tbmc

A guide to

Houses in Multiple Occupation (HMOs)

t: 029 2069 5400 e: enquiries@tbmc.co.uk w: www.tbmc.co.uk

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Houses in Multiple Occupation (HMOs) have become a popular property investment choice for landlords in the UK, often providing higher rental yields compared with other property types.

The availability of finance for HMO properties has also improved and there is now a wide choice of lenders and mortgage products for buy-to-let investors to choose from.

This guide is designed to give a simple overview of what may be involved when investing in an HMO property and important aspects to consider before deciding if it is the right investment choice for you.

Definition of an HMO

An HMO is defined in the Housing Act 2004 as:

A property where 3 or more tenants live forming more than one household and where facilities such as a bathroom and kitchen are shared.

A large HMO is defined as having five or more tenants forming more than one household and where facilities such as a bathroom and kitchen are shared. Large HMOs are subject to licensing regulations.

A household is defined as either a single person or members of the same family that live together. A family can mean:

- Married couples and partners that live together, including those in same sex relationships
- Relatives or half relatives such as grandparents, aunts, uncles or siblings
- Step parents or step children

Advantages / Disadvantages of an HMO

+ Advantages
Potential of greater return on investment and higher rental yield generated from multiple tenants
Lower risk of rental voids – if one tenant moves out the remaining rooms are still occupied
High demand – living in shared accommodation is a popular choice with a wide variety of tenants including students and professional workers
Less exposure to arrears because if one tenant fails to pay their rent, other tenants are still paying

– Disadvantages
Legislation requirements – there is significant legal onus on HMO landlords eg meeting licensing requirements, implementing fire safety measures, providing electrical and gas certificates
Maintenance costs may be higher as the property will generally be larger and/or contain communal areas
Increased administration relating to managing multiple tenancies

HMO Licensing

There are three types of licence issued for HMO properties:

Mandatory licensing:

All large HMOs must be licenced by the relevant local authority. This includes all properties with five or more tenants forming more that one household and sharing facilities.

Additional licensing

A council can impose a licence on any category of HMO in its area which is not subject to mandatory licencing. The council can do this if it considers that a significant proportion of these HMOs are being managed ineffectively giving rise to problems for the occupants or members of the public.

Selective licensing

Local housing authorities have the power to introduce selective licensing schemes in relation to privately rented housing that is not an HMO in a particular area. Selective licensing is available only where the authority believes that it would reduce or eliminate specific housing problems.

A licence is issued for five years and a separate licence is required for each property owned by the landlord. The licence must be renewed before it runs out.

Landlord responsibilities

All landlords have a responsibility for maintaining their buy-to-let properties and for providing safe accommodation for their tenants. There are usually additional legal obligations for HMO landlords that help to reduce the risk of fire and provide adequate facilities.

HMO landlords must ensure:

- Electrics are checked every three years and certificates provided
- Annual gas safety checks are carried out and certificates provided
- Smoke alarms are installed and checked alongside any other fire safety measures
- Minimum room size regulations are met eg no smaller than 6.51 sqm for an adult bedroom
- Kitchen and bathroom facilities are suitable for the number of tenants
- Communal areas and shared facilities are clean and in good repair
- There are sufficient bins / bags for domestic rubbish disposal
- Repairs to the property are carried out including:
  - Structural and external repairs such as gutters, walls and window frames
  - Plumbing and bathrooms
  - Heating
  - Water and gas pipes
  - Electrical wiring

HMO finance

We specialise in helping landlords find HMO mortgage rates to suit complex, individual requirements. We have access to a comprehensive panel of HMO mortgage lenders who offer HMO finance, giving you the widest selection of HMO specific products to choose from.

There are a number of factors that come into consideration when handling HMO finance applications, but we are confident we can find the right HMO mortgage for you. TBMC's experts place these cases every day so here are our top tips for sourcing HMO mortgages.

Assured Shorthold Tenancies (ASTs)

Check the number of ASTs you have in place with your HMO tenants. Some HMO mortgage lenders accept multiple ASTs and others will only accept one.

Facilities

Most HMO mortgage lenders will only expect to see one kitchen and one living room in an HMO. If the property has more shared facilities, you may need to approach a specialist buy-to-let lender.

Tenant type

Your HMO property might have a specific tenant type, so we can check buy-to-let lending criteria for DSS tenants, students and vulnerable tenants to find the right HMO mortgage for you.

No. of rooms and size

HMO mortgage lenders have specific criteria on how many bedrooms they will accept in the property. TBMC works with lenders ranging from a maximum of four bedrooms to those with no limit at all. Checking minimum room sizes is also important as new HMO regulations stipulate a minimum of 6.51 square metres for an adult bedroom.

HMO licensing

Check your HMO property is correctly licensed. HMO mortgage lenders will require the appropriate licence to be in place before releasing funds.

tbmc

The Business Mortgage Company
Greenmeadow House, 2 Village Way,
Greenmeadow Springs Business Park,
Cardiff, CF15 7NE

t: 029 2069 5400

e: enquiries@tbmc.co.uk

w: www.tbmc.co.uk