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Dear Secretary of State,

**Impact of new guidance on Selective Licensing on investment and delivery of Build to Rent homes**

We write to seek a meeting to discuss the impact of the Government's recent announcements relating to Selective Licensing and the effect these have on the viability of the 2 million additional new quality homes for private rent that the Build to Rent (BTR) sector can deliver, as well as implications on existing operational BTR assets.

The Association for Rental Living represents the majority of businesses in the UK rental living sector including 83% of the 120,000 BTR homes already operational in the UK. Membership currently stands at over 350 organisations that invest in, develop, operate, advise and supply the BTR sector, encompassing 5,400 sector professionals.

We welcome the recognition in the new National Planning Policy Framework that professionally managed BTR as part of a mixed-tenure approach can deliver many more homes and we wish to enthusiastically support the implementation of this strategy.

The Association for Rental Living has prepared a BTR Code of Practice, setting out standards of practice in terms of quality of accommodation, customer service, response to resident issues, communication and resident wellbeing as well as clear and fair terms of tenancy which is a further important step in creating and accelerating quality rental homes across the country.

We are supportive of measures to improve standards in the wider Private Rented Sector (PRS), including the abolition of Section 21, improved security for renters, and extension of the Decent Homes Standard and Awaab's Law to the PRS through the Government's Renters' Rights Bill. We are also supportive of the aims of Property Licensing schemes – namely to improve standards in the PRS, reduce antisocial behaviour, and aid Local Housing Authorities (LHAs) in identifying rogue landlords in their locale.

Importantly, the BTR sector is already contributing to these aims due to their nature as long-term institutional investments meaning tenants and LHAs are provided with a single point of responsibility for customer care, safety and management issues. The BTR sector is also driving an improvement in standards in the PRS, supporting the regeneration of urban brownfield sites, and creating a net additional supply of high-quality PRS homes – therefore supporting the Government's wider housing objectives.

That said, we do have concerns, regarding the “unintended consequences” of PRS licensing schemes on the ability of the BTR sector to deliver on these objectives, and the duplication of regulation with the incoming Renters' Rights Bill.

## **Our Concerns**

The announcement of a new General Approval meaning LHAs in England are no longer required to obtain confirmation from the Secretary of State before implementing a Selective Licensing scheme of any size raises concern.

We recognise that LHAs must still satisfy all statutory requirements contained in Part 3 of the Housing Act 2004 and be expected to consult for a period of at least 10 weeks on the proposed designation. However, this devolution of control may open the door to all local authorities imposing Selective Licensing on all private rental and be used as a means of revenue generation, losing the original intentions of the scheme and the Act.

Further, we are concerned that, with the introduction of a national PRS database under the Renters' Rights Bill, together with improved tenant rights and property standards requirements, wide-scale licensing schemes will create unnecessary duplication of regulations.

In essence, we do not believe that Selective Licensing is suitably applicable for the BTR sector for a number of reasons:

1. **High Standards:** BTR already meets high standards due to its business model focusing on customer satisfaction and high occupancy rates, surpassing licensing requirements
2. **Administrative Burden:** Licensing involves repetitive, paper-based forms for each home, causing significant administrative costs and time for large-scale landlords. A key concern is that the non-transferability of licenses under the 2004 Act imposes significant costs and administrative burdens on institutional landlords when staff changes occur.
3. **Inconsistent Licensing:** Different local authorities have varying licensing requirements, making it difficult to streamline operations across multiple sites. In addition, forms require a named individual to be responsible – this means that, should that individual leave the business, BTR operators are required to re-apply for all licenses once again.
4. **Enforcement Costs:** With large-scale BTR sites and high standard, monitoring costs for local authorities are reduced, contributing to minimal enforcement.

We understand that the primary purpose of licencing schemes is to improve the quality of private rented properties and reduce antisocial behaviour. 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 viability and supply, runs counterintuitive to these objectives.

## **HMO Additional Licensing**

Whilst supportive of its aims, we do not believe that HMO Licensing is applicable to the BTR sector. Its inadvertent inclusion due to the HMO definition, is hampering the delivery of larger homes for rent. BTR homes are not individual tenancies of each 'bedroom' and there are often situations of a group of friends, or more than one couple choosing to share a larger home together on the same tenancy agreement.

The sector aims to rent larger properties to families, but current regulations require landlords to switch licenses if two couples or friends occupy a property instead of a family. The need to change

licenses is based on tenant relationships, not the number of occupants. Additionally, there is no option to hold two licenses for a single property enabling flexibility of occupation.

The BTR sector aims to provide larger homes for families, with many members already accommodating families in their developments, a goal shared by local authorities. However additional HMO Licensing schemes directly disincentivise the provision of larger homes and jeopardise their viability as a result of these schemes.

### **Investment Impact**

Private rented developments are typically appraised on an income capitalisation approach whereby the net rental income (gross rental income less operational costs) is 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 essential that all operational costs are accounted for prior to investments being made.

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 a major impact on project viability and housing delivery. This will likely lead to a significant increase in viability challenges to Section 106 and affordable housing contributions, as well as forcing many landlords to increase the rent to mitigate the impact of licensing costs.

The impact of property licensing on viability is highlighted by a recent planning approval for 100 Broad Street, Birmingham (application no 2023/04261/PA). The City Council acknowledged that the £1,175,000 cost of Selective Licensing, along with CIL and public realm works, significantly impacted viability. As a result, the affordable housing contribution was reduced to just 3.10%, far below the Council's target of 35%.

This example demonstrates how a seemingly small £700 per home fee (and we are aware of recent Selective License schemes implemented by some Councils being charged at £1,225 per home), charged every five years, can significantly affect investment value and lead to the loss of 18 affordable homes in a single development application.

This is one example – there are many others all impacting on the delivery of not only BTR homes but affordable homes which runs contrary to the stated aims and objectives of the Government.

### **The potential for BTR to deliver new homes**

The severe lack of good-quality rental homes across the UK is a key factor in the housing crisis, driving up rental prices as demand outstrips supply, with 30% fewer homes available to rent across the UK today compared to the 2018–19 average (Savills).

Investment of £300bn is needed to meet the future household growth requirements of an additional 1 million PRS homes by 2031 (Savills). The BTR sector has already delivered £35bn of investment in 120,000 completed BTR homes across the UK in the past decade, with a further 153,000 in the planning and delivery pipeline.



The Association for Rental Living stands ready to work with the Government on the future accelerated expansion of the BTR sector as a means of increasing housing supply with quality homes that put the resident at the heart of these new communities and neighbourhoods.

We would welcome the opportunity to meet with you to discuss these points and how the Government policy can bring confidence to institutional investors to accelerate the volume of BTR development to help meet the 1.5 million new homes target during this Parliament whilst alleviating the pressure on rental housing supply and rental costs.

Yours sincerely

Brendan Geraghty

Chief Executive Officer, Association for Rental Living

[www.theARL.org.uk](http://www.theARL.org.uk)

cc:

Baroness Taylor of Stevenage

Matthew Pennycook – Minister for Housing, Communities and Local Government