



HMO Guide

Introduction

As one of the country's most experienced specialists in Houses in Multiple Occupation (HMOs), we get lots of calls from landlords every week who want to know more about:

- ✓ Investing in the HMO market
- ✓ Conversion of an existing residential property
- ✓ Licencing, either new applications or renewals
- ✓ Compliance and fire safety
- ✓ HMO management regulations and ongoing requirements

In this guide, we give you some actionable guidance based on questions we receive frequently which will help you with your initial research.

If you require further guidance or information, please get in touch and we can help further. If you would like a detailed appraisal or advice, for a fee we can offer a consultation with one of our HMO experts, something thousands of landlords have benefited from by either preventing a bad investment or by making sure they've considered everything.

We estimate that these consultations have saved landlords hundreds of thousands of pounds, if not millions of pounds, in misjudged purchases or non-compliant building work.

HMO requirements can be confusing, and for now, hopefully this short guide sheds some light on some commonly misunderstood topics.

Where should I invest?

Before making any commitment to purchase a property, it's important to do some thorough research and check, amongst other things:



Restrictions - Check with the local council for any restrictions they have in place for HMO conversion, e.g. Article 4 restricting Permitted Development (PD) for conversion from C3 to C4.



Supply & Demand - Ensure that there is enough demand to fill your new accommodation in the area, and at the budget range you're looking to target. To get a rough idea you can look at the Rooms Wanted section of popular listing sites. Consider if there are any indicators that this could change in the near future.



Connectivity – Check the local area for the nearest transport links – can tenants easily travel to key locations or facilities or walk to the nearest train station for instance.

There are of course many other considerations and local nuances, but generally if these three things aren't favourable, the area is unlikely to work for the HMO market.

How much does it cost?

There are numerous costs associated with converting a property to a HMO. This isn't an exhaustive list but some initial things to consider, and it's always best to be conservative.



Purchase Price - Is the asking price in line with recently or currently listed properties on the same road or within a short distance? How much is the stamp duty? What's your financing method and how much is the cost of finance? What are your legal/brokerage fees?



Refurbishment & Conversion – This is where it really helps to have someone with experience to assess. Is the property just in need of HMO compliance works in terms of fire and electrical safety? Or do you need to reconfigure the layout and do cosmetic work? Does it need furnishing? Is there potential to increase the total internal floor area?



Running Costs - How much is the council tax, water, gas, electricity, internet, property management and mortgage costs? Note – a good manager is well worth the investment!

What are the HMO standards and requirements?

It's recommended that you'd consider this as part of the 'Refurbishment & Conversion' cost assessment above. In summary:



Identify the Standards – The relevant council should have their HMO amenity standards readily available on their website. These will tell you the minimum room sizes, kitchen and bathroom facilities required for the number of occupants. These can be different between different councils and boroughs!



Fire Safety – You will need to ensure that you meet all the current fire safety requirements – e.g. compartmentation, early detection, fire doors etc.



Licencing – For properties with 5+ occupants, a 'Mandatory' licence is required nationwide. Certain councils will also have an 'Additional HMO' scheme which, confusingly, is only required for 3 or 4 occupants in some council areas.

We hear so much confusion around this topic, so it's important to clarify that for properties intended to house 7+ occupants, you will require Planning Permission. If a licence says that the property is suitable for 7+ occupants, it does not mean that you're permitted to occupy more than 6 – to do so requires Planning Permission for change of use to Sui Generis (large HMO).

Similarly, if there is an Article 4 restriction in the area preventing conversion under PD to C4 classification (small HMO use between 3 and 6 occupants), a licence may still be issued, but it does not mean that you're permitted to occupy the property as a HMO without first achieving Planning Permission. Doing so would put you in breach of planning restrictions, and the licence, leaving you open to fines and potentially prosecution.

This is why we recommend that you check this first to avoid any expensive mistakes completing a conversion in an Article 4 area, and then trying to get planning permission only for it to be refused – we've seen this too many times!

How much money will I make?

You probably have a rough idea of the achievable rental income from your earlier research, but it's good to check:

- ✓ **Rent** - How much can a single/double/ensuite room achieve on the current market? Are there any indicators that this could change (for better or worse) soon? Always use conservative figures.
- ✓ **Return On Investment** - When you total the achievable rent and calculate your total income minus expenditure, what percentage return does this represent on the money you're looking to invest in the purchase, refurbishment and running costs? Above 10% net return on money invested is largely considered to be a good return.

What are the ongoing management requirements?

Attempting to self-manage a HMO portfolio can be an appealing proposition – there is lots of software on offer promising to take the stress away, but despite that and especially if you have 2+ properties, it is highly likely to turn into a second job. The software doesn't take care of the physical requirements and tenant liaison, or the overnight emergencies! We recommend that a manager is always costed into your appraisal.

You may think, well, there are many providers also offering 'Guaranteed Rent'. What's not to like – the rent is guaranteed every month, there's no management stress or input required, sounds like a win?

BEWARE – lots of the providers we come across are barely solvent 'pop-up' companies – if their tenants default, they may not be able to make your payment. If they dissolve, you have tenants in your property that may not be vetted, and where you're not mentioned as the landlord on the tenancy agreement, evictions can be tricky. We've also seen many cases of overcrowding to maximise rent, and properties falling into disrepair. We know this because landlords often come back to us after this experience to rectify the situation.

With new legislation being introduced, it will also strengthen the Rent Repayment Order (RRO), that's repayment of up to 2 years of rent for wrongdoing; the landlord is ultimately responsible, the Guaranteed Rent provider will not stand in the way of this having to be paid.

CS Lets is an accredited, compliant lettings agent who is specifically focussed on HMO management, and the very specific demands that come with this type of property. Because we manage hundreds of HMO properties, and have arranged thousands of tenancies over the years, everything we do is systemised and compliant with the legislative requirements, and we have the efficiencies of scale to offer the Full Management service to our clients at an affordable rate.


Our Full Management service is as hands-off as it gets for the landlord experience, and when compared to 'Guaranteed Rent', landlords usually receive more money every month too.

See the [Landlord Guide](#) on our website for more information


Contact Us

For any further enquiries or to speak with one of our HMO specialist agents, please contact us at:



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We look forward to speaking to you.