**APPENDIX B5- GRAINGER SUBMISSION**

# Bristol Additional & Selective Licensing Consultation November 2023

Company: Grainger PLC

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## 1. Executive Summary

This paper is intended to provide additional information to the consultation being held by Bristol City Council on the proposed introduction of selective licensing in the Bishopston and Ashley Down, Cotham, and Easton wards, in addition to that already in place in the Bedminster and Brislington West wards.

Grainger currently operates 197 homes in Bristol at our Hawkins and George development, and has another 605 homes in the pipeline at our Millwrights Place and Redcliffe Quarter developments. Across these developments we are providing 94 affordable rented homes and contributing over £5,000,000 in s106 and CIL payments. These buildings fall within the Central ward and so are not subject to current or proposed selective licensing requirements. That said, we have ambitions to provide further homes within the city and wanted to highlight the potential detrimental impact that selective licensing may have on these future plans.

At present, Grainger is subject to selective, additional or HMO licenses in at least 12 of our buildings across the country. Grainger is hence well placed to accurately assess the impact of such schemes on build-to-rent and its impact on operational costs and investment viability, as well as the knock-on impact on S106 and affordable housing contributions.

We understand and support the purpose of licencing schemes to improve the quality of private rental properties and to reduce antisocial behaviour. There is however a strong case for BTR to be exempt from selective licensing or, alternatively, for the selective licensing framework to be reformed to make it fit-for-purpose for large scale landlords.

Grainger is subject to numerous licensing schemes across different boroughs, however very few local authorities have attended any of our 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. That said, this reinforces the point that the scheme adds little to no value in its application to build-to-rent properties, managed by professional companies.

Grainger and peers in the BTR sector deliver a high standard of accommodation to our customers in compliance with all legal and health & safety requirements. Grainger residents' benefit from Grainger's use of the 'Property Redress Scheme' and residents are made aware of this information. As such, by holding the proposed licence, there is no beneficial impact on the quality of product Grainger offers, nor can we identify how this would reduce ASB cases that may be caused by our residents.

Grainger and the wider BTR sector's quality standards exceed the quality standards that selective licensing schemes seek to address. 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 and customer care, we reasonably question the value of selective licensing to drive standards in the BTR sector.

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:

- Licensing is a tool for addressing poor quality PRS, which is unnecessarily catching responsible actors and thereby discouraging investment by the very type of landlords we should be encouraging – 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, and is unnecessarily caught by such schemes, adding administrative costs on both sides, local authority and landlord, with no discernible benefit.
- Lack of economies of scale for large-scale landlords – with a form being required for each home, which are repetitive and often paper-based, the administrative time and cost to BTR operators is significant.
- Licensing forms require a named individual – this means that, should that individual leave the business, we are required to re-apply for all licenses associated with that individual. The scheme is not designed for landlord businesses, such as Grainger and other BTR landlords and operators.

- Enforcement savings generated by BTR for local authorities with no benefit for BTR landlords – 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.

**£1m cost to Grainger for licensing schemes** – With licensing schemes now costing Grainger in excess of £1m, 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 an increase in viability challenges to s106 and affordable housing contributions, as well as forcing many landlords to increase the rents charged to their customers.

By way of example, under the proposed scheme in Bristol and assuming discounts are obtained for membership of Rent With Confidence and for timely provision of suitable documentation (£612 per unit fee) and based on a 200-home BTR scheme, we would see a reduction in the net income of £24,840 per annum  and drop in investment value of £570k. 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, we would be forced to increase rents to ensure viability is maintained, something we would be reluctant to do because of affordability.

For similar reasons, we also do not believe that HMO licensing is suitably applicable to BTR properties, and that it would only serve to disincentivise the future supply of larger rental properties within the city. This is both due to the cost associated with HMO licensing and operational difficulties associated with such licensing. HMO licensing should be targeted toward properties in which tenants hold separate lease agreements and are set up to occupy genuinely separate spaces with shared kitchen and bathroom facilities. By including larger BTR properties within this category, Bristol residents are denied the opportunity occupy larger properties alongside friends or partners – situations in which they can create both a more affordable and enjoyable living experience. We believe provisions should be created within the licensing rules to accommodate such situations.

As Grainger does not currently operate any three bedroom properties within the city, this paper focusses primarily on the proposals for extended selective licensing requirements.

## 2. Administrative Cost of Licensing

In our experience of property licensing requirements around the country, we have found that application requirements for licenses are often overly burdensome and repetitive for large-scale landlords with hundreds of properties within a single building ownership. This is largely due to the inability for any efficiency savings when completing forms for a large number of homes within single buildings where many of the details are identical. Requirements often include:

- Written Statement of Terms of Occupancy
- Gas Safety Certificate
- Fire Alarm / Emergency Lighting Test Certificate (Including battery powered smoke detectors and battery powered Carbon Monoxide alarms)
- Electrical Installation Condition Report (EICR)
- Electrical appliance test certificate
- Property Inspection Records
- Tenancy Deposit Scheme Paperwork
- Copies of References for Occupants

**c.30min per application -** Based on our experience of complying with existing licensing schemes, we estimate that each license would take approximately 30 minutes to complete. This is an average, estimated figure from the information we have gathered, however it is expected that initial licenses may take longer due to information gathering processes.

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.

With 1,302 licenses across our organisation, this equates to 651 employment hours. A conservative estimate places this indirect additional cost approaching £10,000. If our existing and pipeline homes in Bristol were all to be subject to licensing requirements and with no efficiency savings, we estimate the indirect cost to the organisation would be c. 401 employment hours or around £6,000.

Due to the fractured and decentralised nature of licensing schemes, there are additional difficulties for large-scale landlords to ensure compliance. With Local Authorities rarely directly notifying landlords of their intention to implement licensing schemes and no centralised way of understanding if there is a licensing requirement. At present, we are required to manually search Local Authorities and correlate these to our portfolio and pipeline. Whilst this is not within the gift of Bristol City Council, we would suggest that the council endeavours to notify all landlords of properties which will be subject to licensing ahead of its implementation, and allow time for licenses to be obtained prior to enforcement action being taken in instances whereby landlords are unaware.

## 3. Cost of Licences at Grainger PLC

### 3.1 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.

We are now subject to Selective, Additional and HMO licensing schemes in at least 12 boroughs, affecting 1,302 homes and at a total cost to Grainger of £1,023,099.

Should our existing and pipeline buildings in Bristol become subject to selective licensing requirements under the proposed charging structure, Grainger would be facing a cost of £490,824 (£98,165 per annum) – assuming all discounts are permitted under membership of Rent With Confidence and timely provision of satisfactory documentation. This is not an insignificant sum and would have a material impact on project viability.

By targeting responsible landlords who are providing high-quality homes we feel this will inadvertently undermine the aims of many local authorities to improve the overall standards of its residents and provide additional affordable homes in the city.

### 3.2 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.

### 3.3 Illustrative Example

To put this into context, we have provide an illustrative example below which considered an average 200 homes BTR scheme and a licensing charge of £612 – in line with the proposed charging schedule should discounts be obtained under the RWC and for timely provision of suitable documentation.

| | # Units | Average NIA / sqft | Rent / sqft | Gross ERV / year | GtN | Net ERV / year | Yield | IV |
|---|---|---|---|---|---|---|---|---|
| Scenario 1: No Licence | 200.0 | 700.00 | 25.00 | 3,500,000 | 25.00% | 2,625,000 | 4.30% | 61,046,512 |
| Scenario 2: Licence | 200.0 | 700.00 | 25.00 | 3,500,000 | 25.70% | 2,600,520 | 4.30% | 60,477,209 |
| | | | | - | 0.70% | - 24,480 | - | 569,302 |

| Licence | Per Year |
|---|---|
| 612 Per unit / 5 years | 24,480.00 |

We have assumed an average unit size of 700 sqft and local rents at £25psf, generating a gross rent of £3.5m. In scenario 1, with no licence, the gross rent is reduced by a market standard 25% gross to net leakage with the resultant £2.625m net rent capitalised at 4.3% yield to generate an investment value of £61.0m.

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 25.8% which in turn reduces the net rent to £2.60m and when capitalised at 4.3% yield to generate an investment value of £60.5m.

In summary, the net income reduces by £24,840 per annum, the gross to net increases by 70bps and the investment value reduces by £570k. 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, we would be forced to increase rents to ensure viability is maintained, something we would be reluctant to do because of affordability.

## 4.0 Alternative Charging Structures

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.

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

| Item | Standard Charging Schedule | Block Charging Schedule |
|---|---|---|
| License cost | £887 | £2,244 per block<br>+ £527 per home |
| Application cost | £65 per home | £65 per home |
| Cost across 200-home scheme | £190,400 | £120,644 |

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 structure recognises the reduced administrative burden for enforcement authorities associated with residential blocks, we do not believe it appropriately addresses the significantly increased standards seen in BTR and will continue to discourage residential investment into the city.

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 in the city.