

# Rent negotiating process

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## Introduction

In Sweden the rents are regulated by a system called bruksvärdesystemet(sv). This means that the private property owners can not set a rent that is higher than the rent for a similar apartment owned by the municipal housing companies. If the municipal housing companies raise their rents, other property owners also have the right to raise their rents to the corresponding level.

## Negotiating

Normally, the municipal housing companies raise their rents once a year, generally at the end of the year. Normal practice is to submit a claim for raising the rent to the Tenants Association, before the end of September. A month later, they usually specify the claim. After that the negotiations start.

The municipal housing companies and the Tenant Association are usually in agreement by early December. If the parties fail to agree, the question will be submitted to the so-called Hyresmarknadskommittén(sv) and they have to decide the issue.

Other property owners must also submit their claims before the first of October. When they have clear information about the new rents set by the municipal housing companies, they start their negotiations. It is not uncommon that these negotiations are not completed until before the end of the year, this could lead to retroactive rental increases.

## Collective lease negotiations

It sometimes occurs that landlords and tenants negotiate directly with each other; however, most rental apartments are negotiated collectively. The reason why the negotiations are kept by the Tenants Association, instead of individual tenants, is due to the provisions of the Hyreslagen(sv).

A prerequisite for collective rent negotiations is that the landlord and an organization of tenants have signed an agreement called förhandlingsordning(sv).

In addition, there must be a clause in each lease contract that is related to Förhandlingsordningen(sv). Individual tenants are then included in Förhandlingsordningen(sv) and agreements made in the individual leases.

The rent is determined in negotiations based on the so-called Bruksvärdesprincipen(sv) that is applicable to both collective and direct negotiations. The collective negotiations differ depending on whether it is a public or a private housing company.

### **Rent Negotiations with public housing companies**

In collective negotiations with public housing companies it is determined how big the company's total rental outlet may be. This is based on the company's own costs. After that a distribution is made between the different neighborhoods and eventually the apartments in the company's stock based on their bruksvärde(sv). The principles regarding how the distribution will proceed is based on bruksvärdesprincipen(sv) in Hyreslagen(sv).

### **Rent Negotiations with private housing companies**

In negotiations with the private landlords the landlord's costs have no importance, except in certain cases when the rent of new constructions is determined. Instead a comparison is made between the apartments in the private population and apartments in the public population that are located in the same district. Apartments that are roughly equivalent should have the same rent. Everything according to bruksvärdesprincipen(sv).

Sometimes the private property owners and the Tenants' Association do not agree on the rent increases. Negotiations can then be stranded and the property owner may try to agree with each of the tenants individually. If that does not work, the property owner can seek a review of the issue in the Hyresnämnden(sv).

### **Bruksvärdesprincipen(sv)**

The rent should be determined based on the bruksvärdesprincipen(sv); it can be found in Hyreslagen(sv) and means that the rent should be set to "the reasonable amount". To determine whether or not the rent is reasonable, the rent should be compared with an equivalent apartment in a public housing

company; in the first instance an apartment in the same area or with the similar location in the city. Rents for public flats will thus constitute a kind of ceiling on rents in the private stock. This is the very basis of the bruksvärdessystemet(sv). One of the reasons for its introduction was to guarantee individual tenants their security of tenure, another reason was to keep down the general level of rents.

### **Key factors for bruksvärdet(sv)**

What are the factors that determine whether or not apartments are considered roughly equivalent? Bruksvärdet(sv) is defined in the tenancy investigation as follows:

"The idea with an apartments bruksvärde(sv) is what it can be considered to be worth from the consumer point of view in relation to comparable apartments in the same locality".

The apartment's nature and benefits that are linked to the possession of the apartment and other factors should be taken in to consideration. It provides examples of such factors, but it is not exhaustive. The factors should be judged without taking into account the individual tenant's values or needs. Factors that are relevant to bruksvärdet(sv) may be:

- The flat's nature (size, modernity grade, layout, location within the house, standard of repair and acoustics).
- Benefits (lift, garbage collection, laundry room, common areas, playground, garage or parking that belongs to the apartment).
- Other factors (the location of the house, living environment in general, proximity to communications).

So, already when the bruksvärdessystemet(sv) was introduced, the location factor was one of the factors that according to Hyreslagen(sv) should be taken in to consideration. Today it is an issue that is often discussed in negotiations and especially where there is a disagreement.

### **Direct negotiations**

If a landlord wants to raise the rent for an apartment not covered by the collective lease negotiations system, the landlord asks the tenant directly to pay a higher rent. The request shall be in written text. If the tenant does not accept the requested rent level, the landlord can contact Hyresnämnden(sv) and then they will determine whether or not the requested rent is reasonable or not. Hyresnämnden(sv) will try this case according to bruksvärdesprincipen(sv).

## **Rents in new buildings**

When rents are negotiated collectively for apartments in newly built houses, you can take into account the cost of construction of the building. The rents are then at the same level for the next ten years. After that you have to look at bruksvärdesprincipen(sv) to determine whether or not the rent is reasonable or not. You can also do this in privately owned houses.

## **Internet sources**

<http://www.fastighetsagrna.se>, Mars 2009

<http://www.hyresgastforeningen.se>, Mars 2009