



How to...
*manage homes at market
rent*



How to... manage homes at market rent

1 Over the last year or two we have seen a significant increase in the number of social landlords who also manage properties on a commercial basis, at full market rents. The profits from this activity can then be ploughed back into the social part of their business.

There are a number of reasons why your organisation might want to think about diversifying and beginning to let homes on this basis, and these are considered in [New approaches to market rented housing](#). This 'how to...' guide is more practically focused. It sets out how to go about the day-to-day business of managing properties on a commercial basis effectively.

Why is a different approach needed at all?

Organisations that already manage both social and market rented housing consistently report that the two require very different approaches.

It's not just that market rented properties are let using a different type of tenancy and that as a result there are different legal processes that need to be followed – although this is true. What is more important is that market renters are a different client group and, compared to social tenants, often have very different needs and expectations. This needs to be reflected in the services that are provided to them.

You will also have different objectives in letting properties at market rents, although the extent to which this is a purely commercial activity varies from one organisation to another. For some, the focus is entirely on maximising revenue to subsidise affordable house building or other activities which benefit the local community. Others seek to strike more of a balance, perhaps generating a more modest financial return but also achieving some positive social outcomes (for example by housing people who might otherwise struggle to obtain a tenancy with a traditional private sector landlord). However in either case a stronger focus on making sure your activities 'stack up' financially will be required, and this will have implications for your approach to housing management.

All of this means that managing market rented housing is not simply a case of offering your existing services to a different client group and charging them a higher rent. You are likely to need to develop a dual approach, with different properties being let and managed very differently depending on their tenure.

Lettings

The process of letting homes at market rents, including property standards, rent setting, finding tenants and issuing tenancy agreements, differs significantly from letting social housing:

Property standards – the 'lettable standard' applied to your market rented properties may not necessarily need to be very different from the standard you already apply to your social lets. However as a minimum you should consider including carpets/flooring and perhaps white goods as these are offered by many other private landlords and as, given the less secure nature of market renting, many tenants will not expect to need to purchase them.

If you intend to price your properties towards the upper end of the market, you should also think about the 'added extras' that can make them more appealing to potential tenants. To do this you will need to have a clear understanding of who your target market is and what they want from a property but, for example, many landlords ensure that their market rent properties are already connected to a broadband supplier. At the very top end of the market those that are developing purpose built homes

targeted at 'young professionals' often design additional services into their schemes, such as a concierge and access to laundry and cleaning services for those tenants who wish to pay extra for them.

Rent setting - if you intend to let to households in receipt of housing benefit, it is likely that your rent levels will be determined by Local Housing Allowance levels in the area. However if this is a purely commercial activity, you will need to develop a commercial approach to setting rents.

Organisations like [Hometrack](#) can provide comprehensive data on rent levels in your area, which can help to inform strategic decisions about which types of properties you should invest in and what kind of return you should be able to expect from them. However on a day-to-day basis, many organisations take a more informal approach to setting rent levels for individual vacant properties. Informal benchmarking, essentially searching for similar properties already being marketed by commercial letting agents and pricing your own properties accordingly, can be a useful exercise. However, you should bear in mind that the rents that you will be able to command can vary quite dramatically even from one street to the next. Local knowledge is therefore key, and so it can be really valuable to have officers who know the area well involved in the process.

In some areas, particularly those where demand is not as strong, you may also find that prospective tenants are inclined to try to negotiate a reduced rent. This can make the viewings and lettings process a very different experience from the one that front line officers with a background in social housing will be used to. If necessary, you should therefore ensure that viewings are carried out by officers who have the right commercial skills to engage these kinds of negotiations and who are empowered to use reasonable discretion to secure a letting.

Finding tenants - depending on who your target market is, you might rely on referrals from your (or a partner organisation's) housing advice team to secure your tenants, or you might let homes on a first-come-first-served basis. For the latter, many organisations advertise properties through websites such as [Zoopla](#) or [RightMove](#) or, alternatively, you could employ a commercial high street letting agent for this purpose.

You will also need to build some mechanism for checking that potential tenants will be able to afford the rent into your lettings process. Time spent up front making sure that a tenancy is likely to be sustainable can save you from incurring considerable costs later and help to maximise the financial return from the property. Many organisations do this by employing a specialist third party organisation to carry out referencing and/or a credit check on their behalf, in the same way that a commercial letting agent would. However if you, or a partner organisation, employ officers to provide financial advice to tenants, you may be able to draw on these to carry out your own affordability checks.

Learning from others

Futures Homescape ask all applicants for their market rented properties to complete an income and expenditure statement and to provide proof of income. Their in-house money advice team then sense-check the figures provided, help fill in any gaps (such as utilities, TV licence etc), check whether the prospective tenants are claiming all the benefits they are entitled to and ultimately assess whether the property will be affordable for them. Based on this assessment, the lettings team then decide whether or not to proceed.

Where appropriate, Futures Homescape will also recommend that prospective tenants have a full appointment with a money advisor to look at all aspects of their finances.

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Tenancy agreements – the form of tenancy used in the market rented sector is an assured shorthold tenancy (AST). These last for an initial fixed term of at least six months before becoming periodic, at which point they can be ended or the rent increased at any time (with two month's notice).

A common criticism of private renting is that the use of ASTs, which are usually offered for an initial term of either six or 12 months, provides very little long term security for tenants. Some social landlords are seeking to address this by offering greater guarantees to their tenants that they will be able to remain in their property for a longer period.

There are two ways in which you can do this, either by:

- offering an AST for a longer initial period, with annual rent increases linked to inflation written in to the agreement. For example Genesis Housing Association allow tenants to choose the length of their AST, between a minimum of one year and a maximum of five
- retaining the standard six or 12 month initial period but providing verbal guarantees that in practice once the tenancy becomes periodic it will be allowed to roll on for as long as the tenant wants to remain in the property and continues to abide by the terms of their agreement.

Learning from others

Sanctuary Housing advertise vacant properties for market rent through Zoopla and let them on a first-come-first-served basis, subject to referencing and a credit check. Tenants receive a 12 month AST. However in practice this will be allowed to roll on, with an annual rent increase of RPI or 3 per cent, for as long as the tenant wishes to remain in the property.

The homes themselves are let to a similar standard as their social stock, other than that they include white goods and floor coverings.

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Managing tenancies

Market renters may also have different needs during the lifetime of their tenancy, compared to social renters, and many organisations that already let to both groups report that their market renters often desire a more 'transactional' or 'business-like' relationship with their landlord.

This is likely to mean placing less emphasis on things like resident involvement and tenancy support, and more on simply providing fast and efficient reactive services. For example, it could include offering greater flexibility with regards to the reporting and carrying out of repairs, with many market rent tenants expecting to be able to report problems through a wider variety of channels (eg. online and via email) and outside of standard office hours.

Breaches of tenancy may also need to be handled differently. You should, of course, still strive to act as an ethical landlord and to allow tenants a reasonable opportunity to put any problems right. However many organisations will escalate problems, like rent arrears or a failure to maintain the property, to the enforcement stage more quickly when dealing with their market rented properties. This principally reflects the more commercial nature of these activities and the need to secure an adequate financial return from their portfolio of properties. However it is also representative of the nature of the landlord-tenant relationship in the market rented sector and the fact that the expectations that exist for both parties are different, when compared to social housing.

Learning from others

Castle Vale Community Housing Association (CVCHA) have set up a vehicle, Oakington Homes, to acquire and manage market rented homes on the Castle Vale estate in Birmingham. Recognising that they are in competition with other private landlords in the area, they refurbish these properties to a high specification, with fitted kitchens including built in appliances, showers in the bathrooms, fitted carpets/laminate floors and curtains or blinds - as tenants generally do not expect to have to buy these items when letting a home at market rents.

However to manage these homes effectively, CVCHA have also had to change many of their process and also think more commercially. This includes, for example, escalating issues more quickly when enforcement action is required. Although tenancy support services are available, CVCHA generally expect that their Oakington Homes tenants will be less likely to need to draw on these. Instead they place greater emphasis on ensuring that problems are unlikely to arise in the first place by carrying out credit checks, requiring tenants to put down a security deposit and setting out a clear expectation that they should pay their rent by direct debit. They are then quicker to take action where tenants do fall into arrears or don't maintain their property.

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Staffing

All of the above can pose a challenge for the officers involved in managing your market rent properties, particularly if their background and experience is of managing social housing. On a practical level, they will need to learn how to work with a different type of tenancy agreement and to familiarise themselves with a revised set of policies and procedures. However, more fundamentally, they will also need to utilise a very different skill set in order to maximise financial returns, for example when setting and negotiating rents.

If you already develop homes for shared or outright home ownership, you may find that you already have some of these commercial skills in your business. However, particularly if you have historically focused on providing homes for social rent, you should think about what training might be needed to support officers who will now need to take responsibility for commercial activities. If new posts are being created, you may also be able to address this in part through the recruitment process by recruiting some officers with a commercial background in order to bring new skills in to the organisation.

You should also think about your staff structure and whether the same officers will be responsible for the day-to-day management of both your social and market rented homes. Feedback from organisations that already let homes at both levels suggests that, if possible, it is preferable to separate these activities and to have them managed by different teams, operating independently of each other. However this is only likely to be possible once you have built up a portfolio of a significant number of market rented homes, and organisations that are just starting out may need to rely on officers' ability to switch between roles in the first instance.

Learning from others

Derwent Living own around 650 properties let at market rents. They are mostly in the Derby and Nottingham areas and were developed during the 1990s and early 2000s. They are managed by the homeownership team, rather than the team responsible for managing social rented homes, in order to make use of the commercial skills of officers in that part of the organisation.

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A2Dominion find tenants for their market rent properties through a combination of their own waiting list and their work with local authorities, through online advertising on their own website and on external sites such as Rightmove and Zoopla and through local letting agencies, to whom they pay a finders fee. They carry out their own property viewings with prospective tenants, while an external agency – ‘HomeLet’ – is employed to carry out credit checks. These are paid for directly by the prospective tenant, however A2Dominion have been able to negotiate a reduced rate for the service.

Rents are determined based on a combination of the organisation’s own local knowledge and using data on local rent levels derived from sites like Hometrack, Rightmove and Zoopla and from local letting agencies. Properties are mostly let using periodic assured shorthold tenancies but can also be let using a 12 month fixed term tenancy with a six month break clause, depending on the tenant’s circumstances.

A2Dominion have a dedicated team of housing officers who deal specifically with their market rent portfolio and who deal both with lettings and the on-going management of properties. Tenants are required to pay their rent by direct debit, meaning there are typically fewer interactions with them during the lifetime of their tenancy.

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Notting Hill Housing (NHH) has been providing market rent accommodation across London since 2007. They have a dedicated market rent division which only deals with this tenure and which is currently undergoing a rebranding exercise. They also have a new dedicated website which will generate enquiries for available properties, which are also listed on popular websites including Rightmove and Zoopla.

NHH’s offer to prospective tenants for their market rent properties is:

- no up front fees and no small print. The only money incoming tenants pay at the outset is the rent in advance and security deposit, NHH absorbs all set up costs, while details of the rent and all of the tenants’ responsibilities are made clear in a Plain English tenancy agreement
- a personal service with a dedicated property management officer for each property, managing all the tenants’ needs
- a same day response policy on all queries, while decisions are made within 24 hours
- long term tenancy agreements of up to three years for those looking for extra security
- a 24/7 online residents’ portal for making payments and submitting maintenance requests.

NHH’s negotiators help prospective tenants by showing them the property and helping them sign the tenancy agreement while an external independent agency, Vericheck, provides an affordability based reference report prior to the tenant being accepted.

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Further information about Oakington Homes

www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Letting_homes_at_market_rents_is_helping_to_increase_standards

Further information about Derwent Living

www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Market_rent_case_study_Derwent_Living

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