

Market rent and optimizing new rentals

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Market rent

Market Rent is the rent that landlords and tenants agree to a lease, in the absence of regulation through legislation restricting the rent.

In Sweden we have a legislation that regulates the rent for housing tenants. It is a rent control. The rent control is a housing policy restriction on the freedom of contract in the housing market, which means that the rent shall not be set to any amount. In practice rent control regulates the maximum rent that is permissible on a contract, and it is called the Usage-value rent.

One definition of market rent:

"the most probable rent that would arise in a free rental market"

Usage-value system (bruksvärdessystemet)

The usage-value rent should reflect tenants' general values of different grades of accommodation. It may be the apartment's:

- size
- number of rooms
- floor plan
- standard
- outdoor environment
- building location and site service and attraction

The history of the use-value system

The first rent control law came in 1942 and had as its main task to function as a stabilization and distribution policy instrument.

In 1968, the 1942 rent law was replaced with a system that became known as the usage-value system. The usage value system would essentially perform three different tasks.

1. It would create a real security of tenure for tenants

2. Promote general restraint on rent
3. Generate a rental relationship between the various properties that are consistent with differences in serviceable condition.

The rent would not have to be unreasonable. Economic factors were not prevented from pushing rents upward. The tenant would not have to accept rent increases that were due to lack of housing within the community.

The usage value system says that the starting point should be what an apartment from a consumer point of view can be considered compared to other apartments in the light of the character, benefits and other factors.

Usage value can be affected by things such as housing, service, modernity degree, plan, sound insulation size and other benefits linked to the home.

In assessing the usage value one has to ignore built, production, operational costs and management costs. Usage value must also be assessed objectively, i.e. without the individual tenant's values or needs.

After the 1968 rent law there has been several revisions. In the case of possession of an apartment, currently the tenant not only has a formal right to continue living in their apartment, but also has the opportunities to defend that right. The landlord should not be able to raise the rent to get rid of an unwanted tenant. Each tenant will also have a real chance that on your own or with the help of a tenant organization defend their interests. The main rule for rental structure is that it should reflect market rents on a rental market in the long term balance. Rents may not be pushed up due to housing shortages. The municipal housing companies should be leading, and rents shall be determined in negotiations between landlords and tenants. Unless the parties agree, you can turn first to the rent tribunal. If the landlord and the tenant have still do not agree, the parties may apply to housing court, which then determines the rent.

The new rule from 1st January 2011.

New rules for rental properties taking place 1st January 2011.

The Parliament has decided on new rules for rent-setting and new conditions for public municipal housing companies. It will lead to that public and private landlords have to compete on equal terms.

The decision means that:

The conditions of the general municipal housing companies are clearly defined. They are public housing in the community and offer residents influence of the tenants. The municipal housing will operate commercially.

Rents, which have been determined after negotiations between the tenants' association and the landlords, will determine rent levels. Rents from municipal and private landlords will have the same weight.

Tenants are protected against excessively high rent increases. The changes will provide a better functioning housing market which is attractive to own and invest in rental properties, but still provides full protection for tenants.

Akelius optimizing new rent

Akelius optimizing new rent in the negotiation with the tenant's association.

With the new rule on rents, which came into force 2011-01-01 Akelius no longer waits for the municipal housing companies lease negotiations. Akelius negotiates directly with the tenants' association under the same conditions as the municipal housing. We use a document for each property where we fill in the various things such as facts, actions made 2010, actions that will be made 2011 and claims.

For Bokhyllan in Täby, it looks as below in this year's negotiations with the tenants' association. We present our claims as follows:

Facts

- 395 apartments
- construction year 1988
- 66 m² average apartment size
- Relative rent 103 €/m²
- Comparison object relative rent: 125 €/m², Nya Fregatten
- 126 applicants per apartment
- 1,700 €/m² Prices in the region for tenants owned association

Action 2010

- Presence-driven stairwell lighting with new fixtures
- Telia fiber

Actions for 2011

- New Geothermal heating system

Claim

- 1.9% value hedge, the Riksbank's forecast

- 3.0% certainty, popularity, willingness to pay
- 1.1% in local rates, heating, electricity
- 0.2% Telia fiber
- 1.0% water-based heating system

Total 7.2%

Akelius optimizing new rent for a standard raise of a fluctuation apartment in Sweden.

One example.

Termination of the apartment comes in 2011-03-28.

Moving out date for the tenant will be 2011-07-01.

The Asset manager inspects the apartment no later than 2011-07-15 together with kitchen supplier and a construction contractor.

The kitchen supplier measures the kitchen and discusses how it should look with the asset manager and construction contractor.

The kitchen supplier draws the kitchen and orders it so that it is ready for delivery 2011-07-01, moving out day.

The asset manager increases the rent of the apartment, dependent on which standard-raising will be done in the apartment. The asset manager cannot take whatever rent they want, it is negotiated with the tenants association what new rent can be taken dependent upon how much is renovated.

The asset manager informs the new rent to the landlord who puts the apartment on Akelius website for rental.

Hire date will be 2011-08-01 because the building contractor needs one month to renovate the apartment.

The building contractor has a month to renovate the apartment, from 2011-07-01 to 2011-08-01. They are to build a new kitchen, new baths, parquet floors in all rooms, new switchboard and other depending on the apartment's condition.

And hopefully a happy tenant moves in with Akelius on the 2011-08-01