LANDBAY

Intelligent strategies for HMO investment

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Investing in houses in multiple occupations (HMOs) can be lucrative for landlords, yet it's not without complexities. Investors must do thorough research beforehand.

The adage 'location, location, location' rings especially true for HMOs due to varying regulations in different locales. For example, some local councils aiming to control HMO availability are implementing additional licensing requirements for smaller HMOs—properties with three or more unrelated tenants. Larger HMOs, housing five or more unrelated individuals, are universally required to be licensed unless certain exemptions apply, and these requirements might differ in specific areas within a city or town. These additional licenses are usually enforced in areas affected by an oversupply of shared homes or where there have been issues with more minor, unlicensed properties—commonly in student-dominated districts.

Another regulatory tool is the Article 4 Direction, which restricts permitted development rights, necessitating planning permission to create smaller HMOs, not just for those with seven or more beds. Councils may use criteria like the 'sandwich' test—rejecting applications for new HMOs that would result in a standard residential property being flanked by HMOs on both sides. Even if planning permission is granted, licensing might be required, irrespective of the number of occupants.

For instance, as of last September, Coventry City Council applied an Article 4 Direction across eleven wards, with numerous other councils across the UK having similar directions for designated areas.

HMO investors must stay aware of the application and potential changes of Article 4 Directions to ensure compliance with local planning regulations. Take Exeter, which is considering expanding its designated area.

Once the groundwork is laid, the HMO market offers substantial benefits. With utility costs on a downward trend and considering HMO rents typically include bills, the net rental income could increase—potentially enhancing borrowing power for investors. Furthermore, a recent government commitment to single property council tax banding for HMOs will revert them to being classed as a single dwelling, saving average tenants up to £1,000 annually.

Amidst a persistent housing shortage, HMOs offer affordable living arrangements for occupants and bring significant social advantages.

With solid demand for well-managed shared housing, prudent investors can indeed find HMOs to be a profitable venture.

To help you better support your clients we continuously react to market changes and monitor our HMO range to remain competitive. We cater for up to 12 bedrooms and First Time Landlord and Trading Companies. Our ranges also feature a variable fee structure to enhance flexibility and affordability.

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