CPC FINANCE
COMMERCIAL, IN VESTMENT
AND BUY TO LET MORTGAGES

How to convert a property into a House of Multiple Occupancy

By Julie Griggs, Director, CPC Finance

For many landlords, HMOs are an attractive proposition, but not only do they need more work to maintain, there are also specific things to bear in mind.

Government definition:

A House of Multiple Occupancy (HMO) is a property rented out by at least three people who are not from one 'household' (eg. a family) but share facilities.

Make sure the property you are buying is right for an HMO:

- The property needs to be suitable for the planned number of occupants in terms of size and facilities.
- Make sure you have the budget to renovate it properly so that you secure a good quality tenant profile.
- If you need to undertake significant structural works, ensure you have the required planning permissions before starting or seeking finance.

Familiarise yourself with the rules in your area:

- You may need a licence. If your property is rented to five or more people who form more than one household, is at least three stories high and the tenants share toilet, bathroom or kitchen facilities, it will be classed as a large HMO. In this case you will need a licence from the council, lasting for five years. The need for licences for smaller properties depends on the area. Check with the local council and see the government's website on HMO licensing for more information.

- Be aware of Article 4 Directions in your area. Article 4 Directions are used by local authorities to limit the number of HMOs in an area. They apply to all HMOs in an area and you will need to register the property as an HMO. Check your local authority website for details.

Consider any works you are undertaking:

- You do not want valuers to consider the property to be worth the same as the single residential property it was before. Make sure it is clear from the amenities that the property is intended for separate individuals.

- Be careful that you do not make the accommodation into separate units. For example, the cooking facilities should be communal. If each room has fixed cooking facilities (eg hobs), then they become separate units rather than HMO and different rules/ planning apply.

Look into your finance options:

To convert the property, you can use standard refurbishment finance, and then convert to a term facility based on the increased value once the works are complete. Some lenders offer specific HMO refurbishment products and although they prefer investors to have previous experience of owning

an HMO property, this is not always the case. HMO mortgages can be taken out either by an individual or as a limited company.

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