



Student city: Oxford, where around one in five people live in an HMO, will be affected

Letting rules tighten

Property

Houses in multiple occupation face restrictions, writes Tanya Powley

Property investors will find it harder to let houses to students – or convert existing properties for multiple occupancy – under new restrictions being introduced by local authorities.

Councils are now making it more difficult, and expensive, for investors to offer houses in multiple occupation (HMOs) – private houses rented out to at least three tenants who form separate households – in an attempt to improve the standard of shared accommodation and reduce the concentration of HMOs in certain locations.

HMOs have typically been popular with landlords, due to their high rental yields. Research by Paragon, the buy-to-let lender, has found that student houses produce an average yield of 6.45 per cent, while houses shared by young singles generate 6.22 per cent.

However, since last October, local authorities have had the option of introducing "Article 4 Directions" under changes to planning law, to limit planning permission for HMOs. According to the National Landlords Association (NLA), councils now have the power to decide how they use Article 4 Directions – and the size of HMOs affected.

As many as 20 local authorities have opted to limit the number of HMOs in their areas, with another seven authorities considering doing the same.

Licensing is also becoming stricter. Although land-

lords already need a licence for larger HMOs, some local authorities are using their powers to extend licensing further.

Since January 2011, the local authority for Oxford, where around one in five people live in an HMO, has required that all HMOs that comprise two storeys and contain five or more tenants – as well as HMOs that comprise three or more storeys – must have a licence. From next January, all remaining HMOs will also have to obtain a licence.

At the same time, the cost of these licences is being increased. A new licence now costs £470 plus £20 per bedroom where there are more than five bedrooms, plus an annual renewal fee of £172 for up to five years. In comparison, an HMO licence previously cost £600 plus £20 per bedroom.

Oxford City Council is also consulting on proposals to limit the concentration of shared houses – including a restriction on the number of HMOs to one in five properties on any 100m stretch of a road.

But while experts have welcomed the moves, some

are concerned it will adversely affect the supply of affordable rented accommodation.

Dan Channer of Finders Keepers, an Oxfordshire-based lettings agency, says the changes will have a detrimental affect on the supply of property at a time when the government is encouraging people to rent shared accommodation.

Under new rules for housing benefit, set to be introduced next year, changes to the shared accommodation rate will see 25- to 34-year-olds on housing benefit having to move from one-bedroom flats to shared accommodation, most of which will come from the private sector.

"Just as the government is pushing for more young people to share, they are making it more difficult for landlords to obtain HMO licences," says Channer.

Steve Perrons, of Perrons Davis – a north-of-England-based firm that specialises in letting property to benefit tenants – says the new rules will affect 150 of its tenants. "There seems to be a contradiction by the government. The councils should be encouraging landlords to offer HMOs to meet this need," he says.

As a result, property investors are being advised to enter the HMO market with their "eyes wide open". Nigel Terrington of Paragon says investing in an HMO requires a big financial commitment. While yields are often higher than those in other sectors, HMOs can be more expensive due to the extra maintenance needed.

Landlords "should be aware that if they wish to let the property as shared housing, they may not get planning permission," says David Salusbury of the NLA.

Saying no to HMO

Councils currently imposing a limit on planning permission for multiple occupancy properties:

Bournemouth; Brighton; Bristol; Canterbury; Exeter; Leeds; Loughborough; Manchester; Milton Keynes; Newcastle; Northampton; Nottingham; Oxford; Portsmouth; Sheffield; Southampton; Thanet; Warwick; Welwyn Hatfield; York

Source: NLA