

TARGET RENTS

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A guide to how CHARM rents are calculated and reviewed.



THE CHURCH
OF ENGLAND

PENSIONS BOARD



Introduction

Your CHARM rental property has a rent set based on a 'target rent' formula. This is a formula used in social housing to set rent at a level substantially lower than market rent.

This guide explains what a **target rent** is, why they were introduced and how they work.

What is a target rent?

Target Rents were introduced by the Government in 2002, as a way of standardising rents across different social housing providers.

They are based on a formula, designed in such a way so as to ensure that the rent you pay is below the level you would typically pay 'on the open market' (i.e. with a private landlords), for a similar property in your area.

The Board introduced target rents for all its rental properties in 2015.

The difference between 'target', 'market' and 'affordable' rents

An 'affordable' rent is defined by housing providers as one that is set at 80% of market rents in your area.

Target rents are different. They are set with reference to not only the relative value of the property but also local earnings. They are sometimes called 'social' rents and would typically be lower than 'affordable' rents.

Why did the Board introduce target rents?

They were introduced following extensive consultation with our residents about the 'old' rent model. Before 2015, CHARM rents were based on 30% of a customer's household income.

This caused several issues:

- It was not fair - some customers were paying a lot more than others for very similarly sized properties in the same area
- In some areas, customers ended up paying more rent than they would have in the private sector
- Our rent model was not understood by local DWP offices, leading to difficulties for customers in claiming Housing Benefit, should they need it.
- The process of calculating rents involved asking lots of questions about personal finances, which some found intrusive.

How does the formula work?

The formula brings together information on:

- Your home's **location** and how much people earn locally – so that your rent is set at an affordable level
- Your home's **size** i.e. does it have 1, 2 or 3 bedrooms, with the logic being that the bigger the property, the more you pay
- The **value** of the property compared with an average home in the UK – again, the more expensive your home is, the more you would pay to rent it.
- The **typical national rent** values for social housing – to make sure we are not setting your rent too high.

These figures change from time to time. Therefore, when we set a target rent, we have to calculate it at a given year, and then make any allowance for any price growth in the meantime.

Most social housing providers first introduced target rents in 2002, and the model was based on values at 1999. When the Board introduced target rents in 2015, we used the same model as our starting point, adjusted for the fact that prices had gone up in 15 years. Whenever a new property is added to our portfolio, a similar process occurs to set the initial rent at the right level.

To explain this visually

We start with the
**typical social
housing rent**

at a certain date



We adjust the first
70% based on:



Property size



**Location & local
earnings**

We adjust the further
30% for:



**Property
value**

We add the two values
together & adjust for:



Inflation
(usually RPI)

Can you give me an example?

Here is an example for setting a target rent based on a property in Devon.

To start calculating the target rent, we need to know some basic facts about the property, local earnings and also rents in a given year. We have used 1999 in this example, as this is what most target rents were based on initially.

So, for instance:



The property in 1999 was worth **£175,750**. The average property at that time owned by social landlords in England was worth **£49,750**, with a weekly rent of **£53.50**.



The property has 3 bedrooms.



National average earnings were **£316.40** per week. In Devon the average earnings though were less than this at **£278.00** per week.

So now we have the key facts we can start to put them together.

The calculation has three parts to it, with a number of steps:

1. Look at property size and location

A	We work out 70% of the average social housing rent in 1999	70% x £53.50	£37.45 per week
B	We scale this based on average earnings in the area relative to national earnings.	£278.00 divided by £316.40 x step A	£32.90 per week
C	We multiply this by the weighting value for number of bedrooms.	1.05 x step B	£34.55 per week

2. Look at the property value

D	We work out 30% of the 1999 average social housing rent.	30% x £53.50	£16.05 per week
E	We scale this based on relative property value i.e. what this property was worth compared to the national average.	£175,750 divided by £49,750 x step D	£56.70 per week

3. Bring it together & adjust

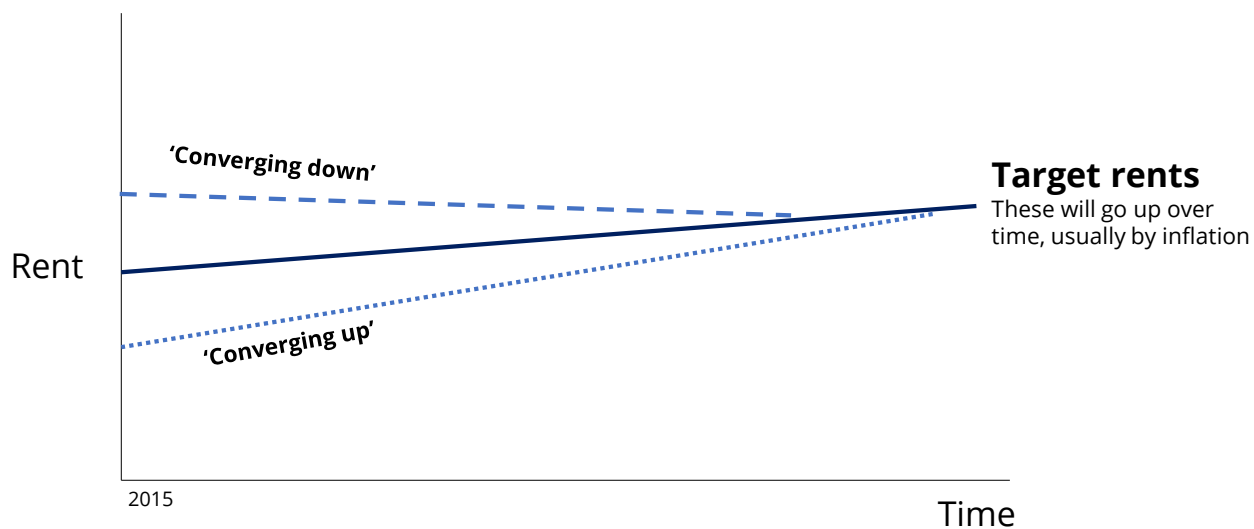
F	We add the other parts together	Step C + Step E	£91.25 per week
G	We scale this up for inflation to get the target rent for CHARM	Step F x 20+ years of inflation	£163.43 per week

In the example calculation, the CHARM rent of £163.43 per week means a customer would pay £708.21 per month for their retirement home.

Market rates do change from time to time, and of course each property is slightly different. However it is not untypical for similar sized properties in Devon to attract a rent on the open market of £1,400- £1,650 per month.

I am converging up or down. What does this mean?

When target rents were introduced in 2015, there were a number of customers who were paying rents above or below this level based on the old approach. These customers are converging i.e. moving gradually towards the target rent level for their property. This picture shows how this works, recognising that target rents will go up over time too.



Fewer than 25% of CHARM customers today are 'converging' to the target rent. A decision was taken to move customers gradually to the target rent for their property, over 30 years. This decision recognised that those who were paying a lot less than the target rent, would struggle to find the additional money required immediately. The last thing the Board or the Church wanted was for the change in policy to cause unnecessary hardship.

If I am converging down, does this mean I am paying too much rent?

No. When you first moved into CHARM, you agreed to pay a rent based on your income level (which would have been higher than what you are paying today).

We changed our rent policy in 2015 for new tenants, and are gradually transitioning anyone on the old arrangements to the new rules.

Your rent will gradually reduce by £60 per year (or £5 per month), until you reach the target rent level for your property. At that point your rents will operate like everyone else's, with annual inflationary increases.

What happens if I am converging up or down and I reach my target rent level?

We will write to you just before this is likely to happen to let you know.

When you reach your target rent level, you should expect that each year when we review rents, you will need to pay any increase then due.

On occasion someone could reach target rent, just as an increase is due. This means that you will see your monthly charges go up immediately. Again, we will write to you if that happens.

What happens if my personal circumstances significantly change?

For any customers in CHARM before 2015, and who would have been on the 'old' style rents originally, a rent guarantee applies. If you suffer a significant loss in income due to the death of a partner or a separation, we will adjust your rent to reflect that loss.

For all our customers in this situation, we would also offer you whatever help we could through our Welfare Advice service.

What does my rent pay for?

Rent is paid to help cover the costs of providing, managing, maintaining and improving your home. It helps to cover:

- The cost of repairs and maintenance
- Buildings insurance
- Activities we need to do to keep you safe in your homes and to comply with regulation e.g. gas safety checks
- Paying interest on the borrowing taken out by the Board to buy your home
- Any major works that might be needed to improve your home
- Management costs e.g. dealing with calls, queries and running the service

Rents cover around 50-60% of these costs. Most of the rest comes from an annual grant funded by the wider Church and voted on by General Synod. It is this grant that allows us to make properties available at below market rents.

Is rent reviewed or increased at any point?

We review rents annually, usually basing any increases around September RPI in the previous year (which is also the reference point used to calculate increases to your clergy pension). We will write to all customers by end of February with the details of any increases planned from the following April.

Contact details

If you have any questions, please get in touch using the details below. We would be happy to answer any questions you may have. Please get in touch with **Ann-Marie Griffiths** or **Elaine Hopkins** or **Tom England** at:



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