Spotlight on HMOs: An introduction

2021 has been a strong year for the buy-to-let sector, the rapid growth of property prices in the last 12 months has resulted in rental remaining a popular option, with many priced out of home ownership. This increase in house prices coupled with changes to taxation for BTLs, safety measures and tenants' rights means that landlords are increasingly needing to be more strategic with their approach.

An increasing number of landlords are looking to HMOs (House in multiple occupation) as a way to maximise the returns on their investment. So just what is a HMO and what are the benefits and risks involved? West One investigate…

What is a HMO?

For a property to be classed as a HMO it must be a residential property which is shared by 3 or more people from 2 or more households. A household is classed as either a single person or members if the same family who live together. The tenants will share facilities such as a kitchen or bathroom.

A property that homes 5 or more tenants from more than 1 household is classified as a large HMO.

And finally, the occupants must pay rent and list the property as their main residence for the property to be considered a HMO.

The potential for increased rental yields is one of the main drivers behind the increasing number of landlords looking to HMO properties to diversify and grow their portfolios, especially in university towns and smaller cities. The relaxation in change of use rules presents a huge opportunity for property investors to use empty high street units for conversion to homes.

However a HMO isn't going to be the right option for all landlords, it will depend on the landlords appetite for risk, the area they are looking to purchase in and also their management plans.

What are the benefits of a HMO?

- Increased rental yields as the landlord can charge a higher rate of rent per room.
- Fewer void periods, the landlord will still be receiving rent from the other tenants while a replacement tenant is found.
- There is a high demand for HMOs, particularly in cities, from students and young professionals who cannot afford the cost of a single-let property,
- Less exposure to arrears, if one tenant falls behind on their rent the landlord will still be receiving rent from other tenants. Whereas rental arrears from a single-let property would mean the entire income is affected.
- In some situations, there can be tax advantages to HMOs, with more of the landlords' costs being tax deductible.

What are the risks involved in a HMO?

- There is more legislation involved in HMOs than a single-let property. Licensing can vary from council to council so landlords will need to check the rule in the area to ensure they remain compliant.
- Limited number of properties suitable for use as a HMO.
- Not all letting agents are willing to manage a HMO, which could mean that the landlord needs to manage the property themselves if they cannot find a suitable representative.
- The resale market for a HMO property is limited, as the property has been converted into a HMO potential buyers will consist of specialised landlords.
- Management costs will be higher with a HMO, as tenants are only responsible for their own rooms a landlord may need to hire someone to clean and maintain the communal areas.
- Finance for a HMO mortgage can be harder to obtain and often a bigger deposit will be required. However, a specialist lender like West One, will have products specifically designed for HMO properties.

For more information about purchasing or refinancing a HMO with West One or to simply make an enquiry please contact your BDM or the broker support team on 0333 123 4556 or email btlbrokersupport@westoneloans.co.uk.