

# Regulatory Committee

14:00, Monday, 17 November 2014

## House in Multiple Occupation (HMO) Market Review

Item number	6.2
Report number	
Executive/routine	
Wards	

### Executive summary

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The purpose of this report is to update Committee on the review of the availability of House in Multiple Occupation (HMO) property in Edinburgh. The report also looks at the investment in purpose built student accommodation and the increased demand for shared accommodation, due to welfare reform.

Committee is asked to consider the recommendation for the HMO market to be reviewed on an annual basis to inform the need for an overprovision policy.

### Links

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Coalition pledges	P13
Council outcomes	CO16, CO21, CO23
Single Outcome Agreement	SO4

## House in Multiple Occupation (HMO) Market Review

### Recommendations

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It is recommended that Regulatory Committee:

- 1.1 Notes the review of the availability of HMO properties in Edinburgh and how it contributes to meeting housing need.
- 1.2 Notes the investment in purpose built student accommodation and the impact on the HMO market.
- 1.3 Agrees that an overprovision policy is not justifiable at this time, but that it will be reviewed on an annual basis and reported to committee.
- 1.4 Refers the report to Planning Committee for information.

### Background

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- 2.1 The Housing (Scotland) Act 2006 was amended by the Private Rented Housing (Scotland) Act 2011, to include the ability to refuse an HMO licence if the local authority considers that there is an overprovision of HMOs in the locality.
- 2.2 The aspects that must be considered in regard to overprovision are clearly defined in the amended Act, including “the need for housing accommodation in the locality and the extent to which HMO accommodation is required to meet that need”.
- 2.3 The 2006 Act only allows for the refusal of a licence on grounds of overprovision and not overconcentration. Overconcentration is a matter for planning policy.
- 2.4 The ability to refuse an application due to overprovision is an adopted power. Scottish Government guidance states that where local authorities wish to use this power, they will be expected to develop and consult on an explicit overprovision policy. The convenor of the Regulatory Committee asked the Acting Director of Services of Committee to conduct a review of the HMO market and its contribution to meeting housing need, in order to determine if an overprovision policy is necessary.
- 2.5 This report examines the HMO market, the availability of HMO properties and how growth in purpose built student accommodation has impacted on traditional HMO properties.

### Main report

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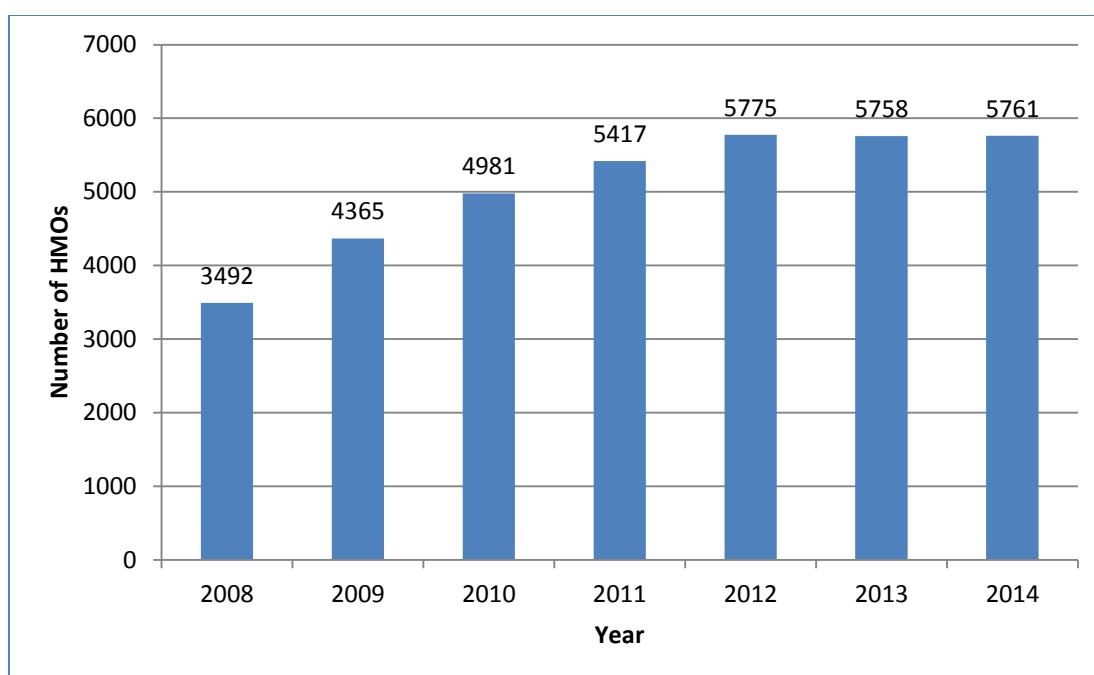
#### **Number and Location of HMO properties**

- 3.1 HMO properties are those that house three or more people, from two or more families who share cooking, toilet or washing facilities. These properties are

required to be licensed by law. The current legalisation for the licensing scheme is the Housing (Scotland) Act 2006. The licensing scheme ensures that a minimum standard of accommodation, safety and management is adhered to in order to protect the health and wellbeing of tenants and to control the impact on the local community. A licensed property is known as a House in Multiple Occupation (HMO).

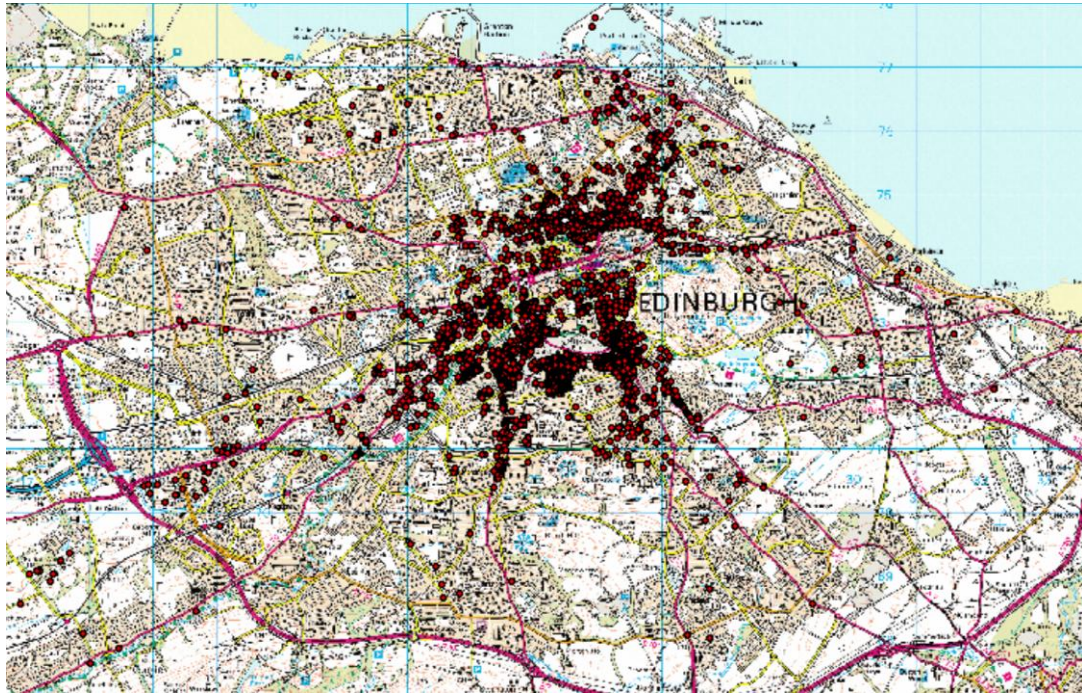
- 3.2 While HMOs are commonly associated with student accommodation they are not exclusively used by students. Property agents in Edinburgh have seen an increase in young professionals residing in HMO properties. The 2011 census found that only 52% of students in Edinburgh live in shared accommodation, with the remainder either living alone, with parents or in an alternative household type.

Figure 1 - Number of licensed HMOs by year



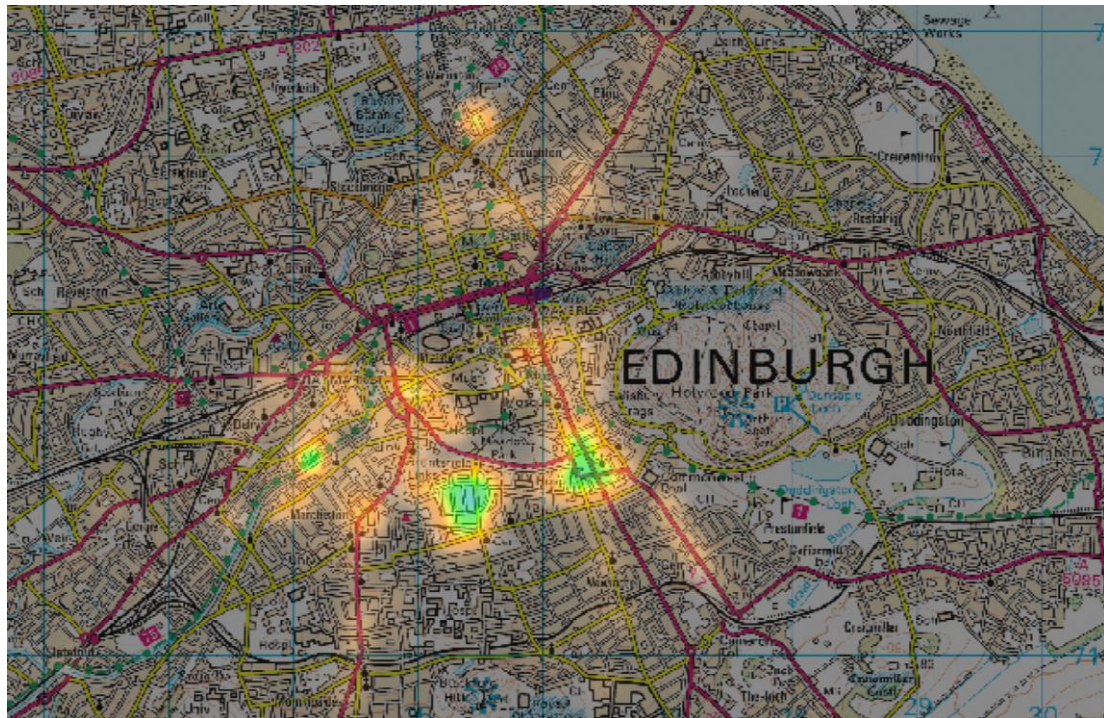
- 3.3 There are currently 5,761 licensed HMOs in Edinburgh. The number of HMOs had been growing steadily until 2012, at which point it has plateaued. It is noted that this broadly corresponds with the significant increase in purpose built student accommodation.
- 3.4 HMOs are not uniformly distributed throughout the city. They tend to be located where housing density is already high, indicating the attractiveness of the area, and where there are strong transport links to central Edinburgh.

Figure 3 - Plot of HMO locations



3.5 It should be noted from the above that there is a tight grouping of licensed HMOs around the George Square campus of the University of Edinburgh, central Edinburgh in general and the main commuting routes in and out of the city centre.

Figure 4 - Density map of HMOs



3.6 The density of licensed HMO properties is greatest around the Meadows and Bruntsfield links areas of the city, with notable concentrations at either end of the Marchmont area, Bruntsfield, Dalkeith Road, Leith Walk, the New Town and

Pilrig. The distribution of HMOs has a high correlation to the distribution of students from the 2011 census.

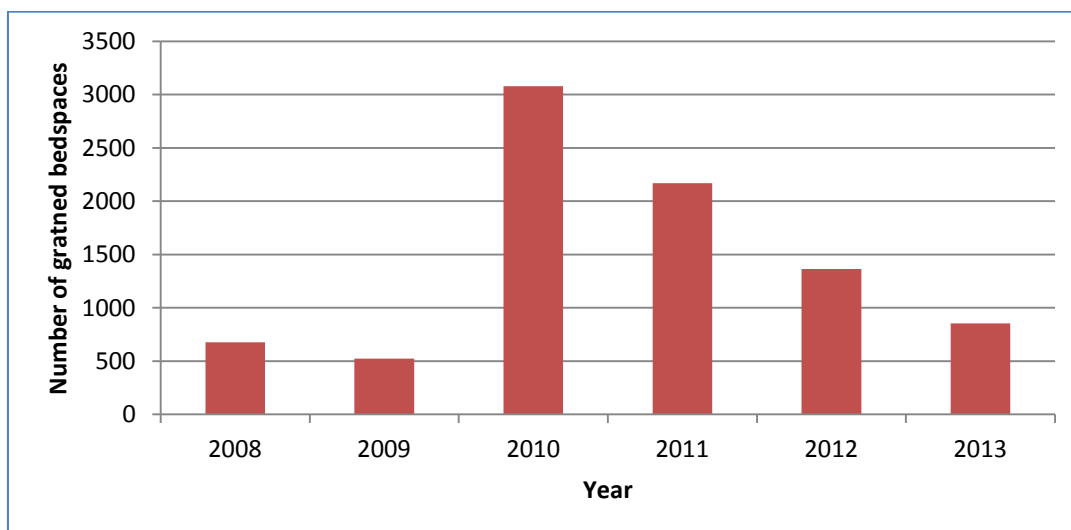
- 3.7 The Council's Private Rented Service (PRS) is responsible for inspecting all HMO properties, maintaining the register of private landlords, enforcing private rented sector law, and providing advice to landlords and tenants. Officers from PRS have identified that licensed HMOs in the north of the city are predominantly occupied by employed young people, which again correlates with the higher density of employed people in that area identified through the 2011 Census.

### **Planning and HMOs**

- 3.8 A licensed HMO property does not normally require planning permission if it is licensed for five or less occupiers. If a property does hold more than five people an application for "a change of use" is required by the Council's planning service, as well as, additional amenities to comply with licensing requirements for an increased number of people in the property.
- 3.9 These requirements act as a disincentive for the creation of large HMOs in domestic residential settings, with 93% of all licensed HMOs being for five people or less.
- 3.10 Purpose built student accommodation requires planning permission and is often of a size that is classed as "Major development". Such developments must carry out pre-application consultation with local communities.
- 3.11 In considering planning applications, the Council can take account of the concentration of similar buildings. The Council is currently reviewing the planning policy in relation to purpose built student accommodation. The outcome of the review will be reported to Planning Committee at the end of the year.

### **Purpose built student accommodation**

Figure 5- Bedspaces in purpose built student accommodation granted planning permission by year submitted



- 3.12 There has been a dramatic increase in purpose built student accommodation in recent years, with eight projects being granted planning permission in 2010, resulting in 3,079 bedspaces.
- 3.13 There has been one project totalling 11 bedspaces already granted in 2014. A further seven projects, totalling 1,695 bed spaces, are the subject of applications awaiting determination.
- 3.14 While purpose built student accommodation projects mainly fall under the HMO licensing scheme they may contain a proportion of small or studio flats, which do not need to be licensed.
- 3.15 Some projects have a turn around of one or two years, however, a number of the projects granted permission in 2010 have just been completed for the 2014/15 academic year, including projects at Holyrood Road (University of Edinburgh) and Potterow (Arduir Ltd). It will therefore be a number of years before the full impact of the expansion of purpose built student accommodation will become apparent.
- 3.16 The growth in purpose built student accommodation is being driven by institutions who value the long term security of income flow. The residential and commercial property consultant, Knight Frank LLP, published an "Insight" guide to the student property market, offering their analysis of the purpose built student accommodation in the UK.
- 3.17 The report states that Edinburgh has an "acute undersupply of student accommodation". Purpose built student accommodation is seen as a premium accommodation, which is designed to attract students away from traditional HMO properties. The report states that in every student market, students will elect to pay considerably more for the quality and services offered by the purpose built student accommodation; with Edinburgh attracting the third highest purpose built student accommodation rental premium above HMO rents in the UK.
- 3.18 This corresponds with the views of Edinburgh Letting Agents and Landlords who have stated that one of the biggest effects of purpose built student accommodation was the need to improve quality in other HMO properties in order to remain competitive.
- 3.19 Purpose built student accommodation plays a strategic role for universities, which see high quality accommodation as part of the overall student experience they offer and a necessary part of being a world class education provider.
- 3.20 Universities commission projects from contractors which build to individual specification. The properties are then leased back to the university. Knight Frank LLP indicates that this arrangement is now common practice in the UK market and allows universities to respond quickly to meet demand, particularly from overseas students, a growing market for universities.

## **Welfare Reform and the HMO Market**

- 3.21 Local Housing Allowance (LHA) was introduced in April 2008 to calculate Housing Benefit entitlement for private rented sector properties. In January 2012, changes were made as to how LHA was calculated. Single person households, under the age of 35, in one bedroom properties are now entitled to a Shared Accommodation Rate (£67.59/week for Edinburgh) instead of a one Bedroom Accommodation Rate (£115.37/week). Previously this reduced rate only applied to single person households, under the age of 25.
- 3.22 This reduction significantly impacts people's ability to find settled accommodation if they need help with meeting the costs of their rent. In 2013/14, 31% of homeless cases were single person households (including single people or single and pregnant people). In September 2014, 53% (618) of clients in temporary accommodation were under the age of 35. This demographic group has difficulties moving to settled accommodation, due to the lack of suitable affordable accommodation.
- 3.23 HMOs appear to offer suitable shared accommodation to address the housing need of single households looking for a room in shared accommodation. However, HMO properties are predominately let on a "joint and several" basis where a group of individuals approach a landlord (or agent), sign the lease, move in and leave the property together. This type of arrangement favours students who have similar housing needs, driven by the academic calendar and strong social networks through which to find suitable flat mates.
- 3.24 Some HMOs are let on a room-by-room basis, which provides more flexibility for people looking for accommodation throughout the year, without the need to know someone in the property.
- 3.25 Letting on a room-by-room basis creates additional overheads and, therefore, is less attractive to landlords than to let on a joint and several basis. Such room-by-room HMO properties are handled differently for Council Tax purposes, with Council Tax liability transferring to the landlord. In September 2014, there were only 254 such HMOs in Edinburgh, which is less than 5% of the HMO market.
- 3.26 Future Council contracts for provision of rental accommodation, sourced from the private sector, will include a provision that requires providers to offer shared accommodation. It is anticipated that the majority of these will be for two people (i.e. not requiring HMO licenses), with a small amount of HMO licensed properties.

## **Views of Landlords and Agents**

- 3.27 The views of landlords and agents who manage large numbers of HMO properties were sought through the PRS forum and by telephone interviews. The PRS Forum is a private rented sector stakeholder group, chaired and organised by the Council. The membership of the Forum includes landlord and agent groups, universities, third sector organisations and tenant groups.

- 3.28 Those agents that did share information stated they did not have any vacant HMO properties and there was no difficulty in finding tenants. Another agent said that current demand for their HMO portfolio has been the strongest in the company's history. This suggests that there is not overprovision in Edinburgh.
- 3.29 Landlords and agents were however in agreement that purpose built student accommodation had put pressure on the quality of the HMO property, with higher standards being demanded by tenants. Some agents stated that location was of key importance (as purpose built student accommodation tends to be in prime locations), whilst other agents suggested that non-central locations remained popular, if the quality of the property was sufficient.
- 3.30 Purpose built student accommodation almost universally offers en-suite washing and toilet facilities, sharing only kitchen facilities. The properties tend to have innovative layouts that are designed to create wider social interactions between the residents, thus making it difficult for traditional tenement HMO properties to compete.
- 3.31 All parties agreed that, as the property market strengthens in Edinburgh, some investors are looking to sell their properties. It is noted that rather than being purchased by similar investors, they are being purchased by owner occupiers and thus removed from the HMO market.
- 3.32 All agents reported an increase in young professionals residing in HMO properties, with one agent stating this demographic made up 15% of all their tenants.

### **Engagement with HMO tenants**

- 3.33 In September 2014, the Council sent out 675 surveys to tenants of HMO properties asking questions about their HMO property, the management standards and demographic of their tenants. This date was chosen to capture a true reflection of HMO tenants and avoid temporary holiday lets that occur in the month of August.
- 3.34 The return rate for the survey was low and did not provide a viable return. Scrutiny of the surveys returned tended to identify individual concerns which will be addressed separately. Research is being carried out on different communication methods in order to improve the return rate, before issuing future surveys to HMO properties.

### **Conclusion**

- 3.35 The evidence would suggest there is not an overprovision of licensed HMO accommodation in Edinburgh. In fact, there is a significant unmet demand for single households who are under 35 to the extent that the Council is looking at stimulating additional provision of shared living accommodation to address homelessness in the City. There is also an increasing demand for HMO properties from those that are in employment.
- 3.36 Landlords and Agents are experiencing very high demand for HMO properties and are unable to meet this fully. That high demand is affecting how HMO



properties are being let out and is reducing housing opportunities for certain tenants. An overprovision policy could worsen the situation, by having a negative impact on the amount of shared accommodation available.

- 3.37 Purpose built student accommodation has attracted tenants away from traditional tenement HMO properties and put pressure on remaining properties to increase the quality of properties that they offer. This pressure has resulted in some HMOs exiting the market. However, despite increasing provision of purpose built student accommodation, the number of HMOs has remained reasonably static over the past three years.
- 3.38 There is still a significant amount of purpose built student accommodation for which planning permission has been granted, but is yet to be completed as well as, applications that are currently going through the planning process. It is appropriate therefore, to continue to monitor the HMO market to assess the impact that purpose built student accommodation has on both the overall number of HMOs and the traditional tenement HMO.

### **Measures of success**

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- 4.1 A shared understanding of the HMO Market, its contribution to meeting housing need, and commitment to monitor the HMO Market on an annual basis.

### **Financial impact**

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- 5.1 There are no financial implications arising from this report.

### **Risk, policy, compliance and governance impact**

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- 6.1 This policy addresses the question of whether or not the Council requires an overprovision policy and commits to review this position on an annual basis.

### **Equalities impact**

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- 7.1 An Equalities and Human Rights Impact Assessment into the associated legislation was carried out prior to the enactment of the Private Rented Housing (Scotland) Act 2011.

### **Sustainability impact**

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- 8.1 The proposals in this report will help achieve a sustainable Edinburgh by ensuring that there is sufficient shared accommodation, which is safe and well managed.

### **Consultation and engagement**

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- 9.1 Consultation and engagement was carried out with the stakeholders of the PRS Forum. The PRS Forum is a private rented sector stakeholder group, chaired and coordinated by the Council.
- 9.2 The membership of the PRS Forum includes the Council, Heriot Watt University, Edinburgh Private Tenant Action Group, Edinburgh Tenant Federation,

SHELTER, Scottish Association of Landlords, Cyrenians, Cullen Property Management, Letscotland and National Association of Landlords.

- 9.3 In September 2014, the Council sent out 675 surveys to tenants of HMO properties asking questions about their HMO property, the management standards and demographic of their tenants.
- 9.4 In depth telephone interviews were also carried out with letting agents and landlords who manage large numbers of HMO properties in the city.

## Background reading/external references

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[City Housing Strategy](#)

[Housing \(Scotland\) Act 2006](#)

[Private Rented \(Scotland\) Act 2011](#)

[Knight Frank: INSIGHT Student Property 2014](#)

[Licensing of Houses in Multiple Occupation Statutory Guidance for Scottish Local Authorities](#)

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## Links

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<b>Coalition pledges</b>	P13 Enforce tenancy agreements (council and private landlord) with a view to ensuring tenants and landlords fulfil their good conduct responsibilities
<b>Council outcomes</b>	CO16 Well-housed – People live in a good quality home that is affordable and meets their needs in a well managed Neighbourhood CO21 Safe – Residents, visitors and businesses feel that Edinburgh is a safe city CO23 Well engaged and well informed – Communities and individuals are empowered and supported to improve local outcomes and foster a sense of community
<b>Single Outcome Agreement</b>	SO4 Edinburgh's communities are safer and have improved physical and social fabric
<b>Appendices</b>	None