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# Community Housing Program 2008-09

Rent Setting Guidelines  
for Community Housing Providers

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## INTRODUCTION

Unlike many other States and Territories, Housing Tasmania does not dictate the rent setting method for community housing providers. Providers are able to choose from a range of methods in order to best suit their conditions.

This document is designed to be used by community housing providers as a general guide to rent setting. It covers some of the key elements that community housing providers need to consider when determining an appropriate rent setting model.

## WHY IS RENT SETTING IMPORTANT?

Choosing the most appropriate rent setting method can be difficult. Providers want to charge rents that their tenants can afford. However, the provider needs to receive enough rental income to cover its costs; otherwise it will not be viable in the long term.

The following guiding principles will assist organisations to develop their rent setting models within a framework considered appropriate to Housing Tasmania. The principles include;

- Organisations must be viable through maximising income streams, with capacity to grow where appropriate;
- Sustainability of the organisation over the short and long term;
- Transparency of rent setting models to ensure it is easily interpreted;
- Affordability for tenants must be maintained;
- Flexibility of the rent setting model to account for changes in organisational circumstances; and
- Minimise workforce participation disincentives.

Another issue of importance is the leveraging of Commonwealth Rent Assistance (CRA). CRA is a non-taxable income supplement paid through Centrelink to low income individuals and families who rent in the private rental market, which includes community housing<sup>1</sup>. It aims to address basic living costs by reducing income that a household spends on its housing. Income support mechanisms therefore assist low income households to access appropriate and affordable housing. Moreover, organisational viability is greatly assisted and rental revenue or income is maximised through ensuring eligible tenants access rental support assistance.

These guidelines are not intended to be definitive, and providers may propose other rent setting methods that suit their own circumstances and target group. Organisations are encouraged to seek additional supporting information and advice in relation to rent setting.

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<sup>1</sup> The CRA scale of entitlements can be obtained from Centrelink or can be viewed online at: <http://www.facs.gov.au/internet/facsinternet.nsf/housing/rentassist.htm>

## **FINANCIAL VIABILITY OF YOUR ORGANISATION**

### **Rental revenue**

The rental revenue or income that an organisation receives overall will determine how viable the organisation will be in the longer term. An appropriate rent setting model can assist to create a suitable revenue or income stream. The revenue needs to cover all costs associated with managing the community housing portfolio. Organisations should also refer to the Asset and Property Management guidelines provided as part of the CHP information kit for further information relating to property lifecycle issues which will have an impact on the amount of revenue needed.

The stability of this rental revenue will also contribute to the financial viability. That is, if the rental revenue is considered to be unpredictable, the viability of the organisation is unstable.

### **Eligibility policy and tenant mix**

Eligibility policy and tenant mix have an impact on the financial viability of a community housing provider. Viability is most at risk when rent setting models are based on tenant income. Housing lower income households will result in lower revenue. Similarly, housing low income small households (e.g lone person households) will result in low revenue.

Where community housing is targeted to those on a low income, the organisation's viability becomes more difficult to maintain. Where Housing Tasmania has an interest in a property (i.e. has provided an organisation with funding to assist in supplying that accommodation) these must be allocated to clients who are eligible for public housing for the life of the Funding Agreement. These clients are likely to be low to moderate income earners. Where a community housing provider can reserve a proportion of its properties for higher income households paying relatively high rents (i.e. these properties are not funded in any part from CHP), financial viability is easier to maintain. This is because there is a balance of income levels and therefore rental levels.

## **BASIC TYPES OF RENT SETTING METHODS**

Rent setting methods can be broadly divided into three types: property based, household based and combination of the two.

### **Property based rents**

Property based rents can be calculated using the current cost (for example the cost of operating, maintaining, managing and/or eventually replacing) of individual properties or an average cost of properties in a community housing portfolio. Alternatively, market rents are based on the market rental value which can be obtained from government or private valuations of the property. Often the rent will be set at a discounted percentage of the property cost, for example 75 per cent of market rent.

The main weakness of property based rents is that they may not be affordable for tenants. For this reason, State Housing Authorities and many community and affordable housing organisations use household based rents that take into account tenant income.

### **Household based rents**

This type of rent is usually based on one characteristic of the household. For example, rents can be based on:

- the family or household type (for example a lone person will pay \$70 and a couple \$115);
- income - the rent may be set at a certain percentage of income type (for example 25 or 30 per cent), or the income might determine which band or group the tenant falls into (for example, if household income is under \$400 a week, the rent is \$80).

These types of rents are usually capped at market rent of the individual property. This ensures that the household will not pay more than a similar household in the private market.

### **Combination of the above two**

These methods can be complicated but a simple example of this is an income based rent capped by market rent (mentioned above). These methods are sometimes called hybrids.

## **EXAMPLES OF RENT SETTING METHODS**

Attachment A describes some rent setting methods in use or proposed around Australia. This is not a complete list and is not in order of preference.

Different rent setting methods will be more or less suitable for different target groups. For example, the 25 per cent plus Commonwealth Rent Assistance method may be suitable for tenants on a Disability Pension; a discounted market rent approach may be suitable for low-moderate wage earning households and a hybrid approach may be suitable for diverse low income tenants. A larger provider may adopt more than one rent setting method if it has multiple target client groups.

## **WHAT NEEDS TO BE CONSIDERED?**

The following points are broad issues to consider when developing a rent setting policy.

- Whether rents should be related to the characteristics of the property (a property rent) or the household income (a household rent) If a property rent is used, how will affordability for tenants be monitored; and
- In many cases, a subsidy is required to meet the difference between the property and management costs and the amount that a household can afford. Who pays the subsidy, and how? (see information on CRA on p2 and p6)

These are the first level of issues to consider in rent setting. Beyond this, there are a number of related issues that will affect the viability of the organisation.

In addition, rental levels must be affordable. Rents are considered affordable if they do not exceed 30 per cent of gross household income (or income before tax). The National Community Housing Standards Manual suggests that rent should be 20-25 per cent of gross income for low income tenants.

Some rent setting methods can result in workforce disincentives. For example, if employment results in a significant increase in rent, then the tenant might decide not to accept a job offer. If an income based rent setting method is used, incentives such as a rent holiday (where the rent is frozen for a period of time at the pre-employment level before it is increased) can be used to reduce the workforce disincentive.

Whatever method is applied, Community Housing Organisations are encouraged to provide information on the rent setting method to its applicants and tenants. This helps to ensure fairness to tenants. It is also important to maintain accurate records of any rent setting policy decisions so these documents can be referred to when needed.

## **REFINEMENTS TO RENT SETTING**

Refinements may be made to rent setting, particularly income based methods. Issues that may assist in refining rent setting policies include but are not limited to:

### **Non assessable income**

Some pensions and benefits are granted for specific purposes, for example, Pharmaceutical Allowance is paid to assist low income earners to afford medicine. Organisations may leave out some types of income from the rental assessment. Alternatively some incomes may be partially assessed. Reasons for doing so may relate to compassionate issues for example.

### **Tax component**

Rent may be calculated on net income (after-tax) rather than gross income (before tax). This relates particularly to earned income including wages, superannuation and interest. This makes rents more affordable and is a workforce participation incentive.

### **Youth concession**

The income of household members under a certain age (e.g under 18, 21 or 25) may be excluded from the rental calculations or only partially assessed. This may encourage families to stay together and can be seen as workforce participation incentive.

### **Other relationship concessions**

The income of certain household members may be only partially assessed, depending on their relationship to the main tenant. For example, the income of non-dependent children may be assessed at only 50 per cent. This may encourage families to remain living together and provide a workforce participation incentive.

### **Specific workforce incentive**

Income based rents tend to create a workforce disincentive because a tenant's rent goes up when their income increases. This can be addressed by providing a rent holiday (where the rent is held at the pre-employment rate for a grace period of several weeks or months) or a working allowance (where an amount of money is deducted from the assessable income that is used to calculate the rent).

### **Amenity factor**

If the rent setting method does not inherently reflect amenity (for example a percentage of market rent), rent may be adjusted by an amenity factor to reflect the number of bedrooms, property condition and/or location. This is somewhat difficult to achieve and would need to be applied consistently.

## Flexibility

Organisations may choose to reduce or waive rent in exceptional circumstances such as in the case of a tenant requiring temporary hospitalisation. This can be documented as an administrative rule that overrides the rent setting method. It should be applied consistently to ensure fairness.

Particular issues for community housing providers in selecting a rent setting method are the treatment of CRA and the GST charitable concession<sup>2</sup>.

## WHY IS CRA IMPORTANT?

Leveraging of Commonwealth Rent Assistance (CRA) should be a primary consideration for community housing providers. Providers that are able to adopt a rent setting method to leverage tenant CRA entitlement will find it less difficult to keep rents at a level that is affordable for tenants while maintaining a rental stream that is high enough to pay for the management and maintenance costs of the organisation. This type of arrangement not only benefits the tenant but also helps the community housing organisation to remain a viable.

There are three options for the treatment of CRA:

1. Include 100 per cent of CRA as a component of rent, on top of a percentage of income or flat rent;

*E.g. per cent of income) + (100 per cent CRA) = rent*

2. In a percentage of income rent method, count the CRA as part of assessable income. This means that a percentage of CRA will be taken in rent along with other income;

*E.g. percentage of (Income + CRA) = rent*

3. Exclude CRA from rent altogether, i.e. regard it as non-assessable income, but set the rent slightly higher to encourage tenants to apply for CRA.

*E.g. percentage of income = rent\**

Or *flat amount (market determined) = rent\**

*\*CRA not included*

Providers should note that the type of rent setting methods community housing providers adapt can have longer term consequences to the organisation administration processes and costs. Organisations are encouraged to seek further information from Centrelink in relation to CRA and eligibility criteria.

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<sup>2</sup> Providers, particularly local government authorities, should check with Australian Taxation Office or Centrelink regarding the applicability of GST and the GST concession to their housing and whether their tenants are generally eligible for CRA.

## **THE GST CHARITABLE CONCESSION**

Another issue for community housing providers that will affect any rent setting method is the GST concession. Taxation law states that goods and services provided on a charitable basis are GST-free. The Australian Tax Office has determined that GST-free status applies to housing provided at less than 75 per cent of market value.

As a community housing provider your organisation will need to undertake financial analysis to determine whether it is more beneficial for financial viability to cap rents/keep rents at 74.9 per cent of market value or below and receive the GST concession.

Alternatively, organisations can set rents (where appropriate) above 75 per cent of market value and receive increased revenue and therefore not be eligible for GST charitable status.

## **WHAT IS APPROPRIATE FOR YOUR ORGANISATION?**

The most appropriate rent setting method may differ for each organisation according to the management structure and client target group. As there are a number of issues involved in calculating rental revenue, detailed financial modelling may be required. This type of modelling will need to take into account the organisation's cost structure and other sources of income not related to rental streams. Modelling will also assist in determining the financial viability of the organisation.

## **FURTHER INFORMATION**

If you would like further information on community housing rent setting, please contact Community Partners, Housing Tasmania on (03) 6233 4878.

# ATTACHMENT A

## SOME RENT SETTING METHODS IN USE OR PROPOSED

Rent setting method	Source
25% of household income plus 100% CRA, capped by market rent.	NSW, Qld and WA State housing authority rent policies for community housing
25% of household income, capped by market rent. CRA included in assessable income.	SA Community Housing Authority rent policy
25% of household income plus 100% CRA, capped at 90% of market rent.	A mainland community housing organisation (CHO)*
30% of household income, with specified minima and capped by 74.9% of market rent. Minima based on property operational costs. CRA excluded.	A CHO in Tasmania
25%, 27.5% or 30% of household income in income bands, capped at 74.9% of market rent. CRA included in assessable income	City West Housing, NSW*
74.9% of market rent.	Brisbane Housing Company* and others
Range of discounted market rents – 35%, 65% or 74.9% depending on household type.	A mainland CHO (proposed method in a registration application)*
Averaged portfolio property cost, capped by 74.9% market rent.	A mainland CHO*
Averaged portfolio property cost, capped by 25% household income + service cost component + 100% CRA.	A mainland CHO*
25% of properties: rent = 25% of household income 75% of properties: rent = 74% of market rent	A mainland CHO*
Flat rents for particular target groups or household types, set to maximise CRA within affordability benchmark.	Guideline proposed by a Housing Tasmania Area Office.

\* These relate to 'new model' affordable housing rather than traditional community housing.