Fleet Mortgages

A Guide to HMOs

Licencing, Planning & Article 4

Version 3.



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Introduction



Houses in multiple occupation (HMOs) form a vital part of the private rented sector, often providing more affordable accommodation for people whose housing options are limited.

HMOs are commonly occupied by students but there are also a growing number of young professionals sharing houses and flats whilst the cost of living remains high.

From a landlord's perspective, HMOs are an increasingly popular option and likely to achieve higher rental yields when compared to traditional buy-to-let properties. Additionally, they offer landlords more security – if one tenant leaves, there are still other tenants in the property generating rental income, resulting in a steadier flow of income, and more predictable cash flow.

As HMOs are more complex than standard buy-to-let properties, it is important to understand the planning and licensing requirements that apply so we've put together this short guide which provides an overview of what's involved and how Fleet Mortgages can help.

What is a HMO?

A house in multiple occupation (HMO) is a property that is rented out by at least 3 people who are not from one 'household' (for example, a family) but who share facilities like the bathroom and kitchen. It is often referred to as a 'house share'.

1.1. Requirements for a HMO Property

A property let as a HMO can require both a HMO licence *and* planning permission for change of use. However, it is important to understand these are two separate issues handled by two separate departments within the Local Authority (LA), and that obtaining one does not mean that the other is required, or that it will be approved.

1.2. Licencing

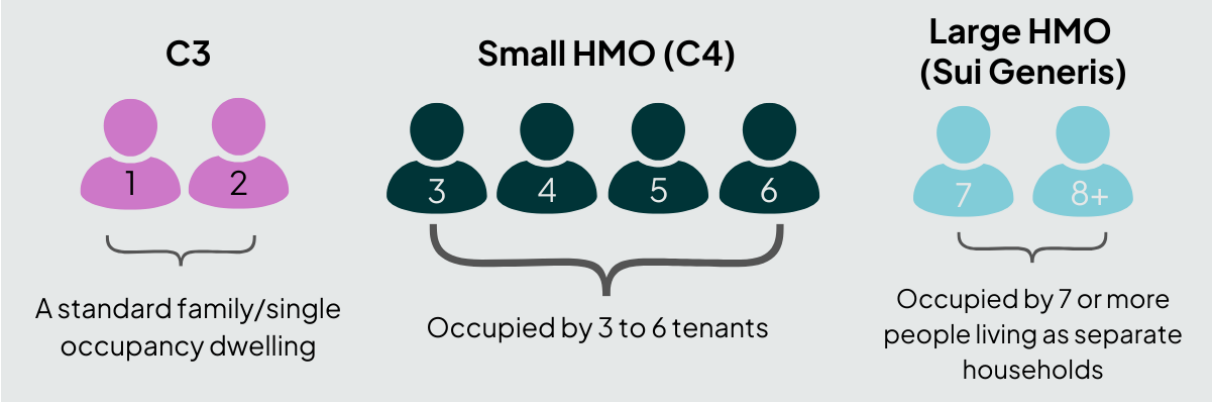
- **Mandatory and Additional.** Selective Licencing also exists but covers properties that do not require a HMO licence. Licencing also covers the landlord's requirement to

provide annual gas safety certificates, smoke and fire alarm testing, and LAs can include discretionary licence conditions to tackle specific issues arising in a particular area i.e. to reduce or prevent antisocial behaviour

- Licences are issued for a maximum of 5 years and a separate licence is required per property
- A Licence ensures that the property is of a suitable size for occupation by the proposed number of tenants, including minimum room sizes for bedrooms and shared living spaces (these vary dependent on the total number of occupants)
- Licences are issued to individuals and just because there is a licence on a property, that doesn't mean that a new owner of the property will also be issued with a licence

1.3. Planning

- **Change from C3 to C4**
    - **C3** is classified as a standard family/single occupancy dwelling
    - **C4** covers small HMOs of 3 to 6 tenants
- **Change from C3 to Sui Generis**
    - **Sui Generis** covers large HMOs of 7 or more tenants



1.4. Types of Licences

1.4.1. Mandatory Licencing

A large HMO in England or Wales must have a licence. A property is defined as a large HMO **if all of the following apply**:

- It is rented to 5 or more people who form more than 1 household
- Some or all tenants share toilet, bathroom or kitchen facilities
- At least 1 tenant pays rent (or their employer pays it for them)

Exemptions: Some properties are exempt from licencing even if they meet the usual requirements. This includes properties managed or controlled by private registered providers of social housing, a co-operative society, local authorities and other specified public sector bodies.

Corporate Lets: Many properties let on a corporate let basis rather than a standard APT may qualify for the above exemptions in respect of licencing. Due to the wording in some of these agreements, these properties can only be considered on a HMO product even if they do not require a HMO Licence at present. This can be confirmed once the agreement has been reviewed by our legal team.

1.5. Additional Licencing

In addition to mandatory licencing, LAs can also introduce additional licencing which applies to properties outside of the mandatory requirements. This includes properties let to 3 or 4 individuals from 2 or more separate households, so incorporating those smaller HMOs.

The rules that apply to these licences will vary in different areas so it is always best to check the rules that apply for a particular property and LA. Additional licencing can be in place for a period of up to 5 years, at which point it will be reviewed by the LA and extended if required.

Where an additional licencing scheme is in place, a number of councils have included '**Section 257 HMOs**' within their Additional licensing scheme.

These are buildings:

1. That have been converted into self-contained flats; and;
2. Where the conversion did not comply with the relevant Building Regulations in force at that time and still does not comply; and;
3. Less than two-thirds of the flats are owner-occupied

1.6. Selective Licencing

The Housing Act 2004 allows Local Authorities to designate selective licensing areas in wards, streets, and can designate the whole borough, if the area is experiencing one or more of the following conditions:

(a) Low housing demand (or is likely to become such an area)

(b) A significant and persistent problem caused by antisocial behaviour, etc

A property that holds a HMO Licence does not require a Selective Licence.

1.7. Planning

For landlords who want to make changes to their property, it is important to have a working understanding of planning regulations.

Land uses are defined in the planning Use Class Order. "C" class properties mean they fall under residential use:

- **C3** is classified as a standard family/single occupancy dwelling
- **C4** covers small HMOs (3 to 6 tenants)
- **Sui Generis** covers large HMOs of (7 or more tenants)

Permitted Development Rights (PDR) allow changes of use from C3 and C4 classes without the need to submit a planning application.

1.8. Article 4 Direction

Article 4 is a provision within planning law which LAs can implement in order to restrict or remove the change of use from C3 to C4 under Permitted Development Rights without planning permission being obtained.

A Local Authority may choose to implement Article 4 to prevent over-concentration of small HMOs and can adopt this in full, or apply only to certain areas/neighbourhoods. This seeks to promote sustainable development and create balanced communities by:

- Maintaining supply and demand for owner occupation in residential areas which can be affected by increases in noise levels, parking issues and pressure on local infrastructure from HMOs
- Improve overall housing quality of HMOs with more regulation

1.9. Small HMOs in existence prior to Article 4

The LA will have a consultation and implementation period preceding the Article 4 Direction coming into effect which enables landlords to declare existing small HMOs so the LA has a record of the properties use as a HMO. If this is not done prior to Article 4 taking effect, a declaration can still be made to the LA but evidence such as tenancy agreements will be required to show continuous use of the property as a HMO.



For formal confirmation of the lawful planning use of a property, a certificate of lawfulness application can be submitted (also known as a Lawful Development Certificate). Although there is no formal requirement from the Local Planning Authority to obtain such a certificate, solicitors, as part of the conveyancing process, may request that one is obtained.

Properties not declared prior to the Article 4 direction and where evidence cannot be provided of prior continuous use, will be required to apply for full planning permission to formally change the use of the property to a C4 HMO.

On completing the valuation report, we would anticipate the valuer will highlight the security as being within an Article 4 area. The planning use and licencing requirements for the property would then be reviewed by the acting conveyancer and confirmed to the lender.

Examples of Planning/Licencing requirements for different properties

5-bedroom HMO purchase in non-Article 4 area, 5 occupants

- This will require a mandatory HMO Licence but will not require planning consent for change of use because it is allowed under Permitted Development Rights (PDR)
- *Fleet can consider on our HMO product*

4-bedroom HMO remortgage in non-Article 4 area with selective licencing, 4 occupants

- No HMO Licence is required as only mandatory licencing applies, selective licence required, and no planning required if covered by PDR
- *Fleet can consider as shared accommodation on standard products as this is a selective licence and not a HMO*

3-bedroom HMO purchase in Article 4 area with additional licencing, 3 occupants

- This will require a HMO Licence and C4 Planning Use
- *Fleet can consider on our HMO product*

4-bedroom HMO remortgage in an Article 4 area, 4 occupants

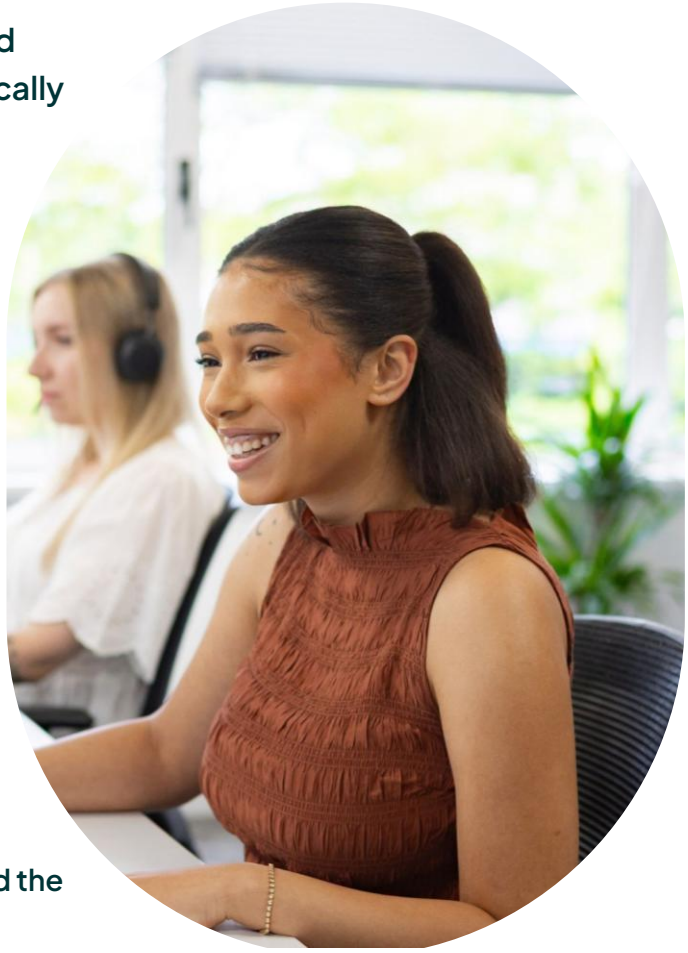
- No HMO Licence is required because only mandatory licencing applies in this area, but planning consent for change of use to C4 will be needed
- *Fleet can consider as shared accommodation on standard products*

7-bedroom HMO purchase in non-Article 4 area, 7 occupants

- This will require a mandatory HMO Licence as more than 5 occupants, and will require planning permission for change of use from C3 to Sui Generis (this applies to any property let to 7+ occupants regardless of whether it is within an Article 4 area)
- *Fleet is unable to consider due to the property having 7 bedrooms*

How Can Fleet Help?

At Fleet, we offer a range of competitively-priced buy-to-let mortgage products designed specifically for HMOs.



Our definition of a HMO

- Properties with up to 6 bedrooms
- Properties with a mandatory or additional HMO licence requirement
- A property with 4 bedrooms or less which has a non-standard layout that would not sell as a family home without alteration (e.g. ensuites provided to ground floor bedrooms)

Our key criteria for HMO properties

- Valued for rental on a room-by-room basis
- Up to 6 rooms
- Up to 75% LTV
- Minimum valuation **£100,000 outside of London and the South East**
- Minimum valuation **£150,000 inside London and the South East**

HMO Landlord Experience

- First time landlords are acceptable

Shared Accommodation (Standard houses – standard products)

Additionally, Fleet will lend on specific shared accommodation on our Standard and Limited Company products where no HMO Licence is required:

- Maximum of 4 bedrooms with the rent calculated on a room-by-room basis
- Downstairs bedrooms accepted
- Multiple APTs accepted
- Locks on bedroom doors allowed
- Must have a communal room (this can comprise of a large kitchen which can incorporate reception room)

Everything starts with a good conversation. Get in touch with our team of buy-to-let experts today.

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