# Fragmented HMO regulations deter institutional investors despite growing UK rental demand



The fragmented landscape of Houses in Multiple Occupation (HMOs) regulations across the UK is emerging as a significant deterrent for institutional investors in the rental market. Astrid Stanley, a partner and co-lead of the student accommodation group at Howard Kennedy LLP, has highlighted that a more standardised regulatory framework could serve as a key to unlocking substantial investment potential in this segment. She noted the pressing imbalance between the supply and demand for quality rental accommodation, stating, “There is an ever-growing imbalance between supply and demand for quality rental accommodation in the UK.” The student accommodation sector illustrates this disparity, with projections indicating that fewer than 17,500 new purpose-built beds will be added this academic year, which also reflects broader challenges within the HMO market.

HMOs play a critical role in providing diverse housing solutions, catering to students, young professionals, and key workers, and are essential for affordable living options. Despite their importance, Stanley argues that the variations in licensing across local authorities significantly hinder investment interest. “The complexity of the HMO licensing regime, and the fact that they could potentially own HMOs across multiple sites, all with different regulatory needs, serves as a further off-putting factor,” she explained. Investors face a convoluted regulatory maze where requirements for Additional and Mandatory HMO licensing differ greatly, adding layers of difficulty for those with portfolios spanning various regions.

Another layer of complexity comes from the ongoing legislative changes impacting landlords. Recent updates to council tax regulations complicate matters for landlords managing properties with both self-contained units and room lets. This shifting regulatory environment compounds the difficulties created by laws related to the licensing of HMOs, which include significant punitive measures for non-compliance. The risk of operating an unlicensed HMO—whether inadvertently or not—can result in severe penalties, including criminal charges.

The anticipated Renters’ Rights Bill further complicates this landscape by proposing periodic tenancies and allowing tenants to terminate contracts at short notice. Such provisions can create substantial uncertainty for investors, who depend on consistent occupancy for stable returns. Stanley underscores the need for governmental intervention, arguing that given the stark supply-demand chasm, the central Government's lack of proactive measures to facilitate HMO investment is perplexing. While she acknowledges the necessity for rigorous regulation to mitigate poor housing conditions, she insists that such frameworks must be implemented consistently across the board.

Supporting this view, a recent report suggested that the declining number of HMOs in England is attributable to a mix of regulatory changes and increased financial pressures, including higher mortgage costs. This trend could also negatively impact the Purpose-Built Student Accommodation (PBSA) sector, thus signalling a broader decline in available affordable housing options. Investors are being advised to conduct due diligence and understand local regulations thoroughly before entering the HMO market, given the rising risks associated with non-compliance.

Despite these challenges, there remains a sustained interest in the HMO sector. Reports indicate that about 21% of landlords plan to acquire HMO properties within the next year, acknowledging that while regulatory hurdles exist, the potential for higher rental yields compared to traditional buy-to-let properties continues to attract investment. However, navigating the intricate landscape of regulations is essential for success in this evolving market.

In summary, the inconsistent HMO regulations across different councils not only create barriers for institutional investors but also complicate the rental landscape as a whole. A more cohesive approach could alleviate pressures on the housing market and better address the urgent need for diverse housing solutions in the UK.

**Reference Map:**1. Paragraph 1: Sources (1), (4) 2. Paragraph 2: Sources (1), (3) 3. Paragraph 3: Sources (2), (4) 4. Paragraph 4: Sources (1), (3), (6) 5. Paragraph 5: Sources (1), (4), (5) 6. Paragraph 6: Sources (3), (7) 7. Paragraph 7: Sources (1), (2)

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://thenegotiator.co.uk/news/regulation-law-news/inconsistent-hmo-rules-a-major-barrier-to-investment/> - Please view link - unable to able to access data
2. <https://www.mfbrokers.co.uk/resources/news-and-insights/an-update-on-hmo-legislation> - This article provides an overview of recent changes in Houses in Multiple Occupation (HMO) legislation in the UK. It highlights the introduction of new council tax regulations in December 2023, which have led to complications for landlords, especially in properties with both self-contained units and room lets. The piece also discusses the responsibilities of property owners regarding council tax and the challenges posed by these legislative changes for landlords and tenants alike.
3. <https://www.getground.co.uk/learning-centre/investing-in-hmo-2025> - This article examines the risks associated with investing in Houses in Multiple Occupation (HMO) properties in the current buy-to-let market. It emphasizes the regulatory complexity of HMOs, noting that licensing requirements vary across local councils and properties must meet specific safety and habitability standards. The piece also discusses higher management costs, market saturation, and financing challenges, advising investors to conduct thorough market analysis and understand local regulations before investing.
4. <https://www.cbre.co.uk/insights/articles/challenges-to-the-hmo-market-could-lead-to-increased-pressure-in-the-pbsa-market> - This article discusses the challenges facing the Houses in Multiple Occupation (HMO) market in the UK and how these challenges could impact the Purpose-Built Student Accommodation (PBSA) market. It highlights a decline in the number of HMOs in England, citing regulatory changes, increased mortgage costs, and taxation as contributing factors. The piece also explores the potential effects of the proposed Rental Reform Bill on the student HMO market and the broader housing sector.
5. <https://www.willowprivatefinance.co.uk/a-new-dawn-in-the-uk-housing-market> - This article explores the impact of Article 4 Direction areas on the UK housing market, particularly concerning Houses in Multiple Occupation (HMOs). It explains that an Article 4 Direction removes certain permitted development rights, requiring property owners to seek explicit planning permission for converting properties into HMOs. The piece discusses how this regulation affects property valuations and the importance for landlords to understand these constraints when investing in HMOs.
6. <https://www.napsa.org.uk/property-investors-hmo-rules/> - This article emphasizes the importance for property investors to understand local Houses in Multiple Occupation (HMO) regulations to avoid costly mistakes. It highlights a case where a Westminster landlord was fined over £28,000 for failing to license a three-person property as an HMO. The piece discusses the risks of non-compliance, including fines, rent repayment orders, legal costs, and reputational damage, and advises investors to stay informed about local HMO regulations.
7. <https://www.agenthmo.co.uk/hmo-investment-growing-despite-regulation/> - This article discusses the growth of Houses in Multiple Occupation (HMO) investments in the UK despite increasing regulations. It notes that HMO landlords are currently achieving higher rental yields compared to standard buy-to-let properties. The piece also highlights that 21% of landlords plan to buy an HMO property in the next 12 months, indicating sustained interest in the sector. However, it acknowledges the challenges posed by new legislation and regulatory changes affecting the HMO market.