Financing Houses in Multiple Occupation

Frequently asked questions

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Financing houses in multiple occupation

Once only an investment for experienced buy to let landlords, Houses of Multiple Occupation (HMOs) have increased in popularity with investors over the last few years. With many benefits on offer, this guide runs through the most frequently asked questions you should consider before purchasing an HMO into your portfolio.

Here is everything you need to know, but if you need more, speak to one of our experts.

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What is an HMO?

An HMO is, by definition, a property with three or more unrelated tenants sharing basic amenities such as a bathroom, a toilet, and a kitchen. Your property will be viewed as a Large HMO if five or more tenants live there. The property, by nature, is a more complex investment type than a typical buy to let, and as such, lenders can have strict criteria to meet on your mortgage application.

Why purchase an HMO into your portfolio?

There are two key benefits to purchasing an HMO within your property portfolio. The main draw to landlords is the higher yields on offer compared to standard buy to lets. Furthermore, landlords are at less risk of void periods with HMO properties. With each tenant on their own AST, even if one should leave/stop paying rent, the remaining paying tenants in situ will maintain your income for the interim.

Can I mortgage an HMO through my SPV Limited Company?

Absolutely! Most lenders accept applications from Limited Companies, applicants borrowing in their own names, and even Limited Liability Partnerships (LLPs). Of course, this may vary from lender to lender, so speak to us to help secure your application.

Are mortgages for HMOs more expensive than standard BTL?

Broadly speaking, yes. This does depend on the number of letting rooms within the property, but on average, you can expect to pay around 0.5% higher in interest. However, this is usually more than compensated for by the higher rental returns.

Where should I purchase an HMO?

Typically speaking, students and young working professionals make up most of the demand for HMO properties. As such, it's important to consider where you will invest. University towns and large cities are likely to be high in demand from prospective tenants, and therefore generate competitive yields.

Is it easy to get an HMO mortgage?

Most lenders require you to have some previous letting experience before owning an HMO, so some applicants may have difficulty sourcing an HMO mortgage. However, a couple of more specialist lenders in the market are happy to lend to first-time landlords. Beyond this, sourcing a mortgage for an HMO is no more complex than a standard buy to let and relies primarily on whether the property generates enough rent to satisfy the mortgage affordability.

How many lenders accept HMOs?

Currently just over half of all buy to let lenders offering HMO mortgages. As these property types continue to grow in popularity amongst landlords, it's encouraging to see more lenders enter this market space. As this trend continues, pricing is likely to become more competitive.

What licence do I need for an HMO?

There are two different types of licences that you may need for an HMO, a mandatory licence and an additional licence. A mandatory licence is imperative for any property with five or more unrelated tenants, also known as a ‘large HMO’.

An additional licence covers properties occupied by three or more people. The licence you will need depends on the property and its local authority, so you must speak to them in advance to ensure you have the correct licence in place. You will need a separate licence for each HMO you run. If you rent out an unlicensed HMO where a licence is required, you could face an unlimited fine.

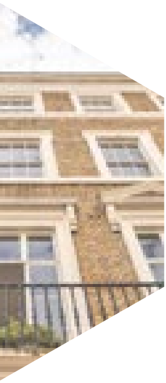
What is the maximum loan to value (LTV) for HMO mortgages?

Currently, there are HMO mortgages available to up 80% LTV. However, pricing here is usually higher than at 75% LTV, so we’d recommend a minimum 25% deposit to gain access to more mortgage options.

How will my HMO property be assessed?

To obtain an HMO licence, certain aspects of the property will be taken into consideration. These include the property's overall condition and if it complies with regulations, room sizes, storage facilities, and cooking and washing facilities. When looking at room sizes, the minimum room size for a single occupant room is 6.52 square meters and 10.22 square meters for double occupancy.

There needs to be at least one sink for up to five people and two for more than six occupants, and each tenant will need access to their own cupboard for personal belongings. These are some of the things you are responsible for as the landlord. A 'fit and proper person test' may also be carried out for you as the landlord applying for the HMO licence, and it is usually preferred then that the licence is in the individual's name.



Will I need planning permission to licence my HMO?

Your HMO may need planning permission, depending on the classification of the property. A Class C3 property is a residential property housing an individual, a couple or a family. A Class C4 property is a shared dwelling occupied by three to six unrelated individuals sharing amenities.

These two classifications can typically be easily interchanged between a residential and HMO property without too much hassle and is usually a permitted development right. However, you will need to check this with the local authority to ensure that you have the correct planning permission in place.

'Sui Generis' is a term used to categorise those buildings that do not fit into a specific use for planning permission. For example, a seven-bedroom HMO is not the size of a typical family home, so it is not easily converted back to a residential property with a new change of use. Check what planning permission you need with your local authority before looking into any change of use.

Will the Local Authority accept my application for an HMO licence?

It's important to note that there is an Article 4 Direction that councils can use to restrict permitted development rights. This acts as a way for the council to control the level of HMOs in relation to residential property in the area. They may want, for example, to lower the amount of student accommodation and deny the request to convert a standard home into an HMO. Even if the property has permitted development rights, if it's located within an Article 4 area, you can still be turned down to change the use of your property.

Another thing to note is if you have a Class C4 HMO with the appropriate licence in place rented out to your tenants for years, and decide to rent the property out to a family as a standard buy to let, then the property retains its HMO licence if it's still valid. However, the property loses its planning use immediately, so you must apply for this again if you decide to convert the property back to an HMO.

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