HMO Market Update

New rules to raise housing standards present challenges and opportunities for local authorities and landlords

In June 2015, local authority housing enforcement officers in east London discovered that a home intended to house a family of seven was actually accommodating 26 people. The Newham property may have been an extreme example, but rising concerns about the condition of houses in multiple occupation (HMOs) have prompted government intervention.

As such, the Government has announced plans to extend the scope of the HMO licensing scheme, and to introduce mandatory minimum sizes for bedrooms that will come into effect this year.

These legislative changes will likely increase:

- the number of HMOs subject to mandatory licensing;
- the number of licence applications received by local housing authorities;
- the number of properties requiring inspection by housing enforcement officers; and
- the number of prosecutions for badly-managed HMOs.

The above factors present time, management and resource challenges for local authorities. What should you know about the changes? This document outlines the Government’s plans to tackle HMO malpractice and presents the anticipated outcomes for local authorities.

Licensing HMOs: from past to present

England’s private rented sector is now substantial, accommodating 4.4 million households. Around 500,000 of these properties are HMOs, which include buildings split into separate bedsits and shared flats where the occupants are not members of the same family. The severe housing shortage in London means that the capital contains a high number of HMOs in boroughs such as Hillingdon and Southwark. However, official figures show that these types of property are spread widely across the country. Statistics from 2011 reported that cities such as Sheffield, Nottingham and Newcastle-upon-Tyne contained over 1,000 HMOs each, while Leeds had more than 4,000.

While most private sector landlords provide a good service, others fail to manage their HMOs properly. Vulnerable tenants with no alternative accommodation may find themselves living in sub-standard, dangerous and overcrowded conditions.
In 2006, a licensing scheme for managing HMOs in England and Wales came into effect (a similar scheme has been in place since 2000 in Scotland). The present scheme requires landlords managing HMOs with three or more storeys, and occupied by five or more persons forming more than one household (currently around 60,000 properties) to be licensed by the local housing authority in order to continue renting them out. A licence confirms that the property is safe and has suitable amenities, such as adequate bathroom and kitchen facilities.

Since the licensing scheme became law, the private rented sector has grown, and with it, concerns about poor standards in smaller properties. Investigations by local councils, such as the one in Newham, have uncovered unlicensed properties that are dangerously overcrowded, with squalid conditions. In one instance, a room was so small it had to be entered on all fours.

In response, the Government announced plans to extend the scope of the HMO licensing scheme.

**Licensing HMOs: the future**

The announced changes will affect the following:

- **The rule on number of storeys will be removed, and all houses (regardless of how many floors) with five or more people from two or more households must be licensed. The Government believes that this will further enable local authorities to tackle poor standards, migration and the problems being seen in high-risk smaller properties as the sector has grown.**

- **Mandatory licensing will be extended to flats above and below business premises (regardless of the number of storeys). There is evidence of more problems associated with these properties.**

- **Rooms let for sleeping in a licensed HMO must be larger than 6.52m² for a single room and 10.23m² for a double room. This is intended to close a loophole that enables some landlords to let rooms deemed too small for an adult to legally occupy.**

The proposals were published in a government consultation in November 2015, which received over 400 responses from a range of organisations, including local authorities, as well as individual landlords and tenants. A number of authorities highlighted the poor condition of non-licensed HMOs, and indicated that such properties have a greater number of fires. The Government concluded that extending mandatory licensing will enable councils to require landlords to make improvements to the conditions of vulnerable tenants.

**The changing face of HMOs**

Announcing the changes, housing minister Gavin Barwell declared that the measures will give councils the powers they need to tackle poor-quality rental homes in their area. “By driving out rogue landlords that flout the rules of business, we are raising standards and giving tenants the protection they need.”

But behind the headlines about rogue landlords and squalid conditions, a quiet revolution is changing the HMO landscape. In 2016, a report from the Shawbrook retail and commercial bank reported on new trends in the marketplace:

> “While historically HMOs have perhaps been seen as a “lower end” accommodation type run by landlords of “questionable” character, there is now a need for a vastly different type of HMO. There is a large volume of professionals now seeking this form of accommodation for financial and social reasons which has been extremely positive for the market. It is pushing landlords to put more thought and effort into their developments, and is making this type of accommodation a more mainstream form of investment and housing.”
The report suggested that a perfect storm of social and financial factors has driven greater demand for HMO living arrangements: young people are staying single for longer; home ownership is becoming prohibitively expensive; and the cost of renting is going up. And all of this is taking place against the background of a well-reported shortage of affordable housing.

In addition, an increase in the numbers of landlords is generating greater competition, giving HMO landlords a greater incentive to raise property standards. The Shawbrook report forecast substantial investment in the HMO market over the next year:

"With the supply/demand challenges across the UK housing landscape and the resulting importance of the private rented sector, HMO property is and will remain an essential and affordable source."

This increase of activity in the HMO market, coupled with the changes to legislation has important implications for local authorities, heralding a potentially significant increase in licensing applications being submitted to them for approval.

**Expected impact and outcomes**

The HMO licensing changes are expected to come into force later in 2017, and the Government has estimated they will bring an additional 141,000 properties into licensing. Councils that are implementing Additional Licensing Schemes or even Selective Licensing Schemes under the Housing Act 2004, are likely to find they go from hundreds of licensable HMOs to thousands of licensable HMOs.

Landlords of properties where the new rules apply will face penalties for non-compliance, including criminal prosecutions and rent repayment orders. Previous cases suggest that these may be substantial: in December 2016, three Birmingham landlords were ordered to pay £8,000 for failing to obtain HMO licences.

For councils and landlords, the licensing changes will further complicate an already complex field of property management.

Local authorities administer the national licensing scheme, but each council has its own pricing criteria. Some councils set licence fees according to the number of bedrooms in a property, while others charge per property, or according to the number of tenants. Councils may also have their own voluntary licensing scheme, which may offer discounts to landlords applying for licences under the mandatory scheme. But there are also variations on discounts, with some councils cutting licensing charges for early payment. On the other hand, landlords may incur surcharges if application forms are completed late, or inaccurately. Sheffield City Council for example, imposes a £150 fee for late applications to reflect the additional work involved in identifying and dealing with these properties.

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**The UK HMO Market**
Shawbrook Bank (2016)
Meeting the challenge of change: How iApply can help

For tenants, the new HMO licensing rules will help improve housing conditions, while legitimate landlords will welcome the prospect of a level playing field. However, for local authorities, the changes present challenges and opportunities.

While councils can expect a better standard of HMO stock in their local area, the new rules will see an escalation in applications for licences, and will place further demands on housing enforcement officers to ensure that all HMO landlords are compliant. Considering the expected impact and outcomes of the HMO licensing changes, it’s here that Idox’s iApply solution can help.

iApply is the only national platform designed specifically to offer a single point of access for all local government online applications – helping to drive efficiencies, improve interaction, and enhance the customer journey.

The service offers a fully-digitised process, allowing applicants to complete, share and submit applications online with ease and making:

- application processing is **simple** – as a fully-hosted solution, the system can be easily synced to the back office – including Idox’s own Uniform and DMS services – reducing the amount of admin staff required;
- application payments are **faster** – applicants can pay online as part of the submission allowing for automatic payment reconciliation;
- application submissions are **quicker** – obligatory HMO documentation (such as plans of properties, gas, electrical and fire inspection certificates etc.) can be uploaded simultaneously and attached to the application, reducing processing and matching efforts;
- application submissions are **more effective** – pre-application sharing enables the authority to resolve issues prior to submission, supporting more valid first-time applications. Online progress tracking also means that any potential issues are resolved quickly; and
- application services are **more efficient** – with low implementation and maintenance costs, the system saves time and money through simplifying the application process. Under the cost-recovery nature of the licensing schemes, councils are also eligible to recoup the cost of the software.

Providing a simple and convenient way to submit and process licensing applications, iApply presents a solution which will support local authorities in the face of increased HMO licensing applications, following the planned changes to HMO laws in autumn 2017.

Responding to increased demand and need, the service functions as a powerful ally, helping local authorities and landlords demonstrate they are serious about high standards in housing.

Interested in finding out more?

iApply is part of Idox’s expanding suite of digital tools and services designed to support local government in their need for efficiency through digital transformation.

For further information, please contact marketing@idoxgroup.com or visit www.iapply.co.uk where you can watch our introductory video showcasing the benefits of the platform.