

## **1. HMO valuations:**

Brief overview of HMO Planning Uses and the difference between C3, C4 and Sui Generis planning use:

### **Planning Use Scenario:**

C3 Standard Residential Property

C4 Upgrade from C3 for use as a small HMO, up to six occupants

SG Requirement of large HMOs i.e. seven or more occupants

Article 4 Direction Gives the Local Authority power to implement the need for planning permission for a change of use from C3 to C4

Planning permission is not needed when the existing and the proposed uses fall within the same “use class”, or if the Town and Country Planning (Use Classes) Order 1987 (as amended) says that a change of class is permitted to another specified class. This means that you can change “up” from C3 to C4 with a deemed consent and not require planning permission (unless there is an Article 4 direction in place). It follows that if there is an Article 4 direction in place then the valuer should check for a planning consent to use as a C4 (or SG).

### **What is the impact on the value of a HMO with C4 planning use?**

A HMO with C4 use located in an area without an Article 4 direction is unlikely to have any scarcity value. Assuming there is demand for HMO accommodation the valuer should stand back and consider if the market has been tested and an investor would be seeking to acquire a fully converted and income producing HMO – when there is the far higher yielding alternative option of acquiring an alternative, former single dwelling house in the same vicinity, obtain C4 use and undertake the conversion project in order to maximise profits.

An investor may consider the costs associated with the conversion but is unlikely to pay a significant premium above the conversion costs unless there is a scarcity value and the Local Authority have implemented an Article 4 direction. Where no Article 4 direction exists and the property has C4 use, the valuer must consider the Market Value of comparable C3 properties, as the likely fall-back position is local C3 values.

### **The valuation of C4 HMOs located in an Article 4 Direction and larger HMOs with Sui Generis use.**

Many of these are located in a well-established student /hospital areas where, for many years, a track record of fully let HMO investments sales are in existence. In this scenario the value is likely to be based on income and yield with consideration given to the running costs and sustainability.

### **HMO Valuation Guidance**

Planning Use Class Guidance C4 (No Article 4 Direction) (Up to and including 6 Occupants) The valuer should consider the Market Value of comparable C3 properties, as the likely fall-back position is local C3 values. A reasonable premium may be considered for the conversion works if the valuer believes the market would pay a premium. Any premium must be justified.

C4 (Located in an Article 4 direction area) (Up to and including 6 Occupants) If the income is sustainable the valuer should value based on the income and yield achieved from similar sales of HMOs, if the valuer believes this is an appropriate method of valuation. Sui Generis (Seven or more occupants) If the income is sustainable the valuer should value based on the income and yield achieved from similar sales of HMOs, if the valuer believes this is an appropriate method of valuation.

### **Licencing**

Each Council has its own interpretation on the requirement for Licencing. The valuer is required to review the license if available and confirm how many persons the Licence allows in occupation.

### **Overcrowding**

Consider the accommodation and any potential overcrowding in accordance with the Housing Act.

Many Local Authority licences have overcrowding rules and restrictions and the valuer should consider any potential implications. I would normally expect a minimum room size of – 70 sq. ft. (6.5 meters).

## 2. EPCs

### Overview

As from the 1st April 2018 there is a requirement for any properties rented out in the private rented sector to normally have a minimum energy performance rating of E on an Energy Performance Certificate (EPC).

The regulations came into force for new lets and renewals of tenancies with effect from 1st April 2018 and for all existing tenancies on 1st April 2020. It will be unlawful to rent a property which breaches the requirement for a minimum E rating, unless there is an applicable exemption.

A civil penalty of up to £4,000 will be imposed for breaches.

Where at any time on or after 1st April 2018 a landlord lets a privately rented property which is F or G rated on a current legally required EPC, then energy efficiency improvements must be carried out to bring the property up to at least an E rating before the property is rented out, unless the landlord qualifies for an exemption and the exemption is registered on the Public Exemptions Register.

There several ways in which you will be classed as letting a property for these purposes:

- You grant a new assured tenancy, including a Shorthold
- You renew or extend an existing assured tenancy, including a Shorthold, by agreement with the tenant. This can be done when you grant a fresh tenancy to the same tenant or simply agree with the tenant that the existing tenancy will be extended
- A statutory periodic tenancy comes into existence following the ending of a fixed term assured tenancy (Shorthold or non-Shorthold). At that point the law imposes a new tenancy on the parties where the tenant stays after the fixed term has run out. This is treated as a new letting for these purposes
- A new assured tenancy by succession comes into existence when a family member takes over a Rent Act protected tenancy
- A new tenancy is granted to a Rent Act protected tenant of the same or a different property owned by the same landlord
- An agricultural occupancy or similar tenancy is granted, renewed or extended

In all the above cases the requirement to carry out energy efficiency improvements for non-compliant properties will arise where the property has a valid current EPC (i.e. no more than 10 years old) and the property is legally required to have an EPC because:

- The property which is being let or has in the past been let



- The property has been sold
- The property has been improved and building regulation requirements meant that an EPC is required

These rules regarding new tenancies are ongoing from 1st April 2018 onwards but, additionally, as from 1st April 2020 they will apply to continuing tenancies which are already in existence on that date. They will then apply on an ongoing basis to continuing tenancies which have a current EPC, if there is a legal requirement for the property to have an EPC.

**Who should I contact for further advice?**

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