

# A Guide to Houses in Multiple Occupation



With an increasing demand for affordable, flexible rental accommodation, Houses in Multiple Occupation or HMOs are playing an increasingly central role in the UK property market, particularly in and around city centres.

At the same time property professionals are taking a particular interest in HMOs as investment opportunities, due to a lucrative combination of higher rental yields, diversification opportunities, and potential for capital appreciation.

However, despite this increased demand, figures released in February by Property Industry Eye show that the number of HMOs available across England has fallen in 2023, down by a further 2.4% annually, on top of a 1.7% drop in 2022.

Given the rising tenant demand and the declining availability of rental properties, the current market presents a favourable opportunity to add an HMO property to your portfolio. However, with constantly

evolving regulations in this area of the market it pays for potential landlords to gain a comprehensive understanding of the legal concerns, investment opportunities, and risks around HMOs, as well as best practices to ensure effective property management.

## What is an HMO?

Generally, HMOs are rental properties where three or more unrelated tenants who do not belong to the same household occupy individual rooms, and share communal amenities like kitchens or bathrooms.

These properties are most commonly houses, but can also be flats. HMOs can be set up for any number of reasons, and



encompass employee accommodations, shared houses, private halls of residence, hostels, lodgings, refuges, and blocks of converted flats.

Additionally, buildings that contain a number of bedsits or studio flats which share certain amenities such as a bathroom or kitchen area may fall under the definition of an HMO if each studio is not deemed to be fully self-contained.

# What are the Legal Regulations Around HMOs?

Within the United Kingdom, HMOs (House in Multiple Occupation) are subject to specific legislation and regulations. These regulations play a crucial role in ensuring the safety and well-being of tenants, as well as maintaining standards within the rental sector.

Landlords of large HMOs, occupied by six or more tenants from multiple households sharing toilet, bathing or kitchen facilities, are required to obtain a licence from the local authority. In order to gain this licence, a landlord must show that their property meets specific criteria regarding size, layout, and facilities.

Beyond this, landlords of HMOs of all sizes have additional legal responsibilities when it comes to maintaining their properties. As HMOs are liable to be overcrowded and run additional risk when it comes to fire safety, these regulations are particularly focused on health and safety, fire protection, and providing enough facilities for all tenants to maintain a reasonable quality of life.

HMO landlords' responsibilities include providing sufficient cooking and bathroom facilities for the number of tenants in the building, maintaining the communal area of the building to a good standard, and carrying out regular gas safety checks, electrical installation condition reports and fire safety checks.

Fire safety measures, including smoke alarms and fire doors, are mandatory in HMOs, and regular inspections are required to ensure compliance. Recent regulations, such as the Fire Safety (England) Regulations 2022, further define the responsibilities of HMO landlords in conducting fire risk assessments,

providing fire safety information to tenants, and displaying fire safety instructions prominently within the property.

Non-compliance with HMO regulations is considered a criminal offence, and can lead to penalties and fines. Local authorities have the power to inspect HMO properties, enforce compliance, and take necessary action against non-compliant landlords. The regulatory landscape for HMOs is constantly evolving, so staying updated with relevant regulations and seeking guidance are essential steps in managing HMO properties compliantly.

# What are the Benefits of Investing in HMOs?

While it does involve hard work and specific compliance, investing in HMOs does present a unique combination of benefits for landlords seeking to diversify their portfolios.

By renting out individual rooms to multiple tenants, landlords can generate greater rental income, resulting in more substantial returns on investment. While

renting out a 4 bedroom house could bring in an average £2,500 monthly in London, the average room rental cost in the same region is £952, which could lead to a total monthly rental income of £3,808.

With multiple tenants in an HMO, the negative effects of any period of vacancy is reduced. Even if one tenant moves out of their room, the other occupied rooms continue to generate regular rental income, ensuring a steady cash flow while you find the right tenant for the vacated room.

Moreover, HMOs provide an opportunity for diversification within a property portfolio, as including HMO properties alongside other types of investments allows landlords to spread their risk and potentially mitigate the impact of fluctuations in the rental market.

In fact, another advantage of investing in HMOs is the potential for capital appreciation. HMO properties located in desirable areas with high rental demand have the potential to increase in value over time, resulting in capital gains when the property is eventually sold. This leads many prospective buyers to view HMO properties as a stable investment.

With an unstable economic situation and rents continuing to grow at a rate far outstripping wage increases, the demand for shared accommodation is on the rise. This is particularly true among young professionals, who may be seeking to downsize from single occupancy flats that have become too expensive for them to

maintain. HMOs cater to this growing demand, offering affordable and flexible housing options that attract a wide range of tenants.



# What are the Key Factors in Buying an HMO?

When venturing into HMO property investment, there are two paths you could choose to embark upon. One option is to purchase an existing HMO property that is already configured for multiple occupancy. In this case, you will require a specialised mortgage that accommodates the rental of individual rooms to separate tenants.

Alternatively, you may wish to purchase a larger property such as a house or flat, and divide it up into multiple occupancies. If you opt to convert a property into an HMO, you may not initially qualify for an HMO-specific mortgage until the conversion work is completed.

However, alternative financing options such as development loans, bridging finance, and refurbishment loans can help secure the necessary funds for the conversion process. These avenues may provide the means to undertake the required changes and modifications to transform the property into a suitable multiple occupancy home.

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When choosing an HMO, or a house to convert into one, there are several key factors to consider. The location of an HMO property will play a crucial role in its success, so look for areas with a high demand for shared accommodation, such as proximity to universities, colleges, or centres attracting young professionals.

Assess the size and layout of the property to determine its suitability for an HMO. Consider the number of rooms available, and how easily they can be converted into individual lettable units. Consider the amount of space available in each room, and whether it will allow for a good quality of life for a single occupant or a couple. Look for properties with enough space to accommodate communal areas like kitchens and bathrooms, and consider the legal requirements for how many facilities you need to provide for your chosen number of tenants.

Thoroughly inspect the property for its condition and any necessary repairs or renovations. Consider the overall maintenance requirements and the costs associated with keeping the property in good condition. In particular consider any changes you'll need to make to fulfil safety and compliance regulations for HMOs. This includes fire safety measures, such as smoke alarms, fire doors, and fire-resistant materials. Check each property's necessary licences and certifications, and whether any additional modifications or improvements are required to meet legal standards.



By carefully considering these key factors, you can make informed decisions when buying an HMO property and increase the chances of a successful investment. Conduct thorough research, due diligence, and seek professional advice when necessary to ensure a well-informed purchase decision.

# What are the Key Considerations for Managing an HMO?

Managing an HMO is a significant undertaking that requires careful consideration and thorough research. Before diving into this venture, it is crucial to understand the additional time and effort involved in managing an HMO compared to traditional rental properties.

The larger number of tenants in an HMO often translates into increased upkeep and maintenance requirements, which can be both expensive and time-consuming. Regular inspections are a must to stay aware of small problems before they grow out of control. It is also essential to decide early on whether you will self-manage the property or hire a professional property management company.

Self-management gives you more control over the property and saves costs on management fees, but it requires significant time, effort, and knowledge to handle tenant turnover, maintenance issues, and legal

responsibilities. On the other hand, hiring a property management company can ease the burden by delegating these tasks to professionals, but it comes with associated costs that need to be factored into your financial planning.

Managing an HMO also entails dealing with a higher tenant turnover compared to traditional rentals. With individual tenants rather than a cohesive group, you will likely experience more frequent move-ins and move-outs. This means you will need to have streamlined procedures in place to handle the turnover efficiently. Regularly advertising your rooms and conducting tenant screenings will be necessary to replace any departing tenants promptly.



Positive tenant relationships in an HMO also require

a proactive approach. It is crucial to establish clear expectations and guidelines for tenants, promoting a harmonious living environment between close neighbours who start out as strangers. Regular communication channels should be maintained to address any concerns, resolve conflicts, and ensure that each tenant's needs are met. Building a positive rapport with tenants through responsive communication and fair treatment fosters a sense of community, reducing turnover and vacancy rates.

### What Does the Future Hold for the HMO Market?

Factors such as shifting demographics, affordability issues and evolving lifestyle preferences significantly contribute to the increasing popularity of HMOs. Monitoring and adapting to these trends allow property professionals to seize emerging opportunities in the HMO market.

With the increasing demand for HMOs in densely populated urban areas and university towns, many local authorities are implementing further measures to regulate property conversions into HMOs. These measures, known as Article 4 directions, require planning permission for such conversions even if they fall under permitted development rights (PDRs).

This action empowers local planning authorities to have more control over the development of new HMOs, especially in areas where a significant number of HMOs already exist. This ensures that the growth and management of HMO properties align with the local planning strategies and regulations. It's important to research whether such directions are in action in your area if you are planning to convert an existing house or flat into an HMO.

Meanwhile, environmental sustainability remains a trending topic in HMO management. Implementing energy-efficient measures like smart thermostats, LED lighting, and sustainable practices such as recycling programs and water-saving fixtures not only reduce costs for you and your tenants, but also minimise the environmental impact of HMO properties and create a long-term sustainable living environment within your HMO.

# Conclusion

HMOs present both opportunities and challenges for property professionals. By understanding the emerging trends and shifts in demand, prospective landlords can capitalise on the growing popularity of affordable shared accommodation.

However, navigating the HMO landscape requires vigilance and a proactive approach. A close understanding of local planning permissions and licensing requirements is essential to avoid legal complications. Building strong tenant relationships and creating an environment where your tenants can enjoy a good quality of life are more critical than ever when it comes to retaining long-term tenants with respect for one another and for the property itself.

As HMOs continue to evolve and face regulatory changes, property professionals must remain adaptable and well-informed. Embracing technological advancements, incorporating sustainable practices, and keeping a close eye on compliance issues can help you responsibly and rewardingly diversify your portfolio and maximise rental income.

Ultimately, success in the HMO sector lies in the ability to balance financial considerations, tenant satisfaction, and sustainability. By embracing these principles, property professionals can thrive in the dynamic and rewarding realm of HMOs, providing quality housing options while maximising their investment potential.

