

Appendix 7: Cross-boundary effects of additional landlord licensing in Camden

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1. Introduction, research question and methodology

The London Borough of Camden is considering introducing additional licensing for landlords of Houses in Multiple Occupation (HMOs). Certain HMOs are already subject to mandatory licensing; the Camden proposal would extend it to *all* HMOs in the borough.

Local authorities that introduce licensing for the private rented sector (PRS) are required by the regulations to consult in advance with individuals and businesses likely to be affected by the schemes, including those ‘in the surrounding area outside of the proposed designation who will be affected’ (DCLG 2010). Enfield, another London borough, recently introduced a licensing scheme for all PRS landlords (of both HMOs and dwellings in single occupation) across the entire borough. This scheme was found to be not lawfully designated (so could not lawfully be implemented) on judicial review because ‘certain people likely to be affected by the schemes were not consulted as required by statute’ (*Regas v London Borough of Enfield* 2014). One argument was that PRS licensing, which was being introduced in an attempt to raise standards and reduce problems of anti-social behaviour within the sector, could lead to the displacement of (problem) tenants and landlords from Enfield to neighbouring areas. Although Enfield had consulted with residents and businesses in the borough, it had not consulted sufficiently with those in adjacent areas of neighbouring boroughs.

The Camden proposal differs from Enfield’s in an important way: it is limited only to HMOs rather than all rented properties in the borough. Camden has already consulted widely within the borough, and has informed the local authorities (but not residents or businesses) in neighbouring boroughs, as well as national landlord groups (RLA, NLA, RICS etc.). Given the ruling in the Enfield case, Camden now wishes to determine whether and to what extent its proposals might affect those in neighbouring areas, in order to determine whether it has sufficiently consulted with those persons likely to be affected.

Research question

The research question is

‘Would additional licensing of HMOs in Camden affect residents and/or businesses in neighbouring areas of adjacent boroughs, and if so how?’

In order to answer this we explored a number of sub-questions, both theoretical and empirical. These include:

- Which HMOs are already licensed in Camden and which would be covered by the proposed scheme? How can we identify them in the secondary data?
- Which local housing market areas that overlap the Camden boundary would be affected by this borough-wide licensing?
- What is the demographic profile of residents of HMOs (both those already covered by mandatory licensing and those in the additional-licensing group)?

- Who are the landlords of additional-licensing HMOs?
- How might we expect landlords or tenants to modify their behaviour because of the imposition of additional licensing? How, if at all, could such changes (e.g. disinvesting from Camden, changing the property from HMO to single-household) have spill-over effects on neighbouring areas?

The Enfield decision focused in part on the potential impact of displaced *tenants*. The Camden regulatory proposal is designed to address problem *landlords* and raise standards of management, so we need to understand the drivers of landlord behaviour and whether they might take actions that could have a local spatial effect. But changes in landlord behaviour may well also lead to changes in tenant behaviour – for example, if affected HMO landlords decide to stop renting to more than one household, this might displace tenants who would look for other housing nearby.

Methodology

The first phase of research involved *desk research and interviews*:

- *Literature review*. We reviewed existing academic and ‘grey’ literature about the size and delineation of local housing markets in London and about the behaviour of landlords. We also looked for any *ex post* analyses of the effects of the implementation of landlord licensing elsewhere.
- *Data review*. Mainly using information provided by the London Borough of Camden, we compiled the following:
 - Demographic profiles (overall for those living in HMOs)
 - Housing tenure distributions
 - PRS rents, focusing on HMOs and lowest-quartile figures
- *Stakeholder interviews*. We conducted a series of interviews with well-informed local stakeholders, including local authority licensing officers in all of the neighbouring boroughs (Islington, City of Westminster, City of London, Barnet, Brent, and Haringey), local tenant groups (including the Camden Federation of Private Tenants and Advice4Renters (Brent)) and two local letting agents.

The second phase involved *mapping key housing market areas* that overlap borough boundaries. Combining information gained through interviews with local estate agents and online research using property websites Rightmove and Zoopla, we were able to identify six housing market areas that overlap the Camden borough boundary. We then analysed the data on HMOs in these housing market areas and produced two case studies which look into the potential impact additional licensing could have in the Kilburn and King’s Cross housing market areas.

In the third phase we analysed the desk research, interview findings and case study work together. The findings from all three stages were synthesised to *produce this short report*.

2. Policy background and the Enfield case

The 2004 Housing Act introduced a new legal definition for the term ‘House in Multiple Occupation’ (HMO). HMOs include:

- entire houses or flats which are let to three or more tenants who form two or more households and who share a kitchen, bathroom or toilet.
- houses which have been converted entirely into bedsits or other non-self-contained accommodation and which are let to three or more tenants who form two or more households and who share kitchen, bathroom or toilet facilities.
- converted houses which contains one or more flats which are not wholly self-contained (i.e. the flat does not contain within it a kitchen, bathroom and toilet) and which is occupied by three or more tenants who form two or more households.
- buildings converted entirely into self-contained flats if the conversion did not meet the standards of the 1991 Building Regulations and more than one-third of the flats are let on short-term tenancies (*Housing Act 2004*, sections 254-259).

The Act also introduced a mandatory licensing scheme for HMOs that are three or more stories high and are occupied by five or more people forming at least two households. Since 2006, landlords of these larger HMOs have been required to secure a licence from their local authority; this requirement applies across England.

The 2004 Act also allows local authorities to implement their own licensing schemes for landlords, alongside the mandatory HMO licensing. There are two variants:

- ❖ **additional** licensing applies to HMOs that are not covered by the mandatory scheme
- ❖ **selective** licensing covers private rented dwellings in particular areas or neighbourhoods of a local authority.

More and more of these further licensing schemes are being introduced throughout the country. The mandatory HMO licensing scheme only covers the largest properties, which in many areas is a very small proportion of the total HMO stock. Because of this, many HMOs which are poorly managed—including HMO flats, which can be particularly problematic as many are former right-to-buy properties operated by unprofessional landlords—are not covered by the mandatory scheme.

Table 2.1 shows the authorities in London that at the time of publication have or are considering implementing additional or selective licensing. Numerous English authorities outside London also now have additional licensing schemes covering at least part of their administrative areas. A 2010 report written by the Building Research Establishment (BRE) for the DCLG stated that 18 authorities were operating ‘transitional licensing schemes’ or pilot programmes (BRE 2010). A 2014 survey conducted by the DCLG found that 14 authorities had introduced 23 licensing schemes (including additional and selective) and 59 others were considering doing so (DCLG 2014). The National HMO Lobby reports that 29 authorities in England and Wales have implemented or considered implementing additional licensing (National HMO Lobby 2012). Outside London, authorities that have additional

licensing schemes include Oxford City Council, Bournemouth Borough Council, Southampton City Council and Bath and North East Somerset Council.

Table 2.1: London Boroughs with Additional or Selective Licensing Schemes

| <i>Borough</i> | <i>Additional Licensing</i> | <i>Selective Licensing</i> |
|----------------------|--------------------------------|--------------------------------|
| Barking and Dagenham | • | • |
| Brent | • | • |
| Croydon | • | Proposed; currently consulting |
| Ealing | In areas | |
| Enfield | Overtaken on judicial review | Overtaken on judicial review |
| Hackney | Considering | Considering |
| Haringey | In areas | |
| Harrow | • | Proposed; currently consulting |
| Hillingdon | • | |
| Hounslow | • | |
| Islington | Proposed in areas | |
| Kingston | • | |
| Newham | • | • |
| Redbridge | Proposed; currently consulting | Proposed; currently consulting |
| Southwark | Proposed; currently consulting | Proposed; currently consulting |
| Tower Hamlets | Previously had, ended in 2009 | Proposed in areas |
| Waltham Forest | Beginning in 2015 | Beginning in 2015 |

Some local authorities—notably Newham in London—have implemented licensing schemes for *all* privately rented properties in their area, involving both additional HMO and selective licensing. In 2014, the London Borough of Enfield attempted to introduce a similar scheme. When local authorities seek to implement a *selective* licensing scheme, they must provide evidence that the area is a) experiencing low demand, or b) experiencing high levels of anti-social behaviour as a result of poor conditions in the private rented sector (Housing Act 2004, Section 80). Importantly, Camden’s proposed *additional* licensing scheme would only cover HMOs and the borough therefore does not have to produce such evidence.

Before implementing an additional or selective licensing scheme, local authorities are required to consult in advance with individuals and businesses likely to be affected by the schemes, including those ‘in the surrounding area outside of the proposed designation who will be affected’ (DCLG 2010). The proposed Enfield scheme was thrown out on judicial review because ‘certain people likely to be affected by the schemes were not consulted as required by statute’ (Regas 2014: 12). The argument was that PRS licensing, which was being introduced in an attempt to raise standards in the sector, could lead to the displacement of (problem) tenants and landlords from Enfield to neighbouring areas. Although Enfield had consulted with residents and businesses in the borough, it had not consulted sufficiently with those in adjacent areas of neighbouring boroughs. In fact, Enfield had argued for implementing their licensing scheme across the whole borough in order to prevent bad

landlords and tenants from moving into unlicensed areas within Enfield; the judge, therefore, concluded that on similar grounds areas in the surrounding boroughs should have been consulted.

As part of the judicial review ruling in the Enfield case, the judge stated that ‘the breadth of the specified group [likely to be affected by the designation] will depend on the nature and extent of the proposed designation in any given case’ (*Regas* 2014: 37). Camden’s proposed scheme would, like Enfield’s, apply to the whole borough. Several of the authorities that have already implemented additional licensing schemes throughout their entire administrative area did so without conducting a major consultation in neighbouring areas.

Recent government publications, however, along with the Enfield review case suggest that the rules on cross-boundary consultation are now being more stringently applied. DCLG guidance from 2010 stipulates that consultation should include local residents in the proposed designated area and ‘should also include local residents and those who operate businesses or provide services in the surrounding area outside of the proposed designation who will be affected’ (DCLG 2010). This implies a need to consider the surrounding area outside of a designated zone, which in the case of borough-wide licensing, can be interpreted as the neighbouring boroughs. After conducting a survey of authorities that had implemented additional or selective licensing up to that point, the DCLG in 2014 criticised the implementation of additional licensing across entire authorities on the grounds that this approach may have negative impacts on ‘good’ landlords and is not targeted enough to problem areas (DCLG 2014).

Assessing what impacts Camden’s proposed additional licensing scheme could have across borough boundaries involves understanding the condition and distribution of HMOs in Camden, how housing market areas form and how they relate to administrative boundaries, and indicative evidence of how landlord behaviour and tenant conditions might be affected by licensing.

3. Profile of HMOs in Camden

Overall tenure distribution

Camden has one of the highest proportions of private renting in the country, with 32% of households in the tenure according to the 2011 census. Some 33% of households are social renters. The owner-occupation rate, at 32%, is low compared even to other inner-London boroughs.

The tenure distribution by ward varies. West Hampstead, with 44% of households renting privately, has the highest proportion in that tenure, while prosperous Highgate has the fewest (17%).

Number

As well as having a high proportion of private rented properties, Camden also has many HMOs. According to the 2011 Census, some 13% of all private dwellings (both PRS and owner-occupied) are HMOs (Camden 2014a). As there were 65,780 private dwellings in Camden in 2013 (DCLG Live Table 100), this suggests a figure of 8,551 HMOs. Different sources give different figures for the exact number; the borough itself estimates that there are 8,585 from information on its databases (Camden 2014a), while the Building Research Establishment put the figure somewhat lower, at 7,652. Of these, fewer than 300 are currently licensed under the mandatory scheme.

Location

HMOs are located across the borough, but are more prevalent in the south of the borough than elsewhere. There are 18 wards in Camden. The ward with the fewest (Hampstead) has 266 HMOs, while the one with the most (St Pancras and Somerstown) has 751 (Camden 2014a, p.36).

Condition

A 2014 survey of 391 Camden HMOs that were not subject to mandatory licensing showed that 40% were purpose-built flats while about 1/3 were houses. About a fifth were found to have some external aspects in poor or very poor condition; the worst conditions were found in flats in poorly converted houses. Similarly, these HMOs were the most likely to contain potential risks to health and safety.

Camden officers believe that some of the poorest HMO conditions in the borough are in flats in multiple occupation, which—unless they are over three stories high themselves—do not fall under the current mandatory licensing scheme. The court case *Bristol City Council v. Digs* (2014) established a legal precedent that the number of stories used to determine

whether an HMO is licensable under the mandatory scheme must be contained within the unit (flat) itself, even if the building is over three stories.

Camden EHOs believe that many HMO flats that are poorly managed are former ‘Right to Buy’ properties, owned by amateur landlords. In interviews, representatives from the surrounding boroughs said the situation was similar within their authorities. In Camden, Right to Buy leaseholders are prohibited from renting out their properties as HMOs, but it is believed that this is done frequently anyway. According to information provided by council officers, of 3,555 total non-resident leaseholders of Right to Buy properties (982 original leaseholders and 2,573 re-sale leaseholders) who are assumed to be subletting their property, only 628 are registered as subletters. Nationally, there is an increasing trend of investors purchasing Right to Buy freeholds and leaseholds—sometimes multiple properties—and subletting, particularly in high demand areas like Camden. In fact, 72% of all non-resident (assumed subletting) leaseholders in Camden are not the original leaseholders. In the borough, 674 properties owned by non-resident leaseholders or freeholders are owned by multi-property owners, while only 66 of these are formally registered as subletters.

The council has discussed the need for establishing a strategy on how they will handle the licensing of these properties that are let as HMOs and are therefore violating their leasehold conditions. This will be particularly important in parts of the borough where Right to Buy properties are concentrated (e.g. where there is a high proportion of council housing). This is predominantly in the south of the borough (King’s Cross/St. Pancras Area), in Kilburn along the Camden/Brent border, and in pockets in the central wards of Gospel Oak, Haverstock, Kentish Town and Cantelowes.

Residents and rents

Existing large data sources do not allow us to isolate only those living in HMOs. Camden 2014a, p. 66 *et seq* has a profile of *all* private renters from the 2011 Census. It shows that private tenants in Camden tend to be young, highly skilled people in employment; three-quarters of these are in high-level occupations. Of those who are economically inactive, most are students or retired. An increasing number of families now live in the PRS in Camden.

Rents in Camden are some of the highest in the country. According to the Valuation Office Agency, rents in Camden range from £172/week for a shared room to £1000/week for a four-bedroom house or flat (cited in Camden 2014a). In February 2015, property portal Zoopla was advertising homes for rent ranging from £90/week (studio in West Hampstead) to £35,000/week (an outlier!) for a ten-bedroom ‘ambassadorial family house’ in Hampstead.

Landlords

Under the current the mandatory scheme only a small minority of Camden HMOs are licensed (290, or less than 3%). Information provided by the borough shows that the overwhelming majority of landlords currently holding an HMO licence own a single eligible

property (Table 3.1). There is, however, no information about *other* investment properties that these landlords may own—whether HMOs or single-household units. Even so, the distribution is consistent with what is known about private landlords in the UK: that most are private individuals, and the great majority own just one property (DCLG 2011).

Table 3.1: Mandatory HMO licence holders by size of portfolio

| <i>Number of HMOs Owned</i> | <i>Number of Licensed Landlords</i> |
|-----------------------------|-------------------------------------|
| 1 | 232 |
| 2 | 15 |
| 3 | 2 |
| 4 | 2 |
| 5 | 1 |
| 6+ | 1 |

Source: London Borough of Camden

4. Identification of Housing Market Areas (HMAs)

In principle, changes affecting landlords or dwellings in a particular neighbourhood can be expected to have the greatest knock-on effects on other landlords or dwellings in the same local area. This makes intuitive sense, as location is normally one of the most important considerations when households select a home, and dwellings with similar characteristics in the same neighbourhood can be considered close substitutes for each other.

How can we define the relevant area for analysing local housing markets? One could simply use existing administrative areas: the local authority, electoral ward or postcode area. In the case of small, self-contained population centres, one of these may indeed be roughly coterminous with the functional local housing market. But in major conurbations we would not expect this to be the case; here we can instead employ the notion of a *housing market area* (HMA). HMAs are defined as ‘geographical areas identified by household demand and preferences for housing (that) reflect the key functional linkages between places where people live and work’ (DCLG 2006: PPS3 Annex B: Definitions¹).

There are several methodologies for defining the boundaries of housing market areas, all based on the ‘access/space model’ of residential location and price, which is fundamental to urban economics. This model focuses on the role of commuting. In its most basic form, the model predicts that in choosing a home, households make a trade-off between ease of transport to their place of work (‘access’) and housing space, and that housing space is more expensive close to the city centre than at the periphery. At the level of an entire metropolitan area, the housing market is basically equivalent to the travel-to-work area.

For the purposes of planning new development, the relevant housing market areas are relatively large. But one can also identify *local* HMAs: ‘the heterogeneity of housing, range of neighbourhoods/locations and the short distances often moved by households suggest the potential for subsystems or layers within a framework housing market area’ (Jones 2010 p. 8). These areas condition housing market effects at the local level: ‘Excess demand for particular dwellings (and their close substitutes) will drive prices in that local housing market area upward, but may not affect other local housing market areas’ (ibid p. 9).

Much of the literature focuses on the identification of large-scale HMAs, which are relevant to planning. For our purposes, however, we are interested in understanding neighbourhood-level HMAs: how are they determined and do they cross borough boundaries?

Because of the centrality of the journey to work in defining local HMAs (LHMAs), the existing pattern of transport infrastructure (in London, major roads and Tube stations in particular) largely determines the configuration of local housing markets. Tube stations are particularly crucial; neighbourhoods often take the name of the local station and can be considered to encompass the area within an easy walk.

¹ While this planning policy statement has now been superseded, the principles remain valid.

The boundaries of boroughs often follow main roads, which are themselves important transport arteries (for example, the boundary between Camden and Brent follows the A5, Kilburn High Road). Tube or train stations may be located on these same roads. Thus the local housing markets, which radiate out from these transport nodes or corridors, may *straddle* borough boundaries, rather than being encompassed in a single borough.

Academic work based on large datasets has confirmed this phenomenon, noting that even at the strategic level, analyses following the travel-to-work area methodology ‘can result in the splitting of local authorities’ (ibid p. 14). Experts point out that

...the degree of similarity in the way in which the housing market areas cut across local authorities suggests that the housing market patterns that these geographies reflect should not be ignored in policy. For example, the lower tier areas do genuinely reflect local housing behaviour of residents. Where the local housing market areas cut across local authority boundaries they are drawing attention to patterns which local policies need to monitor...’ (ibid p. 31).

The GLA, in its 2013 London Strategic Housing Market Assessment, confirms this, saying that ‘housing market areas in London frequently extend across local borough boundaries’ (GLA 2013).

5. Empirical findings

Cross-boundary housing market areas in Camden

In order to determine whether Camden's regulation of HMOs will have effects beyond the borough boundaries, we need to understand the shape and position of local housing markets at neighbourhood level. The Housing Market Areas used by planning authorities to analyse demand for new housing are too large for our purposes; they can cover encompass several local authorities. There are, however, companies for which the accurate delimitation of local housing markets is a commercial imperative: the property portals. Using Rightmove and Zoopla, two of the largest UK, we identified six major LHMA's along Camden's border. They cover much of the borough boundary and overlap with six out of the seven of Camden's neighbouring boroughs (there is little residential overlap with the City of London).

The methodology used by these portals is not based explicitly on the access/space model described earlier, but produces very similar results. According to interviews with Rightmove and Zoopla, when the sites first introduced the neighbourhood mapping feature they defined neighbourhood boundaries using Royal Mail postcode information. Over time, the mapping of LHMA boundaries became more refined as letting agents and landlords who used the site listed their properties in specific areas. The websites update their maps in an iterative process to reflect users' perceptions of neighbourhood boundaries.

Figures 5.1 and 5.2 present data from Rightmove and Zoopla respectively; LHMA's are designated by the same colours in each map to facilitate comparison. Rightmove identifies seven cross-boundary LHMA's, while Zoopla has six (lacking only Tufnell Park). While the boundaries of the LHMA's do not coincide, their general locations and sizes do. These maps draw on very large datasets, and taken together suggest that there is a high level of consensus among market actors as to the boundaries of local housing markets.

Table 5.1, which follows the figures, summarises information about the seven cross-boundary LHMA's.

Figure 5.1: Borough Boundary Overlapping Housing Market Areas (Rightmove)

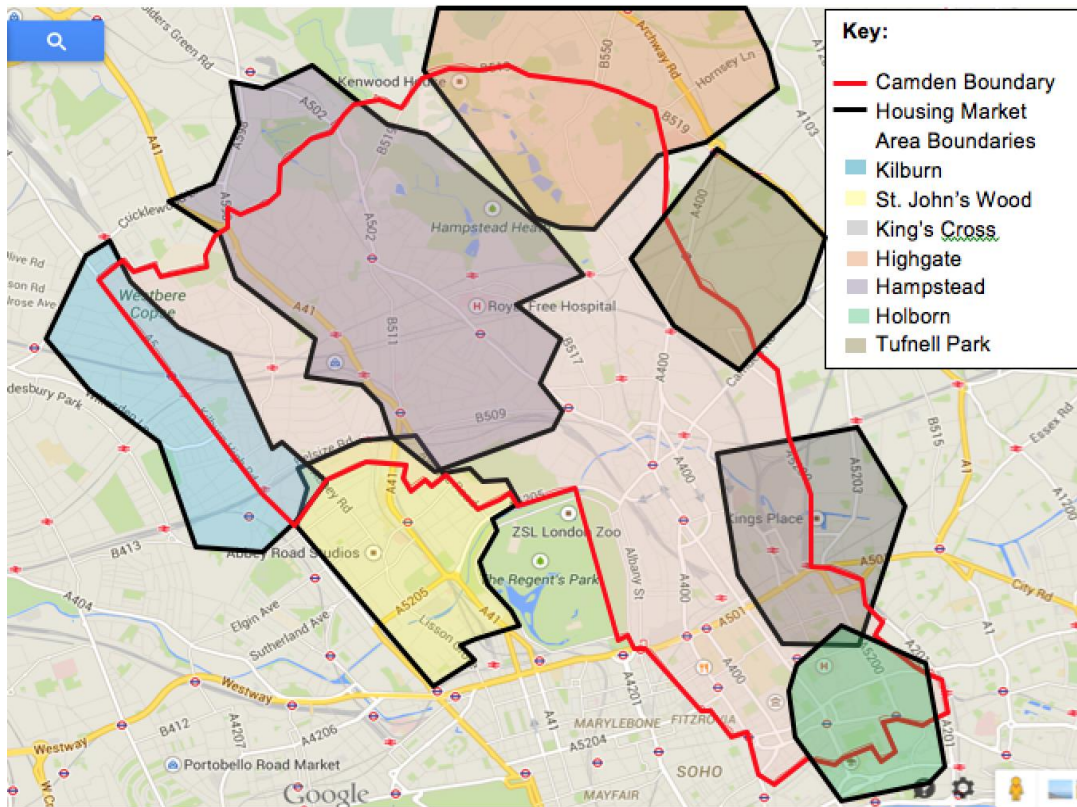
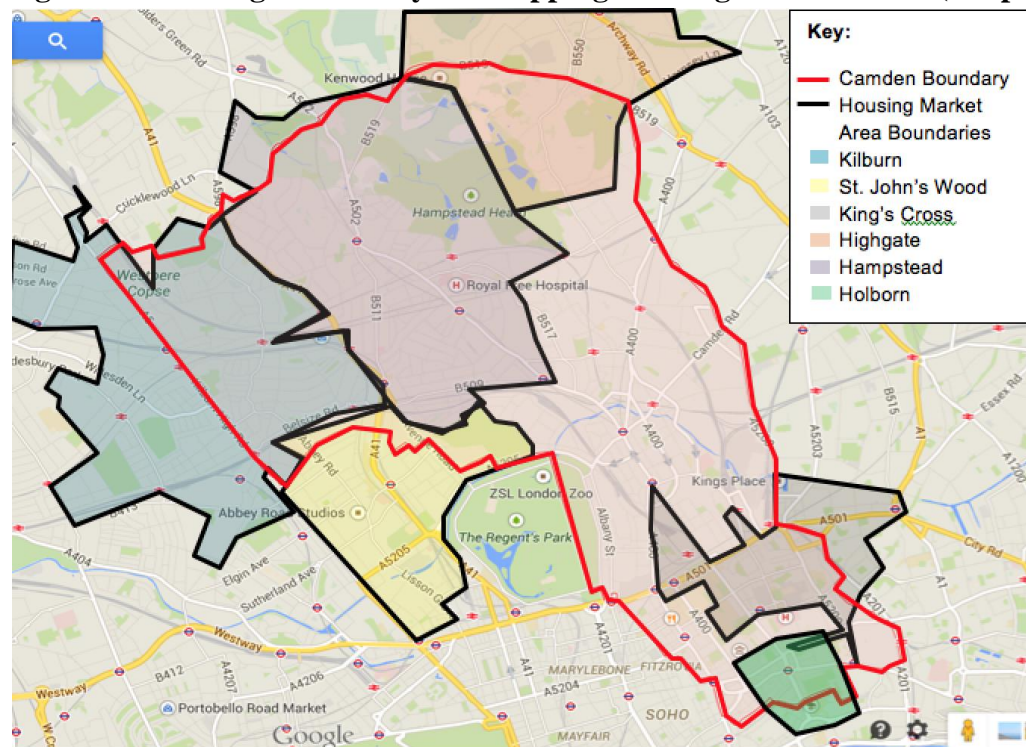


Figure 5.2: Borough Boundary Overlapping Housing Market Areas (Zoopla)*



*Zoopla does not show Tufnell Park overlapping into Islington

Table 5.1 Local Housing Market Areas that straddle Camden borough boundaries and HMOs

| <i>Local housing market area</i> | <i>Overlapping borough(s)</i> | <i>Camden wards covered in part by housing market area</i> | <i>HMOs in these wards*</i> | | <i>Percentage of HMOs rated poor or very poor by EHOs in overlapped wards</i> | <i>Approximate distance from the borough border where the housing market area ends</i> |
|----------------------------------|-------------------------------|---|-----------------------------|-----------------------------|--|--|
| | | | <i>Number</i> | <i>% of all Camden HMOs</i> | | |
| Kilburn | Brent, Westminster | Kilburn; Swiss Cottage | 844 | 10% | 0% (Swiss Cottage); 38% (Kilburn) | 1 mile |
| St. John's Wood | Westminster | Swiss Cottage | 441 | 5% | 0% (Swiss Cottage) | 1.1 miles |
| King's Cross | Islington | King's Cross; St Pancras and Somers town; Holborn and Covent Garden | 2,023 | 23% | 11% (Holborn and Covent Garden); 42% (St. Pancras and Somers Town); 53% (King's Cross) | .8 miles |
| Tufnell Park** | Islington | Kentish Town, Gospel Oak, Canteloves | 1,417 | 16% | 30% (Kentish Town); 38% (Gospel Oak); 39% (Canteloves) | .9 miles |
| Highgate | Islington, Haringey | Highgate | 309 | 4% | 38% (Highgate) | 1.3 miles |
| Hampstead | Barnet | Hampstead Town; Gospel Oak; Belsize | 960 | 11% | 38% (Gospel Oak); 50% (Belsize)*** | .8 miles |
| Holborn | Westminster | Holborn and Covent Garden; Bloomsbury | 1,138 | 13% | 11% (Holborn and Covent Garden); 19% (Bloomsbury) | .3 miles |

Camden (2014a)

* These figures are for entire wards and may therefore be overestimates, as some LHMA cover only parts of wards.

**Tufnell Park only overlapped the Camden boundary on Rightmove's maps, not on Zoopla

***There was no data available for Hampstead Town

We validated this mapping exercise by speaking with local letting agents. Letting agents agreed that many neighbourhoods do cross the borough boundary and that prospective tenants rarely decide where they want to live based on the borough, but rather accessibility to work, school or places of leisure. Letting agents also stated that the majority of landlords own small portfolios, something reiterated by interviewees within the councils. Some agents stated that landlords with multiple properties were likely to own units in several boroughs, while others stated that HMO landlords tend to concentrate their portfolio in specific areas (near to schools or certain transport links, for example). One interviewed letting agent stated that ‘landlords know where they are’, meaning that most landlords represented by that agency are aware of the HMA they fall in, the reasons tenants might be drawn to live there, and the larger administrative area (e.g. ward, borough) they are in.

Our interviews confirmed the findings of the data audit: although HMOs in Camden are relatively evenly distributed, there does seem to be some concentration along the borough boundary. This is not surprising, as HMOs are frequently located next to main roads.

Each of the LHMA that overlaps with one or more of Camden’s seven neighbouring boroughs also includes at least part of a Camden ward that experiences a relatively high proportion of ‘poor or very poor’ quality HMOs. We could not determine whether these HMOs are located close to the boundary, or even whether the LHMA includes them; more comprehensive mapping of HMO quality at the sub-ward level would be needed to assess this. But it is a strong indication that any changes due to the imposition of additional licensing could have repercussions across the entire LHMA—the boundary of which may lie as far as 1.3 miles from the Camden boundary.

Case Study 1: Kilburn

- There are currently 18 licensed HMOs in Kilburn ward under the mandatory license scheme, owned by 13 different landlords
- Camden (2014a, p.35) estimates there are 403 HMOs in the ward (5% of all HMOs in the borough)
- 50% of surveyed residents in Kilburn reported being satisfied with the overall quality of their home (Camden 2014a, p.44)
- 38% of HMOs in Kilburn were rated poor or very poor by Camden EHOs (Camden 2014a, p.48)
- 63% of properties in Kilburn are likely to have a serious or other housing health and safety hazard (Camden 2014a, p.47)
- 12.5% of all criminal damage to dwellings in Kilburn occurred in HMOs; 8.3% of burglaries in Kilburn occurred in HMOs (Camden 2014a, p.51)

According to Zoopla and Rightmove, the Kilburn neighbourhood extends from Cricklewood Station in the north to just south of Kilburn High Road Overground station in the south. It is bisected by Kilburn High Road, a busy street that has many residences above shop fronts. It overlaps the Camden-Brent boundary and borders the Queens Park, Regents Park, West

Hampstead and Cricklewood neighbourhoods. The area does include a high proportion of social housing according to the 2011 Census, and former Right to Buy properties being used as HMOs are therefore likely to be encountered in the area.

From January 2015, Brent has an additional and selective licensing scheme in place. There is therefore seen to be little risk that bad landlords will sell up and buy properties across the border in other areas of Kilburn as a result of licensing. Interviewees from Brent tenant groups believe that additional licensing in Camden would have positive impacts for Kilburn on both sides of the border as it would create a common ‘culture of standards’ in the area.

Case Study 2: King’s Cross

- There are currently 28 licensed HMOs in the King’s Cross ward, owned by 21 different landlords.
- Camden (2014a, p.35) estimates that there are 633 HMOs in the ward (7% of all HMOs in the borough)
- 56% of surveyed residents in King’s Cross reported being satisfied with the overall quality of their home (Camden 2014a, p.44)
- 53% of HMOs in King’s Cross were rated poor or very poor by Camden EHOs (Camden 2014a, p.48)
- 42% of properties in King’s Cross are likely to have a serious or other housing health and safety hazard (Camden 2014a, p.47)
- 16.4% of burglaries in King’s Cross occurred in HMOs; 11.1% of all criminal damage to dwellings in King’s Cross occurred in HMOs (Camden 2014a, p.51).

King’s Cross station lies at the heart of this housing market area, which extends as far north as Caledonian Road and Barnsbury station and as far south as Russell Square. The area—and St. Pancras and Somers Town to its north—has some of the highest concentration of council housing stock in the borough, so former Right to Buy HMOs may be an issue here. The area is popular with students due to its good transport links and proximity to various universities.

The HMA overlaps the Islington border. As of February 2015, Islington only licenses HMOs under the mandatory scheme, but they have recently consulted on a proposal to introduce additional licensing on parts of Holloway Road and Caledonian Road, which extends into this HMA. Due to high transaction costs, representatives from Islington council do not believe that landlords from either Camden or the potentially licensable areas in Islington would move their investments to the unlicensed areas of this overlapping neighbourhood. Instead, there is a hope that the designated areas will induce radiating positive effects, encouraging landlords to improve standards across the HMA as the area will be under greater scrutiny by both councils.

Profiling the impacts of licensing

There have been few attempts to quantify and assess the impact of licensing either nationally or at the local level. The academic literature about the behavior of landlords in the face of regulation concentrates almost exclusively on the effects of the imposition of rent control, not licensing. Most evidence about the effects of mandatory and further licensing schemes is anecdotal or observational, and as there is no comprehensive source of data on non-licensed landlords in England, projections about their landlord behaviour are inevitably based on informed speculation.

One key indicator of what could happen as a result of expanding licensing to all HMOs is the impact mandatory licensing has had since 2006. Evidence about these effects was gathered from government reports on licensing and through a series of interviews with local tenant groups and EHOs from other boroughs. Overall, the impacts of mandatory licensing since 2006 include:

- **Improvement in physical condition and management of HMOs.** The DCLG commissioned the Building Research Establishment (BRE) to evaluate the impact of HMO licensing in England through a two-part study, beginning in 2005 and ending in 2009, with the final report published in 2010 (BRE 2010). Over half of all surveyed authorities reported improvements in the physical condition of properties, the quality of management and the quality of accommodation as a result of licensing. The report also concluded that these improvements would continue to develop over the long term as local authorities followed up with landlords and enforced terms of the licenses.
- **Many landlords convert their properties or reduce the number of tenants to avoid licensing.** The 2010 report found that almost a third of local authorities were aware of changes to the HMO market as a result of HMO licensing. The most important of these was that landlords reduced the number of occupants to below the mandatory threshold or converted properties into self-contained flats. All interviewed authorities with the exception of the City of London and interviewed lettings agents also noted a similar trend. Many interviewees argued that this was, however, not just a response to licensing, but also to changes in demand.
- **Rents have risen, but impacts on house prices and demand are very difficult to disentangle from other factors.** A 2006 Explanatory Memorandum about the 2004 Act warned that ‘it is important to remember that tenants in HMO accommodation are likely to be those on low incomes—students and housing benefit claimants—with restricted allocated funds for housing costs. If a landlord tries to increase rent too sharply, these tenants will move to other properties which are affordable’ (*Explanatory* 2006: 159). A high proportion of Camden’s HMO tenants are low wage earners or unemployed, and many are either 40 to 60 year olds or are students (Camden, 2014a). Any rent rises resulting from licensing could have a negative impact on these groups, which is a concern of local tenant groups. Rents have risen in Camden substantially since mandatory licensing was introduced, but this unlikely the result of licensing (only 290 of Camden’s HMOs are licensed). Indeed, the 2010 BRE report concluded that it is very difficult to

disentangle impacts on housing markets or demand from other factors. Interviewees posited that, beyond just market pressures, rents in HMOs have risen because landlords are now able to pass on the council tax burden to tenants of HMOs if the tenants are jointly liable for the rent—i.e. share a single tenancy agreement—and occupy the entire dwelling.²

- **Councils have better information on HMOs and landlords in their districts.** The 2010 BRE report concluded that a major benefit of licensing was the increased knowledge local authorities were able to gain about the nature and severity of issues affecting HMOs.
- **Many landlords avoid licensing.** The vast majority of authorities surveyed in the 2010 BRE report cited concerns about the number of landlords who were avoiding licensing. This was a shared concern of many of the interviewees consulted for this report.

Mandatory licensing of large HMOs applies throughout the country, so evidence of its impact on tenants and landlords cannot tell us a great deal about displacement effects that may arise when additional or selective schemes are implemented in some areas but not others. Existing evidence on the impact of additional or selective licensing schemes, however, is even more limited. The 2010 BRE report concluded that selective licensing was encouraging both tenants and landlords to ‘raise their game’ and that displacement to neighbouring areas had not appeared to have happened yet, although it may have been too early to tell.

In 2014, the DCLG conducted a survey of local authorities for their Review of Property Conditions in the Private Rented Sector. They found that 14 authorities had introduced 23 licensing schemes since 2010, and 59 others considered doing so. In the Review, the Government warned that licensing creates additional, unnecessary costs for reputable landlords, which could be passed on to tenants. It also warned that landlords might find it more difficult to obtain mortgage finance in authorities which have authority-wide licensing.

The London Borough of Newham was the first London borough to introduce additional and selective licensing in 2013. The Head of Private Housing & Community Infrastructure at Newham, reported that there had been a negligible impact on house prices and rents in the borough as a result of their licensing schemes. Tenant satisfaction within the private rented sector is up and ASB is down. He said some neighbouring boroughs claimed that unlawful landlords had relocated into their authorities, but that this is largely anecdotal and little firm evidence exists. Three of the boroughs adjoining Newham had implemented additional and/or selective licensing since Newham introduced their scheme, although Tower Hamlets has since removed their additional licensing programme. The Newham officer argued that their schemes were set up not to deter bad landlords from coming across from Newham, but rather

² These parameters were established by the case *Goremsandu R (on the application of) v London Borough of Harrow* [2010] EWHC 1873. Where a property is an HMO for Council Tax purposes (which is different than the Housing Act 2004 definition and is established by the Council Tax [Liability for Owners] Regulations 1992), the landlord is liable for paying council tax. But if tenants have license to occupy the entire dwelling and are jointly and severally liable to pay rent for the dwelling as a whole (usually by being on a single tenancy agreement), it is no longer an HMO by the council tax definition the council tax liability falls with the tenants.

that Newham's experience had convinced the other boroughs of the benefits of wider licensing.

One factor relevant to decisions on consultation is the **intent** of the licensing scheme. The three key impacts Camden would like to see as a result of additional licensing are: improved conditions and management in the sector; a reduction in the risk of retaliatory evictions; and increased data on landlords and the private rented sector in the borough (Camden 2015). Importantly, the intention behind Camden's proposal is to improve conditions within the HMO stock and not to reduce the number of HMOs or combat ASB associated with HMOs. This is arguably different from the selective licensing schemes proposed in Enfield and in place in Newham. Newham officers say the goal of introducing additional and selective licensing was to reduce ASB and restrict the loss of family homes, and that the borough was not concerned about potential loss of HMO stock. In Camden, the language used in the proposal and consultation materials thus far emphasises their intent to improve HMO stock, not reduce it or disperse the problems associated with it.

But policies often have unintended consequences, and while Camden's stated goal may be to improve the HMO stock, there may be other results. For example, given the large number of landlords who have subdivided their HMO properties to create self-contained units as a response to mandatory licensing, additional licensing could still result in a loss of HMO stock in the borough.

Assessing the likelihood of impacts in neighbouring boroughs

Table 5.2 consolidates the possible effects of additional licensing that have been identified from the desk review and interviews. It then analyses the potential knock-on impacts of those effects and analyses the potential impact across borough boundaries and comments on the likelihood of observing this impact. This analysis is supported by the findings gained from interviews with EHOs and tenant groups in neighbouring boroughs.

The table shows that licensing can be expected to have both negative and positive effects on local housing markets and neighbours. The magnitude and incidence of these effects cannot be determined *a priori*, but would need to be explored in a consultation exercise.

Table 5.2: Summary Table – Potential Effects of Additional Licensing with Cross-Boundary Impacts (Green rows are largely positive impacts; Red rows are largely negative impacts)

| Possible Effect | Impacts of Effect within Camden | Potential Impact Across Borough Boundaries | Likelihood of Cross-Boundary Impact? |
|---|---|--|---|
| <i>Landlords make improvements necessary to comply with license standards</i> | Tenants live in better conditions | Could encourage neighbouring boroughs to introduce licensing themselves; promote culture of better standards | Two neighbouring boroughs already have additional licensing (Brent and Haringey) and Islington is proposing a scheme. The area as a whole is committed to improving standards of management of HMOs and agree on similar intents of licensing |
| | Tenants see a licence as a 'standard of quality' and seek out licensed HMOs | Promote culture of better standards and encourage landlords in neighbouring areas to 'raise their game' | Given the numerous overlapping HMAs, interviewees in neighbouring boroughs predict this could be a likely impact; letting agents, however, reported that few tenants are knowledgeable at present about HMOs and what licensing entails |
| | Tenants face less risk of retaliatory eviction | Fewer tenants displaced across borough lines | Retaliatory evictions would be expected to drop if Camden implemented their additional licensing scheme, but it is unclear whether evicted tenants now are moving to neighbouring boroughs or staying in Camden |
| | Price of a licence and works passed on to tenants through rent rises | Tenants could relocate to other boroughs | Rents are largely set by the market rather than by costs of licensing or repairs; prices in other parts of the overlapping housing market areas are also very high, so tenants may be more likely to move farther afield |
| <i>Landlords convert to self-contained units to avoid licensing</i> | More self-contained units on the market, which are in high demand | Tenants traditionally attracted to HMO properties would have fewer options in Camden and may choose to locate in nearby boroughs | This may impact neighbouring boroughs, especially in the overlapping HMAs; interviewees suggest, however, that new tenants in Camden are attracted to it not because of affordability but because of its location and accessibility |
| | HMO accommodation becomes harder to find in Camden; typical HMO consumers (sharers and students) priced out | Same as above | Same as above |

| | | | |
|---|---|--|---|
| <i>Landlords sell their holdings in the area</i> | More housing enters the market; purchased either by families or others interested in using property as HMO (which would require a licence) or in conversion | Landlords could sell up and purchase properties in neighbouring boroughs where licensing is not in effect | Transaction costs would likely deter landlords from moving simply over the borough boundary. Two neighbouring boroughs have additional licensing in all or part of their borough, with another proposing a similar scheme |
| | HMO accommodation becomes harder to find in Camden; typical HMO consumers (sharers and students) priced out | Tenants traditionally attracted to HMO properties would have fewer options in Camden and may choose to locate in nearby boroughs | This may impact neighbouring boroughs, especially in the overlapping HMAs; interviewees suggest, however, that new tenants in Camden are attracted to it not because of affordability but because of its location and accessibility |
| | Negligent landlords move elsewhere | Landlords could sell up and purchase properties in neighbouring boroughs where licensing is not in effect | Transaction costs would likely deter landlords from moving simply over the borough boundary. Two neighbouring boroughs have additional licensing in all or part of their borough, with another proposing a similar scheme |
| <i>Landlords avoid licensing</i> | Poor conditions persist; Camden must commit resources to enforcement | Very little impact on neighbouring boroughs as is the status quo | N/A |

Interviews with officials from neighbouring local authorities

Three of Camden's neighbouring boroughs predicted there would be very minimal effects in their borough if Camden introduced additional licensing, although for different reasons.

- In **Westminster**, although there is a high proportion of property in the PRS, rents and standards are high. Because property prices are so high in Westminster it would be very unlikely that landlords or tenants would sell in Camden and purchase in Westminster as a result of Camden's licensing scheme.
- In the **City of London**, there is very little residential accommodation. No key local housing market areas overlap the borough boundary, and the housing stock that does exist in the City relatively close to Camden is predominantly owner-occupied or upscale rental.
- In **Haringey**, an additional licensing scheme is in place in two wards. While these areas do not border Camden, the housing market areas that overlap the two boroughs are affluent and expensive and, according to an interviewed officer from Haringey, do not contain a high proportion of HMOs. Because of this, they do not predict a major impact in Haringey if Camden implements an additional licensing scheme.

Three other boroughs *did* expect to see some effects, although there was no consensus about what these would be.

- An interviewee from **Barnet**, said there was a risk of less scrupulous landlords moving into the borough if Camden were to implement licensing, as Barnet does not have any additional licensing in place. According to this contact, the HMAs that overlap the Barnet-Camden border are home to a large number of currently unlicensed HMOs.
- **Brent** implemented an additional and selective licensing scheme in January 2015. Because of this, they would not expect that Camden landlords would sell up because of licensing and reinvest in Brent. Interviewees from both the borough and Advice4Renters, Brent's tenant advocacy organisation, believe that Camden introducing additional licensing would have a positive impact on Brent, helping to create a culture of better standards and promoting good practice throughout the wider area.
- **Islington** does not currently have an additional licensing scheme in place but is proposing one, which would cover parts of Holloway Road and Caledonian Road. A representative from the council believes that additional licensing in designated areas—and indeed in neighbouring boroughs—could have a positive, radiating impact in un-licensed areas. They see licensing as a tool to promote better self-regulation and awareness of management standards.

In all, based on the number of HMAs that overlap Camden's boundary, the responses from some neighbouring authorities, heightened government and judicial scrutiny about the consultation process and the existing evidence regarding some potential effects of licensing, there appear to be benefits to engaging in cross-boundary consultation before implementing an additional licensing scheme.

6. Conclusions

This report has attempted to answer the following questions:

- Could additional regulation of HMOs in Camden affect residents or businesses in local housing markets?
- Do local housing markets extend beyond Camden's borders?

The answer to the first question is yes—and this is recognized by the consultation that the borough has already undertaken locally. In this report we have identified a range of potential impacts, both positive and negative, on residents and businesses (landlords) in neighbouring areas. We have not made more than a very general assessment of the likelihood that such impacts will be found in practice, nor have we attempted to estimate their potential magnitude.

The answer to the second question is yes. Regulations that affect the behavior of landlords and/or tenants will have the strongest knock-on effects in the immediate local housing market area or neighbourhood. The principles of urban economics suggest that local housing markets radiate out from transport nodes or corridors—and in London they would be centred on tube stations or main roads. The boundaries of London boroughs often follow main thoroughfares, so local housing markets could be expected to straddle borders. Using data aggregated from millions of customers, major UK property-market portals have produced maps that confirm this. They identify seven Camden local housing markets that extend into one or more adjacent boroughs. Among them they cover almost all of the borough's boundaries.

In light of these findings, the London Borough of Camden may wish to extend its consultation process to cover residents and businesses in neighbouring areas of adjacent boroughs.

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Appendix A: Interviewees

Local Authorities

London Borough of Brent

London Borough of Barnet

London Borough of Camden

London Borough of Islington

London Borough of Haringey

City of Westminster

City of London

London Borough of Newham

Tenant Groups

Camden Federation of Private Tenants

Advice4Renters

Lettings Agents

Insero Lettings

Edmund Cude and Booth Ltd.

Property Websites

Rightmove

Zoopla