target rents
- Appendix 4 – Further guidance on property valuation

#### **3.1 Key principles of Social Rent**

The formula for setting Social Rents should enable PRPs to set rents at a level that allows them to meet their obligations to their tenants, maintain their stock (to at least Decent Homes Standard) and continue to function as financially viable organisations, including meeting their commitments to lenders. The requirements for setting Social Rents are detailed below. There are some differences for certain kinds of social housing, such as supported housing and Affordable Rent, and further detail is given later in this guidance.

##### **3.1.a Target rent**

Where the requirements of the Rent standard and this guidance apply, PRPs should ordinarily have achieved target rents by 31 March 2012 (or in certain cases 31 March 2013), or on such later date as application of the limits on annual increases in rents allows. This is a continuation of the previous requirement. When rent restructuring was introduced in April 2002, PRPs were required to calculate and attribute a target rent to each of their social housing properties. Actual rents were then phased to reach target rents, usually by 31 March 2012. To demonstrate compliance with rent restructuring, PRPs were required to produce, and maintain, a rent plan setting out the phasing of rents over the ten year implementation period.

For the vast majority of Social Rent properties a target rent has already been set so PRPs will usually only need to calculate a target rent for new Social Rent properties that they are developing. There will be some cases where target rents are not in place, e.g. on new Social Rent provision. In those cases, a target rent will need to be calculated.

The calculation of a target rent is based on a pre-set formula. Detail on the information needed to calculate a target rent is set out in the appendices and tables. The calculation is derived from a combination of property values (as at January 1999), local earnings and property size.

The basis for the calculation of target rents is:



- 30% of a property's rent should be based on relative property values compared to the national average
- 70% of a property's rent should be based on relative local earnings compared to the national average
- a bedroom factor should be applied so that, other things being equal, smaller properties have lower rents

### **3.1.b Rent Flexibility Level**

Once target rents have been calculated, PRPs have flexibility to set rents at up to + 5% of the target rent. For supported housing, the flexibility is + 10% of the target rent. Movement to target rent levels was expected to take place over a ten year period and be completed by 31 March 2012 (or 31 March 2013 for supported housing). To achieve target rent levels, PRPs can change rents by up to £2 per annum. This is in addition to the annual Guideline Limit for rent increases.

Service charges are subject to separate legal requirements, including tenancy agreements. They are limited to covering the cost of providing the services and are not formally covered by this guidance. However, it is expected that PRPs will endeavour to keep increases for Housing Benefit eligible service charges within the Guideline Limit. PRPs should, therefore, properly distinguish between rents and service charges. If a PRP proposes to provide additional Housing Benefit eligible services, leading to a significant increase in the level of charges, it should discuss this with the relevant local authority.

### **3.1.c Rent caps**

Rent caps were introduced as part of the rent restructuring framework and apply as a limit on Social Rents, as calculated by the target rent formula. The rent cap level for each property size was set in 2002/03 and is inflated annually by RPI+1%. Rents above rent cap levels were to be reduced over the life of the rent plan with the aim that the cap will be achieved as a maximum at the end date of the plan. Current rent cap levels are published each year as a part of the notification on Guideline Limit rent increase levels.

## **3.2 Applicability of Social Rent and exemptions**

For some types of social housing, the Rent standard does not apply at all, and so the Social Rent requirements do not apply. Further detail on those categories can be found in Figure 1 of the regulatory framework document.

Where the Rent standard does apply, the Social Rent requirements are applicable to **all** PRPs of social housing and it covers all properties that fall within the definition of social housing (as set out in Sections 68-77 of the Housing and Regeneration Act 2008). Social Rent, and the calculation of a target rent, therefore applies to the whole of a PRP's social rented housing stock, whether it is grant funded or not. However, some categories of social housing are exempt and these are set out below. Rents for these categories

do not need to meet the requirements for target rent, rent flexibility levels or rent caps.

### **3.2.a Exemptions from Social Rent**

These categories are exempt from the requirements:

- property let at Affordable Rent levels (see section four below)
- intermediate rent (see comment below)
- specialised supported housing fitting certain criteria (see section 3.2.c below)
- PFI schemes
- shared ownership and low cost home ownership (LCHO)
- temporary social housing/short life leasing schemes for the homeless
- residential care or nursing homes
- student homes
- key worker accommodation

By 'intermediate rent' we mean social housing provided to tenants at rent levels which are above Social Rent levels and below market rent levels. This housing may have been funded with or without Social Housing Grant (SHG), or other public subsidy, and includes (but is not restricted to) key worker accommodation and the Intermediate Rent housing funded by the HCA and its predecessor bodies. Typically levels of rent for these properties are set at no more than 80% of the comparative market level and therefore the rent setting aspects of target rent and rent caps do not apply. However, consistent with the key principle of the framework that seeks to bear down on the annual increases in rent experienced by tenants, we expect providers to limit the increases in rent levels to the Guideline Limit wherever possible (for grant funded Intermediate Rent housing, increases limited to the Guideline Limit are a requirement of funding conditions).

### **3.2.b Supported housing generally**

The definition of supported housing used here is that used by the HCA, which states that "the term 'supported housing' applies to purpose designed or designated supported housing." This goes on: "Purpose Designed Supported Housing: Buildings that are purpose designed or remodelled to enable residents to adjust to independent living or to enable them to live independently and which require specific design features." And "Designated Supported Housing: Buildings with some or no special design facilities and features but that are designated for a specific client group with support services in place to enable them to adjust to independent living or to enable them to live independently."

A certain category of supported housing - specialised supported housing fitting certain criteria - is exempt from Social Rent requirements entirely. The criteria are set out in the next paragraph. The requirements of Social Rent for all other supported housing affected by Social Rent requirements (that is,

other than that exempt category) are slightly different to other types of housing:

- implementation of rent restructuring could be delayed by a year and so the deadline for reaching target rents could be (and remains) 31 March 2013
- when calculating target rents, the depreciated replacement cost (DRC) method of valuation can be used where it is considered that EUV would not provide an appropriate assessment of the valuation of the property

DRC is intended to provide a better indication of the particular qualities and characteristics of supported housing properties and the costs that may be involved in providing them. (Appendix 4c provides further detail).

### **3.2.c Exemption for specialised supported housing**

The exemption from Social Rent requirements of specialised supported housing is usually limited to those properties which were developed in partnership with local authorities or the health service and which satisfy all the following criteria:

- the scheme offers a high level of support for clients, for whom the only acceptable alternative public or voluntary sector options are care homes, and
- no, or negligible, public subsidy has been received, whether in the form of grant or free land, and
- the scheme has been commissioned in line with local health, social services or Supporting People strategies and priorities, (but which are not of sufficiently high priority as to receive SHG)

Experience of assessing proposals over time has shown that in some cases the above criteria can be difficult to interpret and circumstances are no longer exactly the same. For example, 'public subsidy' is not precisely defined and has been described in various ways in different legislation.

Exemption has been and will in the future be allowed when there has been a public capital payment and it was shown that:

- funding was secured by means of a charge or mortgage against a property by way of a loan, and
- the commissioning body was satisfied with the resulting rent levels charged, and
- advice had been sought to confirm that the exemption criteria set out above was being followed.

### **3.3 Compliance with rent restructuring**

This section explains more about the requirements of Social Rent and how PRPs should manage achieving compliance.

Where the requirements of the Rent standard and this guidance apply, movement to target rents for current provision should ordinarily have been achieved by 31 March 2012 (or 31 March 2013 for Supported Housing). This would mean that rents were within the allowed flexibility of + 5% (10% for supported housing) of target rent levels. This is a continuation of the previous requirement.

However, PRPs are not required to increase rents to target levels if they are able, without that increase, to meet the regulator's standards including the Viability standard, and to maintain their properties to the Decent Homes Standard. Compliance is therefore taken as having rents no higher than the appropriate flexibility to target rent levels.

Where rents (whether for current or new provision and in either case where there is no exemption) are above target levels or there are other reasons for non-compliance with Social Rent requirements, then PRPs should:

- check whether there is deemed compliance about time for meeting the date for convergence. The Rent standard places limits on the amounts by which rents can be increased each year, within the allowed flexibility of target rent levels. Those limits might mean that it is not possible for a particular PRP to achieve target rents by 31 March 2012 (or 2013 as appropriate). Where that is the case, the PRP's rent plan should demonstrate the date by which, taking into account the allowed flexibility of target rent levels, target rent will be achieved. The consequence is that this date could be beyond April 2012 (or 2013 as appropriate). In such cases, this will be the date for achieving convergence with target rent. Specific agreement from the regulator to that date for compliance was not required and the PRP is deemed to be compliant
- check whether there is deemed compliance about 'fair rent' issues. Tenants who benefit from 'fair rents' protection will retain this under rent restructuring. If a rent officer sets a fair rent below the target rent given by the formula, this lower rent will prevail. If the rent officer sets a fair rent above the target rent, then we would expect the PRP to use the target rent rather than the higher 'fair' rent. In either case, the PRP is deemed to be compliant. Any change to the existing rent charged remains subject to the guideline limit of RPI + 0.5% plus £2 a week so that tenants with fair rents enjoy the same protection as other tenants
- in any other cases of non-compliance, the PRP must have obtained the regulator's agreement

Note that a PRP can reduce rents more quickly to target levels at its own discretion if it is able to continue to meet its obligations to its tenants, maintain its stock and continue to function as a financially viable organisation, including meeting commitments to lenders.

### **3.3.a Extensions**

The Rent standard permits the regulator to issue extensions to the period required to achieve convergence with target rent levels, particularly to maintain financial viability. This includes where there is a risk that a reduction in overall rental income might cause a PRP to be unable to meet existing commitments such as banking or other covenants.

Where the regulator has issued such an extension, the Rent standard will not be breached in circumstances where it acts as permitted by the extension. Requests for an extension under this category, and for any other similar reasons, should be made to the regulator in writing.

### **3.3.b Various other requirements of the Rent standard**

Where the Rent standard applies, the regulator has been directed by the Secretary of State to consider extensions to the period over which the requirements of the Rent standard are met. In addition, the regulator does recognise that occasions may arise where a waiver may be required. An application for a waiver – for example, to increase rent levels in excess of the Guideline Limit or to act in a manner which may not be consistent with the Rent standard or the terms of this guidance - should be made to the regulator in writing. This should include an explanation of why, in the view of the PRP, this is justified, particularly taking into account any conflicting standards (e.g. viability, VfM). The PRP must be able to demonstrate that all reasonable steps have been taken to ensure that the interests of tenants are being protected.

It should be noted that such a request will only be considered when all other possibilities have been explored, including application for an extension to the period for achievement of rent restructuring.

## **4 Affordable Rent guidance**

The Rent standard (see Appendix 1) sets out that Affordable Rent terms can only be used where a delivery agreement for new supply of social housing has been agreed under a new supply agreement entered into between a PRP and the Homes and Communities Agency (HCA) or the Greater London Authority (GLA) under the 2011-15 Affordable Homes Programme Framework.

Homes let on Affordable Rent terms fall within the definition of social housing, but are exempt from the full requirements of rent restructuring detailed in section three of this guidance. This section sets out the requirements for rents in those homes. It restates the key requirements previously set out in the Explanatory Note to the TSA's Decision Instrument No 5 on Affordable Rent.

### **4.1 Applicability of Affordable Rent**

The Rent standard requires that in order to use Affordable Rent terms, the PRP enters into a new supply agreement with the HCA or the GLA. This should take the form of either a Framework Delivery Agreement (FDA) or a Short Form Agreement (SFA) for new social housing supply under the Affordable Homes Programme 2011-15. Those PRPs that have entered into a FDA also have the flexibility to convert vacant Social Rent properties within the scope of that agreement to Affordable Rent at relet, setting rents at up to 80% of market rent for an equivalent property of that size and location. For the avoidance of doubt, PRPs that have entered into a SFA may not convert vacant Social Rent properties to Affordable Rent.

### **4.2 How initial rents are set**

Homes let on Affordable Rent terms should be made available at a rent level of up to 80% of gross market rents (inclusive of service charges where applicable). Providers are reminded of the need for them to also comply with the terms of the FDA or SFA entered into with the HCA or GLA.

Gross market rents are generally expressed inclusive of any service charges. An Affordable Rent, set at up to 80% of the gross market rent, should take account of the service charge for a property (where applicable) and reflect the property size and location. The maximum rent level for Affordable Rent should be assessed according to the individual characteristics of the property. Landlords are required to assess the gross market rent that the individual property would achieve and set the initial rent (inclusive of service charges) at up to 80% of that level.

Housing for vulnerable and older people often includes a range of services to support the particular needs of the client group. When setting an Affordable Rent, the gross market rent comparables should be based on similar types and models of service provision. Where there are insufficient comparables for similar types of provision in the local area, valuers should be requested to identify comparables from other areas, and extrapolate their best view of the

gross market rent that would be applicable in the location in which the property is situated. Providers should set the initial rent at up to 80% of that level.

A tenancy where a PRP is the landlord is excluded from mainstream Local Housing Allowance rules. Whilst we will not restrict the maximum rent that PRPs can charge for Affordable Rent properties, landlords should consider the local market context when setting rents, including the relevant Local Housing Allowance for the Broad Rental Market Area in which the property is located.

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

### **4.3 Valuations for initial rent setting**

Valuations for initial rent setting should be in accordance with a Royal Institution of Chartered Surveyors (RICS) recognised method.

The reference to "a RICS recognised method" is to ensure that PRPs adopt a consistent and transparent approach to the valuation of market rents. RICS sets out its principles for valuations in the RICS Valuation Standards (known as the Red Book). This is available free to RICS members and can be purchased online or as a hard copy. Appendix 5 provides further information on valuations, including an extract from the Red Book on the recognised methods of valuation.

It is not our intention that the valuation of homes for Affordable Rent should present significant additional costs or burdens for providers. Further advice on valuation for AR is available from RICS, developed in consultation with the regulator and the HCA, and should assist providers to engage effectively with the process. PRPs are independent businesses and are required to have robust governance and internal controls.

Whatever a provider's approach to valuation, boards will need to be assured that decisions on what rents to charge comply with regulatory requirements generally and thus with the terms of HCA or GLA delivery agreements.

### **4.4 Rent increases**

In order to provide protection and certainty for tenants, providers and funders, the maximum annual rent increase on an Affordable Rent property will be the Retail Price Index (RPI) + 0.5%. RPI will be taken as at September of the previous year. This figure is a ceiling, not a target. It is open to providers to increase rents by a lower figure where circumstances justify doing so.

#### **4.5 New and reissued tenancies**

On each occasion that an AR tenancy is issued for a property - whether it is let to a new tenant or an existing tenancy is re-issued - providers are required to re-set the rent based on a new valuation, to ensure that it remains at no more than 80% of the relevant market rent. This requirement overrides the RPI + 0.5% limit. However, where the accommodation is re-let to the same tenant as consequence of a probationary tenancy coming to an end, the provider is not required to re-set the rent.

Further advice on valuation is being developed by RICS, and will give additional information to that set out in Appendix 5. It will also provide further clarification on how the requirement to rebase rent can be met.

Some concern has been expressed that the rebasing requirement could entail a full valuation on each occasion that a home is let on AR terms, including reissue of tenancies to existing tenants (other than where a probationary tenancy has come to an end, as exempted above). It is likely that in areas where AR is widely used, providers will have a rolling schedule of tenancies coming up to reissue or relet. That being the case, over time providers should have adequate comparables readily to hand without undertaking a full valuation on each occasion and it may be possible to rebase rents using a desktop review of recent transactions.

#### **4.6 Later acquisition of homes let on Affordable Rent terms**

If homes let on Affordable Rent terms in compliance with the Rent standard are sold to, or otherwise acquired by, another PRP, the PRP acquiring that stock is unlikely, in relation to that stock, to have an agreement with the HCA or GLA. Nonetheless, that acquiring PRP will still be in compliance with the Rent standard where it continues to charge rents in accordance with the Affordable Rent provisions of the Rent standard and the provisions of the Affordable Rent tenancies which they acquired. However, the acquiring PRP will not be in compliance with the Rent standard if it sets rents on Affordable Rent terms in relation to other stock, if it does not itself have in place a FDA or SFA with the HCA or GLA. For the avoidance of doubt, note that existing stock may only be converted to Affordable Rent terms if a FDA is in place.

#### **4.7 Delivering new Affordable Rent Homes without grant funding**

Additional guidance on how to achieve regulatory compliance when delivering new Affordable Rent Homes without HCA or GLA funding can be found here:

[www.homesandcommunities.co.uk/sites/default/files/aboutus/affordable-rent-outside-programme-guidance-note-270711.pdf](http://www.homesandcommunities.co.uk/sites/default/files/aboutus/affordable-rent-outside-programme-guidance-note-270711.pdf)



## **5 Further information**

For any questions on the Rent standard or this guidance, please contact the regulator's Referrals and Regulatory Enquiries Team:

Email: [mail@homesandcommunities.co.uk](mailto:mail@homesandcommunities.co.uk)

Phone: 0300 1234 5000

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## Appendix 1 – Rent standard

The Rent standard is included below for ease of reference. You should always refer to the social housing regulator's website to ensure that you are using the up to date version of the Rent standard, in case any changes have been made.

### Required outcomes

- 1 Registered providers shall charge rents in accordance with the objectives and framework set out in the Government's direction to the regulator of November 2011.

### Specific expectations

- 1.1 Registered providers shall ensure they meet the following requirements, which derive from the Government's direction to the regulator of November 2011, and the 'key requirements' set out in the Rent Standard Guidance that accompanies this standard.
- 1.2 Subject to paragraphs 1.3 and 1.5, registered providers shall set rents with a view to achieving the following, so far as possible:
  - 1.2.1 Rents conform with the pattern produced by the rent formula set out in rent influencing regime guidance<sup>3</sup> ('target rents') with a 5% tolerance in individual rents (10% for supported and sheltered housing) ('rent flexibility level') but subject to the maximum rent levels specified in that guidance ('rent caps').
  - 1.2.2 Weekly rent for accommodation increases each year by an amount which is no more than  $RPI^4 + 0.5\% + £2$  until it reaches the upper limit of the rent flexibility level or the rent cap, whichever is lower.
  - 1.2.3 Weekly rent for accommodation that has reached or is above the upper limit of the rent flexibility level increases each year by an amount that is no more than the increase to the target rents.
  - 1.2.4 Rent caps increase annually by  $RPI + 1\%$ .
  - 1.2.5 Target rents increase annually by  $RPI + 0.5\%$ .
- 1.3 The requirements of paragraph 1.2 do not apply to homes let on Affordable Rent terms. Subject to paragraph 1.5, where

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<sup>3</sup> 'rent influencing regime guidance' is contained within the regulator's Rent Standard Guidance. That Rent Standard Guidance is 'guidance issued in relation to' and consolidates the previous documents, particularly: the Rent Influencing Regime Guidance issued by the Housing Corporation in October 2001; the Rents guidance in the Explanatory Note to Decision Instrument 5 (Revision to the Tenancy Standard: Affordable Rent); and any other guidance issued by the Housing Corporation or TSA, or its successors, in relation to those documents.

<sup>4</sup> 'RPI' means the general index of retail prices (for all items) published by the Office of National Statistics or, if that index is not published for any month, any substituted index or index figures published by that office.

accommodation is let on Affordable Rent terms, registered providers shall set rents with a view to achieving the following, so far as possible:

- 1.3.1 Rent for accommodation (inclusive of service charges) is set at a level which is no more than 80% of the estimated market rent for the accommodation (inclusive of service charges), based on a valuation in accordance with a method recognised by the Royal Institution of Chartered Surveyors.
- 1.3.2 Rent for accommodation increases each year by an amount which is no more than RPI + 0.5%.
- 1.3.3 Rent for accommodation is re-set, based on a new valuation, each time the accommodation is:
  - (i) let to a new tenant, or
  - (ii) re-let to the same tenant (but where a probationary tenancy comes to an end and the registered provider re-lets the accommodation to the same tenant the provider is not required to re-set the rent).
- 1.4 Affordable Rent terms can only be used where a delivery agreement for new supply of social housing has been agreed under a new supply agreement entered into between a private registered provider and the Homes and Communities Agency (HCA) or the Greater London Authority (GLA) under the 2011-15 Affordable Homes Programme Framework.
- 1.5 Where the application of the Rent standard would cause registered providers to be unable to meet other standards, particularly in respect of financial viability including the risk that a reduction in overall rental income causes them to risk failing to meet existing commitments such as banking or lending covenants, the regulator may allow extensions to the period over which the requirements of the Rent standard are met.
- 1.6 Registered providers shall provide clear information to tenants that explains how their rent and any service charge is set, and how it is changed, including reference to the RPI benchmark to which annual changes to rents should be linked (except where rents are controlled under different legislation).

## **Appendix 2 – Guidance and circulars superseded by the Rent Standard Guidance**

- 1 Rent Influencing Regime Guidance published under Housing Corporation (HC) Circular 27/01 - Rent influencing regime – implementing the rent restructuring framework.
- 2 HC Circular 30/01 – Rent influencing regime - supplemental guidance.
- 3 HC Circular 02/02 – Rent influencing regime - guidance on the valuation of supported housing.
- 4 HC Circular 05/03 – Rent influencing regime – implementing the rent restructuring framework (temporary social housing and privately financed supported housing).
- 5 TSA Explanatory Note to Decision Instrument 5 published April 2011.

## Appendix 3: Detailed information on calculating target rents

### Appendix 3a: Detail on the rent setting formula

#### Calculating the rent setting formula

Landlords need to derive a target rent for each property based upon a calculation derived from property values, local earnings and size (see Appendices 1 - 4 for a more detailed explanation). The basis for the calculation of target rents is:

- 30% of a property's rent should be based on relative property values
- 70% of a property's rent should be based on relative local earnings
- a bedroom factor should be applied so that, other things being equal, smaller properties have lower rents

This can be expressed as a formula in which the target rent for a property is calculated using the following approach:

<b>Weekly rent is equal to:</b>	<b>Plus</b>
70% of the average rent for the HA sector	30% of the average rent for the HA sector
<b>Multiplied</b> by relative county earnings	<b>Multiplied</b> by relative property value
<b>Multiplied</b> by bedroom weight	

Property values must be based on an existing use value (EUV), assuming vacant possession and continued residential use (N.B. not EUV-SH) at January 1999 levels with an average national property value of £49,750. Special rules were introduced in HC circular 02/02 which permitted a different valuation method, depreciated replacement cost, for supported housing (see Appendix 2 for further guidance).

The average rent at 31 March 2000 was estimated to be £53.50 per week. This was inflated to £58.23 at 2002/03 levels (being the first year of the revised regime).

Full details of the calculation of target rents were included in the original RIRG. Further details of relative earnings levels and updated bedroom weights which are required to derive a target rent calculation are attached at Appendix 3b. If target rent is being calculated or updated then appropriate indexation will also need to be applied and details of RPI changes are at Appendix 3c.

Recalculation of target rents should not normally be necessary but can be carried out where improvements are carried out which may affect the valuation of the housing stock, or if there is evidence that original valuations were in any way inadequate or inaccurate. These should always be rebased to January 1999 levels.

## **Limits on annual increases**

The annual guideline limit for increases in target rent for any single year is  $RPI + 0.5\%$ . The relevant rate of RPI to be applied for the year beginning 1 April is taken as the rate applicable for the previous September. So the guideline limit for rent increases from 1 April 2011 to 31 March 2012 was dictated by the September 2010 RPI, which was 4.6% and the limit 5.1%. The September RPI is released in the following October.

Actual Rents may be increased by a maximum of £2 per week above the guideline limit, that is,  $RPI + 0.5\% + £2$ , as long as the level of rent is not above the tolerance level above target rent or the rent cap.

The annual guideline limit remains on a continuing basis, even when target rents have been achieved. It remains in force until such time that Government policy may change. In the 2011-15 Affordable Homes Programme Framework, published in February 2011, it was stated (at paragraph 4.23) that “the existing inflation-linked formula for annual rent increases in social rented housing will continue to apply throughout the 2011-15 Affordable Homes Programme period, as part of the Government’s rent restructuring policy.”

## **Rent caps**

Rent caps were introduced in HC circular 30/01 and apply as a limit on social rents, as may be calculated by the target rent formula. The level for each property size was set in 2002/03 and is inflated annually by  $RPI + 1\%$ . Rent levels over rent cap were to be reduced over the life of the rent plan with the aim that the cap will be achieved as a maximum at the end date of the plan. Current rent cap levels are published each year as a part of the notification on guideline rent increase levels.

## Appendix 3b - Data for calculating Target Rents (extracted from original RIRG)

This provides the information, apart from property-specific details, that is needed to apply the rent restructuring formula.

### Rents

The national average rent, net of service charges, as at 31 March 2000 was estimated by DTLR to be:

PRP sector: £53.50 per week

### Earnings

Earnings data for the restructuring formula are given in the table below:

Earnings		Earnings		Earnings	
County	£/week	County	£/week	County	£/week
Avon	321.20	Greater London	354.10	Nottinghamshire	298.00
Bedfordshire	343.70	Greater	307.30	Oxfordshire	323.80
Berkshire	345.40	Hampshire	328.70	Shropshire	295.40
Buckinghamshir	328.30	Hereford & Worcs.	289.60	Somerset	299.70
Cambridgeshire	330.10	Hertfordshire	343.70	South Yorkshire	299.10
Cheshire	322.00	Humberside	318.40	Staffordshire	296.20
Cleveland	338.40	Isle of Wight	288.50	Suffolk	304.30
Cornwall	255.50	Kent	316.40	Surrey	333.20
Cumbria	323.70	Lancashire	302.70	Tyne & Wear	307.90
Derbyshire	321.10	Leicestershire	303.10	Warwickshire	326.10
Devon	278.00	Lincolnshire	286.70	West Midlands	320.60
Dorset	293.90	Merseyside	324.90	West Sussex	332.50
Durham	289.70	Norfolk	302.50	West Yorkshire	302.70
East Sussex	281.50	North Yorkshire	299.60	Wiltshire	313.90
Essex	325.90	Northamptonshire	328.50		
Gloucestershire	308.00	Northumberland	276.10	<b>England average</b>	<b>316.40</b>

These figures were derived by DTLR from the New Earnings Survey (ONS) and represent the average gross weekly earnings of full-time male and female manual workers over the 1997 to 1999 period, up lifted to 1999 prices. Pre-1996 counties were used, because of the problems of small sample sizes for some of the new counties, especially Unitary Authorities.

### **Bedroom weights (updated)**

The following bedroom weights are applied to the earnings term in the restructuring formula:

<b>No. bedrooms</b>	<b>Bedroom weights</b>
0	0.80
1	0.90
2	1.00
3	1.10
4	1.20
5	1.30
6 or more	1.40

These weights were not derived from any single source, but were intended to provide a broad reflection of the way in which larger properties tend to be valued more highly by their inhabitants.

### **Property values**

Individual property values for rent restructuring must be based upon a January 1999 valuation date and an Existing Use Value, assuming continued residential use and vacant possession.

National average property values in January 1999 were estimated by DTLR to be as follows:

PRP sector: £49,750

This figure was based on a survey by a national firm of locally-based valuers. This represented an Existing Use Value assuming vacant possession and continued residential use.



### Appendix 3c - Example calculation of Target Rent (adapted from original RIRG)

Consider a one-bed PRP property in South Yorkshire, for which the landlord estimates the capital value to be £30,000 in January 1999.

The information needed to apply the rent restructuring formula is set out in Appendix 3.

National average PRP rent in 1999/2000	<b>£53.50*</b>
Average earnings in South Yorkshire	<b>£299.10</b>
National average earnings	<b>£316.40</b>
Bedroom weight	<b>0.90</b>
National average PRP property value in January 1999	<b>£49,750</b>

\* This is the national average rent as at 31 March 2000.  
The financial year is used for presentational purposes.

Putting these figures into the formula:

		<b>Total</b>
70% of sector-average rent	70% x £53.50	£37.45
Multiplied by relative county earnings	x £299.10/£316.40	£35.40
Multiplied by bedroom weight	x 0.90	<b>£31.86</b>
		<b>subtotal</b>
30% of sector-average rent	30% x £53.50	£16.05
Multiplied by relative property value	x £30,000/£49,750	<b>£9.68</b>
		<b>subtotal</b>
<b>Adding together the sub-totals</b>	<b>£31.86 + £9.68</b>	<b>£41.54</b>

In this example, the initial target rent is £41.54 a week, which increases by the guideline limit each year.

**Table 1: Local authorities within each tci area**  
(based on tci circular of 1998/99)

LA code	Local authority	TCI CG	LA code	Local authority	TCI CG
202	City of London	A	312	Oxford	B
204	Barnet	A	318	Chiltern	B
206	Brent	A	320	Wycombe	B
208	Camden	A	321	Broxbourne	B
210	Ealing	A	322	Dacorum	B
213	Hackney	A	323	East Hertfordshire	B
214	Hammersmith and Fulham	A	324	Hertsmere	B
215	Haringey	A	325	North Hertfordshire	B
216	Harrow	A	326	St. Albans	B
218	Hillingdon	A	327	Stevenage	B
219	Hounslow	A	329	Watford	B
220	Islington	A	330	Welwyn Hatfield	B
221	Kensington and Chelsea	A	335	Cambridge	B
222	Kingston upon Thames	A	356	Brentwood	B
223	Lambeth	A	361	Epping Forest	B
225	Merton	A	362	Harlow	B
228	Richmond upon Thames	A	251	Ashford	C
229	Southwark	A	252	Canterbury	C
231	Tower Hamlets	A	253	Dartford	C
233	Wandsworth	A	254	Dover	C
234	City of Westminster	A	256	Gravesham	C
317	South Bucks	A	257	Maidstone	C
328	Three Rivers	A	261	Swale	C
447	Isles of Scilly	A	262	Thanet	C
203	Barking and Dagenham	B	264	Tunbridge Wells	C
205	Bexley	B	266	Eastbourne	C
207	Bromley	B	269	Lewes	C
209	Croydon	B	271	Wealden	C
211	Enfield	B	272	Adur	C
212	Greenwich	B	273	Arun	C
217	Havering	B	274	Chichester	C
224	Lewisham	B	276	Horsham	C
226	Newham	B	278	Worthing	C
227	Redbridge	B	281	Eastleigh	C
230	Sutton	B	282	Fareham	C
232	Waltham Forest	B	283	Gosport	C
259	Sevenoaks	B	285	Havant	C
263	Tonbridge and Malling	B	286	New Forest	C
275	Crawley	B	287	Portsmouth	C
277	Mid Sussex	B	289	Southampton	C
279	Basingstoke and Deane	B	290	Test Valley	C
280	East Hampshire	B	295	Newbury	C
284	Hart	B	296	Reading	C
288	Rushmoor	B	311	Cherwell	C
291	Winchester	B	313	South Oxfordshire	C
294	Bracknell Forest	B	314	Vale of White Horse	C
297	Slough	B	315	West Oxfordshire	C
298	Windsor and Maidenhead	B	316	Aylesbury Vale	C
299	Wokingham	B	319	Milton Keynes	C
300	Elmbridge	B	331	North Bedfordshire	C
301	Epsom and Ewell	B	332	Luton	C
302	Guildford	B	333	Mid Bedfordshire	C
303	Mole Valley	B	334	South Bedfordshire	C
304	Reigate and Banstead	B	340	South Cambridgeshire	C
305	Runnymede	B	355	Basildon	C
306	Spelthorne	B	358	Castle Point	C
307	Surrey Heath	B	359	Chelmsford	C
308	Tandridge	B	360	Colchester	C
309	Waverley	B	363	Maldon	C
310	Woking	B	364	Rochford	C
365	Southend-on-Sea	C	350	Ipswich	D
367	Thurrock	C	352	St. Edmundsbury	D
368	Uttlesford	C	353	Suffolk Coastal	D
401	Bournemouth	C	357	Braintree	D
402	Christchurch	C	366	Tendring	D
403	North Dorset	C	414	Mendip	D
404	Poole	C	415	Sedgemoor	D
405	Purbeck	C	416	Taunton Deane	D
406	West Dorset	C	417	West Somerset	D
407	Weymouth and Portland	C	418	South Somerset	D
408	East Dorset	C	420	Exeter	D
409	Kennet	C	422	Plymouth	D

LA code	Local authority	TCI CG	LA code	Local authority	TCI CG
410	North Wiltshire	C	424	Teignbridge	D
411	Salisbury	C	425	Mid Devon	D
412	Thamesdown	C	426	Torbay	D
413	West Wiltshire	C	427	Torridge	D
419	East Devon	C	428	West Devon	D
421	North Devon	C	429	Caradon	D
423	South Hams	C	430	Carrick	D
436	Bristol	C	431	Kerrier	D
440	North West Somerset	C	432	North Cornwall	D
441	Cheltenham	C	433	Penwith	D
442	Cotswold	C	434	Restormel	D
501	Bromsgrove	C	443	Forest of Dean	D
513	Stratford-on-Avon	C	444	Gloucester	D
514	Warwick	C	445	Stroud	D
515	Birmingham	C	446	Tewkesbury	D
519	Solihull	C	451	Blaby	D
554	Sheffield	C	452	Charnwood	D
558	Leeds	C	453	Harborough	D
562	Harrogate	C	455	Leicester	D
567	York	C	456	Melton	D
584	Durham	C	457	North West Leicestershire	D
591	North Tyneside	C	458	Oadby and Wigston	D
602	Liverpool	C	459	Rutland	D
608	Manchester	C	462	Lincoln	D
612	Stockport	C	463	North Kesteven	D
613	Tameside	C	467	Corby	D
614	Trafford	C	468	Daventry	D
616	Chester	C	469	East Northamptonshire	D
621	Macclesfield	C	470	Kettering	D
628	Fylde	C	471	Northampton	D
633	Ribble Valley	C	472	South Northamptonshire	D
636	West Lancashire	C	473	Wellingborough	D
639	Barrow-in-Furness	C	475	Bassetlaw	D
643	South Lakeland	C	476	Broxtowe	D
701	Bath and North East Somerset	C	477	Gedling	D
706	Brighton and Hove	C	480	Nottingham City	D
711	The Medway Towns	C	481	Rushcliffe	D
260	Shepway	D	484	Chesterfield	D
267	Hastings	D	486	Erewash	D
270	Rother	D	487	High Peak	D
336	East Cambridgeshire	D	488	North East Derbyshire	D
338	Huntingdonshire	D	489	South Derbyshire	D
339	Peterborough	D	490	Derbyshire Dales	D
342	Broadland	D	505	Redditch	D
345	Norwich	D	507	Worcester City	D
347	King's Lynn and West Norfolk	D	508	Wychavon	D
348	Babergh	D	509	Wyre Forest	D
349	Forest Heath	D	510	North Warwickshire	D
512	Rugby	D	606	Bolton	D
516	Coventry	D	607	Bury	D
517	Dudley	D	609	Oldham	D
518	Sandwell	D	610	Rochdale	D
520	Walsall	D	611	Salford	D
521	Wolverhampton	D	615	Wigan	D
522	Cannock Chase	D	617	Congleton	D
523	East Staffordshire	D	618	Crewe and Nantwich	D
524	Lichfield	D	619	Ellesmere Port and Neston	D
525	Newcastle-under-Lyme	D	620	Halton	D
526	South Staffordshire	D	622	Vale Royal	D
527	Stafford	D	623	Warrington	D
528	Staffordshire Moorlands	D	624	Blackburn	D
529	Stoke-on-Trent	D	625	Blackpool	D
530	Tamworth	D	626	Burnley	D
531	Bridgnorth	D	627	Chorley	D
532	North Shropshire	D	629	Hyndburn	D
533	Oswestry	D	630	Lancaster	D
534	Shrewsbury and Atcham	D	631	Pendle	D
535	South Shropshire	D	632	Preston	D
536	The Wrekin	D	634	Rossendale	D
551	Barnsley	D	635	South Ribble	D
552	Doncaster	D	637	Wyre	D
553	Rotherham	D	638	Allerdale	D
555	Bradford	D	640	Carlisle	D
556	Calderdale	D	641	Copeland	D
557	Kirklees	D	642	Eden	D
559	Wakefield	D	702	South Gloucestershire	D
560	Craven	D	707	Isle Of Wight	D

LA code	Local authority	TCI CG	LA code	Local authority	TCI CG
561	Hambleton	D	708	East Riding	D
563	Richmondshire	D	709	North East Lincolnshire	D
564	Ryedale	D	712	Herefordshire	D
565	Selby	D	713	Malvern Hills District	D
566	Scarborough	D	337	Fenland	E
574	Kingston upon Hull	D	341	Breckland	E
577	Hartlepool	D	343	Great Yarmouth	E
578	Redcar and Cleveland	D	344	North Norfolk	E
579	Middlesbrough	D	346	South Norfolk	E
580	Stockton-on-Tees	D	351	Mid Suffolk	E
581	Chester-le-Street	D	354	Waveney	E
582	Darlington	D	454	Hinckley and Bosworth	E
583	Derwentside	D	460	Boston	E
585	Easington	D	461	East Lindsey	E
586	Sedgefield	D	464	South Holland	E
587	Teesdale	D	465	South Kesteven	E
588	Wear Valley	D	466	West Lindsey	E
589	Gateshead	D	474	Ashfield	E
590	Newcastle upon Tyne	D	478	Mansfield	E
592	South Tyneside	D	479	Newark and Sherwood	E
593	Sunderland	D	482	Amber Valley	E
594	Alnwick	D	483	Bolsover	E
595	Berwick-upon-Tweed	D	485	Derby	E
596	Blyth Valley	D	511	Nuneaton and Bedworth	E
597	Castle Morpeth	D	710	North Lincolnshire	E
598	Tynedale	D			
599	Wansbeck	D			
601	Knowsley	D			
603	St. Helens	D			
604	Sefton	D			
605	Wirral	D			

**Table 2: Formula for converting sq m into hectares**

$$\frac{\text{Sq metres}}{10,000} = \text{Hectare}$$

Example: a site measures a total of 2000 sq m

$$\frac{2,000}{10,000} = 0.2 \text{ Hectare}$$

**Table 3: Annual rates of retail price index change and guideline limits**

September	Effective Year	Rate of RPI Increase	Guideline Limit
2001	2002/03	1.7%	2.2%
2002	2003/04	1.7%	2.2%
2003	2004/05	2.8%	3.3%
2004	2005/06	3.1%	3.6%
2005	2006/07	2.7%	3.2%
2006	2007/08	3.5%	4.1%
2007	2008/09	3.9%	4.4%
2008	2009/10	5.0%	5.5%
2009	2010/11	-1.4%	-0.9%
2010	2011/12	4.6%	5.1%
2011	2012/13	5.6%	6.1%

Prior guideline limits (Required for indexation of target rents).

Year	Guideline Limit*
1999/2000	4.2%
2000/2001	2.1%
2001/2002	4.3%

\* based upon previous rent limit of RPI + 1%.

## **Appendix 4: Additional guidance on property valuation under the RIRG**

### **Appendix 4a: Property valuations**

While a target rent will be required for each property it is neither practicable nor desirable to value each property individually. As relative property values play a modest role in the restructuring formula, small differences in individual valuations will not have a large impact on target rents. However, for the purposes of calculating target rents, a value will have to be attributed to each property.

Given the broad range of PRPs by size and the geographical spread of their stock, this guidance is not prescriptive about the method by which property values are established. However, boards must satisfy themselves that they are adopting the most appropriate procedure for valuing their stock, with the benefit of professional advice, where necessary.

To achieve a consistent and fair pattern of social rents, a common date and basis of valuation must be adopted. January 1999 should be used as the property valuation base for calculating restructured rents.

PRPs should use an Existing Use Valuation (EUV), assuming vacant possession and continued residential use. EUV's should be produced by the comparative method and not by a discounted cash flow method. Appendix 4b sets out the definition by the Royal Institution of Chartered Surveyors (RICS) of the concept of EUV. PRPs should note that this is not the same basis as Existing Use Value—Social Housing (EUV—SH), which adjusts the valuation to take account of the social housing tenancy and is also different from an Open Market Valuation (OMV) which can include the benefit of a planning gain.

Valuations should be in accordance with the RICS Appraisal and Valuation Manual and may be desk-based. PRPs may choose to use external valuers or appropriately qualified in-house staff to carry out valuations, and they must keep written confirmation of the valuations. Several options, which may be used in combination, for valuing housing stock are suggested in the following sections.

It is difficult to predict how many individual valuations a PRP will need to cover its entire stock. Much will depend on the variety within its stock and the geographical coverage. PRPs should determine the appropriate number of valuations required for their stock to take account of their individual circumstances. Previous indications, from work undertaken by the then DTLR as part of a rents pilot study, suggested that landlords may need to value two to 5% of stock.

PRPs that have undertaken stock transfer valuations or EUV—SH valuations, may have also been provided with EUVs or the valuer may hold such information but not have reported it to them. PRPs may wish to ask the valuer

whether it is possible to adjust the valuation to take account of the valuation base of January 1999.

If a PRP has had a representative proportion of its stock valued for loan security purposes, it will probably have been provided with a EUV. If so, the valuers may be able to extrapolate this information across the whole of the PRP's stock and re-base it to January 1999 if necessary. Again, PRPs may wish to discuss with the valuer whether this is feasible.

PRPs may use right-to-buy valuations, where available and appropriate, adjusted to the valuation base date.

If existing valuations need to be re-based to January 1999, this can be done by reference to an appropriate house price index, reference to the data available from the Land Registry website, by an external valuer or appropriately qualified in-house staff.

If a property is subject to a s106 Agreement (Town & Country Planning Act), this should be disregarded for the purposes of attributing a value to the property for rent restructuring purposes. Similarly, if a building is listed under the Planning (Listed Buildings & Conservation Areas) Act 1990, this should be disregarded. If a property has a relatively short lease that affects its value, the valuation should be on the assumption that the property has a long leasehold interest, to avoid anomalies.

## **Appendix 4b - Existing Use Valuation – taken from original RIRG**

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### **Existing Use Value (EUV) as defined in the RICS Appraisal and Valuation Manual at PS 4.3.**

Existing Use Value (EUV) — An opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- a willing seller
- that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale
- that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation
- that no account is taken of any additional bid by a prospective purchaser with a special interest
- that both parties to the transaction had acted knowledgeably, prudently and without compulsion
- the property can be used for the foreseeable future only for the existing use, and
- that vacant possession is provided on completion of the sale of all parts of the property occupied by the business



## **Appendix 4c - Guidance on the valuation of supported housing (adapted from circular 02/02)**

### **Introduction**

This guidance explains the approach that PRPs should adopt to the valuation of supported housing for rent restructuring purposes. It is not intended to provide advice on valuations for accounting purposes. The term supported housing covers all schemes that may attract Supporting People grant.

The key principles underpinning rent restructuring for supported housing are the same as those for general needs housing. Rents are expected to reflect the size, condition and location of the accommodation. Properties have to be valued for these purposes using a common valuation base (January 1999) and a comparable method.

There are two approaches that can be used by PRPs to the valuation of supported housing. Existing Use Valuation (EUV), which assumes vacant possession, is the preferred method of valuation and, where possible, PRPs should obtain EUVs for supported housing. Where it is not appropriate to value properties on this basis, PRPs can use a Depreciated Replacement Cost (DRC) method of valuation. This guidance broadly explains how PRPs can use both the EUV and DRC methods to value their supported housing stock.

The main principles underpinning the valuation methods for supported housing are as follows. The methods should:

- reflect the same principles as those for general needs housing
- be simple to operate
- take account of the full costs of replacement.

### **Existing Use Valuations (EUVs)**

EUVs should be applied to ordinary supported housing units that are similar to general needs housing, for instance self-contained housing and small shared units. The concept of EUV is based on assuming vacant possession and continued residential use.

Appendix 4b to this guide sets out the definition by the Royal Institution of Chartered Surveyors of the concept of Existing Use Value. In particular, the concept assumes that the property remains in its current use, which in this instance is housing and is not converted into, for example, retail or office accommodation.

Supported housing schemes can be included within PRPs' existing valuation methods for general needs housing, where the stock is similar. Such approaches may involve valuing a representative sample of housing stock, or PRPs jointly forming a 'valuation club' where valuations are shared. Where a

supported housing scheme is isolated from other types of properties then an individual valuation may be required. The EUV methodology should reflect the cost of specialist adaptations.

It is anticipated that the EUV method of valuation should be appropriate for a substantial proportion of supported housing, as there is sufficient evidence of various types of residential property to enable a robust valuation to be prepared for rent restructuring purposes. PRPs should, where possible, use EUVs. PRPs may choose to use external valuers or appropriately qualified in-house staff to carry out EUVs.

### **Depreciated Replacement Costs (DRC)**

The DTLR guidance recognised that in some cases valuations on an EUV basis would not take account of the particular qualities and characteristics of supported housing. Where the Board of a PRP decides that this is the case, with the benefit of professional advice where appropriate, the PRP may value properties on a DRC basis.

The DRC method of valuation broadly corresponds to the cost of replacing the building, taking account of the fact that generally it would not be brand new. This approach should only be applied for the purposes of rent restructuring.

The approach set out in this guidance involves the calculation of a DRC valuation based on the replacement of an existing property with a modern alternative. This replacement cost will need to be depreciated where the condition of the existing property does not meet modern standards. The value of the land will then need to be added to this calculation.

The methodology set out below explains how PRPs with specialist properties can calculate a DRC. PRPs may pursue this approach without having to engage professional valuers, in which case they should ensure that a competent person is responsible for applying the methodology.

### **Build cost per square metre (sq m)**

To calculate the DRC of an existing property, it will be necessary for the PRP to first calculate the cost of its replacement with a modern alternative. The methodology involves using a standard per sq m rate for the build cost of a modern alternative. The January 1999 rates for each TCI area are shown below, details of the local authorities that fall within each TCI area are shown in Table 1.

TCI area	A	B	C	D	E
Build cost per sq m	871	799	761	737	707

The sq m build rates shown above include on-costs and take account of the additional costs associated with building supported housing.

PRPs will need to calculate the gross external area of the existing property using guidance provided in the Royal Institution of Chartered Surveyor's Code of Measuring Practice. If the gross external area is difficult to measure, then PRPs could derive this calculation from the gross internal area, taking into account the thickness of the external walls and the space occupied by partitions.

The calculation will involve multiplying the build rate by the gross sq m to arrive at a replacement cost for a modern alternative.

### **Specialist adaptations**

Supported housing can include the provision of specialist adaptations for people with a physical disability. A distinction needs to be made between property related adaptations and personal equipment for an individual (eg hoists etc).

The build cost calculation for replacing an existing scheme with a modern alternative includes the costs of complying with building regulation requirements for wheelchair accessibility. There are, however, other property related adaptations that may need to be taken into account in assessing replacement costs, for instance the provision of specialist equipment.

Two key multipliers have been identified that can enhance the basic build cost to take account of those adaptations that are not reflected within the sq m calculation. These multipliers are as follows:

Wheelchair (specialist fixed equipment e.g. showers/kitchen units)	1.12
Serviced by new lifts	1.12

### **Condition of the property**

To ensure that the DRC valuation reflects the condition of the property, it will be necessary for the replacement cost to be depreciated.

Where the property has been regularly maintained and upgraded, and complies with modern design and construction standards, the replacement cost should not be depreciated. Where the property does not meet modern standards a notional abatement factor of 0.90 should be applied to depreciate the replacement costs in any of the following circumstances:

- no central heating
- the kitchen/s has not been refurbished within the previous ten years
- the bathroom/s has not been refurbished within the previous 15 years

### **Standardised land value calculation**

There are two approaches that PRPs can adopt to calculating the land value for rent restructuring purposes. These approaches are explained below.

PRPs can use professional valuers (internal or external) to provide advice on the valuation of a site (at the January 1999 price base). This approach provides a tailored method for calculating the value of the land component.

Alternatively, PRPs can use land values prepared by the Valuation Office in spring 1999. If these land values are used, it is not necessary to rebase the valuation to January 1999. This approach would involve PRPs calculating the size of the site in hectares (see formula in Table 2 to translate sq m into hectares). PRPs could make use of ordnance survey maps to facilitate this calculation. The value of the land would be derived by multiplying the land value prepared by the Valuation Office by the actual size of the site.

The land values prepared by the Valuation Office are based on each local authority area, assuming a representative location with planning permission available for residential development, services are to the edge of the site and the site is ripe for development. The spring 1999 values for each local authority area are given in Table 3 showing the value of small sites as well as those in excess of two hectares. As the valuation figures provide a broad indication of land value over each local authority area, they may not reflect the specific value of the PRP's site. Where an PRP considers this to be the case, it may wish to use a professional valuer.

**Table 4: Valuation office residential land values at spring 1999**

LA code	Local Authority	Small sites	Bulk land (more than two hectares)	LA code	Local Authority	Small sites	Bulk land (more than two hectares)
Values at £000 per hectare				Values at £000 per hectare			
202	City of London	20,500	20,500	282	Fareham	1,400	1,200
203	Barking and Dagenham	1,358	1,600	283	Gosport	1,025	1,000
204	Barnet	3,800	3,500	284	Hart	1,720	1,720
205	Bexley	2,000	1,600	285	Havant	1,200	1,100
206	Brent	2,300	3,000	286	New Forest	1,280	1,400
207	Bromley	2,000	2,470	287	Portsmouth	1,000	900
208	Camden	9,000	5,500	288	Rushmoor	1,720	1,720
209	Croydon	2,000	2,000	289	Southampton	1,400	1,020
210	Ealing	3,100	3,200	290	Test Valley	1,250	1,100
211	Enfield	3,000	2,800	291	Winchester	1,720	1,720
212	Greenwich	2,000	1,700	294	Bracknell Forest	2,000	2,000
213	Hackney	2,500	2,500	295	West Berkshire	1,600	1,600
214	Hammersmith and Fulham	5,000	2,550	296	Reading	1,950	1,950
215	Haringey	2,500	2,500	297	Slough	1,950	1,950
216	Harrow	2,500	3,400	298	Windsor and Maidenhead	2,100	2,100
217	Havering	1,736	2,000	299	Wokingham	2,000	2,000
218	Hillingdon	2,300	3,000	300	Elmbridge	1,800	1,500
219	Hounslow	3,100	3,200	301	Epsom and Ewell	1,450	1,400
220	Islington	5,250	5,250	302	Guildford	2,250	2,250
221	Kensington and Chelsea	27,000	17,500	303	Mole Valley	975	1,425
222	Kingston upon Thames	2,350	2,350	304	Reigate and Banstead	1,780	1,750
223	Lambeth	2,100	2,100	305	Runnymede	2,300	2,300
224	Lewisham	1,600	1,600	306	Spelthorne	1,780	1,750
225	Merton	2,500	2,500	307	Surrey Heath	2,200	2,200
226	Newham	1,545	1,425	308	Tandridge	1,780	1,750
227	Redbridge	1,650	1,650	309	Waverley	2,000	2,000
228	Richmond upon Thames	2,600	2,600	310	Woking	2,150	2,150
229	Southwark	2,300	2,300	311	Cherwell	1,000	900
230	Sutton	1,900	2,470	312	Oxford	3,500	3,350
231	Tower Hamlets	2,475	2,225	313	South Oxfordshire	1,250	1,200
232	Waltham Forest	1,650	1,650	314	Vale of White Horse	1,200	1,150
233	Wandsworth	2,900	2,900	315	West Oxfordshire	1,200	1,100
234	City of Westminster	20,500	20,500	316	Aylesbury Vale	1,600	1,600
251	Ashford	1,020	925	317	South Buckinghamshire	2,750	2,750
252	Canterbury	1,850	1,350	318	Chiltern	2,500	2,500
253	Dartford	1,100	1,100	319	Milton Keynes	1,500	1,500
254	Dover	700	450	320	Wycombe	2,100	2,100
256	Gravesham	825	825	321	Broxbourne	2,200	2,000
257	Maidstone	1,250	1,250	322	Dacorum	1,900	2,250
259	Sevenoaks	1,600	1,600	323	East Hertfordshire	1,400	1,350
260	Shepway	865	650	324	Hertsmere	1,900	2,250
261	Swale	890	710	325	North Hertfordshire	1,200	1,100
262	Thanet	700	450	326	St Albans	1,900	2,250
263	Tonbridge and Malling	1,500	1,500	327	Stevenage	1,400	1,250
264	Tunbridge Wells	1,600	1,600	328	Three Rivers	1,900	2,250
266	Eastbourne	875	750	329	Watford	1,900	2,250
267	Hastings	375	275	330	Welwyn Hatfield	1,400	1,200
269	Lewes	900	900	331	North Bedfordshire	1,000	1,000
270	Rother	740	700	332	Luton	1,000	
271	Wealden	1,040	875	333	Mid Bedfordshire	1,050	1,050
272	Adur	800	750	334	South Bedfordshire	1,100	1,100
273	Arun	1,125	1,110	335	Cambridge	1,480	2,200
274	Chichester	1,850	1,750	336	East Cambridgeshire	615	565
275	Crawley	1,200	1,200	337	Fenland	225	210
276	Horsham	1,450	1,425	338	Huntingdonshire	890	890

LA code	Local Authority	Small sites	Bulk land (more than two hectares)	LA code	Local Authority	Small sites	Bulk land (more than two hectares)
		Values at £000 per hectare				Values at £000 per hectare	
277	Mid Sussex	1,000	1,050	339	Peterborough	590	565
278	Worthing	950	900	340	South Cambridgeshire	1,130	1,025
279	Basingstoke and Deane	1,720	1,720	341	Breckland	325	275
280	East Hampshire	1,500	1,500	342	Broadland	325	275
281	Eastleigh	1,440	1,250	343	Great Yarmouth	325	275
344	North Norfolk	350	300	440	North Somerset	1,100	950
345	Norwich	600	550	441	Cheltenham	1,500	1,500
346	South Norfolk	350	300	442	Cotswold	1,350	1,350
347	King's Lynn and West Norfolk	325	275	443	Forest of Dean	740	740
348	Babergh	350	335	444	Gloucester	1,100	1,100
349	Forest Heath	320	300	445	Stroud	850	850
350	Ipswich	650	630	446	Tewkesbury	1,100	1,100
351	Mid Suffolk	308	300	447	Isles of Scilly	1,480	2,200
352	St Edmundsbury	650	650	451	Blaby	750	700
353	Suffolk Coastal	410	400	452	Charnwood	800	800
354	Waveney	320	320	453	Harborough	750	800
355	Basildon	1,025	988	454	Hinckley and Bosworth	850	750
356	Brentwood	1,555	1,400	455	Leicester	750	700
357	Braintree	800	750	456	Melton	775	725
358	Castle Point	1,200	1,300	457	North West Leicestershire	750	750
359	Chelmsford	1,280	1,225	458	Oadby and Wigston	750	700
360	Colchester	900	900	459	Rutland	800	675
361	Epping Forest	1,600	1,480	460	Boston	270	185
362	Harlow	1,025	988	461	East Lindsey	410	250
363	Maldon	700	900	462	Lincoln	500	375
364	Rochford	900	1,100	463	North Kesteven	340	250
365	Southend-on-Sea	990	920	464	South Holland	325	300
366	Tendring	600	400	465	South Kesteven	375	250
367	Thurrock	640	555	466	West Lindsey	210	135
368	Uttlesford	1,200	1,100	467	Corby	350	350
401	Bournemouth	1,600	1,500	468	Daventry	740	740
402	Christchurch	1,600	1,500	469	East Northamptonshire	570	570
403	North Dorset	950	915	470	Kettering	618	618
404	Poole	1,600	1,500	471	Northampton	800	800
405	Purbeck	1,000	950	472	South Northamptonshire	865	865
406	West Dorset	925	875	473	Wellingborough	679	679
407	Weymouth and Portland	850	800	474	Ashfield	350	300
408	East Dorset	1,400	1,300	475	Bassetlaw	400	300
409	Kennet	700	700	476	Broxtowe	680	625
410	North Wiltshire	950	950	477	Gedling	675	600
411	Salisbury	1,050	1,050	478	Mansfield	320	300
412	Swindon	850	1,050	479	Newark and Sherwood	425	340
413	West Wiltshire	800	950	480	Nottingham City	700	620
414	Mendip	600	550	481	Rushcliffe	800	745
415	Sedgemoor	450	440	482	Amber Valley	520	450
416	Taunton Deane	925	875	483	Bolsover	325	250
417	West Somerset	620	580	484	Chesterfield	495	325
418	South Somerset	1,000	900	485	Derby	600	550
419	East Devon	893	819	486	Erewash	540	460
420	Exeter	1,103	987	487	High Peak	440	440
421	North Devon	683	612	488	North East Derbyshire	450	270
422	Plymouth	683	525	489	South Derbyshire	460	375
423	South Hams	716	625	490	Derbyshire Dales	550	490
424	Teignbridge	893	819	501	Bromsgrove	1,235	1,350
425	Mid Devon	683	612	505	Redditch	810	775
426	Torbay	914	840	507	Worcester	820	775
427	Torridge	525	478	508	Wychavon	830	765
428	West Devon	680	650	509	Wyre Forest	1,050	1,175
429	Caradon	200	220	510	North Warwickshire	725	600
430	Carrick	400	350	511	Nuneaton & Bedworth	700	600

LA code	Local Authority	Small sites	Bulk land (more than two hectares)	LA code	Local Authority	Small sites	Bulk land (more than two hectares)
Values at £000 per hectare				Values at £000 per hectare			
431	Kerrier	300	265	512	Rugby	800	700
432	North Cornwall	320	290	513	Stratford-on-Avon	1,450	1,400
433	Penwith	330	300	514	Warwick	1,900	1,800
434	Restormel	330	300	515	Birmingham	890	890
436	Bristol	1,350	1,350	516	Coventry	950	850
517	Dudley	950	1,000	599	Wansbeck	245	200
518	Sandwell	570	480	601	Knowsley	400	350
519	Solihull	1,800	1,650	602	Liverpool	700	650
520	Walsall	975	1,025	603	St Helens	500	410
521	Wolverhampton	900	950	604	Sefton	500	425
522	Cannock Chase	900	950	605	Wirral	360	360
523	East Staffordshire	700	475	606	Bolton	550	500
524	Lichfield	1,100	900	607	Bury	550	500
525	Newcastle-under-Lyme	450	325	608	Manchester	1,000	800
526	South Staffordshire	950	1,000	609	Oldham	675	625
527	Stafford	600	425	610	Rochdale	650	650
528	Staffordshire Moorlands	450	325	611	Salford	500	450
529	Stoke-on-Trent	450	325	612	Stockport	1,350	1,350
530	Tamworth	750	575	613	Tameside	600	490
531	Bridgnorth	750	715	614	Trafford	925	855
532	North Shropshire	495	495	615	Wigan	550	450
533	Oswestry	490	445	616	Chester	645	825
534	Shrewsbury and Atcham	650	765	617	Congleton	540	500
535	South Shropshire	495	445	618	Crewe and Nantwich	350	300
536	Wrekin	500	550	619	Ellesmere Port and Neston	360	350
551	Barnsley	550	375	620	Halton	500	450
552	Doncaster	625	425	621	Macclesfield	700	550
553	Rotherham	460	440	622	Vale Royal	575	500
554	Sheffield	630	540	623	Warrington	940	700
555	Bradford	600	525	624	Blackburn	470	325
556	Calderdale	550	450	625	Blackpool	750	675
557	Kirklees	615	475	626	Burnley	470	310
558	Leeds	1,000	975	627	Chorley	775	625
559	Wakefield	700	500	628	Fylde	800	750
560	Craven	525	500	629	Hyndburn	470	235
561	Hambleton	800	800	630	Lancaster	800	750
562	Harrogate	850	1,000	631	Pendle	470	270
563	Richmondshire	600	540	632	Preston	775	625
564	Ryedale	500	400	633	Ribble Valley	675	625
565	Selby	450	350	634	Rossendale	475	265
566	Scarborough	400	350	635	South Ribble	775	625
567	York	800	750	636	West Lancashire	775	625
574	Kingston upon Hull	475	375	637	Wyre	800	750
577	Hartlepool	500	475	638	Allerdale	250	197
578	Redcar and Cleveland	375	400	639	Barrow-in-Furness	425	375
579	Middlesbrough	425	450	640	Carlisle	360	270
580	Stockton-on-Tees	500	500	641	Copeland	200	150
581	Chester-le-Street	494	494	642	Eden	320	270
582	Darlington	500	500	643	South Lakeland	675	575
583	Derwentside	315	275	701	Bath and NE Somerset	1,500	1,400
584	Durham	650	600	702	S Gloucestershire	1,300	1,200
585	Easington	350	215	706	Brighton and Hove	1,200	1,000
586	Sedgefield	350	300	707	Isle of Wight	475	360
587	Teesdale	325	300	708	East Riding of Yorkshire	610	550
588	Wear Valley	400	300	709	N E Lincolnshire	410	350
589	Gateshead	500	450	710	North Lincolnshire	410	350
590	Newcastle upon Tyne	800	800	711	Medway Towns	750	730

LA code	Local Authority	Small sites	Bulk land (more than two hectares)	LA code	Local Authority	Small sites	Bulk land (more than two hectares)
Values at £000 per hectare				Values at £000 per hectare			
591	North Tyneside	600	800	712	Hereford	600	570
592	South Tyneside	500	450	713	Malvern Hills	820	795
593	Sunderland	475	425				
594	Alnwick	430	310				
595	Berwick-upon-Tweed	370	245				
596	Blyth Valley	245	200				
597	Castle Morpeth	450	370				
598	Tynedale	495	400				



## Appendix 5: RICS guidance on valuation for Affordable Rent

An extract from the Red Book is reproduced below with permission of the RICS, which owns the copyright. RICS in general recognises five methods of valuation: comparison, investment, land residual, cost and profits. Rental valuations of residential property are generally arrived at by comparison. However, we do not wish to be prescriptive as to the method used in individual cases.

For rental valuations, in order to establish open market rental value for purposes of the new Affordable Rent<sup>5</sup> model, it is for individual PRPs to come to a decision as to what approach to take to valuation, and who will carry out that valuation, following principles of good governance. To arrive at a compliant process, PRPs will need to consider issues of:

- probity
- independence
- the comparables selected
- the method by which the comparables are used to inform the market rent value
- the suitability of the valuer
- the policy for taking the market rental valuation into account in setting the Affordable Rent to be charged

The process will need to be transparent and accountable. Whatever the method used, the valuation will be built on the definitions of the basis of market rent contained within the RICS Red Book.

For certain types of provision (such as housing that includes support services) or provision in areas where there is relatively little rental activity (such as some rural localities) there may be insufficient comparables readily available. In these cases, valuers should identify comparables in other areas and form their best view of the market rent that would be applicable. However these rents are derived, PRPs need to ensure a consistent and transparent approach.

The text below is taken from the RICS Valuation Standards (6<sup>th</sup> edition, 2010), section PS3, pp46-51. It is reproduced by permission and subject to RICS copyright.

### Market rent

**Valuations based on market rent (MR) shall adopt the definition settled by the International Valuation Standards Committee.**

Market rent: The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably,

prudently and without compulsion. Whenever market rent is provided the 'appropriate lease terms' which it reflects should also be stated. (©IVSC, GN 2, para. 3.1.9.1)

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