YPN

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YOUR PROPERTY NETWORK

YPN HMO GUIDE

HMOs
Multi-Lets
House-shares …

Are they Property Cash Machines?

Can you really treble the returns from a single let property by letting it on a room by room basis?

Short Answer: Yes. In the pages of YPN magazine we feature multi-let properties that create £1,000-£3,000 pcm NET Profit on a monthly basis. Sometimes even more!

And the YPN HMO Guide will show you exactly how it all works.

Is it really that simple?

Splitting a property to rent by the room to triple therental income is a deceptively simple concept. The yields from a multi-let can vastly outstrip traditional buy-to-let but it **DOES** mean you are developing a more involved property business.

- **How do you make sure all the rooms are let?**
- **What kind of tenants best suit your property?**
- **What are the regulations and planning requirements you need to be aware of?**

These are just a few of the issues that arise when moving into the world of multi-lets/HMOs. The great news is that **NONE** of these issues are insurmountable. The case studies and expert pieces in this YPN HMO Guide should go a long way to showing you how to create a thriving HMO business without creating a management monster!

Wishing you every success in your property business!

Jayne Owen

What's inside...

HMOs VS SINGLE LETS

WHY INVEST IN HMOs OR MULTI LETS?

Single lets are the mainstay of traditional buy-to-let portfolios. There is nothing wrong with a solid bread and butter deal in the long run ...

BUT

Single lets are not going to change your life in the next 12 months.

Because they are let on a room by room basis, HMOs generate **MUCH** better rental returns.

In the example below, the same property is used as a single let and a multi-let with massively different results – 5x the return from the same property!

4 BEDROOM

SINGLE-LET RENT £950 PCM

EXPENSES

- Mortgage @ 70% LTV **£583.33**
- Insurance **£25 pcm**
- Letting Agent **£95 pcm**
- Voids **£95 pcm**
- Maintenance **£50 pcm**
- Gas/Electric Checks **£10 pcm**
- Net Cashflow **£91.67 pcm**

The main difference is that when letting out a property as a multi-let an investor can, within reason, maximise the number of roomsavailable for rental by tenants. In this example one of the reception rooms has been converted into another lettable bedroom.

5 BEDROOM

MULTI-LET RENT £2,000 PCM

EXPENSES

- Mortgage @ 70% LTV **£583.33**
- Insurance **£500 pcm**
- Letting Agent **£200 pcm**
- Voids **£100 pcm**
- Maintenance **£100 pcm**
- Gas/Electric Checks **£10 pcm**
- Net Cashflow **£506.66 pcm**

SINGLE LET V MULTI-LET

Single Lets

PROS

Lower barriers to entry, often smaller and cheaper

Easier to finance – traditional buy-to-let mortgages

Lower maintenance: find the right tenant and they may stay for 20 years

CONS

THE BIG ONE – Much less income

Exposure to voids – the property is either full or empty, no middle ground

Multi-Lets

PROS

THE BIG ONE – Potential for ***MASSIVE*** Profits

Opportunities to be **more creative** in the deal

CONS

Much more hands on in terms of management

Purchase price may be much higher

More complex to finance

HMO JARGON BUSTER

WHAT IS AN HMO?

HMO stands for House in Multiple Occupancy.

In simple terms, it is a house let by the room to unrelated tenants such as young professionals or students.

"HMO" is often used interchangeably with "multi-let" or "house-share", but the government's official definition is: "a property rented out by at least 3 people who are not from 1 household (for example a family) but share facilities like the bathroom and kitchen."

LICENSABLE HMOs

The exact definition of an HMO becomes much more important when considering the regulations regarding letting a property in this way. Also, it varies from one council to another.

Generally, an HMO licence will be necessary if a property is rented to five or more tenants over three or more floors. **HOWEVER** you **must** check with the local council to check their interpretation of these regulations to avoid getting into hot water, because you might need a licence for smaller HMOs in some areas.

Professional investors need to develop a close working relationship with their local housing officer.

ARTICLE 4

Article 4 is a planning regulation that can be applied at the discretion of local councils to prevent the spread of too many HMOs.
If Article 4 has been enacted in your area, planning permission will be required if you wish to let the property to three or more unrelated tenants.

Planning permission is **NOT** required if the house was already let as an HMO before Article 4 came into force.

WHICH HMO IS RIGHT FOR YOU?

HMOs are a popular strategy with property investors. Not many people would argue with that. Nor would they argue that HMOs – or room lets, house-shares or multi-lets if you want to use a different term – done properly are generally more lucrative than the standard single family let.

In fact, they can be extremely profitable and it's not uncommon for owners of modest-sized HMOs to achieve a cash flow in excess of £1,000 per month and/or an ROI of 25%-30% or more. Look no further than some of the case studies in this feature for evidence of that. For larger properties, economies of scale kick in and they can yield even better returns.

The popularity of HMO-as-a-strategy, however, can muddy the investing waters. Why? Because, like all other successful investing models, it has to be driven by the market. Deciding to invest in HMOs is one thing; putting out the right room-share product for the tenant market is another.

There are four distinct tenant markets for HMOs. These are **students**, **young professionals**, **manual (or blue-collar) workers** and **individuals in receipt of housing benefit (also known as the LHA HMO sector)**. There are pros and cons to renting to each of them.

Experience has taught investors not to mix tenant groups in the same house. So before jumping in at the deep end, take that experience on board and invest some time in researching where the demand lies in your area.

Tenant groups will vary in different geographic areas, so there are two options when you start: **(a)** choose the area to invest then prepare suitable HMOs for the predominant tenant group, or **(b)** choose the tenant group you want to work with and set up shop in the relevant location.

On top of considering the tenant market, it's worth bearing in mind your own experience and skillset, and the nature of how you want to operate. Let's be blunt here – not everybody is going to be great at running every type of HMO.

As a rough example, at the risk of generalising, a background in a caring profession, administration or social services might put you in a strong position to work with people in receipt of benefits, some of whom may need help to complete all the paperwork so the rent gets paid. It might not be such a good group for you to target though, if you're not blessed with patience when dealing with people!

The degree to which owners/investors get involved with management varies. Management of an HMO is a bigger burden than it is for single lets. It can be outsourced, but if you choose this route make sure the agent specialises in room lets.

Managing agents for student lets are more widespread than for the other types of HMO, partly because tenancies run for a period of 10-12 months (depending on area) to cover the academic year, whereas other tenant groups are likely to consist of individuals with tenancies of varying lengths. I've spoken to many investors who have outsourced HMO management only to take it back in-house again and do it themselves.

In addition, the facilities, style and décor of your HMO may need to differ according to the tenant market. What's the age range of your potential tenants? Are they looking for en-suites? Will they be socialising with each other? Will they have cars? Do you need to create bike storage? How much support are you prepared to give them? And so on.

All HMOs are subject to rules and regulations, but other considerations may be relevant for particular tenant types. Such is the experience of Richard and Emma Purseglove (see later in this feature), who operate in the manual worker sector and keep a close eye out for people trafficking and exploitation.

To get a rounded and contemporary perspective, we have spoken to investors with experience of operating in each of the four tenant markets. As well as sharing case studies, they outline the highs, the lows and the realities of dealing with the tenants in their HMOs to help you decide which model is best for **YOU!**

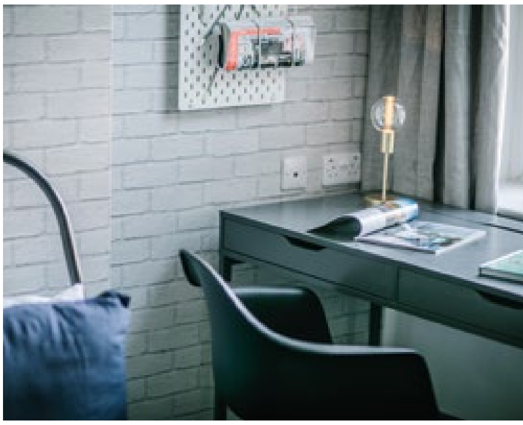
Jayne

DESIGNED FOR WELL-BEING

HIGH QUALITY SPACES THAT ARE ENJOYABLE TO LIVE IN

Interview & words: **Heidi Moment**

Urban designer and landscape architect husband-and-wife team, Philippa and Tom Charrier, are taking the student HMO industry by storm. Their approach focuses on design excellence, great service and is all about student comfort, happiness and well-being. Students love their properties so much they reserve rooms almost a whole year in advance.
We met up with them to find out how they do it.



MEET PHILIPPA

I've always loved everything to do with design and buildings – it's my absolute passion. So I chose to study architecture at university. I bought my first property when I was at university and let two of the rooms out to pay for the mortgage. I worked for a few years as an architectural designer but wanted to work on larger, more visionary projects and so became an urban designer specialising in urban regeneration projects. I worked on brownfield sites all over the UK, where I enjoyed working with local communities to regenerate areas, bringing back derelict areas of land into use again. I loved working with the communities on the social housing estates, getting them involved in the design process. It was incredible to witness the power of design (good and bad) and how it had a profound impact on people's lives.

We lived in Australia for several years too, where I led an urban regeneration project in Newcastle, New South Wales. It won an award for Excellence in Urban Design at the 2011 AILA New South Wales State Awards.

MEET TOM

I trained as a landscape architect and worked in a design practice for many years on mixed-use, residential and commercial schemes. After we moved back from Sydney I needed a new challenge so transitioned into a planning practice, where I specialised in large-scale residential projects– typically controversial ones which would end up at public inquiry. I presented evidence as the expert witness at a number of public inquiries, which was a lot of fun. I really enjoyed the challenge of being cross-examined by experienced solicitors and QCs, but, ultimately, working in a practice for someone else was never going to satisfy me long term.

"We've always lived and breathed property"

LIVING AND BREATHING PROPERTY

As you can probably tell from our jobs, we've both pretty much always lived and breathed property, so it was inevitable we would want to get into investment and development ourselves. Before we got together we both separately owned our own properties, which we originally bought to live in, but then ended up renting them out when we got together and our circumstances changed. We got the bug then, really.

Property works really well with having a family too, as we can be flexible. We have three children and Philippa wanted to be at home with them, whilst also doing something meaningful and property ticks all those boxes.

MAKING A DIFFERENCE

We live in Kendal, on the edge of the Lake District. There are several property options here – single lets and holiday lets are pretty common, but we decided to look at the student market. There are two universities within a 30-minute drive from us – Lancaster University, which is consistently in the top 10 in the UK, Sunday Times University of the Year and the University of Cumbria. Both have a good reputation.

We have both been students, and we've both lived in some pretty awful places, so with our experience and background in design and architecture we knew we could make a difference and add value to the current student housing market.

FAT PROPERTIES

One of our key selling points is how spacious all our properties are. They all have large rooms. In the early days we used to say they were FAT and it stuck.

Our approach is to focus on design excellence and the needs of the end-user.

We prioritise that above all else.

CONVERSION CRITERIA

Over the years we've built up our criteria and we now know exactly where to look and which streets to target to get the type of houses we want. We look for quality period terraces with the following:

- **In a great location** not only for students, but professionals and families too. To provide multiple exit strategies. We don't buy in student-dominated areas.
- **Within 20 minutes of the university** (by bike) but within walking distance of the city centre.
- **Close proximity to local amenities.**
- **A setback from the street** to provide defensible space and create a sense of personal ownership. This allows residents to take responsibility for the street around their home as well as fostering a stronger sense of community, resulting in a safer neighbourhood.
- **Well-lit streets** and no dark alleyways to get to the house. The safety of our tenants is important. We don't want to put them in danger by having to walk through an alleyway to get home.
- **Good proportions** – lots of natural light, big windows and spacious rooms.
- **Outside space** – for exercising, studying or socialising.

Our HMOs range from having four to six bedrooms. We are happy to have more if there is the space. Our only stipulation is we're not scrimping on the size of the bedrooms or communal areas.

In our more recent HMOs we've added en-suites in the bedrooms, but whilst having an en-suite is appealing to tenants, it isn't a deal breaker, so we only put them in if the space allows it.

SPACIOUSNESS AND COMFORT

Space is important. We want our tenants to feel like they are entering a spacious house, so we look for high ceilings and large rooms. We look for the windows to be proportionate to the size of the house, with a lot of natural light coming in.

Victorian terraced houses have great proportions. They're really well designed, so we can work with them. We're not interested in chopping them up too much, as that makes the proportions feel unnatural or forced.

We're designers at heart and we want to create high-quality spaces that are enjoyable to live in. Fundamentally, all our education and professional background has been about the physical environment and understanding how the spaces we live in can affect our mood, behaviour and sense of well-being.

> "Our design ethos is all about **spaciousness** and multiple opportunities for **social interaction**"

With 25% of students suffering from mental health problems each year, we want to create houses that are specifically designed to encourage positive moods, behaviour and a heightened sense of well-being. This is really important to us, and we also make regular donations to Student Minds, the UK's student mental health charity, to help further.

The students who live in our houses are friends, so they want to socialise, eat and watch TV together, so it's essential there is sofa space for everyone and that the dining table is large enough for everyone to eat at the same time. They may not use it all the time, but the option is there when they want it.

Everything has to be comfortable and spacious enough for the tenants to just live normally in it. It's not a profit maximisation exercise for us. It's about quality. We have a threshold of income and profit to make, of course, but beyond that threshold we're aiming at quality, and thinking about the end user – how they want to use the space and how we would want to use it if we lived there.

It would be easy to squeeze another 10% ROI by cramming in another bedroom or reducing the size of the living space, but that's not what we're about. We're much more focused on designing a quality space that is enjoyable to live in.

CASE STUDY **HUBERT PLACE**

The Property:

A huge Victorian terraced property split into seven bedsits, in a terrible state. The landlord had owned it for 30-40 years and, he hadn't done anything to it in all those years, no joke! There was no central heating. Each bedsit had a water heater on the wall, plus a little kitchenette, a sink and its own electricity meter. There were two house bathrooms and one kitchen. It needed a lot of work, but we fell in love with it as soon as we saw it. It had fantastic proportions, great open space, and we could just see the vision.

The Plan:

To convert it into a 6-bedroom HMO.

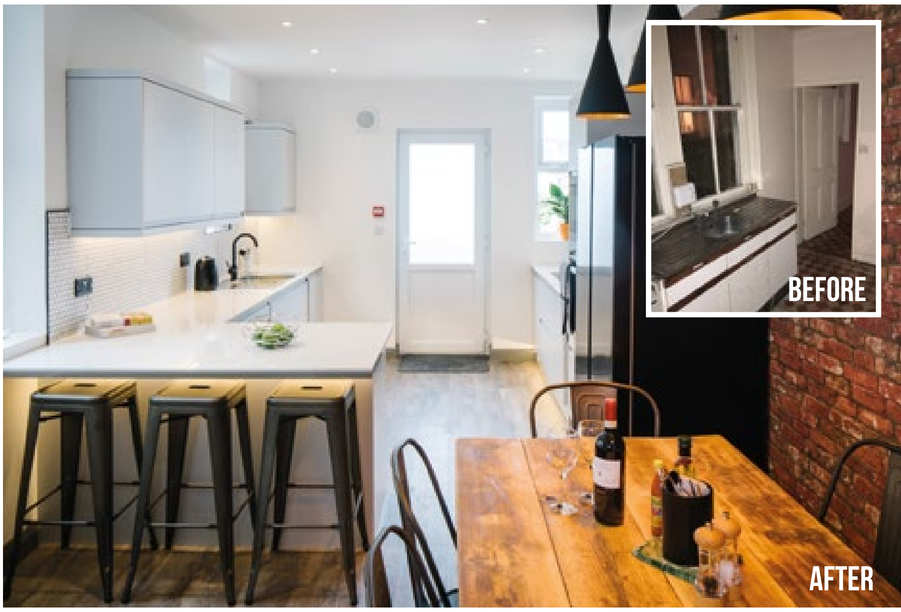
Works Include:

- **Redesign throughout**
- **Layout planning**
- **Rip everything out**
- **Remove chimney breast and fix steels in place**
- **Remove load-bearing walls separating lounge and second reception room to create an open-plan feel**
- **Roof & chimney repairs**
- **Replace some rotten joists**
- **Install ensuites**
- **Install central heating**
- **Full rewire**
- **Replaster the whole house**
- **New flooring throughout**
- **New kitchen**
- **External works including new seating area**
- **Fire proofing – fire doors, fire alarm, fire boarding**
- **Decoration**
- **Brand new furniture throughout.**

It was about as big a job as you could get without actually doing any new build.

The Numbers:

Open market value:	£150,000
Purchase price (incl. all costs):	£147,500
Refurb cost:	£100,000
Total costs including all refurb, acquisition, and sales costs:	£254,000
Cost per room:	£42,000
End value post refurb:	£300,000
Room rates :	£125 (but will increase to £130 next year)
Gross monthly rental income:	£3,000
Monthly bills and mortgage:	£1,500
Monthly net profit:	£1,500



MARKETING & MANAGEMENT

We market our rooms on our website and also through Lancaster University Homes, a department set up by Lancaster University a few years ago. It's an accredited system, whereby they accredit houses and landlords that aren't part of the university. It's quite a rigorous process, where they test the properties and do regular check ups to ensure your property meets all the regulations. It's great because it's raising standards across the whole of Lancaster. All of our houses have been featured in their promotional material for the scheme, which has been helpful publicity.

Our tenants usually come to us as a group and are all on one AST. The rent includes all of the bills – gas, electric, water, TV licence, Netflix, maintenance, cleaner, etc. They don't pay anything extra. We're very customer-centric. We do all the maintenance and anything they don't spend on gas and electricity as part of the utilities allowance we return to them at the end of the year – its a nice bonus for them (and creates positive word-of-mouth referrals), and it encourages them to be sustainable.

The experience of our tenants is key and the ongoing management of the house is critical to maintaining that. For this reason we manage them in-house. Keeping the houses in great condition and the tenants well-looked after is not just in line with our values, but it makes good business sense too. As we scale up we'll begin to employ people on this side of the business, but we want the culture we create to continue, rather than simply outsourcing management and losing control.

WE SECURE TENANTS ALMOST A YEAR IN ADVANCE

Most university students tend to follow the same pattern – living in halls in the first year and then moving in with friends in the second year. It's the second and third year students we are targeting. Term starts in September and often first years will meet their new friends at Fresher's Week and begin looking for a place to live together in their second year almost immediately. This is great news for us, and we often find that by November we have agreements signed for the following year. If anything changes we know about it in advance so we have plenty of time to find someone else.

Some tenants stay on into their third year. Others leave the city to go and do a year out working in industry, so groups of tenants can change, which is fine.

50 WEEKS A YEAR AND NO VOIDS

We operate for 50 weeks of the year. There are always two weeks in the summer when students go home to see their family. These two weeks are always a bit manic, cleaning and doing maintenance to get ready for the next set of tenants. Fortunately we've got a great team of trades who we book in advance and are ready to hit the ground running as soon as the tenants move out.

We don't have void periods. We let the properties out so far in advance that if somebody changes their mind before they move in, we have time to get different people into the property.

COMPETING (OR NOT) WITH THE PBSAS

Student accommodation is completely different nowadays. Standards are being raised and **purpose-built student accommodation** (PBSA) has been increasing year on year. There are blocks going up left, right and centre in Lancaster alone, which is great for regenerating certain areas and reusing dilapidated buildings, but not so great for some HMO landlords.

"Our tenants want a home from home"

The extra capacity created is going to mean that some HMO landlords will suffer. We expect the ones to suffer will be those that are low quality, in the wrong locations, or those who have been driven by financial gain and are cramming people in when there isn't the space.

We don't consider the blocks as a threat to our business, as our offering is different. PBSA is good for first years who don't know anyone and want to get used to being away from home, as well as foreign students. But the high-end ones are still fundamentally institutional, and the rooms are quite small. In our experience, second and third years don't want to be in this kind of accommodation. They prefer to have a house with a big bedroom, a garden, and great communal space. They want somewhere that feels more like home, and we provide that. We get a lot of excitement when people look around our houses and see the space they will live in and call 'home'. They imagine themselves having parties in it and using the outdoor space to study and socialise.

PBSA blocks are expensive too, some starting at £150 and going up to £230 a week. They are single-handedly raising the average price level significantly, which actually helps us because our most expensive rooms are £130 a week, and that's for a large room with an en-suite. We provide a nicer 'home from home' for our target audience and we are cheaper. So there's no competition really.

Our price point is competitive and makes us a good return, so we don't need to match their prices. We are conscious of the market and what people can spend, and we know that financial pressures are something real for students and we don't want to exacerbate that.

DESIGN IS IN OUR BLOOD

We are very much about the design. It's in our blood. We always approach each property by thinking about how we would like to live in it, the experience and how the spaces make us feel.

Over the years we have noticed that students like to personalise their bedrooms, so bedrooms are usually designed to be quite simple, painted in muted tones with well-designed furniture. This way they have an environment where they can focus on their studies and get good grades because, at the end of the day, that's really why they're there. And they can add their personality, if they wish.

Tenants don't tend to personalise the hall, lounge or kitchen, so the communal areas are where we focus on making a real design statement. We want the students to be proud of their home, to appreciate it and want to show it off to their friends. We follow a few interior designers on Pinterest and Instagram and we get some great ideas, like the neon green fireplace. It's a really good place to get inspiration and it seems to go down well with the tenants.

PLANNING THE REFURBISHMENT

When planning the refurbishment, we use our knowledge of design and architecture to full effect and we always produce detailed drawings. We consider all the details, as far as the location and height of every plug socket (considering plugs above desks, bedside tables, chest of drawers etc), and the location of all the lights and spotlights. Everything is planned and we always know what furniture will be going in so we can plan accordingly. We like to put USB points in all the bedrooms, so tenants can charge their phone at night. It's the little things like this that really make a difference to the end user and how they will live in the property.

There's always something that catches you out though, and there's always room for improvement. Property is a learning process, and we'll obviously continue to learn with each and every project we do.

WORKING TO OUR STRENGTHS

We're very fortunate because we work very well together. We back up each other's strengths and weaknesses and whilst there's plenty of debate and discussion about various points, fundamentally, we are always of the same mind in terms of the end goal, so there are never any lasting differences of opinion.

Philippa takes the lead on anything design-related, including sourcing the right properties, the architectural and interior design and the ongoing management of the properties. Tom is responsible for the operations, project management and finance. We work with trusted professional advisors, mortgage brokers, accountants and solicitors. And we work with a fantastic architectural technician, who produces all our drawings for us. We sketch things out quickly for him and he adds all the detail. He's very experienced and works really fast, which saves us a lot of time.

We've also recently started working with a virtual assistant. She's UK-based and has hit the ground running. She already works with other student accommodation businesses, and she's been a PA to all sorts of public companies, so is very highly qualified. At the moment she does a few hours a week, helping out with background research and administrative things, which takes a load off our plates. The plan is to give her more bookkeeping and accounting responsibility as time goes on.

AN EXCITING YEAR AHEAD

This year is going to be an exciting one for us. Tom handed in his notice about a month ago, so by the time this goes to print he will be in the business full time. YAY! So things are going to change drastically for us. We're going to seriously ramp things up with the business and are currently progressing joint venture opportunities as well as providing a solution for investors whereby we source, refurbish and manage student HMOs for them. We have a strong brand and we pride ourselves on providing a great service to our tenants so we want to be able to help more investors do the same.

We're also interested in diversifying at some point, and are looking into serviced accommodation, so we'll probably spend 80% of our time on the core business, and 20% being opportunistic and seeing what else is available.

The other biggest change will be that we'll also get some of our life back. Working only one job each will mean we can work during work hours rather than in the evenings. We're really looking forward to that. Although, we'll probably still work some evenings, as that's just how it goes in this industry isn't it?

WHICH HMO STRATEGY GIVES THE BEST RETURNS?

The Ultimate HMO Case Study

BY ROB JONES

Last month we asked whether there was such a thing as a "Perfect HMO". As well as talking to a few investors about models they have adopted and refined over time, we pored over the results of some recent academic research. YPN reader Rob Jones now follows up the idea, and considers the pros and cons of various HMO (Houses in Multiple Occupation) strategies using a scoring matrix in a two-part article (part two will follow next month).

Manchester-based Rob discovered the power of property in 2005 and made some big changes to his life as a result. After taking a job in an estate agency for on the ground learning, he started a sourcing business two years later and has never looked back since. He began investing in HMO's in 2011, both through purchasing and 'lease to let'. He also has a web site called PropertyInvestmentsUK.co.uk and, with a strong ethos of sharing information, has adapted this article to help you find an HMO strategy that will work for you.

"When it comes to HMO's, they're certainly not all created equal"

INTRODUCTION

When it comes to HMO's, they're certainly not all created equal. Small tweaks in size, tenant profile and style can rapidly increase (or decrease) the cash flowing in to your bank account every month.

In this article, I'd like to delve deep (I mean really deep) into the reality of HMO's and match up the different strategies and tenant profiles against each other to see which comes out the worthy winner, and to help you determine your next HMO purchase.

Let's look at this as a 'season'... think Formula One, Rugby, Football... where we pitch the most popular strategies against each other in a season-style round-up.

What counts is who (or which) one wins over the season, not just in a single game or race. It's never about the sprint; it's about the long term, as every property strategy should be. Think sustainable, scalable and, most importantly, profitable.

THE CONTENDERS

So the teams lining up in this ultimate case study are:

- **Social Housing Tenants**
- **Student Tenants**
- **Working Tenants**
- **LHA (local housing allowance) Tenants.**

Each has their place in the grand scheme of things and the rich tapestry that makes up the UK housing market. Each will also have their advocates and strong opponents, but by the end of this article the hard facts of which tenant profile and HMO strategy offers the best solution in the current (and future) UK property climate should be evident.

If you're brand new to property or HMO's, you may not be fully aware why there are different tenant profiles and what they are. So let's do a very quick introduction to each of the 'contenders'.

SOCIAL HOUSING TENANTS

- **Usually rent their property directly from the local council, a housing association or an organisation.**

These organisations have a contract to provide housing on behalf of the government to particular demographics of tenants (this may range from vulnerable young to older tenants and even asylum seekers). Most tenants in this category deal directly with the relevant organisations.

However due to a housing shortage, there are companies and housing associations that are very short of housing stock and can't provide enough property for tenant demand. As such they lease properties directly from private landlords for a period of three to five years to fulfil housing needs for their tenants.

STUDENT TENANTS

- **Live in a particular location whilst at the local college or university.**

Tenancies are often for eleven or twelve months to cover the academic year.

WORKING TENANTS

- **Working people in receipt of an income, who pay rent from the income they earn.**

LOCAL HOUSING ALLOWANCE TENANTS

- **Tenants in receipt of housing benefit, where their rent is paid in part or in full by claiming benefits from the government.**

Many of these tenants rent directly from a private landlord instead of waiting to be housed by the local council, as the council and Housing Associations simply do not have enough properties to meet demand.

> "Building a portfolio of HMO's starts with finding the properties, which you can do yourself"

THE MATCH-UP'S

To create a framework for this exercise, I analysed the key areas of all HMO's, considering essential questions like...

- **What do most investors really care (or worry) about in HMO investments?**
- **What factors do 99.9% of investors base investment decisions on?**
- **What areas do the majority of investors miss when analysing HMO property deals?**
- **And importantly, what do you need to get right in your HMO investments so you can sit on a beach with Sangria and watch the cash flowing into the bank?**

After over ten years' experience in property, and running HMO's in all of the above tenant markets, I've found the following to be the most important match-up's that will make or break your HMO portfolio. (**The first two are covered this month; the rest will be discussed in Part 2 next month.)**

- **Sourcing**
- **Cash in Bank (rental returns)**
- **Potential for Capital Growth**
- **Ease of Management**
- **Maintenance**
- **Exit Strategy.**

THE RULES

There are always some ground rules and a scoring system to measure success. Let's keep this simple and mark them out of 10.

- **1 – 3** **Very Difficult / Poor Performing**
- **4 – 6** **Average in all aspects**
- **7 – 8** **Good indications**
- **9 – 10** **Exceptional**

MATCH 1: SOURCING

Building a portfolio of HMO's starts with finding the properties, which you can do yourself, by working with a property sourcer, or by buying a ready-to-go packaged deal.

SOCIAL HOUSING TENANTS

SCORE **4/10**

This scores at the bottom of the average scale.

Firstly, it's not possible to do in every location as not all councils or locations will have leasing schemes available. So if you want to run a social housing HMO then you may have to choose your location based around the strategy instead of the other way around. As an example, in the North West there are leasing schemes in Manchester, Salford and Wigan, but Warrington is much more limited.

Combine this with the criteria laid down by the leasing scheme providers on what properties are actually suitable and also pass their location test, and you've got a tough score in the ease of sourcing department.

Example:

We work with a social housing provider across the North West to provide social housing for asylum seeker tenants. The returns are great but we need to view around ten properties to get two or three even 'accepted', due to strict criteria on location (down to street level and even position on the street), before we have even got close to a purchase and negotiated on those properties with the sellers.

From experience, the sourcing difficulty is higher than for other tenant profiles, so if you plan to source your own social housing properties I'd score this one 4/10 for difficulty.

STUDENT TENANTS

SCORE **7/10**

As with social housing, student housing is not suitable in every location, but there are many cities across the UK that have a strong student market.

Finding properties and locations for this market are easier than the average, so it's a good indication for sourcing. Granted, once you have the right city, finding the 'perfect' location so that the property will rent year after year without hassle is a little trickier than just picking up a vanilla buy-to-let (BTL), but if your criteria for rental returns (and budget) is flexible, you shouldn't have too much difficulty in sourcing potential deals.

It's not quite as simple as walking in to an estate agent and having your pick of hundreds to choose from, but there are still many options in cities across the UK, so I give this one a strong 7/10.

WORKING TENANTS

SCORE **7/10**

This is the market most investors like to focus on, and the mainstream tenant profile for both BTL and HMO's as it's perceived as less risk.

For working tenants the priority is to be near work, friends and amenities so you will often see a focus in certain central areas, down to particular streets or postcodes as being the most popular for working tenant HMO's in that location.

Keep near transport links, shops, restaurants and bars and you shouldn't go far wrong. Head a bit further out of area to more suburban housing estates or towns with populations less than 100,000, and you will likely start to struggle for a regular supply of tenants. Void periods, risk and more hands-on management/ tenant finding may start to outweigh the benefits of having a HMO.

LHA TENANTS

SCORE **9/10**

If your market is LHA, then you're in luck when it comes to sourcing as it is probably the easiest tenant profile to find properties for. As it's the cheapest end of the market price-wise (i.e. rent per week per room and property prices), you will find many areas and house styles that work for this market.

There are certainly challenges in other areas (which we'll look at later) but sourcing isn't one of them.

This category is partially helped with changes to LHA rates and the age that people can now claim the full one bedroom rate. This is now set at 35 years old, which means a large portion of the population is only able to receive shared room rate housing allowance. Any single person aged 34 years or under claiming benefits is now typically forced into shared accommodation as they can't afford to pay top-ups to fund a one- or two-bedroom property on their own.

This legislation, along with a drop in the LHA rates paid in many areas, has skewed the housing supply and demand, so in many towns and cities finding LHA tenants for a HMO should not be an issue.

MATCH 2: CASH IN BANK (RENTAL RETURNS)

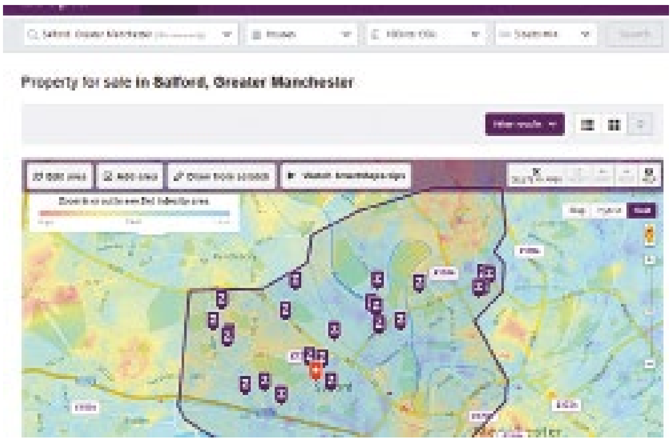
One of the most important factors for any investor when considering any investment … is what the returns are going to be. HMO's are great at generating cash flow and certainly trump vanilla BTL's on rental returns, but as I said earlier, not all HMO's are created equal.

For this matchup we'll compare apples to apples with some standard figures below each tenant profile. With each assuming:

- **£120k property value**
- **Location Salford**
- **Four-five bedrooms.**

We'll use Salford as it's a location that has all the HMO tenant profiles were looking at in this case study.

As you can see in the screenshot below there are a number of 'potentials' that fit the above criteria.



Now let's further narrow down the selection to four properties that perfectly match our requirements (***note: these are not active up and running HMO's but examples of what can be achieved in today's market***).

Some require full refurbishments; others just need some small works to bring them up to the required HMO regulations. The total budget of £120,000 however should be about right to give us a good comparison for all property options.

As you can see in the heatmap image below, the quality of location and house values vary, as shown with the different colour pockets, so I have deliberately chosen properties in locations that should work for their tenant profile.

SOCIAL HOUSING TENANTS

SCORE 9/10

For rental returns and cash in the bank, it's hard to beat social housing tenants.

Typically with HMO's you have to closely manage utility usage, keep a tight control on void periods and manage rent arrears in order to achieve anywhere near the planned returns. Keeping a tight ship can be time consuming and management intensive.

With social housing tenants however, when you lease the property to an organisation or housing association (in our case we usually lease the properties to them for five years), you simply hand over the keys and collect your rent payment each month.

Consider the following property deals.

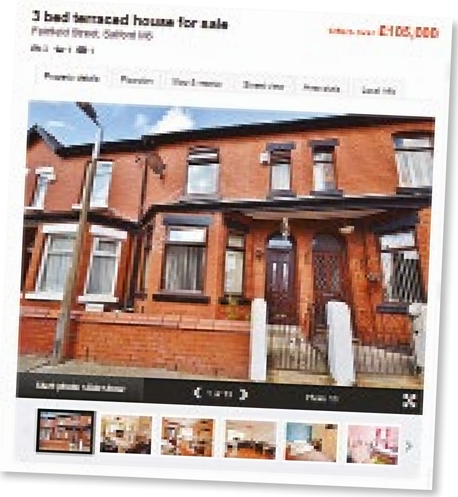
Potential Property

GROSS ROI

Combined purchase price, refurb and purchase costs: **£120,000**

Rental income (4 x bedrooms @ £50 pw): **£10,400**

Gross rental yield: **8.67%**



NET ROI

Leases are typically for five years. During that time, there will be no voids, arrears, monthly management or tenant find fee, council tax, utility or cleaning costs. In addition, the social housing provider covers gas safety checks and maintenance.

Total running costs:	**£360**
Net rental income pa:	**£10,040**
Net rental yield:	**8.37%**

To start with the gross yield looks relatively low compared to most paper figures for HMO's. But when you take in to account all of the 'benefits' of a social housing lease, there are essentially no further deductions (unlike all other HMO's). This means the **NET rental yield** is very strong.

LET'S SEE HOW THIS COMPARES TO THE OTHER HMO'S STYLES…

STUDENT TENANTS

SCORE 7/10

Student rentals are often promoted as a great tenant investment. Sure the twelve-month tenancies and low voids are appealing, but it's not all rainbows and sunshine.

Getting your property on to the student cycle initially can mean a couple of months of voids whilst you wait for the new academic year to start and tenants to move in. Buying at the wrong time of year could mean up to six months of voids in your first year of trading. Ways around this can be to buy an existing student let or juggle your purchase to buy in the right cycle of the year (usually January-March) to ensure as little downtime as possible.

Once tenanted however you should be up and running and as long as you purchased in the right location, it should be plainer sailing from here on in.

That first year is tricky to predict and each purchase may end up slightly different, so to keep things simple, we consider the cash in the bank examples below from an up and running student let, with exactly the same starting point as the other HMO's of a £120,000 total purchase cost.

Potential Property

GROSS ROI

Combined purchase price, refurb and purchase costs: **£120,000**

Rental income (4 x bedrooms @ £75 pw): **£15,600**

Gross rental yield: **13%**

NET ROI

Let's assume it's a very popular house with no voids and arrears. (Figures are pa.)

Management (based on 12% pm + VAT):	**£2,246**
Tenant find fees:	**£600**

Electricity (@ £40 pm):	**£480**
Gas (@ £60 pm):	**£720**
Water (@ £40 pm):	**£480**
Broadband (@ £40 pm):	**£480**
Council tax (students currently exempt):	**£0**
Insurance:	**£360**
Gas safety (approx.):	**£70**
Cleaner:	**£720**
Maintenance (inc. furniture and décor wear and tear @ £100 pm):	**£1,200**
Total running costs:	**£7,356**
Net rental income:	**£8,244**
Net rental yield:	**6.87%**

> Getting your property on to the student cycle initially can mean a couple of months of voids whilst you wait for the new academic year to start and tenants to move in

What starts off with a great gross yield of 13%, when you see the reality of the outgoings, the figures quickly come down to only around 6.87% NET. Now there are some caveats to this.

- **YOU COULD BUY THE PROPERTY CHEAPER** (but would it then be in the right area and actually let?).
- **YOU CAN REDUCE SOME OF YOUR EXPENDITURE** by self-managing (but are you then running it like a real business? You might be working for free).
- **Or YOU CAN TRY AND GET THE TENANTS TO PAY THE UTILITIES** (but when all other competition properties are including it, you would likely struggle to rent and find suitable tenants this way).
- **Finally YOU CAN FOCUS ON AREAS WITH HIGHER GROSS YIELDS or maybe an extra bedroom. Definitely feasible, but it will limit the potential available stock, and you might find the property price will increase significantly as soon as you target larger properties. Each area is different, based on local supply and demand.**

However these caveats apply to all of the tenant strategies though, so to compare apples for apples, the figures above are very realistic for the returns on many student lets of this type.

PROFESSIONAL TENANTS

SCORE
6/10

Unlike student lets, with professional tenants a few more streets and locations will open up for you around town, so you should be able to buy at slightly better prices and also achieve a small (on paper) increase in rent from the professional market as your competition, location and tenant needs are different.

Potential Property

GROSS ROI

Combined purchase price, refurb and purchase costs:
£120,000

Rental income (4 x bedrooms @ £80 pw):
£16,640

Gross rental yield:
13.87%

NET ROI

Figures are pa.

Voids and arrears:	**£1,386**
Management (based on 12% pm + VAT):	**£2,196**
Tenant find fees:	**£600**
Electricity (@ £40 pm):	**£480**
Gas (@ £60 pm):	**£720**
Water (@ £40 pm):	**£480**
Broadband (@ £40 pm):	**£480**
Council tax:	**£1,200**
Insurance:	**£360**
Gas safety (approx.):	**£70**
Cleaner:	**£720**
Maintenance (inc. furniture and décor wear and tear @ £100 pm):	**£1,200**
Total running costs:	**£9,892**
Net rental income:	**£6,748**
Net rental yield:	**5.62%**

As with student lets, the gross yield in working tenant HMO's gets eroded with all the running costs. At only 5.62% NET, many vanilla BTL's could even beat that so is it worth the hassle?

I would say yes definitely, but if you're considering professional let HMO's then you need to focus on 5+ bedroom properties or work on reducing the purchase cost so your gross yield can be above 15%. This may mean buying in different areas or different parts of town, so you need to make sure the tenant demand is still there if you change location. That will give you a healthier starting point and make having a HMO worthwhile.

LOCAL HOUSING ALLOWANCE TENANTS

SCORE 5/10

Remember the LHA market is heavily guided by what the shared room allowance is for the area. So where you might get £80 pw from professional tenants,
achieving the same from LHA tenants will be very difficult.

The trade off here is that you can go to cheaper parts of town; so for your £120,000 property you may be able to get a 5-bedroom house to work, but the location may mean it's only going to be suitable forLHA tenants.

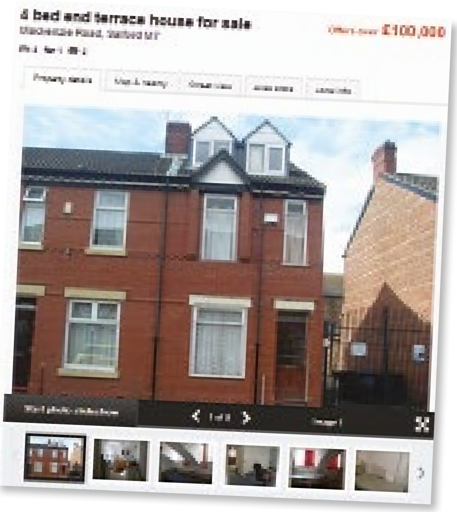
Potential Property

GROSS ROI

Combined purchase price, refurb and purchase costs: **£120,000**

Rental income (5 x bedrooms @ £65 pw): **£16,900**

Gross rental yield: **14.08%**



NET ROI

Figures are pa.

Voids and arrears (typically one month but can be higher)	**£1,408**
Management (based on 12% pm + VAT):	**£2,230**
Tenant find fees:	**£600**
Electricity (@ £50 pm):	**£600**
Gas (@ £60 pm):	**£720**
Water (@ £40 pm):	**£480**
Broadband (@ £40 pm):	**£480**
Council tax:	**£1,200**
Insurance:	**£360**
Gas safety (approx.):	**£70**
Cleaner:	**£720**
Maintenance (inc. furniture and décor wear and tear @ £125 pm):	**£1,500**
Total running costs:	**£10,368**
Net rental income:	**£6,532**
Net rental yield:	**5.44%**

The reality of these figures can go one of two ways:

- **A small increase in your room rents if you can get top-ups over and above the local housing allowance rate, and you can see a healthy increase in your NET figures/cash in the bank.**
- **But LHA tenants are at risk of higher arrears.**

Managing their money some can find difficult and it can be tough to get direct payment from the council unless the tenant is thought 'vulnerable', so arrears can easily rack up, crushing your cash flow and predicted figures.

Not a market for the faint-hearted. Many landlords that operate in this market tend to go for houses in the £60,000-£100,000 price range to give worthwhile returns.

The stand out on these comparison (apples for apples) figures though, is social housing without a doubt, and if Cash in the Bank is your target, then I would seriously consider this strategy, either sourcing yourself or buying ready-made property deals.

PropertyInvestmentsUk.co.uk

Website:
www.propertyinvestmentsuk.co.uk

YouTube:
https://www.youtube.com/c/propertyinvestmentsuk

YOUNG PROFESSIONALS HOUSES TO MATCH LIFESTYLES

GETTING THE MODEL RIGHT IN A COMPETITIVE MARKET

Interview & words: **Angharad Owen**

Paul Lanfear and his wife, Liz, own a property company and brand called Property Angels. They are based in Leeds and offer boutique property for busy professionals. The "Angels" in the brand name represents the two most important people in his life, his wife and daughter. He wants to be able to look after them, both now and in the future.

BACKGROUND

Originally a lawyer, Paul practised commercial litigation for ten years in Leeds, London and various jurisdictions around the world. But when his daughter was born, he no longer wanted to work the long hours. He left legal practice to set up to lead a qualification programme and train prospective barristers in civil litigation.

But their property business didn't start there. It goes back further. In the year 2000, before the crash, Liz had built a portfolio of HMOs and house shares. She worked alone and learned how to recycle her deposit. However after the crash, she no longer wanted to continue.

When their daughter was old enough and more independent, Liz was keen to get back into the property industry. She didn't enjoy the business side, so she asked Paul if he would help her with that aspect so she could focus on the actual properties.

Paul didn't understand property at first. It wasn't until he started attending property meetings that he grasped the bigger purpose of property investing.

Liz had started with student houses. But after one group of tenants threw an end-of-year beach party in one of their properties – including several inches of builders' sand and palm trees – they decided enough was enough.

WHY SWITCH?

Since the infamous beach party, they have now repurposed the portfolio to focus on only letting to the professional market. Although this clientele often appears to be the holy grail of HMO tenants, it hasn't been without its challenges.

The secondary reason as to why they decided to exclusively cater to the young professional market was because it was what they knew. Liz had worked as a chartered librarian in a university, often working with post-graduates. And through Paul's background in training young barristers, together they grasped an understanding of what their clients wanted.

Also, both had lived in house shares in their youth. Paul had spent ten years living with housemates, both in Yorkshire and London. Liz, however, had purchased her property and then rented out her spare rooms.

WHO ARE THE CLIENTS?

Most their clients are between the ages of 21 and 35. They are often new to Leeds, having relocated due to a job or having just graduated from university. Tenants' jobs range from Monday-to-Friday contractors, to doctors and solicitors in training.

When a prospective tenant is going to move in, Property Angels look at what that person's needs and interests are and where they work, so they can understand what they are looking for. They aim to place everyone in a house that will match their lifestyle, so they are surrounded by like-minded people.

They have houses to match everyone's way of life. From smaller three-bed properties in a lively and trendy part of Leeds, where many of the 20-somethings prefer to live, through the middle-ground, traditional six-bed HMOs and then on to luxurious en-suite properties in sophisticated areas of Leeds, where there is a slightly quieter and slower vibe.

While all models are successful in Leeds, Paul has also witnessed all models fail. Around half of their acquired HMOs were originally ones that had failed. There is a huge oversupply of rooms in Leeds, and it's not a case of them not being up to standard. It is usually down to the managers not having found the right process, system or knowledge to get them to work.

> "It's naïve to think that the HMO model is not at a point of maturity, and in many markets, saturation."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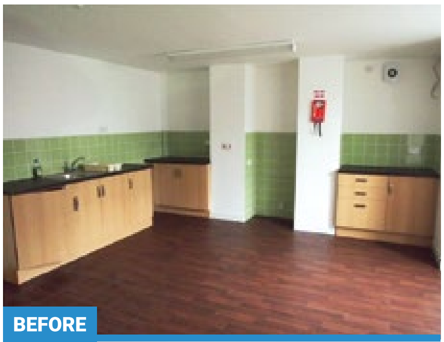
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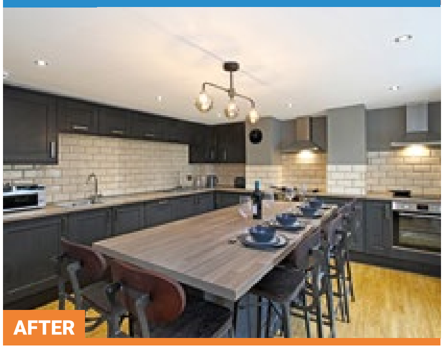
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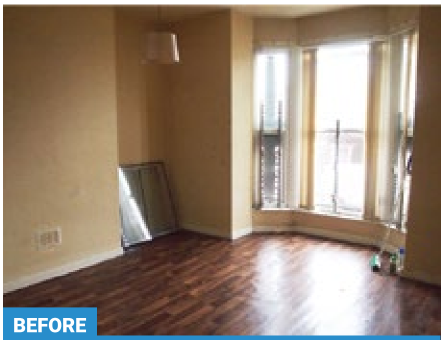
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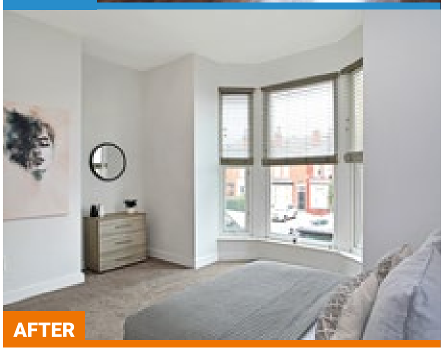

AFTER

Paul urges people to remember that there is value to competition because it makes everybody raise their game. Experience is a huge contributor to success, and together, Paul and Liz have experienced some challenges, including the beach party, accidently housing a brothel and even deaths in the properties, to name a few.

Alongside Property Angels, Paul and Liz had grown property management business that, at its peak, had 230 young professional rooms. In their own portfolio, they have approximately 100 rooms.

Their tenants tend to stay from six months to several years. It varies depending on the house, the location and the client. In a six-bed HMO in the trendy part of Leeds, they will usually stay for only six to 18 months. But from one extreme to another, they have a house full of doctors that tends to look after itself. If one moves out, one of their friends or colleagues will move in immediately.

The big challenge they face is two housemates falling in love. *"If we ever get two notices at the same time, we can pretty much guarantee that's the reason. They have fallen madly in love with each other and now they want their own place."*

THE IMPORTANCE OF WELLBEING

Paul believes that one of the things that is overlooked are the challenges young people currently face. The young professional market isn't a client base whose lives are perfect. Although they are well-educated, reasonably affluent and in relatively good health, they do have tough times.

The incident that sparked the importance of wellbeing for Paul was when a very successful former legal client of his had received his dream job. He was on a very good salary, and it looked like everything had been going well for him. But only a few years down the line, he took his own life.

Paul was shocked, and although it was a unique set of circumstances, he is very sensitive to the fact that his tenants are human beings facing a range of daily challenges in life, just like everyone else. They absolutely are not just a source of revenue. *"We need to be mindful of their mental health and of the consequences of mental health."*

Although the main purpose of their business is to provide boutique property for busy professionals, there is an underlying theme to contribute to their wellbeing. Paul wants the business to have an awareness and sensitivity to these problems so that they can be part of the solution.

And this core mission of promoting wellbeing includes everyone who comes into contact with the business, whether it be clients, contractors, the team at the property management company and even investors. Liz is a qualified mental health first aider, which means that she can recognise symptoms, and can direct people to the relevant support they may need.

They bear the importance of healthy wellbeing in mind when creating and designing living spaces. Obviously, they can only work within the structural confines of the properties, but they aim to use the space as responsibly as possible. For example, communal spaces are very important, and they never carve rooms into tiny spaces. In their latest project, bedrooms are twice the legal requirement for a double room in Leeds, and are in excess of 20sqm.

In that particular house, there was every opportunity to start moving walls and make 20 bedrooms instead of 12, and the revenue would have been significantly more too. But they made a very conscious decision at the beginning of the project, and are constantly asking themselves whether they're doing the right thing.

Their new benchmark for their properties is asking themselves whether they would be happy for their daughter to live there. *"I know that won't be well received in all parts of the property community. They say we're here just to make money."* But it has set a high standard for their properties. If you're not happy to let your children stay in your property, then why should it be suitable for other people?

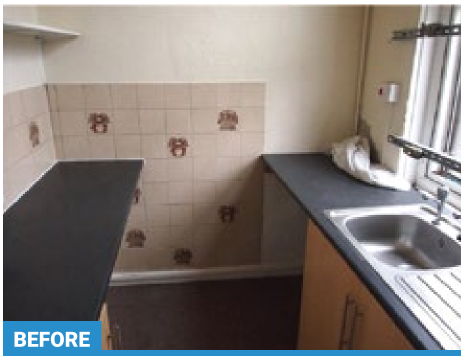
DÉCOR

Over the years, Paul and Liz have tried out various décor and colour schemes. There are some people who rightly believe that it's necessary to have incredibly boutique, bespoke and high-end interiors to be able to attract good young professional tenants. However, within the professional market, there are still several niches.

Paul has a good level of interior design. Some of their houses are funky, with the ever-popular grey walls and splashes of colours. They have some highly stylised, colourful properties as well as some more mature styling for the clients who aren't as interested in trends.

The vibe they are hoping to achieve in every property is for tenants to feel like they have made it in life. It's important to Paul that his clients feel supported, so they can spend more time focusing on their careers, relationships and personal lives. He doesn't want them to worry about not having a warm, safe and secure environment to come home to.

Every room is supplied with a double divan bed with a headboard. If possible, there is additional storage in the bed bases. Furniture packs are bought from specialist furniture companies. Starter packs are provided for each house, which includes the fundamental essential kitchenware, etc. If tenants want anything else, they need to sort it out between themselves. So far, it has worked well for Paul.



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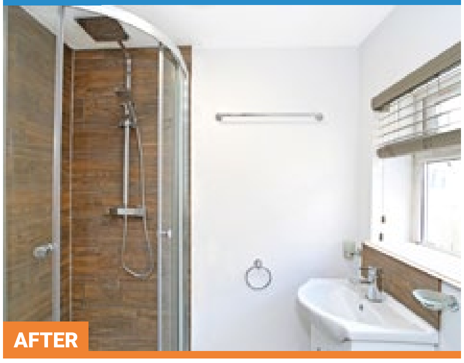

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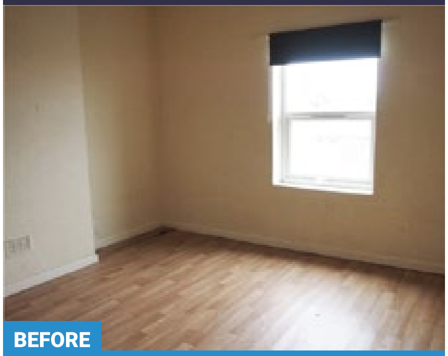
NUMBERS

Purchase	**£190,000**
Refurb	**£237,436**
Furniture, finishing touches and other costs	**£31,745**
TOTAL COSTS	**£458,190**
GDV	**£620,010**
Net cash flow pm	**£2,919**



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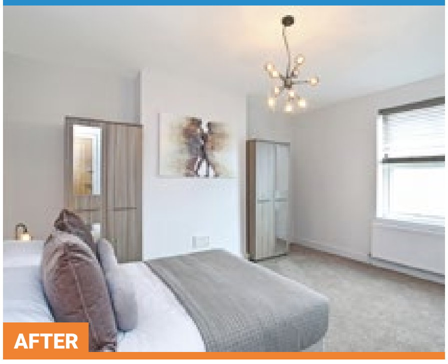


AFTER

LETTINGS

Contrary to many other HMO investors, they don't allow viewings or applications for rooms until everything has been signed off and the conversion has completed. Although it does make commercial sense to have people moving in on the day the project is finished, the former lawyer in Paul likes to see that everything is checked and working to ensure that every client is safe in their new home.

Over the years, there has been a large increase in supply of rooms in Leeds, as many student houses have been repurposed into stock for the professional market. But equally, there has been a huge escalation in quality.

In certain areas, there has been some competition in rental rates. Paul and Liz have chosen not to play that game, as it it can often result in a race to the bottom. Their rooms are fairly priced, ranging from £395 to £650 per month, and they provide an outstanding service. It's then up to the client to decide what they want.

All room rates include all bills. The rationale behind these prices can be seen when looking at what the alternative to living in an HMO would be. In Leeds, it would be to live alone in a one-bed flat.

But living alone is not best for everyone. When someone is new to a city, they are often in a reasonably vulnerable situation. They may have just started a new job, they don't know anyone or have many friends around, so moving into a one-bed can be isolating. Rents for one-beds start at £400, but with council tax, bills and services, that figure can easily creep up to £700-£800 per month.

Alongside an all-inclusive rent, they offer 24-hour emergency cover. Calling the number during office hours will get through to the property management team. But if outside of those times, they will reach the out of office service where there are systems in place to address any issues that may arise.

They have a minimum standard of occupancy of 95%, and consistently run at, or above, that number. Every landlord has to be wary of voids, and it can easily become a full-time job to keep on top of them to ensure they don't get out of control. Paul is mindful of the seasonality patterns in Leeds. For example, rooms during the winter do not sell well, whereas in spring and summer, they do.

PLANNING AND ARTICLE 4

Planning in Leeds is incredibly challenging. Most of the city is covered by Article 4 direction, removing permitted development rights. Therefore, family homes are off-limits to convert into house shares.

Article 4 is very strictly applied, to the extent that Paul has been present in a planning committee and a councillor saying that they will never approve another HMO in a certain locality.

There are areas outside of the A4 direction that investors are beginning to develop a niche in. However, the challenge with these is not knowing how these areas will sustain over the long term. Will they become saturated? Is there enough of a demand for people to want to live outside of the city centre?

With a good team, creating a fantastic house and filling it for the first time, is the easy bit. The challenge comes two or three years down the line, so it's necessary to bear the sustainability of the business in mind.

Taking a planning risk is a very significant gamble in Leeds. Many take no notice of the planning requirements, and as a result there are several illegal HMOs. If they are sold, the vendors are often clever about the wording of the sale. People purchase them thinking that planning is in place, but it usually isn't what it seems.

When Paul is purchasing a new property, he makes what he calls a considered planning risk. In the past, offers subject to planning have been often declined, and it has meant they have walked away from many good potential projects.

Property Angels
boutique property for busy professionals

STRUCTURE OF THE BUSINESS

Property Angels is divided into two halves. Paul and Liz discovered the challenges of being a husband-and-wife team very early on. They are both different people, and therefore suit different roles, and they have to be careful about the way they work together.

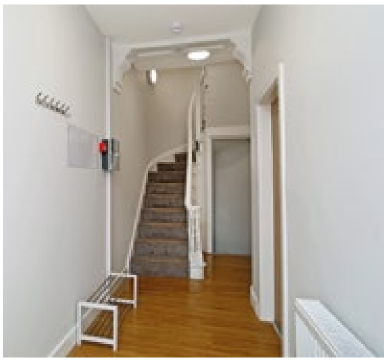
Liz is measured. She can work for long periods of time at a steady pace, but doesn't like to be rushed. She's a great team manager, and has excellent attention to detail. She oversees the project and property management.

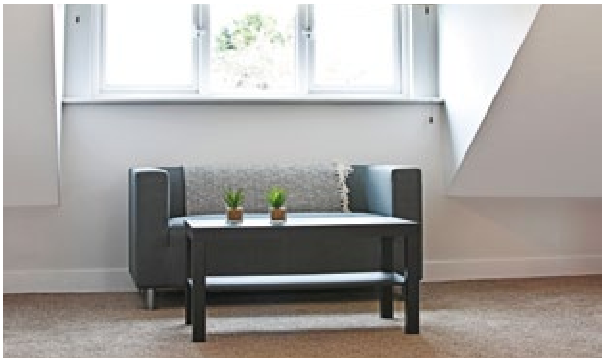
Paul is fast. He talks quickly and moves quickly. He is responsible for leading the business. He creates the business plan, liaises with private investors and handles the acquisitions.

But almost everything else is outsourced. They have surrounded themselves with a team of mostly freelance people who provide different parts of the service.

They aim to be lifestyle entrepreneurs. The only reason they're in business is to have a happy, healthy and balanced life with their family. Wellbeing is such an important contributor to that, which is why it feeds through into the business. *"I describe myself as the weakest link in the business, which is what you always should be,"* he says.

"You should always be surrounded by people better than you."





YPN SAYS

The right HMO model for you will depend on several factors, including the type of demand in the area where you operate, whether you want to be driven by location or tenant group, the level of competition and what type of properties they provide, along with your experience, skills and aptitudes.

As some of the investors featured reveal, sometimes the model is not always about squeezing every single penny out from each property. While the HMO has to make a decent profit to survive and indeed be a worthwhile return for your effort, tenant welfare and garnering a positive reputation as a landlord can be an important part of a strategy to stay in the game for the long term.

By its very nature, investing in property tends to focus on the bricks-and-mortar asset. But it pays to keep the human touch. Caring about the people who live in our HMOs will make for a far healthier portfolio and business, which in the end will make you richer in every sense!

MORTGAGE UPDATE HMO FINANCE

By **Stuart Yardley**
Trafalgar Square Financial Planning Consultants

As the market has changed, we have seen an increase in demand for HMO finance and the number of lenders offering products for these types of properties.

When looking at HMO finance, each lender has their own criteria and the financing options are very much driven by four key factors:

- **Is this already a licensed HMO, or are you turning it into a licensed HMO?**
- **Landlord's experience**
- **Valuation/purchase price**
- **Number of bedrooms**

EXISTING HMO OR CREATING AN HMO?

When you are considering purchasing an HMO, there are a few key questions that relate to how they can be financed for the initial purchase.

With the additional HMO regulation that came in last year, all properties with five or more bedrooms require licensing.

This means that if you are purchasing a property to turn into a licensed HMO, you will need the works completed and licence applied for, before an HMO lender will lend.

Therefore, investors need to purchase with either cash or bridging finance, complete the conversion, apply for the licence, and only once this has been done can you apply for an HMO mortgage.

The exception to this would be if you are purchasing an HMO that is already licensed, for which specialist mortgage finance can be considered from day one.

For smaller HMOs, for example a three-bedroom/two-reception house where you plan to use one of the receptions as a bedroom to create a four-bed HMO, we can look at HMO mortgage finance from day one, even for a first-time landlord. This is assuming there are no other specialist licensing requirements in the area.

If you are converting a house into a licensed HMO, there are a few different bridging options you can consider, from the specialist bridging lenders to the banks. Precise Mortgages also have an option where they will consider a bridge to HMO lending option.

LANDLORD'S EXPERIENCE

The majority of HMO lending options do require you to already have landlord's experience. The typical criteria for an HMO up to seven/eight bedrooms is that you have lettings experience for a minimum of 12 months. There is an exception to this with Kent Reliance, who are happy to consider HMO finance for any existing property owner.

The mainstream HMO lenders will generally look at HMOs up to seven/eight bedrooms, but typically with a standard layout, so one kitchen and a communal living area.

As HMOs increase in complexity, such as larger HMOs or properties with self-contained units, the level of experience required increases as the lending moves towards commercial finance.

PURCHASE PRICE/VALUATION

Most HMO lender options require a minimum valuation of £100,000, but this is slowly improving. There are now options available for HMO finance with a minimum valuation of just under £67,000. Kent have taken the lead in this market with the minimum loan being reduced recently to £50,000.

NUMBER OF BEDROOMS

Many of the mainstream lenders will consider an HMO up to seven/eight bedrooms, that is essentially still a standard house, ie it contains one kitchen and a communal living area.

As a rule, for larger HMOs or properties with multiple kitchens or self-contained units, you are looking at the more specialist HMO and commercial lenders. For these larger HMOs, required experience will be – and this varies depending on the lender – between 12 months' HMO experience of a similar sized property, or three years' lettings experience.

HMO LENDERS

As I mentioned earlier, there is a wide range of lenders within this specialist market, from high-street lenders to specialist HMO lenders and commercial banks. So I thought I would look at a few lender examples from each sector.

Leeds Building Society

Leeds Building Society are one of the high-street lenders who have a range of products for investors looking to finance an HMO property. They have improved their criteria recently and now have a range of products for HMOs up to six bedrooms, and a new range for larger HMOs up to eight bedrooms.

Key criteria for HMOs:

- Maximum portfolio size of ten properties, irrespective of lender
- Available for properties in England, Scotland and Wales
- First applicant must be a residential homeowner and an experienced landlord
- Maximum of eight lettable bedrooms
- Minimum valuation is £100,000 or £250,000 in London
- Lending available up to 75% of the purchase price or valuation

Products include:

SMALL HMOs UP TO SIX BEDROOMS …

75% loan to value/purchase price

- 2.59% 2-year fixed – £999 arrangement fee

70% loan to value/purchase price

- 2.39% 2-year fixed – £999 arrangement fee
- 2.79% 5-year fixed – £999 arrangement fee

LARGE HMOs OVER SIX BEDROOMS

75% loan to value/purchase price

- 3.84% 2-year fixed – £1,999 arrangement fee

70% loan to value/purchase price

- 3.69% 2-year fixed – £999 arrangement fee
- 3.84% 5-year fixed – £1,999 arrangement fee

KentReliance

Kent Reliance have a full range of products available for multi-let/HMO properties that have up to eight bedrooms. They are a great option for investors who are new to this specialist area and looking for a standard HMO to add to their portfolio. Properties must be set out as a standard house and have a maximum of one kitchen and communal living area.

Key criteria for Kent Reliance:

- Range of products available up to 85% loan to valuation/ purchase price
- £50,000 minimum loan if the loan to value =< 75% or a minimum loan of £100,000 if the loan to value is >75%
- Must be a residential homeowner or existing BTL landlord
- First time landlords – maximum loan to value is 80%
- Lending available in personal names or limited company
- Up to eight bedrooms acceptable
- No minimum income – self-employed must have a two-year trading history, and employed three months in their current employment
- Lending available in England and Wales only

65% loan to value/purchase price

- 3.19% 2-year fixed – 1.5% arrangement fee added
- 3.59% 5-year fixed – 2% arrangement fee added

75% loan to value/purchase price

- 3.39% 2-year fixed – 1.5% arrangement fee added
- 3.79% 5-year fixed – 2% arrangement fee added

80% loan to value/purchase price

- 3.69% 2-year fixed – 1.5% arrangement fee added
- 4.39% 5-year fixed – 2% arrangement fee added

85% loan to value/purchase price

- 4.59% 2-year fixed – 2.5% arrangement fee added
- 5.29% 5-year fixed – 2.5% arrangement fee added

Precise Mortgages

Precise Mortgages have a full range of products available for multi-let/HMO properties that have up to eight bedrooms. They are a great option for investors who have existing BTL experience and are looking to either move into this area or refinance an existing property.

Key criteria for Precise Mortgages:

- Range of products available up to 80% loan to valuation/purchase price
- £100,000 minimum purchase price/valuation, or £250,000 in London
- Must be an existing landlord with a minimum of one BTL held and let for 12 months
- Lending available in personal names or limited company
- Up to eight bedrooms acceptable
- No minimum income – self-employed must have a one-year trading history and employed three months in their current employment, with 12 months' continuous employment
- Maximum of one kitchen in the property
- Lending available in England, Wales and Scotland (some postcode restrictions)

INTEREST RATES AVAILABLE INCLUDE:

75% loan to value/purchase price

- 2.79% 2-year fixed – £995 arrangement fee added
- 3.69% 5-year fixed – 1.5% arrangement fee added

80% loan to value/purchase price

- 3.49% 2-year fixed – 1.5% arrangement fee added
- 3.84% 5-year fixed – 1.5% arrangement fee added

Precise are another good lending option for the investor who is looking to finance a simple HMO and enter this specialist market.

paragon

Paragon Mortgages are an established lender who have a full range of HMO products for the experienced landlord who have a minimum of three years' experience. They will however consider larger HMOs and properties that do have a non-standard layout, such as multiple kitchens or self-contained units.

Key criteria for Paragon Mortgages:

- Range of products available up to 80% loan to valuation/purchase price
- £100,000 minimum purchase price/valuation for up to ten rooms
- £150,000 minimum purchase price/valuation for up to 20 rooms
- Must be an existing landlord with three years' lettings experience
- Lending available in personal names or limited company
- Up to eight bedrooms acceptable
- Minimum £25,000 provable income required
- Self-employed/company directors must have two years' trading history
- Employed applicants must be in permanent non-probationary employment

INTEREST RATES AVAILABLE INCLUDE:

75% loan to value/purchase price

- 3.20% 2-year fixed – 1% arrangement fee added
- 3.60% 2-year fixed – no arrangement fee added
- 3.75% 5-year fixed – 0.5% arrangement fee added

80% loan to value/purchase price

- 3.99% 2-year fixed – 0.25% arrangement fee added
- 3.50% 5-year fixed – 2% arrangement fee added

Paragon are a good lender for the experienced landlord who is looking to add a larger HMO to their portfolio or refinance an existing property.

We then move onto the commercial lenders such as Shawbrook Bank, Aldermore Bank, Interbay, Cambridge and Counties.

The commercial banks will all consider HMO finance for experienced landlords, and they will be able to assist when you are looking at financing large HMOs or properties with a complex set up. They will also consider properties that contain a commercial element.

As you can see, there are many options available for when you are looking to finance an HMO, and I would recommend speaking to myself or your broker to discuss your individual circumstances.

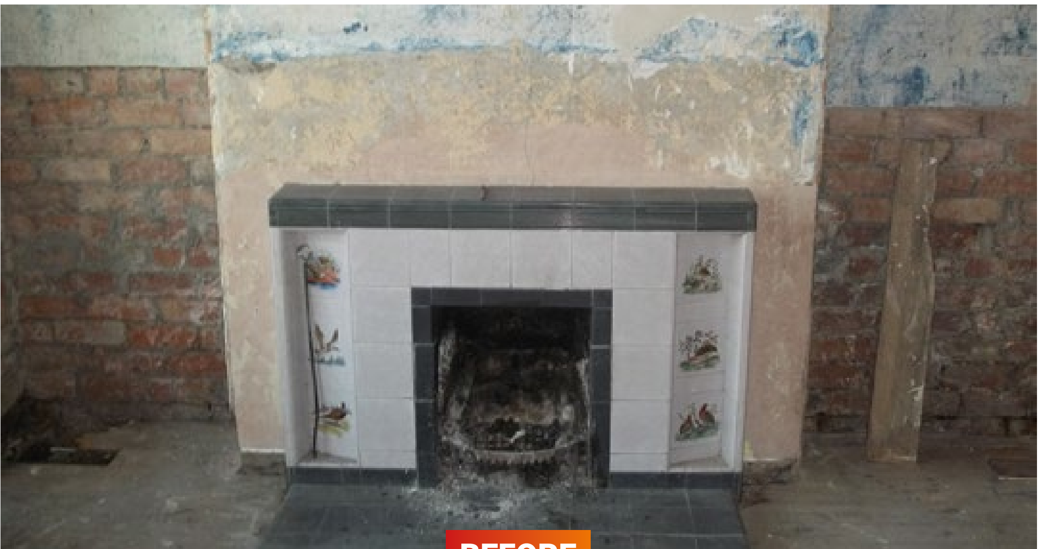
ADDING VALUE TO READY-MADE HMOs REALLY RAMPS UP THE PROFITS

Interview & words by **Heidi Moment**

Wesley De Leur's niche strategy of adding value to already tenanted HMOs means he not only makes profit from day one, but he saves time and money on the refurb, as well as adding significant value so he can release the equity further down the line. Read on to find out how he does it.

WHY HMOs?

Myself and my wife started investing in property over ten years ago, building up a nice portfolio of single lets. We've got 28 in total, and they all tick away nicely. Around seven years ago we bought a property in London to live in initially, and over time it ended up becoming a HMO. It happened almost by accident really, but it's gone on to work really well for us. So in this ever-changing industry we're in, we decided to diversify our portfolio and start to add more HMOs into the mix.



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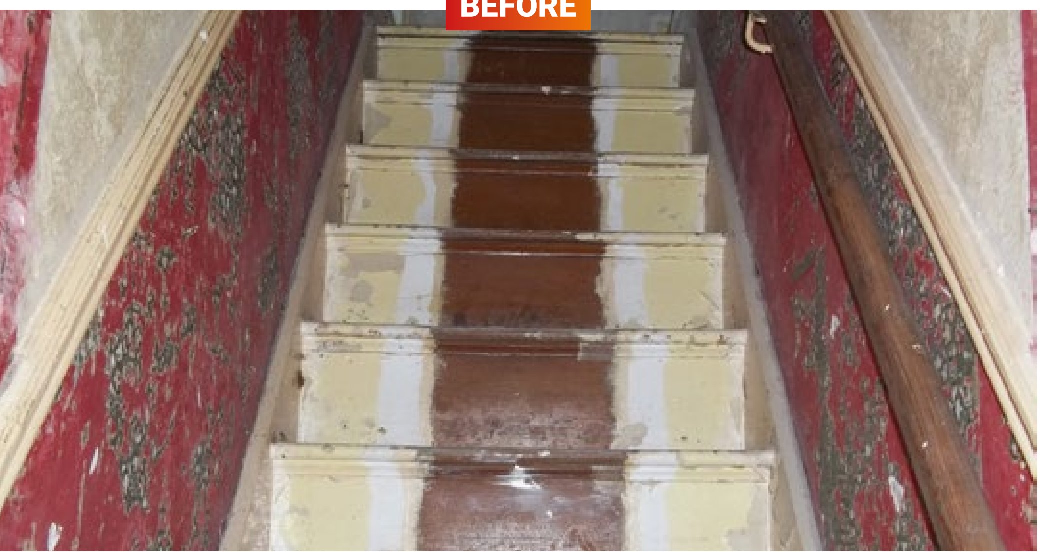


CASE STUDY THE BANK

The property

We purchased this four-bed property from an elderly couple who wanted to downsize. We took it back to brick and, basically, started again. The layout was all higgledy-piggledy so we reconfigured the space, opening it all up to make it more spacious and we added a new room in the loft extension. We also raised the floor level throughout and added some decking to the rear to make it all on one level and give it an overall free flowing feel.

We hadn't initially intended for it to be a HMO, but once we started putting the feelers out we saw there was great potential, so we made sure to get full HMO compliance; fire doors, alarm systems etc. And there we had it - our accidental HMO. And a great accident it was.

Tenants

We lived in this property initially and a few of our friends wanted to come and stay, so we ended up renting the rooms out to them. We subsequently moved out and moved a group of friends in, who I have to say are the most accommodating tenants I've ever known. They take care of all the bills, including council tax, utilities, water, sky TV etc.

We just cover the mortgage. If one person moves out, they find someone else to move in and they even fix things in the house and just notify us of it, which is just fantastic.

Labour

I'm an electrician by trade, and my current role involves project managing large mechanical and electrical projects, so I'm very familiar with building work. I did most of the works myself and got sub-contractors in to do the things I couldn't, like the loft conversion and the plumbing and gas.

I always like to roll up my sleeves and get my hands dirty in all of our refurbishments. I like to be able to put my own stamp on a property, taking a rundown shell and turning it into something really homely and cosy, for people to live in. When it's finished, I like to take a step back and feel a sense of accomplishment, both for myself and my team. Property is very much a team game, from sourcing and purchasing the property through to doing the building works and finding tenants, there are a lot of people involved and I like to give everyone a pat on the back when we finish a job.

The Numbers

Open market value:	**£355,000**
Purchase price (incl. all costs):	**£305,000**
Refurb cost:	**£60,000**
Total costs including all refurb, acquisition, and sales costs:	**£101,150**
End value post refurb:	**£450,000**
Rooms rates:	**£600-£800**
Monthly rental income:	**£2,300**
Monthly bills:	**£0 The bills are taken care of by the tenants**
Monthly profit:	**£950**
Revaluation:	**£650,000**
Money released post revaluations:	**£190,000**

Equity release

We call this property our bank because we've used it to almost finance our whole portfolio. Our strategy has always been to get all of our money back out through refinancing. Sometimes we may leave a little bit in but we try our utmost to get every penny back out. The current market value on this is £650,000 and over the years we've released £190,000 equity, which we've used to reinvest.

AFTER

READY-MADE HMOs

"Adding ensuites will increase room rates significantly"

In addition to reviewing our own portfolio we're also looking to buy properties that are already functional HMOs, where we can add value.

At the moment there are a lot of landlords looking to exit the market because there's a lot of uncertainty. We see uncertainty as opportunity, so we're specifically targeting ready-made HMOs. In particular those where the previous landlord has unknowingly overlooked a few areas where we can add value and increase rents, such as loft spaces, dissecting rooms or adding ensuites.

We expect adding an ensuite will increase rents from £350-400 per room to £470-525 per room for a standard double room. In our London property we expect rents to increase from £590 per room to £750-£800 for the standard doubles and from £800 per room to around £1,000 for the large triple. Including bills, of course.

"Buying tenanted HMOs means we make money from day one"

Doing this rather than converting a house into a HMO doesn't take as much time and the cost is significantly lower. When converting a property in addition to the build cost you also have the ongoing bills to cover while the refurbishment is going on. These can mount up if you're not careful. Buying a ready-made HMO means we literally hit the ground running. We can add the value with little or no disruption to the current tenants and as it's already making money we will make a profit from day one from the tenants who are already in place. That's it. And that's a big factor.

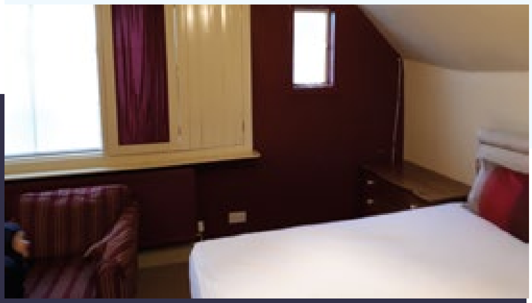
CASE STUDY BULLRING

The property:

A 2,100 square foot five-bedroomed terraced house that used to be a bed and breakfast, but then got converted into a licenced HMO. It's massive and inside is an absolute labyrinth. The seller wants to retire so is selling, despite the property working well and being in fairly good order.

The plan:

The rooms are enormous – most around 20 square metres. So we are going to split some of them to convert the house into an eight-bed. We're in the process of applying for sui generis planning permission, which we'll need because we're going over seven bedrooms.



STRATEGY DIVERSIFICATION

As the market changes, we've recently been reviewing our whole portfolio to see if we can implement any changes into our properties to make them more appealing to tenants, and, ultimately, more profitable for us.

Our intention is to make sure all houses are filling their potential, by adding additional rooms and extra facilities where possible, to drive up the rental income per property. In The Bank, for example, there are two living rooms but nobody seems to use the second room, so there is great potential to add an additional bedroom. We've spoken to the tenants and they are happy for us to add an extra bedroom, so we're looking to do the works this year.

That will then push the value up further, so we'll be able to look at refinancing again. Of course, we don't want to over-expose ourselves or push the boundaries too far, gearing our properties so high that we're open to financial problems if the rates change. So we're watching what the market does and will review it when the time comes. If there is equity we feel we can pull out, we will then do that and move on.

GATHERING KNOWLEDGE

We relocated from London to the Midlands and our single lets are all in the North East, so we've had to do a lot of research to find new locations to invest in. We're currently targeting Worcester as it fits the demographic for our immediate strategy, but we're also interested in looking around Cheltenham, Gloucester and Hereford too.

We've always been actively involved in groups and networking, but when we launched into this new strategy we wanted to learn from the best and surround ourselves with likeminded people. So, we joined Rick Gannon's Mastermind group. We've been part of it for about a year now. Rick's coaching and training is second to none. His style is unique. He'll tell it as it is and he doesn't hold anything back. You really do get the good, the bad and the ugly, which is what you need to see in order to make the right decisions. We've been very happy to be part of his masterminding group and we thoroughly recommend it.

BUILDING GREAT RELATIONSHIPS WITH ESTATE AGENTS

We do most of our sourcing through the normal platforms, Rightmove, Zoopla, and we always have an eye on the market. We've made a special effort to get to know our local estate agents, connecting with them, dropping off cakes, and taking them for a coffee and a chat. We like to meet them face-to-face and tell them what we're looking for. One thing we've realised over time is the property industry is a very people-orientated industry and if you want to take it seriously, you have to build good relationships and have good communication.

"Good relationships with agents get us good deals"

We're clear on what we're looking for and if they come to us with a property that isn't suitable we just pick the phone up and say, *"Appreciate the work you're doing. You're sending us a lot of deals but they're not necessarily what we're looking for. This is what we're looking for"*. And they go away with the feedback we've given them, and start to really hone in on what we're looking for.

We're going to split two of the rooms to make four rooms. There'll be two shared bathrooms between the four. Then we're going to add ensuites into the remaining four bedrooms.

When we're finished the smallest ensuite room will still be 16 metres squared. So still pretty huge as far as HMO rooms go.

Potential obstacles

It's an Article 4 area and the whole building is a grade 2 listed building, which both pose their own set of challenges and we need to get consent to do the works. The council need to check that we're not going to change the overall characteristics of the building too much so that it doesn't resemble what it used to. We're meeting with the planning officer and conservation officer to go through the proposal next week. We don't have any major concerns so we're not too worried, but if for any reason we only get to have six bedrooms then that's fine too. It's perfect as a six bed, but eight will really maximise it.

The Numbers

We've had an independent RICS valuer to value the property based on the works we're planning to do. We showed him our previous projects so he can visualise the end result and the quality of the product. We're happy to say the valuations have come back above our expectations, which is always a bonus. He explained that he's valued the room rates quite conservatively at £395 and £450 per room, but we know the previous landlady was getting £530 for the ensuite rooms and £495 for the non-ensuites, so we think we may be able to get more, but are happy to err on the side of caution at this point and use his numbers, then if we can increase them slightly, it will be a bonus.

Open market value:	**£250,000**
Purchase price (incl. all costs):	**£225,000**
Refurb cost:	**£30,000**
Total costs including all refurb, acquisition, and sales costs:	**£95,000**
End value post refurb:	**£355,000**
Room rates:	**£395-£450**
Monthly rental income:	**£3,380**
Monthly bills:	**£815 (mortgage) £540 (bills) £230 (management) £150 (maintenance & voids)**
Monthly profit:	**£1,645**
Pre Works Valuation:	**£355,000**
Money to be released post revaluation:	**£104,000**

NEVER SIT STILL

FILL YOUR HOURS WITH MEANINGFUL TASKS AND YOU'LL REAP THE REWARDS NICK SMITH

Interview & words by **Heidi Moment**

Property developer, five-time ironman, ultra distance runner and PIN Mastermind top performer, Nick Smith never sits down, literally never. We met up with him to find out how he fills every day with meaningful actions towards his goals and how managing multiple HMO projects is a doddle for him and his team.

ALWAYS LOOKING FOR OPPORTUNITIES

Alongside my corporate job, as a Director in a printing company, I've been investing in property since the early 2000s. I'm always looking for property and I like to find opportunities and investments that allow me to add value and create wealth for my family. Over the years I've bought some interesting properties. I've bought anything and everything from single lets to holiday lets and shops. I also own ski apartments in France and Bulgaria, an apartment in Dubai and have completed numerous development flips and several new builds.

MAKING THE MOST OF MY TIME

A lot of people say they don't have enough time to invest in property, but when you look at it there is actually an awful lot of time in one day. I've always believed that I should fill every day with as many actions as I can to take me towards my goals. Throughout my corporate years I always worked two jobs - one for my corporate clients and one for my personal wealth creation. I don't waste time and I don't do what I call 'junk hours', such as watching TV. Instead I prefer to actively do something to push my goals and plans forward.

"Time is the most precious thing in the world - use every minute you can"

At the end of 2017, I ended my corporate job to focus on property full-time. I'd always intended to do it and it felt like the right time. I've owned my own businesses before and I've always preferred to work for myself. I had grown tired of the politics and frustrations that come with working for a large PLC, as well as the long trips to India and Asia, which meant I was missing out on valuable family time, and I longed to be my own boss again. After doing plenty of property projects over the years and gaining valuable experience, I knew that being in property full time would mean I could grow and make my business even more profitable, working with my own funds and inviting investors to share the rewards along the way, and I was certainly ready for that.

EDUCATION AND TRAINING

I took some time at the beginning (three months) to look at the market and the different investment opportunities that were available. During this time it became clear to me that with my experience in development and lettings I was well positioned to move into investing and developing high-end HMOs, and my company, Saltbox Living, was born.

I started looking for educational opportunities and came across Rick Gannon. I liked what he was offering, so I signed up to his monthly HMO online course where I picked up a lot of information and knowledge.

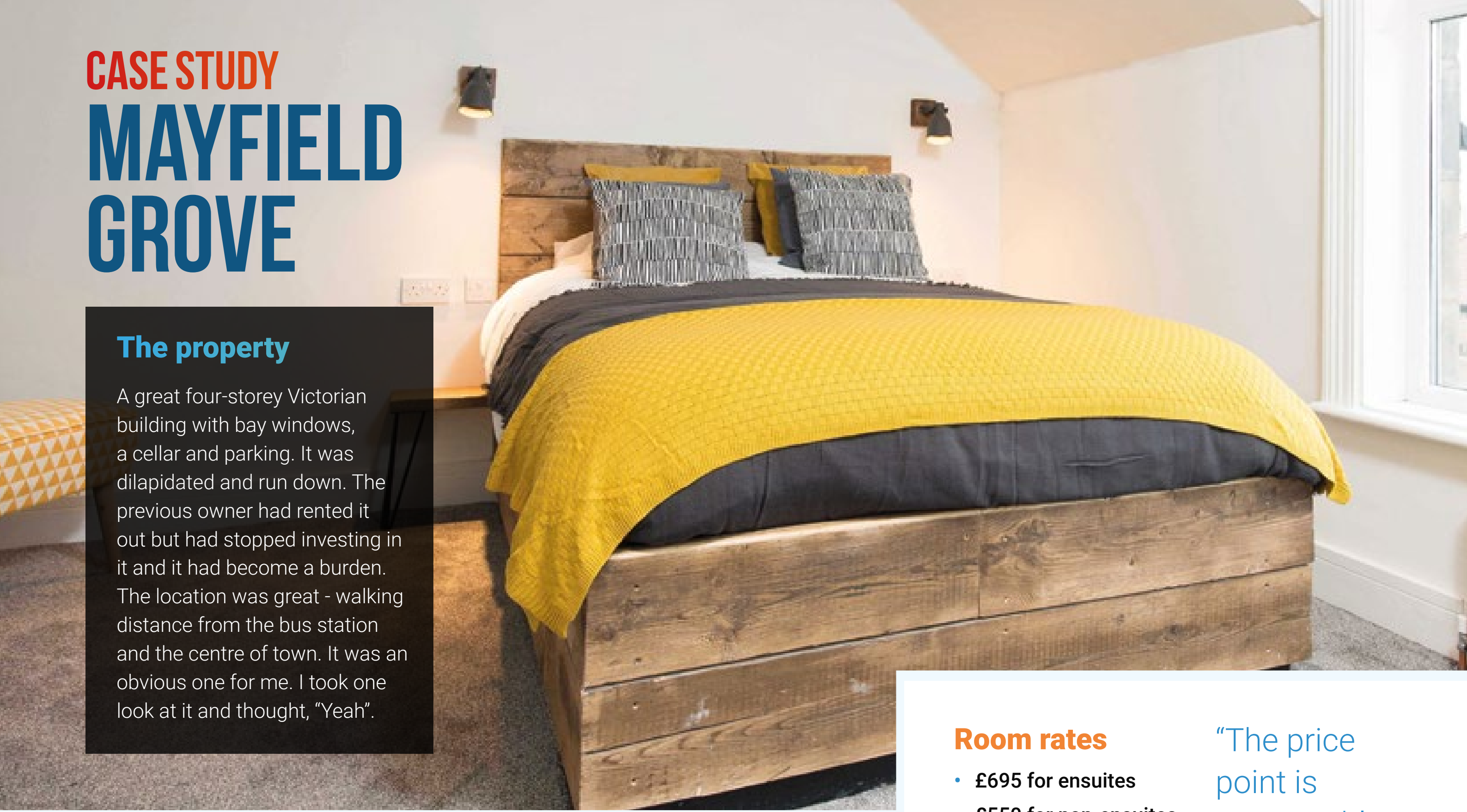
Eventually Rick asked me to join his Elite Masterminding group, which is a once a month round table meet up, with a group of experienced property investors. It's a great environment for me. I've never been a person that needs a huge amount of accountability, but I do find the group helps to focus the mind on what I need to be doing next. The knowledge and experience in the group is fantastic too and we all find it exceptionally useful to bounce ideas off each other.

STRATEGY

My main strategy is finding and developing high-quality HMOs in great locations for working professionals. I produce homes that are truly wonderful places to live and tenant happiness is at the heart of the company values.

I provide great looking and inspirational homes that have super functionality; CAT 5 capabilities, super fast Wi-Fi, modern kitchen living, breakfast bars, good TVs and really comfortable lounges. Our young professional tenants have everything they need so they feel right at home.

I also invest and develop high-yielding holiday lets / serviced accommodation and have recently bought two properties, which are currently being developed.



CASE STUDY

MAYFIELD GROVE

The property

A great four-storey Victorian building with bay windows, a cellar and parking. It was dilapidated and run down. The previous owner had rented it out but had stopped investing in it and it had become a burden. The location was great - walking distance from the bus station and the centre of town. It was an obvious one for me. I took one look at it and thought, "Yeah".

Room rates

- **£695 for ensuites**
- **£550 for non-ensuites**

Room rates are a bit higher then the competition, but not too much, as I wanted to provide something that's economical for people as well. The price point is comparable to what you could get a one bedroomed self-contained flat for, but obviously our rooms are cheaper as bills are included.

"The price point is comparable to a one-bed flat"

Works include

Full refurbishment to convert it from a residential house into a six-bed HMO with four ensuites.

- **Developed the cellar to create a room with ensuite**
- **Opened up the kitchen to create a communal dining / living area**
- **Converted the extension into a comfortable living room**
- **Installed a Mega-flow system**
- **End result was a six-bed property with four ensuite rooms and two rooms sharing a large bathroom.**

"No planning needed. We converted from C3 to C4 under permitted development"

The Numbers

Open market value:	£350,000
Purchase price (incl. all costs):	£311,250
Refurb cost:	£65,000
Total costs including all refurb, acquisition, and sales costs:	£376,250
End value post refurb:	£425,000
Rooms rates:	Av. £580
Monthly rental income:	£3,480
Monthly bills:	£1,235
Monthly profit:	£2,245
Revaluation:	£425,000
Money released post revaluation:	£318,750

STAY LOCAL

To be able to manage HMOs properly, I think it's better if you're not too far away. I'm lucky that if I drew a circle around my house near Harrogate, within an hour's drive I can pretty much cover most of the main parts of Yorkshire - Leeds, Huddersfield, Barnsley, Doncaster, York and Harrogate. So I've got a really good spread of areas for both myself and my investors to invest in, with a really wide breadth of costs and different types of potential properties and tenants.

When it comes to location, it's important to find properties near good rail, bus and road networks as well as being either in the centre of town, or near other sources of employment that are a short walk or bus ride away, such as an industrial estate.

FINDING DEALS

> "I've got the main parts of Yorkshire covered"

My preferred method of sourcing is direct to vendor and I buy most of my properties this way. I do landlord letter campaigns to find motivated sellers and I also target certain streets with marketing leaflets. My experience allows me to take action and buy quickly, which has resulted in other people referring sellers to me too, which is great.

Alongside that I spend time with a few estate agents that I've worked with in the past and I often get deals through them. They're in the business of selling houses, so when an agent knows you will buy and can buy quickly, you become very valuable to them and they generally come back to you again and again.

I prefer to buy properties that I can put my own stamp on to create something that is both functional and well designed. That's not to say I won't look at an existing HMO. I will, but generally I want to upgrade the property myself by adding value through refurbishment.

NO TIME TO SIT STILL

Since leaving the corporate world I've really ramped things up and made full use of my time, and in the last six months I've sourced and agreed to purchase nine properties. The first five have been bought and are either fully operational or going through the development stage. And I've also got two further projects under negotiation.

Completed & Current projects

- **Six-bed HMO in Harrogate**
- **Five-bed HMO in Doncaster**
- **Six-bed HMO + 1 bed apartment in Barnsley**
- **Six-bed HMO in the centre of Ripon**
- **SA flat in the centre of Harrogate**

In legals

- **Six-bed HMO in South Yorkshire – (sourced direct from vendor)**
- **Five-bed HMO in South Yorkshire – (sourced direct from vendor)**
- **Five-bed HMO - Harrogate**
- **Two-bed flat - Harrogate**

Future projects under DD and negotiations

- **10-bed student accommodation in Huddersfield (sourced direct from vendor)**
- **24-bed property – (sourced direct from vendor)**

THE KNACK TO MANAGING MULTIPLE PROJECTS

In order to manage multiple projects at the same time it's essential to have a team I trust and can rely on. I've been working with the same team for quite some time on various developments and flips and I've developed the knack of managing them effectively, making sure everybody's working and things are moving along quickly.

By managing the people and utilising the skill sets within the team, we can be stripping out one house, while plastering another and painting and decorating another, so each tradesman is being used all the time. The key is to stagger the projects but keep them as close to one another as possible to make sure everyone is always fully engaged. By doing this we can comfortably do three or four projects at any one time.

I oversee all the projects but I have a project manager who does the day-by-day. We work together to make sure we're always ahead of the build team, so there's no lost time because of the wrong material or the wrong product being delivered at the wrong time. We like to make sure all the materials are on site, ready and waiting, so the build team don't have any downtime. We're strict like that, but it works.

> "Strict project management means no delays"

Tenants

I always advertise my rooms before the refurbishment is finished. Even when we haven't finished a house tenants can see the quality we are bringing to it and sign up ready to move in when it's finished.

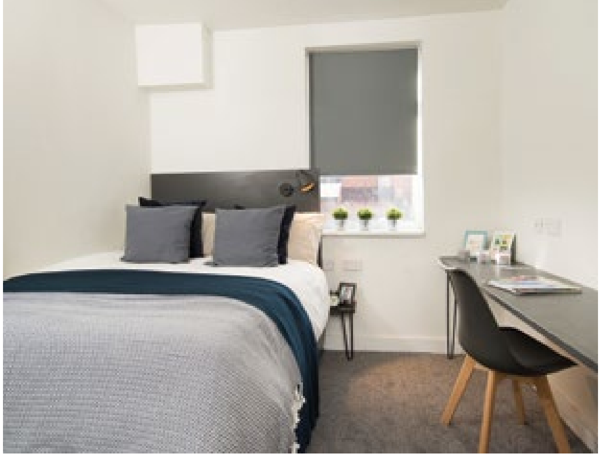
Mayfield Grove was a really popular one. People were queuing around the corner. We had so much interest that we were able to pick and choose tenants, so we made sure to get the ages and working times close together, so there would be minimum disruption in the house. Having a group of housemates that do similar types of jobs and worked similar hours provides the right social environment, which is what I was aiming for.

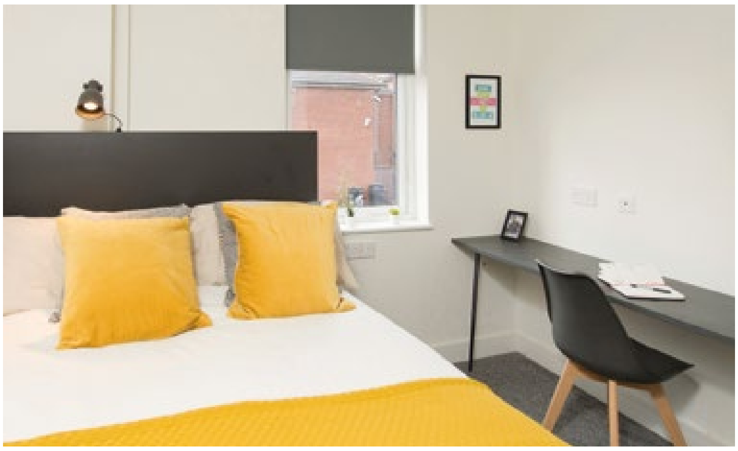
CASE STUDY BELMONT AVENUE

The property

A Victorian house that a landlord had been running as a three-bed single-let. It was tired and hadn't had any money spent on it. With high ceilings, large rooms, two big reception rooms and a great backyard with an outside shed, there was a lot of opportunity here.

The seller was a really motivated landlord who wanted to retire and get rid of this house quickly, so I managed to negotiate a good price.





The refurb

Converted it into a five-bed HMO - all ensuite.

- **Restructured the upstairs layout to get three bedrooms upstairs, all ensuite and all large enough to meet the criteria for the licensing**
- **Converted front room to a bedroom**
- **Made existing kitchen in extension into a bedroom**
- **Put the kitchen in the middle, as it's important to have the communal area accessible to all**
- **Used the cellar as a laundry room, as it wasn't cost effective to turn it into a habitable room**
- **Created a door to get outside into the yard, so, the kitchen can be accessed from both the rear of the property and the front of the property.**

The numbers

Open market value:	£85,000
Purchase price (incl. all costs):	£70,000
Refurb cost:	£45,000
Total costs including all refurb, acquisition, and sales costs:	£119,995
End value post refurb:	£140,000
Rooms rates:	£411
Monthly rental income:	£2,055
Monthly bills & finance:	£761.31
Monthly profit:	£1,293
Revaluation:	£140,000
Money released post revaluation:	£105,000

"A full conversion takes 12 to 14 weeks"

TOP TIPS

Don't waste time

You can do a huge amount of things even if you are still working. Look at your day, look at what time you're wasting, and use that time.

Have the right mindset

Set yourself a target, whether that's property investing or anything else in life, and develop the mindset to achieve it.

Educate yourself

Not only will this increase your knowledge, it will also build your confidence and introduce you to people who are doing the same thing. Then the opportunities will start to come and you can really begin to take action.

Be aware of what type of person you are

Understanding yourself using Wealth Dynamics is key to understanding how you work and who you need to work with to make a success of it.

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