

## How HMO rule changes could restrict your buy-to-let clients

### **Adhering to the new rules on Houses in Multiple Occupation could create opportunities for landlords, says Damian Thompson, director of mortgages at Aldermore**

Landlords are used to grappling with change. Over the last few years they've coped with a near-constant parade of new regulations, and there's no sign of a slowdown.

This time the rule change involves Houses in Multiple Occupation, and comes into force on 1<sup>st</sup> October. While it doesn't affect every landlord, it's estimated by the Residential Landlords Association (RLA) that around 177,000 properties could need a licence.

#### **Are you spreading the word?**

If you have buy-to-let mortgage clients they may not be aware of the upcoming rule changes or the possible fines for falling foul of them. There may also be an impact on their borrowing power, which could be important if they want to expand their portfolio or remortgage.

By getting in touch with your landlord clients now, explaining the new rules and highlighting how they might be affected, you can help them to prepare for the changes and bolster your position as their trusted adviser.

#### **The new rules**

From 1<sup>st</sup> October *all* Houses in Multiple Occupation (properties let to five or more residents forming two or more separate households) will be subject to mandatory licensing by their local authority.

This was previously only the case for HMOs with three or more storeys, but the rule change means a licence is now required regardless of the number of storeys.

But it isn't just about the type of property that now needs to be licensed. At the same time additional requirements are being introduced to make HMOs better for tenants.

#### **Raising standards**

The Government is introducing national minimum sizes for bedrooms used in HMOs to prevent overcrowding. For example, the minimum sleeping room sizes from 1<sup>st</sup> October will be 6.51 m<sup>2</sup> for one person over 10 years of age, 10.22 m<sup>2</sup> for two persons over 10 years of age and 4.64 m<sup>2</sup> for one child under the age of 10 years.

Landlords will also need to adhere to their council refuse schemes to deal with the extra waste typically produced by HMO properties.

It's up to local housing authorities to make these landlords aware of the extended licensing scheme. But, given the RLA's 177,000 estimate, in practice, there could still be plenty of landlords unaware of their obligations.

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That's why it's a good idea to for financial advisers to get in touch with affected clients now.

## **Impact on landlords**

Landlords of HMO properties that fall under the new definition will be committing a criminal offence if they fail to apply for a licence or a temporary exemption by 1st October 2018. If convicted for not meeting the standards they could face an unlimited fine but their council can choose to impose a penalty of up to £30,000 as an alternative to prosecution – of course the landlord would be given a reasonable period of time to put right any issues.

Even if they can meet the new stipulations, at the very least landlords have an extra chunk of admin to take care of. And, if their property doesn't comply with the the additional requirements, they'll need to make upgrades, which could be costly.

There's an obvious remortgaging opportunity here for those landlords who need to raise funds to renovate through their existing provider or re-mortgage, and now is the time they should be getting their properties ready before the deadline.

If it's not possible for them to meet the new minimum size standards, they could lose the rental income from it, denting their overall profits.

## **What about mortgages?**

It's possible we will see a restriction in lending on HMO properties as lenders and valuers get to grips with the new licensing rules and how they impact affordability.

If a landlord loses the rental income from a room, that will inevitably reduce their borrowing power, and could make remortgaging difficult, especially under the tighter lending criteria introduced by the PRA last year.

Simply having an unlicensed HMO property in their portfolio could be problematic, even if they want to refinance a *different* property, now that lenders need to look at the whole portfolio.

We might see delays with valuations and lending decisions from some lenders, or even fewer HMO mortgages available. Make sure you keep up to date with lender policy updates on this over the next few months.

## **Make contact**

If you have landlord clients with HMO properties, get in touch now to see if they are aware of the new rules, and if their properties comply with them.

Ensure you have a good overall understanding of the changes so you can confidently discuss their options. If they do need to make renovations (to increase bedroom sizes) there may be remortgaging options you can help them with.

By doing this, you'll demonstrate to your client that you are on their side, well informed about the ever-changing private rented sector and ready to help when needed.

Next time your client needs a buy-to-let mortgage see how Aldermore can help.