

The MFS Guide
to Student HMO
Property
Investments

- 1) What is an HMO?
- 2) Why are HMOs popular with property investors?



AUGUST 2022

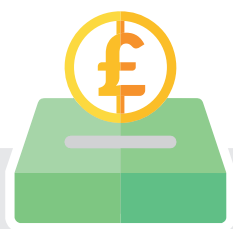
The MFS Guide
**to Student HMO
Property Investments**



With the new academic year fast approaching, some investors in the property market might be considering a foray into student housing.

Indeed, with the student accommodation market valued at **£4 billion** last year and set to grow by **22.7%** in 2022 alone, it is clear that there are opportunities available in this space for property investors.

However, for the most part, the student accommodation market is made up of 'houses in multiple occupation' (HMOs), which have their own complex set of landlord criteria, regulations and tenant demands. Such complexities can deter investors. As such, this report will outline everything landlords need to know before venturing into student HMO investments.



Student Accommodation Market valued at

£4 billion

in 2021



What is an HMO?

In short, an HMO is a 'house in multiple occupation'. This is defined as three or more tenants living in a property to form at least one household, with a shared toilet, bathroom or kitchen. If there are more than five tenants in one property that share one of these facilities, then it would be known as a 'large HMO'. Sometimes, these properties are known as a 'house share'.

Why are HMOs popular with property investors?

There are many reasons why a landlord might choose to invest in an HMO and then let it to students.

Firstly, student HMOs can provide higher rental yields than single-let properties. Despite the increased maintenance and running costs HMOs entail, landlords can earn more income by renting out their properties on a room-by-room basis.

Secondly, if a landlord can secure a property in the right location in a university town or city, then demand should remain consistently strong each year. In fact, with the number of students going to university increasing by **9%** in 2021, the outlook for the coming year looks promising. As such, unlike other buy to let (BTL) investments, landlords in the student accommodation sector need to worry less about vacant periods because there should be consistent demand for their properties.

Thirdly, the nature of the academic timetable means that rental cycles are more predictable for student HMO investments than regular single-lease properties. While term time normally runs from September to June or July, many students often want a place to live during the summer months as well. As such, landlords often ask students to agree to a 12-month contract without a break clause. Moreover, if the tenants graduate or simply wish to live elsewhere, landlords can receive plenty of warning and find new tenants easily, maintaining a regular cycle.

Finally, student lets can be very reliable, despite many of the misconceptions regarding their ability to pay rent. For instance, if a landlord gets all the tenants of an HMO to sign a central tenancy agreement that makes them all equally liable for the rent. Even if a single tenant were to fall behind, the remainder would cover the shortfall. Similarly, landlords could ask their tenants to provide a guarantor, who agrees to pay the rent if the tenant cannot afford to. All of this provides landlords with further backup, making students potentially more reliable renters than other demographics.



How do you become an HMO landlord?

In England and Wales, landlords do not need to acquire an HMO licence for properties with less than 5 tenants living in it, unlike Scotland and Northern Ireland. As such, a license is only required for 'large HMOs'. To get a license, landlords cannot have a criminal record and must adhere to landlord laws and a code of practice.

Landlords hoping to purchase and let HMOs must have a property that fits within one of the following categories, according to the Housing Act of 2004:

- A house or flat where more than one household shares a basic amenity (i.e., not self-contained)
- A converted building
- A building that does not comprise of self-contained apartments
- A building that is declared as an HMO by a local council

The property must be the right size for the number of tenants that will be living in it. Additionally, it must appeal to the target audience if it is to be a success.





What kind of accommodation are students looking for?

For the majority of students, there are two main kinds of property that they want and look for.

Firstly, final year, postgraduate and international students tend to prefer purpose-built flats or bedsits in slightly smaller properties. These are more private than the shared housing option. For the most part, these flats will be situated closer to the city centre and include facilities like on-site gyms or coffee shops. As such, they tend to be of a higher standard, but require less work from a landlord. This is because they are normally managed by a property management company that can furnish and maintain the property on behalf of the landlord.

Secondly, among undergraduate students, shared houses are one of the most popular types of property because it allows them to live with their friends.

Within the property, each student usually has their own bedroom, but share facilities like the kitchen, living room and bathroom. Certainly, this kind of property would be classified as a HMO, so there would be more regulation like fire safety or minimum room sizes for landlords to deal with (more on this later). These properties tend to be older, with more flexible layouts and larger rooms, so may require a little more investment and time to ready the property for the letting market.

Whatever property type a landlord chooses, the fittings and furnishings of the property can make or break its success in the student letting market. For many students, their first year will have been spent in university halls – some of these rooms are modern and finished to a high standard. As such, to make sure a student HMO matches this quality, landlords must provide appliances like washing machines, microwaves and fridges to entice students to rent their property. Similarly, the bedrooms should be well equipped with a double bed, a decent mattress, a desk and ample storage facilities.

It is also worth considering the other factors students look for in a property, such as location. Generally, students like to be close to the university campus, but also look for properties with amenities like shops, pubs and gyms nearby as well.

What are the legal requirements?

There are no specific regulations involved when letting to students rather than other tenants, but there are HMO laws that regular BTL landlords might be unaware of.

In England and Wales, landlords only need a specific license for 'large HMOs'. However, local councils have the power to impose their own licensing obligations, even if the property cannot be defined as a 'large HMO'. Similarly, some local authorities will require landlords to apply for planning permission to change the HMOs 'use class'. As such, landlords should check the policy in their local area to avoid the risk of being fined up to £30,000.

There are also tighter regulations around fire safety than single-let properties in England. These regulations are as follows:

- A risk assessment must be carried out
- Furniture and furnishings should be 'fire safe'
- All tenants must have clear escape routes out of the building and have fire doors on bedrooms, kitchens and living rooms.
- There must be a smoke alarm (tested at the end of each tenancy) in every room of the property
- There must be a mains-powered, central fire alarm system
- There must be a fire extinguisher on each floor and a fire blanket in the kitchen

Since October 2018, there has been regulation around the minimum room size:

- Single-occupancy rooms must have a minimum floor space of 6.51 square metres
- Double-occupancy rooms must have a floor space of at least 10.22 square metres
- If any part of the room has a ceiling height of less than 1.5 metres, it cannot be included in the floor space calculation





How can you maximise profits?

Methods for maximising profits in the student HMO market are similar to those a landlord would use in the regular BTL market. For a profit to be made, landlords must maximise their rental income, minimise outgoings as much as possible and invest their profit in the most tax-efficient way.

Indeed, a pitfall many landlords fall into is to buy, refurbish and fill a suitable property and assume their investment will be an instant success. As such, it's vital that landlords regularly carry out reviews of their incomings and outgoings to ensure they maintain a good profit margin. Landlords who review their rents each year, for example, can ensure that their rental income keeps up with the rate of inflation, protecting profits. Indeed, the same can be said about reviewing their own loans; landlords should regularly check for the best financial products for their needs.

To minimise their outgoings, landlords should consider a variety of quotes before embarking on a refurbishment project in order to get the best price. Tying into this, when re-designing a property, choosing to use the same colour paint throughout the house will allow landlords to buy in bulk, keeping redecoration costs down. Moreover, easy to wash furniture and regular property inspections will also help to keep maintenance fees to a minimum.

More significantly, perhaps, is to get to grips with the complexities and vagaries of property tax. By consulting a financial advisor, accountant or lender with experience in the BTL market or the property tax arena, landlords can make their property as tax-efficient as possible. Keeping accurate and updated financial records will also help. This could reveal any tax returns, deductions or allowances that a property is entitled to

Another way that landlords can maximise profits is by managing the property themselves. On average, the fee for an HMO management service will set landlords' back around 15% of the annual rent, plus VAT. As such, self-management can help boost the money-making potential of the property. In this case, independent landlords might consider joining a landlord association to access training and legal support. But this will be a time-consuming task, so it will depend on each landlord's circumstances as they weigh up letting agent fees versus their own time.

Finally, avoiding periods of vacancy is of the utmost importance in the student HMO market. Thus, in January landlords should consider asking their current tenants whether they intend to extend their stay beyond their current end date (likely that September). If the answer is no, landlords can ensure they have new tenants confirmed well ahead of the end of the existing tenancy.



Where can you find finance for an HMO investment?

Despite the many similarities between single-let investments and student HMOs, there are still some differences and complexities landlords must be able to adapt to when acquiring a financial solution. Therefore, investors should carefully consider their financial options before embarking on a student HMO project.

Here at Market Financial Solutions (MFS), we consider all applications on a case-by-case basis. By underwriting from the start of the application process, we can take on projects other lenders might shy away from. Our flexibility and speed ensures a smoother, faster and more transparent service.

Flexibility

No loan is too complex for us to deliver, due to our experience, expertise and flexible approach.



CASE STUDY

First time landlord needed specialist finance to purchase a large HMO

Loan Amount:
£108,000

Property Value:
£155,000

LTV:
70%



We recently received an enquiry from a new broker. Their client was a first-time landlord who was looking to purchase a House in Multiple Occupation (HMO) located above a commercial asset in Carlisle.

Unlike other lenders, we underwrite from day one. Therefore, we were quick to send out one of our trusted valuers to the property. However, after receiving the valuation report, we stumbled upon a minor complication.

The asset had space to be utilised as a 10-bedroom HMO; however, the current license was only suited to house eight tenants. Before proceeding with the initial loan enquiry, our underwriter looked into all potential options to see whether the buyer could increase the license to cover the maximum occupancy, thereby raising their potential income. We discovered this was possible and as such, we progressed and implemented the change.

Within the later stages of the case, the client decided

to purchase the property through a company. Initially, the client was going to complete the HMO purchase under their personal name. Therefore, the documents needed to be updated. MFS worked alongside the solicitor and completed all updates on the relevant documents on the same day.

Communication was key throughout this case. Our dedicated underwriter maintained high levels of communication throughout the process and continuously supported the client throughout their bridging loan. We ensured their paperwork was in line with the HMO licence.

Finding a lender who can provide finance for an HMO as a first-time landlord is difficult. We look at the bigger picture and took both the property and the applicant into consideration. Thus, by valuing them on their individual merits, we are able to deliver flexible financial support to the client.



Speed

Here at MFS, we pride ourselves on our ability to complete the application process and deliver the loan within days. It gives our clients the time and funds needed to complete property purchases and developments at speed.



CASE STUDY

Converting into HMOs

Loan Amount:
£675,000

Property Value:
£980,000

LTV:
70%



We recently received an enquiry from established landlords with a large estate in London, and they had gathered a large amount of equity in a property. They had been renting the asset as a standard BTL but were looking to increase their revenue by converting it into an HMO.

With six bedrooms, the property would be classed as a large HMO. It needed a fair amount of work to ensure it was in keeping with HMO licence guidelines; set by both the government and local council.

They decided to pay off the remaining mortgage with additional funding from the loan, allowing them to clear the outstanding debt. Due to the number of tenants they were looking to let to, with it being a large HMO, there was plenty of work needing to be done. We were provided with a quote from a builder that included the implementation of an additional

kitchen, bathroom and all other appliances that were necessary to be compliant with HMO guidelines: fire alarms, fire doors, and the correct sized rooms.

This built confidence on our side that all the works would be completed, and the rooms would be available to rent out in 12 months. Then they would be able to apply for a traditional mortgage with a mainstream lender to exit our bridging loan.

We often deal with BTL and HMOs and therefore understand the regulations and protocols involved. This allows us to support brokers and their clients, taking each step alongside them. In doing so, in this case, we provided the HMO owner with the time and funds needed to complete the light development on the property.

The view of our CEO

“The value of the student HMO market and its room for growth certainly creates a spate of attractive investment opportunities for existing and prospective landlords alike.

Indeed, with more and more students attending UK university each year, growing an already captive market of renters seeking a limited supply of properties, there will likely be an increased demand in the student HMO investment sector in the years to come. But it is not an undertaking that should be embarked upon without proper thought and consideration.

Hopefully this guide has helped illuminate both the challenges and opportunities that exist for property investors considering student HMOs. It is a well-regulated market – rightly so, as it keeps standards high and protects tenants’ rights. And it is also competitive, which makes finding the right lender crucial to any prospective investor.

Whether a landlord wants to purchase a pre-existing HMO property, renovate a run-down HMO building or convert a single-let property into a small HMO, access to fast and flexible finance will be vital to making an HMO investment opportunity a success.

Certainly, providing landlords in the student-let industry with loans and financial solutions can be a complex task, but MFS’s speed and flexibility puts us in the perfect position to handle even the most complicated of applications. So, I look forward to assisting more landlords and their brokers in the student HMO sector in the months and years to come, ensuring they find the best possible financial option for their needs.”

- Paresh Raja, CEO, Market Financial Solutions

MFS are a bridging loan and buy-to-let mortgage provider, not financial advisors. Therefore, Investors are encouraged to always seek professional investment advice.





Contact us today for all your specialist finance enquiries:

 www.mfsuk.com

 +44 (0)20 7060 1234

 info@mfsuk.com

 @MFSBridging

 [Company/market-financial-solutions](https://www.linkedin.com/company/market-financial-solutions)

 @mfsuk

 @mfs_bridging

 **MFS**[®]
Bespoke Specialist Lender