

## Let Us Help You Understand More About Houses in Multiple Occupancy (HMOs)



### What is an HMO property?

HMO stands for 'House in Multiple Occupation'.

Most HMOs are houses or flats shared by several different tenants, who all rent their rooms and the property's communal space on an individual basis. Sometimes called a "house-share".

However, HMOs can also be:

- Hostels
- Several bedsits in a large building
- Blocks of converted flats
- Self-contained cluster flats

Essentially, an HMO is any property housing three or more tenants who make up more than one household (i.e. not related) and share toilet and kitchen facilities (such as a shared student property) is classified as a HMO in England and Wales. If the property is let to five or more people, it is classified as a 'large' HMO. Large HMOs require licenses from the local council, which are subject to an inspection and must be renewed every five years.

### Mortgages for HMOs

Lenders consider HMOs as specialist properties, which means getting a mortgage on one can be more complicated and expensive than if you were letting a standard home. Previously, a property was only classified as an HMO if it was at least three storeys high, but this rule was removed in England and Wales, pushing thousands of rented homes into the HMO category. The usual deposit required is 25%.

HMOs have always been a popular choice with professional landlords looking to increase rental yields due to the potential provided by having multiple paying tenants. **However, HMOs are not suitable for everyone, and we always advise that you speak to an accountant or Solicitor before considering any investment property purchases.**

### HMO mortgages

HMO mortgages differ from standard buy-to-let mortgages in that they allow the letting of multiple rooms to multiple people, which normal buy-to-let mortgages don't allow.

There are a whole host of HMO mortgages available, depending on which stage the HMO property is at, and these include:

- Development loans for build and construction
- Refurbishment loans
- Mortgages and re-mortgages for new and existing HMOs

There is a choice of HMO mortgages available for most borrowers and will vary in terms of length of mortgages, period of any fixed-rate offer and interest rate. We will quote you based on your specific circumstances and situation.

There are several factors that always come into consideration when handling HMO finance applications, but we are confident we can find the right HMO mortgage for you. In many cases potential lenders only can be accessed through intermediaries like ourselves. Factors to consider:

## **Assured Short hold 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 an alternative 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. 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. Properties with 5 or more bedrooms, occupied by more than 1 household, who are sharing facilities need to be licensed with the local authority. HMO mortgage lenders will require the appropriate license to be in place before releasing funds. It is not a given that you will be issued an HMO license by your local authority, so it is essential to investigate this in advance.

## **Conditions**

You must make sure:

- the house is suitable for the number of occupants (this depends on its size and facilities)
- the manager of the house - you or an agent - is considered to be 'fit and proper', for example they have no criminal record or breach of landlord laws or code of practice

You must also:

- send the council an updated gas safety certificate every year
- install and maintain smoke alarms
- provide safety certificates for all electrical appliances when requested

The council may add other conditions to your license, for example improving the standard of your facilities. They will let you know when you apply. If you disagree with any conditions the council sets, you can appeal to the First-Tier Tribunal. You should apply for the license yourself, but if you use a managing agent, they can apply for you. You'll be charged a fee which is set by the council.

## **Fines and penalties**

You could get an unlimited fine for renting out an unlicensed HMO.

For more information, please visit <https://www.gov.uk/house-in-multiple-occupation-licence>

## **What are the pros and cons of HMOs?**

As with any type of property investment, there are pros and cons of investing in HMOs that landlords need to weigh up. But there are some clear benefits that HMO investment can bring if done correctly:

- **Higher yields**- HMOs can produce higher rental yields than traditional buy-to-let properties, sometimes as much as three times higher.
- **High demand**- The demand for shared living accommodation tends to remain robust against economic change and uncertainty, due to tenants seeking affordable rooms to rent.
- **Fewer void periods**- When one tenant moves out, you still have several others paying their rent while you find a replacement for the vacant room.

However, there are also some major things to consider when it comes to HMO investment:

**Mortgages and finance**- HMO investors often purchase regular family homes and convert them into co-living properties. That means an HMO mortgage is not possible until the property is converted, so HMO investors usually have to consider other forms of bridging finance

**Tighter legislation** HMOs are subjected to more regulations than standard buy-to-let properties. The biggest difference is that many HMOs require a license to be legally let out, while some may require planning permission

**Higher costs up front** Because HMOs are let on a room-by-room basis, they are almost always rented out fully furnished. That means more funding is required up front in order to prepare an HMO for the rental market.

#### **What is an HMO license?**

Any HMO that has five or more individual tenants requires a mandatory license. A smaller HMO with fewer than five tenants doesn't require a mandatory license, but as many local authorities operate additional licensing, it means all HMOs in the area must be fully licensed.

#### **HMO licence costs**

The average cost of an HMO license in the UK is around £600. But the cost of licenses varies from authority to authority, with some as cheap as £60 and others as costly as £1,000. Not all authorities will offer licenses for new HMO applications.

#### **HMOs and planning permission**

Some HMOs require planning permission, although this can depend on the size of the HMO and where it's located. A property that will become an HMO with seven or more tenants will always require planning permission. Properties being turned into smaller HMOs, for three to six people, often fall under permitted development, meaning no planning permission is required. However, if the local authority has an Article 4 direction in place, restricting permitted development rights, an HMO will always require planning permission – regardless of its size. For further information please see [www.gov.uk/guidance/when-is-permission-required](http://www.gov.uk/guidance/when-is-permission-required)

#### **HMO compliance**

As well as licensing, which is usually subject to renewal every five years, HMO landlords must also:

- Ensure fire safety measures are in place, including operational smoke alarms on each floor
- Have carbon monoxide detectors installed in any room with a solid fuel burning appliance
- Have an annual gas safety check carried out
- Have an Electrical Installation Condition Report (EICR) carried out every five years
- Undertake Right to Rent immigration checks on any adults living in their HMO
- Ensure the property is not overcrowded
- Make sure there are enough cooking and bathroom facilities for the number of tenants
- Provide enough rubbish bins
- Ensure communal areas are clean and in good repair
- Repair and maintain the structure and exterior of the property, water systems, gas pipes, electrics, and sanitary ware

#### **Can a first-time buyer buy HMO property?**

Can first time buyers get an HMO mortgage? Yes, as a first-time buyer you can get a HMO mortgage, however, you'll be in a similar situation to first-time landlords, in that your choice of lenders may be slimmer, and the interest rate could be higher, as you'll be considered a higher risk.

#### **Contact Us**

**For more information about anything relating to your investment mortgage or protection or insurance, please get in touch with your Adviser or**

Email: [info@swmortgages.com](mailto:info@swmortgages.com)

Call: Bristol office 0117 325 1511, Bath office 01225 584 888 or Exeter office 01392 690 888

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