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Selective & Additional Licensing Briefing Pack

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1. Executive Summary

The purpose of this report is to share information on the licensing requirements set by Local Authorities (LA) and the impacts on the Build to Rent (BTR) Sector.

We understand that the primary purpose of licencing schemes is to improve the quality of private rental properties and reduce antisocial behaviour. The BTR sector deliver a high standard of accommodation to our customers in compliance with all legal and health & safety requirements. By holding a property licence, there is no beneficial impact on the quality of product offered to residents, nor can we identify how this would reduce ASB cases that may be caused by our residents.

Further reasons cited for implementing selective licensing include to address high levels of crime and deprivation, supporting regeneration, stimulate investment and boost job opportunities. By their nature, BTR schemes are already contributing to these objectives and have been integral to countless regeneration schemes across the country – therefore the application of selective licensing to BTR schemes, and subsequent impact on BTR supply, runs counterintuitive to these objectives.

Our members are subject to numerous licensing schemes across different boroughs, but in their experience very few local authorities have attended properties to complete inspections and check documentation. In most situations there have been no formal checks and little work undertaken to ensure properties are of a suitable standard. This may be a result of a risk-based approach taken by local authorities who will focus resources on those properties most likely to be problematic or in breach of the licensing scheme. This reinforces the point that these schemes add little to no value in its application to BTR properties, managed by professional companies. When councils do attend to inspect properties, our members' experience is that a sample of units will be taken – resulting in a dramatically reduced administrative cost to the council for wholly-owned apartment blocks. We agree that in these instances a single inspection visit is sufficient, however this administrative saving should be reflected in the fee schedule applied to these properties over individual homes for rent.

In some instances we have also seen significant delays in the processing of license applications by local authorities, adding to the uncertainty and staffing costs associated with the scheme.

BTR resident satisfaction is high and is evidenced by independent research data that we are happy to share. Given BTR's track record in quality, customer, we reasonably question the value of selective licensing to drive standards in the sub sector we represent. This is supported by the decision of the London Borough of Brent's to exclude Wembley Park, an area in which the rental made is made up almost entirely of BTR stock, from its Selective Licensing regime as 'the number of disrepairs in private rentals does not meet the critical threshold set by the government'. This has also been seen in Newham, where the council have excluded Royal Victoria and Stratford Olympic Park wards from the selective licensing scheme – both of which have a rental market dominated by BTR.

In practice, we do not believe that Selective Licensing is suitably applicable for the BTR sector. This is due to a number of reasons including:

- The existing high-standards across the BTR sector – the BTR business model relies on high occupancy based on customer satisfaction. As such the offering provided by the BTR sector already far-exceeds the standards seeking to be set by licensing schemes.
- The onerous nature for large-scale landlords – with a form being required for each home, which are repetitive and often paper-based, and include questions that further highlight the unsuitability of the scheme for the BTR sector. The admin time and cost to BTR operators is significant.
- Varying Licensing requirements – schemes vary significantly between local authorities, meaning there is no ability to create efficiencies in large scale operations from site to site. In addition, forms require a named individual to be responsible – this means that, should that individual leave the business, we are required to re-apply for all licenses once again.
- Enforcement savings – due to both the high standards and nature of BTR homes – often with over 200 homes on each site, the monitoring costs to local authorities is significantly reduced. This may be in-part the reason for the lack of enforcement we have seen to date.

Likewise, we do not believe that HMO Licensing is applicable to the BTR sector for the same reasons outlined above. When local authorities choose to implement Additional HMO Licensing schemes, it means that even if two unmarried couples wish to share a 2-bedroom property the landlord would be required to apply and pay for an HMO license. Within the BTR sector we are keen to provide larger homes which are suitable for families and many of our members already have a large number of families in their developments – this is often also a desire shared by local authorities. However Additional HMO Licensing schemes directly disincentivise the provision of larger homes and jeopardise their viability.

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1. Executive Summary (contd.)

The cost of licencing is not insignificant and, with additional pressures on construction costs and finance rates, has the likely potential to have a major impact on project viability and housing delivery. This will likely lead to a significant increase in viability challenge to s106 and affordable housing contributions, as well as forcing many landlords to increase the rents charged to their customers. This is through the recently approved planning permission at 100 Broad Street, Birmingham (application no 2023/04261/PA). In this case, the City Council accepted that the total Selective Licensing cost of £1,175,000 (equivalent loss of 18 affordable housing units, page 3), together with CIL and public realm works, were a sufficient challenge to viability to reduce the affordable housing contribution to just 3.10% at a 30% discount – considerably below the 35% contribution which the Council seek to achieve.

By way of example, under a theoretical scheme with an £800 per unit charge, and on an average scheme of 400 units, (assuming unit sized of 700

sqft and local rents at £22.50psf), selective licensing would have the effect of reducing the net income by £64,800 per annum, increasing the gross to net by 103bps and reducing the investment value by £1.56m. Such an impact would clearly affect development viability and would lead to increased challenges to s.106 contributions and/or increased rents for tenants.

2. What is BTR?

Build to Rent is the term given to purpose built rental homes which are professionally managed and institutionally invested in. The National Planning Policy Framework (NPPF) defines BTR as 'Purpose built housing that is typically 100% rented out. It can form part of a wider multi-tenure development comprising either flats or houses, but should be on the same site and/or contiguous with the main development. Schemes will usually offer longer tenancy agreements of three years or more, and will typically be professionally managed stock in single ownership and management control.'

Currently there are over 263,600 BTR homes complete, under construction or in planning across the UK. The projected capacity of the BTR markets is two million new homes, all institutionally funded and professionally managed. BTR is an important component in helping to address the UK's housing supply crisis and as a sector we are making a significant and growing contribution to the UK's housing stock by creating and nurturing new communities across the UK.

As BTR homes are intended to be rented out and held as an investment for the long-term, they provide a vehicle for patient, responsible capital investors to invest into the UK housing market. These investors are providing capital to develop new homes which are a net addition to the UK housing supply through an investment model which is based on a stable but not-excessive return profile over the long-term. This model also means that BTR operators are interested in the long-term operational quality of both the building and the surrounding public realm and will continue to invest in ensuring these are maintained.

The BTR sector are supporting a number of other policy objectives. These include:

- Supporting the increased supply of UK homes – The BTR sector is providing a net additional supply of new homes with capital that would not otherwise be deployed into UK housingdevelopment. These do not replace homes for the traditional sale market.
- Increasing standards in the rental market – the BTR sector is leading the way in driving standardsin the UK rental market. Professionally-managed, high-quality buildings operated by companieswhich have a brand to uphold, mean that renters living in BTR homes experience a very highstandard of rental living. As BTR grows this will drive standards up across the wider PRS market.
- Economic Growth – by both providing a vehicle for long term-patient capital to invest in the UK rental sector and increasing the supply of high-quality, flexible rental homes across the UK.
- Provision of these rental homes also allows UK professionals to pursue job opportunities across the country – further supporting economic growth.
- Urban Regeneration – BTR is at the centre of countless urban regeneration projects across the UK and is often the first aspect to be built out. This is due to its ability to prime a regeneration scheme through quick build-out & occupation and its inherent community-building ability.
- Brownfield regeneration – the vast majority of BTR projects come forward on unattractive and disused brownfield sites, bringing them back into use and improving the public realm.
- Public sector finance – public sector bodies are increasingly entering JVs with the BTR operators/investors – thus facilitating a long-term alternative income model for those bodies and supporting the financial stability of the UK public sector.

By contributing to these policy objectives, the BTR sector is supporting often-cited aims of Selective Licensing schemes including, reducing deprivation, job creation and making an area more attractive. Therefore, the application of selective licensing to BTR, and its subsequent impact on the delivery of new BTR schemes, is counter-intuitive to the very purpose

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3. Licence Overview

3.1 What is a Selective, Additional and HMO license?

Under the Housing Act 2004, local authorities can introduce Additional and Selective Licensing Schemes. Under selective licensing, the landlord would need to apply for a license for each individual property they wish to let. The purpose of the Selective Licence scheme is to aid the quality of private rental properties and to reduce antisocial behaviour.

Additional Licensing extends the requirement for HMO licenses and means that licenses are required when 3 people from 2 or more households are occupying a property – regardless of whether they hold the property on a single tenancy or multiple individual agreements.

All properties in England or Wales that are rented out by 5 or more people forming more than 1 household, must have a House in Multiple occupation (HMO) licence.

That said, there are a number of landlords who are already exempted from HMO or selective licensing obligations. These include Registered Social Landlords, Educational establishments, Councils and fire, police or health services.of selective licensing schemes.

3.2 Cost of licences

The cost of the licence can vary and is set by the issuing local authority. Some authorities may offer discounts, this could be if the property is a new build or multiple licences are required.

In the experience of our members, Selective Licenses range in cost from around £450 - £1,000 per home, whilst HMO licenses can cost up to £1,250 per home.

Depending on the requirement an individual property can have two licences e.g. A Selective and Additional or HMO licence. Once the licence has been granted it will be valid or a period of 5 years, or until there is a change in circumstances wherein a new license may need to be applied for and the previous license forfeited without financial refund.

3.3 The requirements

When applying for the licence, the Council will advise of the required documentation that needs to be provided. Evidence of the following may need to be provided for the application or during an inspection visit.

- Written Statement of Terms of Occupancy
- Gas Safety Certificate
- Fire & CO Alarm / Emergency Lighting Test Certificate (including battery powered alarms)
- Electrical Installation Condition Report (EICR)
- Electrical appliance test certificate
- Property Inspection Records
- Tenancy Deposit Scheme Paperwork
- Copies of References for Occupants
- Floor plans or specific room measurements.
- Identification of the landlord / named responsible person.

Based on our member's experience of complying with existing selective and HMO licensing schemes, we estimate that each license would take approximately 30 minutes to complete. This is an average figure with information gathered, initial licenses may take considerably longer due to information gathering processes.

4. Cost of Property Licencing

4.1 Direct Cost

Whilst London borough councils were initial adopters and advocates of the licencing schemes, we have now seen councils across the country adopting licensing schemes.

In the experience of our members, Selective Licenses range in cost from around £450 - £1,000 per home, whilst HMO licenses can cost up to £1,250 per home. However, a small number of councils have put in place discounts for multiple property applications or otherwise.

Whilst it is clear that the cost of licensing is significant, there appears to be very little consistency in the approach taken to setting licensing fees by local authorities. Whilst we understand the need for councils to ensure the scheme is self-funding, we are not aware of a viability report having been obtained by any council when considering licensing schemes - as would be required when setting all other development policies and levies such as affordable housing or CIL rates.

Should these reviews have been undertaken they would clearly show the impact that the scheme would have on development viability and therefore the ability to deliver new homes and make affordable housing contributions.

4.2 Indirect Cost

In addition to the direct cost of licenses discussed above, there is a considerable indirect cost borne from the administration of licencing. The internal management time taken to obtain all relevant information and process licenses for each property held in a block is significant.

Given our member's extensive experience in operating buildings under licensing schemes, we estimate that a license takes approximately 30 minutes to complete, with additional resource required to gather the required information. With many of our members having large portfolios, the administrative costs have the potential to run into tens of thousands of pounds. One member has experienced a process whereby 200 applications took c.10 full working days to complete.

4. Cost of Property Licencing (contd.)

4.2 Indirect Cost (contd.)
Due to the distinct BTR business model, the time taken to process license applications has a further impact on scheme viability. As properties are unable to be let until a license application has been completed, no pre-letting is allowed, and all lets are delayed. This means a delayed income profile must be included in the investment underwriting process, which increases the cost of financing projects and further impacts viability.

4.3 Investment Impact
Private rented developments are typically appraised on an income capitalisation approach whereby the net rental income in capitalised at a market yield. As such the viability of new privately rented developments is directly linked to the operational expenditure and resultant net income. It is hence essential that all operational costs are accounted for prior to investments being made.

It is important to note that, from an institutional investment point of view, the additional cost of licencing is not insignificant and, with additional pressures on construction costs and finance rates, has the ability to have a major impact on project viability and housing delivery. This will likely lead to a significant increase in viability challenge to s106 and affordable housing contributions, as well as forcing many landlords to increase the rent they charge to tenants. This is demonstrated through the recently approved planning permission at 100 Broad Street, Birmingham (application no 2023/04261/PA). In this case, the City Council accepted that the total Selective Licensing cost of £1,175,000 (equivalent loss of 18 affordable housing units, page 3), together with CIL and public realm works, were a sufficient challenge to viability to reduce the affordable housing contribution to just 3.10% at a 30% discount – considerably below the 35% contribution which the Council seek to achieve.

4.4 Illustrative Example
To put this into context, we have provided an illustrative example below which considered an average 400 homes BTR scheme and a licensing charge of £800 per home, plus a £10 per unit administrative cost for processing the application.

We have assumed an average unit size of 700 sqft and local rents at £22.50psf, generating a gross rent of £6.3m. In scenario 1, with no licence, the gross rent is reduced by a market standard 25% gross to net leakage with the resultant £4.725m net rent capitalised at 4.15% yield to generate an investment value of £113.85m.

However, under Scenario 2, with the licence in place, the gross rent is reduced by the standard 25% plus the impact of the licence cost (cost amortised across 5 years) which increases the GtN to 26.03% which in turn reduces the net rent to £4.66m and when capitalised at 4.15% yield generates an investment value of £112.29m.

In summary, the net income reduces by £64,800 per annum, the gross to net increases by 103bps and the investment value reduces by £1.56m. As such this cost has the ability to significantly impact development viability and would likely lead to increased challenges to s.106 contributions. Should this not be possible, landlords would be forced to increase rents to ensure viability is maintained, something our members would be reluctant to do because of affordability.

	#units	Average NIA / sq ft	Rent sq ft	Gross ERV / year	GtN	Net ERV /year	Yield	IV
Scenario 1: No Licence	400.0	700.00	22.50	6,300,000	25.00%	4,725,000	4.15%	113,855,422
Scenario 2: Licence	400.0	700.00	22.50	6,300,000	26.03%	4,660,200	4.15%	112,293,976
				-	1.03%	64,800	-	1,561,4461

Licence	Per Year
810 Per unit/ 5 years	64,800.00

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5.0 Policy Alternatives

We remain supportive of the principle of licensing schemes to improve standards in the Private Rented Sector. However, any such scheme should be brought forward with a fee structure which is reflective of both the high standards and reduced enforcement cost associated with the BTR sector.

5.1 BTR Accreditation exemption / discount

It is clear that property licensing is not suitable for the BTR sector and will only stymie future investment into and development of new high-quality rental homes across the UK.

This is particularly true for the BTR sector, which is exponentially growing and driving a significant improvement in rental standards across the board, whilst also contributing to the increasing supply of UK homes.

As a result of the high standards, there is very little need for council enforcement of licensing schemes in BTR homes and as such, the administrative cost to the council is significantly reduced.

To reflect this, local authorities should consider recognising a scheme of accreditation for responsible landlords who provide high-quality rental homes, which would allow councils to grant an exemption to BTR landlords, reflecting their existing contribution to the policy objectives of licensing schemes. This would be the most appropriate option to ensure future development of BTR homes is not affected.

5.1 Block License

It is clAn alternative policy option would be to provide a block license option for larger residential blocks which are held under a single ownership. This would allow councils to implement a charging structure which is reflective of the reduced administrative burden associated with these properties, whilst also reducing the administrative burden on large landlords in processing licenses.

We are aware of at least one local authority, Nottingham City Council, who offer a block license option. The fee structure here is explained below, as it would apply for a non-accredited but standards-compliant landlord:

For landlords accredited with DASH, Unipol or ANUK, there are also reduced fees available. This would bring the cost down to £1,771 per block + £512 per home.

Whilst this does reduce the administrative burden on large landlords and offers a reduced fee, we do not believe it sufficiently addresses the admin cost-saving to the council nor the significantly increased standards of BTR, and will continue to discourage residential investment into the city. This is due to the still-onerous license cost which remains significantly above the administrative cost to the council, the difficulty in making large payments under the current system, and the inability to also proceed additional HMO licenses on a block basis (these are needed for larger units).

We encourage policymakers to engage with industry, and in particular the BTR sector, to agree a way forward which is both of benefit to tenants and supports the future delivery of high-quality rental homes.

Item	Standard Charging Schedule	Block Charging Schedule
License cost	£887	£2,244 per block + £527 per home
Application cost	£65 per home	£65 per home
Cost across 200-home scheme	£380,800	£239,044