THE INVESTOR'S GUIDE TO

HOUSES IN MULTIPLE OCCUPATION (HMOs)

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PART 1: GETTING STARTED

With the current pressures on the housing market and increasing complexities and costs for landlords, it's easy to see why houses in multiple occupation (HMOs) are becoming increasingly popular with both property investors and tenants alike. That's because, rather than renting out a whole property to one household, HMOs allow property owners to rent out individual rooms.

If you're considering investing in HMOs, there are lots of factors to consider before you take the plunge. Careful thought and research is needed. This book sets out what you need to be aware of and helps you get started with HMOs; however, it's not intended as a replacement for expert legal or financial advice, and you'll obviously need to do some homework on the specific HMO rules and regulations set out by your local council (see Part IV for more on this). I don't say that to put you off. Far from it. I've had an incredibly positive experience of running HMOs. But, as with any investment strategy, it's important to go into it with your eyes wide open.

On the plus side, HMOs can deliver a great return on investment, usually significantly more so than a traditional buy-to-let. And I'm testament to this myself. At the age of 24, I turned my house into an HMO, renting out multiple rooms to tenants while I was still living in the property. This first HMO was to be the start of my journey into property investment, and I now own a property portfolio worth more than £20 million. With hard work and careful research, and by working with experts you trust, your own property investment journey could be just as successful.

What exactly are HMOs and how do they work?

Not every shared property is an HMO, so it's important to be really clear on what defines an HMO.

The official HMO definition

The government planning department defines an HMO as a property with three to six tenants living there, forming more than one household, with shared kitchen or bathroom facilities. A 'household' in this definition is either a single person or members of the same family who live together (including married and co-habiting couples).

Say you own a three-bedroom house and occupy one of the bedrooms yourself, and you rent out the two remaining bedrooms to tenants. That wouldn't be classified as an HMO, because there are only two tenants living there. But if you then turn a reception room into a bedroom and rent it out to a third tenant, the house would qualify as an HMO.

An HMO isn't necessarily a house; it could be a shared flat, for example. The essential criteria is that property amenities are shared by multiple households. Strictly speaking, even self-contained flats in a converted house can qualify as HMOs, if they were converted without complying with 1991 (or later) Building Regulations. In practice, though, self-contained flats with their own private amenities don't need an HMO licence.

There's also an additional definition to get to grips with, and that's 'large HMOs' that require mandatory licensing by the local council. From a licensing perspective, large HMOs are rented to five or more people (not part of the same household), with shared kitchen or bathroom facilities. Although large HMOs have required mandatory local authority licensing for some time, it's important to note that the rules are constantly changing. What's more, the application of mandatory licensing varies from council to council, and may be applied to smaller HMOs in some areas. There's more on licensing in Part II, but the key lesson for now is to always check with your local authority to see whether mandatory licensing applies to your HMO.

Understanding the HMO financial model

The best way to explain the financial model is with a quick example. Say I buy a three-bedroom house and rent it out to one household as a straightforward single let. Depending on what part of the country the house is in, I might earn £1,000 a month in rental income. Not bad, and plenty to cover the mortgage.

However, if I turned the study and dining room into two extra bedrooms and rented out each of the five bedrooms individually (either to single persons or couples), I could expect to earn around £450 from each room. That's a monthly rental income of around £2,250. In this way, compared to a regular buy-to-let property, HMOs ordinarily deliver a much higher yield.

Sounds great, right? Absolutely. However, the costs also tend to be higher. With more tenants comes increased utility bills, insurance, maintenance costs and management fees (if you use a managing agent), not to mention a higher chance of void periods (where one or more of the rooms are vacant) and increased costs around finding tenants. In my own experience of HMOs, I've found that costs typically add up to around 10–15% of the gross rental income each year. (And if you're paying a managing agent to look after your property for you, your costs will be higher. For my extensive portfolio of HMOs, I have an in-house team manage my properties, and this helps to keep costs to a minimum.) Even taking account of these higher costs, though, the financial model for HMOs is still more attractive than a standard single let.

Looking at the pros and cons of HMOs

Now that you understand the financial model, you've probably got a good idea of the obvious pros and cons.

The main advantages of HMOs are:

- **You'll earn more** – rental yield on HMOs tends to be much higher than a standard let.
- **Financially speaking, HMOs tend to be fairly low risk** – if two of your rooms are empty for a while, you'll probably still be earning enough to cover the bills and mortgage. Whereas, if a standard let lies vacant for a while, you'd be covering the bills and mortgage yourself.

And the key disadvantages are:

- **The costs are higher** – utility bills, maintenance … everything we looked at in the previous section will be higher in an HMO.
- **HMOs take up more of your time** – if you manage the HMO yourself, that's a lot of tenants to find, settle in and manage You can of course pay a managing agent or someone else to handle all that for you, but then your costs will be higher. There's more on managing your HMO in Part III.

Should you invest in HMOs?

Generally speaking, HMOs are more work than a traditional buy-to-let investment, but it's clear that the potential income is significantly greater. Now is also a great time to get into HMOs; demand for housing is high and, particularly in popular urban areas, rental costs can be huge. This is driving more and more people to rent individual rooms in a shared house or flat, as opposed to getting a place of their own. With wages barely rising in line with living costs, if at all, I can't see this changing anytime soon.

So, yes, I think HMOs make a great investment strategy for those looking to get into property. Is it right for you, though? Only you can answer that. But I hope this book will help you arrive at a decision.

Financing your HMO

f you're buying a property to turn it into an HMO, you'll need to secure funding. Usually, this is done through a mortgage.

You'll need a specialist mortgage if you're buying a property to use as an HMO. Finding a mortgage can be more challenging than for a typical buy-to-let, and HMO mortgages may be subject to higher fees and interest rates. Whether your property is a licensed HMO, or a smaller HMO with fewer than five tenants will come into play, as the bigger the HMO, the harder (or more costly) it may be to find a mortgage. You may find that a commercial mortgage is necessary on a large HMO.

Likewise, if you're turning your own property into an HMO, you'll need to inform your mortgage provider, and, depending on the size of your HMO, you may need to change your mortgage. To get the best advice and deal for you, you should talk to a mortgage broker who specialises in HMO mortgages.

Sourcing your HMO

There are three main options for sourcing an HMO:

1. Turning your own property into an HMO
2. Buying a property to turn it into an HMO
3. Buying an existing HMO

Option 3 is a fast way to get into HMOs, since you'll be buying a property that is already functioning as an HMO, andhopefully has tenants already in place. However, a functioning HMO may command a premium, and may therefore be out of reach for first-time HMO investors. Therefore, in this book, I assume that you'll be choosing option 1 or 2.

Option 1: Converting your existing property into an HMO

This is how I got started in HMOs, and I'm sure the same is true of many first-time investors. First things first: if you're considering converting your property into an HMO, you must talk to your mortgage provider, and find out from your local council whether you would need a licence and planning permission (more on this in Part II). You'll then have some work to do to ensure your property meets the various legal requirements around fire safety, gas safety and the like – again, there's more on this in Part II.

There are also practical considerations around making your property habitable for more people. For example, if you're planning to turn a living or dining room into a bedroom, is it big enough for a typical double room? Research rooms to rent in your local area on SpareRoom to be sure your rooms offer sufficient space. Other questions to ask yourself at this stage include:

- Do you need to convert a small bedroom into an additional bathroom? One bathroom is a multi-tenant house can be a strain.
- If you have more than one reception room, do you want to turn them both into bedrooms or leave one as shared living space? Some tenants can be put off if there's no living space.
- Do you need to make any structural alterations to create the space you need?
- Is there potential to convert the attic into an additional bedroom? You would obviously need to consider the cost and planning implications of this versus the additional income.

- Do your appliances and fittings need upgrading to cope with the additional wear and tear? A cheap and cheerful power shower, for instance, won't last long at all in a house of five people.

Even if you don't need to do any major work to convert your property, you'll still need to ensure the property is adequate for and attractive to your target audience (more on target audiences later). You should also be aware that the property will inevitably be subject to more wear and tear and, as a live-in landlord, you'll be expected to see that repairs and replacements are done quickly and to a good standard.

Option 2: Buying a property to turn it into an HMO

If you're purchasing a property to use as an HMO, it's worth buying the biggest property you can reasonably afford. A four-bedroomed property will make you more in rental income than a three-bedroomed property – and, crucially, for not much more in terms of effort, time and ongoing costs. Extra bedrooms mean better economies of scale and more money in your pocket.

Keep in mind that, if you're planning to convert a property into an HMO, you may need planning permission and a licence (see Part II). You should obviously find out which rules and regulations would apply to your property before you commit to buying it. Also remember that sorting out licensing and planning can take a while, so you should factor this additional set-up time into your calculations on what you can reasonably afford.

Working out what type of tenant you want to attract

Before you buy a property or start converting your property into an

HMO, you need to think about who it is you want to let to, as this will affect many of the decisions you make along the way. The main tenant profiles HMO investors target are:

- Professionals (usually young professionals who are waiting to get on the property ladder themselves)
- Students (who are typically in the property just for the academic year)
- Social housing tenants (usually local council or housing association tenants, but you would ordinarily lease the property to the organisation rather than individual tenants)

Each type of tenant has their advantages and disadvantages, so, as a first-time HMO investor, much of your decision will probably come down to the type of people you want to deal with (or even live with).

Naturally, there's a financial angle to consider as well. Many investors favour professional tenants, as they're perceived as being more reliable payers; however, professional tenants tend to be fussier about the quality of their accommodation (nice kitchen, high-speed internet, maybe even en-suite bathrooms) so you may find your initial work on the property and ongoing maintenance costs more. Student tenants tend to create more wear and tear and typically move on every year, although they're usually less fussy about amenities. Finally, while many HMO investors shy away from social housing tenants, they can be a savvy choice, as the social housing provider will typically rent the property for a period of five years and cover all the utility bills, void periods and rent arrears during that time.

Personally, all things considered, I've seen the best results and had the best experiences with the professional market.

Working out the best location for your HMO

If you're buying a property, as opposed to turning a property you already own into an HMO, you'll need to do your homework on where your HMO should be located. Much of this will depend on the type of tenant you're trying to attract; student tenants will only be interested in locations close to a university, for instance.

However, there are other things you need to consider before you commit to a particular location:

- Supply and demand – again, SpareRoom is a useful resource here as it lets you see exactly how many rooms are available to rent in each area, as well as how many tenants are looking for rooms.
- Potential yield – rents vary from location to location, so you'll need to do your sums on how much property is to buy in a given area versus the typical room rent rates. SpareRoom and Zoopla are helpful for this.
- Local population – Mouseprice provides details on local population, average earnings, largest source of work in any given postcode, and how well the local area is growing (or not).

Research is invaluable at this stage, but so is local knowledge. So, for a first-time HMO, I'd advise you to stick within an area and population that you know relatively well. That's the approach I took and it worked well for me.

PART II: STAYING ON THE RIGHT SIDE OF THE LAW

HMOs tend to be more tightly controlled than standard single lets, so there's slightly more to get your head around in terms of management regulations, planning permission and licensing. It's important to note that planning and licensing are two completely separate things, with different requirements, so you'll need to consider how both aspects affect you when setting up your HMO.

Complying with HMO management regulations

The Management of Houses in Multiple Occupation (England) Regulations 2006 apply to all HMOs, whether licensed or not (more on licensing coming up). These regulations impose various duties on anyone running an HMO, in order to help control health and safety risks and ensure accommodation is decent. These requirements include ensuring:

- Proper facilities are supplied for the disposal of rubbish (if not supplied by the council), and that refuse is not allowed to build up in the house
- Reasonable precautions have been taken to ensure the property's structural safety and condition doesn't pose a hazard to occupants
- Proper maintenance and cleanliness of common areas, such as entrances, stairs, hallways and gardens
- Repairs to fixtures, fittings and appliances in common areas are properly carried out
- Repairs to fixtures and fittings in living accommodation (i.e. bedrooms) are properly carried out
- A safe means of escape in the event of a fire, and that

firefighting equipment and alarms are installed and maintained
- Proper provision of essential services like electricity, gas, water and drainage – and that these services are not unreasonable disrupted
- If the property uses gas safety certificate is supplied to the council
- Electrical installations are in a safe condition, and that an electrical safety report is obtained every five years (to be given to the council on request)
- Your name, address and telephone number (or that of your managing agent) is displayed in the house

If you're convicted of breaching these regulations, you could face a fine of up to £5,000 per offence.

Understanding HMO planning requirements

Legislation in England and Wales puts properties into categories called 'use classes'. A residential house is categorised as use class C3, yet an HMO (defined in this case as between three and six unrelated occupiers sharing basic amenities) is classed as C4. Ordinarily, you would need to apply for planning permission to change a property from one use class to another. However, in 2010, the government simplified the rules to allow for 'permitted development', meaning properties can be changed from class C3 to C4 without planning permission, providing something called 'Article 4' doesn't apply.

And Article 4 is the tricky bit, because it's designed to limit planning permission for HMOs. Essentially, all local authorities now have the power to make an Article 4 Direction, which removes permitted development in their area. This doesn't mean you won't be able to turn a property into an HMO, but it does mean you'll have to get planning permission from your local authority. A number of councils have already chosen to invoke Article 4, including Manchester, Southampton, Oxford and several London boroughs like Westminster, Wandsworth and Croydon. There are many reasons why councils may want to limit HMOs, but it's usually down to problems associated with certain, poorly run HMOs, like the quality of accommodation or increased noise complaints.

So, to sum up, in theory, planning permission for an HMO of up to six people is currently not required, but it'll depend entirely on your local council. If they have invoked Article 4, planning permission will certainly be required to change your property from class C3 to C4. To find out whether Article 4 applies to you, contact your local authority (see Part IV).

To further complicate matters, there's an additional planning definition to get to grips with, and that's the 'Sui Generis' use class (which translates as 'of its own kind'). This use class applies to any large HMO that's rented to more than six tenants/households. If your HMO falls under this category, then you'll certainly need to apply for planning permission to change the property to the Sui Generis use class. Remember that planning requirements may change, so always keep abreast of current planning rules for your local area.

Dealing with HMO licensing

Separate to planning permission, mandatory local authority HMO licensing applies if your property is at least three storeys high, and is rented to five or more tenants who form more than one household and share basic amenities like kitchen and bathroom facilities.

Generally, in most areas, smaller HMOs of four tenants or fewer do not require a licence, but, as with planning permission, much depends on your local authority. Some councils have discretionary powers to extend HMO licensing beyond mandatory licensing – and this is known as 'additional licensing'. This means some councils are now insisting on licensing for all HMOs, regardless of their size. It really does vary from council to council, so you'll need to check with your local authority (see Part IV) to see whether you need to obtain an HMO licence.

As HMOs become more and more mainstream, licensing requirements may be extended further, so be sure to stay up to date on any changes that may apply to your property. Before you apply for your licence, check out an example HMO licence application form to get a feel for the sort of information you'll have to provide.

Once you've made your application, usually the council's HMO Enforcement Officer will conduct an inspection and consider:

- Whether the house is suitable, in terms of size and facilities, for the number of tenants.
- Whether the HMO manager (either you or your managing agent) is considered 'fit and proper' to run an HMO. This usually means having no criminal record or prior breach of landlord duties.
- Whether there are any hazards in the property, as set out in the Housing Health and Safety Rating System (HHSRS). If any unacceptable risks are identified, you'll have to carry out work to eliminate them.

The council may add other conditions to your licence, such as stipulating that you improve the standard of accommodation.

An HMO licence is valid for a maximum of five years, after which you'll need to renew it, and you'll need a separate licence for each HMO you operate. At the time of writing, the cost of an HMO licence is typically between £500 and £1,500, depending on the area. To apply, contact your local council (see Part IV), or, if you're using a managing agent, they canapply for you. A copy of your HMO licence should be displayed at the property.

I cannot stress enough how important licensing is; if your HMO does require a licence and you rent rooms out without obtaining the proper licence, you could face an unlimited fine.

Complying with HMO licensing regulations

For licensed HMOs, in order to obtain and keep your licence, there are various regulations you'll need to comply with, many of which tie in with the management regulations discussed previously. You'll need to:

- Comply with occupancy limits
- Ensure the property is free of health and safety hazards
- Send the council an annual gas safety certificate, if gas is used
- Ensure electrical installations and appliances are safe, and provide safety certificates for these on request
- Install and maintain smoke alarms and other fire safety equipment

In this section, I look at each requirement in turn. Keep in mind, though, that the council may also specify other licensingconditions, for example, to do with the HMO's facilities, or the condition of the property, or how you manage the HMO (including managing occupier behaviour). Different councils may stipulate different criteria so check with your local authority on what's required.

Occupancy limits

Your licence will be for a certain number of occupants and breaching this limit is a criminal offence, punishable by fines of up to £20,000. Your licence could also be revoked. It's therefore important you apply for the correct occupancy limit in the first place, and apply to change your licence if you intend to increase the occupancy.

Health and safety

You obviously need to ensure that your HMO is free of major hazards that might impact the health and safety of your tenants or visitors to the property. The council is responsible for conducting HMO inspections and identifying risks as per the HHSRS risk assessment criteria. If the council identifies any such risks, you'll have to remedy them in order to keep your licence. But, in general, if you're following the HMO management regulations and you ensure your property is well maintained, you shouldn't fall foul of the rules.

Gas and electric safety

You must have an annual gas safety check done on any gas appliances and related flues provided in the property, such as boilers, water heaters, gas fires and gas cookers with a flue. This inspection must be done by a Gas Safe registered engineer. A copy of the annual Gas Safety Check Certificate must be sent to your local authority every year for their records, and you should give your tenants a copy, too. Keep in mind that any new installations for gas appliances must comply with Building Regulations.

You will also need to have all fixed electrical installations (wiring, lighting, socket outlets, etc.) inspected at intervals not exceeding five years and obtain an Electrical Installation Condition Report (EICR). The inspection should be done by a qualified electrician and you can find one through the Registered Competent Person Electrical Register. Keep hold of the EICR, as you're required to produce it for the local authority upon request (within seven days of the request).

Any portable electric appliances (like fridges, microwaves, etc.) supplied by you also need to be inspected regularly, meaning you should have portable appliance testing (PAT testing) done annually on all appliances.

Fire safety

Fire safety regulations for HMOs tend to be more stringent than single lets. But this is for good reason, as the risk of fire or harm is greater in HMOs due to factors such as:

- Higher loading of electrical circuits
- Higher number of individuals using the same means of escape
- More internal locks
- Multiple ignition sources because occupiers often have duplicate appliances
- Typically, there isn't a 'responsible' person in the house who goes around and checks appliances are switched off at night (although, if you live in the property, this could be you)

When your council conducts their HHSRS assessment, fire is one of the key hazards they'll be looking at. The assessment is done on a case-by-case basis and will depend on factors like how many storeys are in the property, number of occupants and means of escape. To further complicate matters, different councils may have different requirements. This means the fire safety requirements for your HMO may differ to someone else's HMO. In general, though, the following measures are required:

- A mains wired, interlinked fire alarm system (so if one alarm] goes off, they all go off) with alarms placed in all the bedrooms, communal areas and hallways. A higher-spec fire alarm is likely to be required for large HMOs.
- Locks on all exit doors – including bedrooms and front and back doors – that can be opened without a key (thumb tur locks are ideal)
- Fire doors with self-closing mechanisms that provide a minimum of 30 minutes' fire resistance throughout the means of escape – this will include fire doors in the bedrooms and any communal areas
- Escape routes to be kept clear and free of any obstruction
- A fire blanket in the kitchen
- Fire extinguishers in the hallways (this may or may not be mandatory for your size of HMO, but is always a good idea).
- Emergency lighting may be required depending on the size of your HMO

Talk to your local HMO Enforcement Officer to get advice that's tailored to your property and local authority requirements.

<u>Energy Performance Certificates</u>

Landlords are required to provide Energy Performance Certificates (EPCs) for any property they let out, although there is some debate as to whether this applies to HMOs. The idea of an EPC is to provide landlords and tenants with information on how energy efficient their property is. The question is, how useful is this information is when a property is rented out by the room instead of the whole property? At the time of writing, there is no definitive answer on whether HMOs are exempt or not. Personally, I would play it safe and get an EPC. Costs vary, but it's likely to cost in the region of £50–£100, and the EPC is valid for 10 years. You can find an accredited EPC assessor through the EPC Register.

Protecting your tenants' deposits

Tenancy deposit protection applies to any 'assured shorthold tenancy' where a deposit is taken. According to legislation, the deposit must be placed in a statutory, government-backed tenancy deposit scheme, such as the Deposit Protection Service, MyDeposits or the Tenancy Deposit Scheme, within 30 days of receiving it. The idea is to safeguard tenants' deposits and provide a faster, cheaper way of resolving any deposit disputes.

So, does your HMO count as an assured shorthold tenancy? If you are a non-resident landlord then, yes, you should be issuing your tenants with an assured shorthold tenancy agreement, which means you must protect their deposit in a government-backed scheme. Personally, regardless of the type of contract you issue, I would always recommend placing your tenants' deposits into a protection scheme as it gives both you and your tenants peace of mind and a third-party mediator in the event of a dispute.

Sorting out tenancy agreements

Most HMO landlords issue each tenant (household) in the property with an assured shorthold tenancy agreement for a period of six or, more commonly, 12 months. However, if you live in the property with your tenants, you may want a contract with greater freedom to end a tenancy arrangement.

You should always speak to a lawyer with experience of HMO agreements to get the best advice for your circumstances. In general, though, your tenancy agreements should set out the following:

- The term of the agreement, usually 12 months
- Whether there is a fixed period during which neither party can end the arrangement
- How much notice either party has to give in order to terminate the agreement
- How much the rent is and when this is payable (usually monthly – specify which day of the month it's due)
- Whether bills are included or excluded in the rent amount
- How much deposit is required and whether this will be placed in a deposit protection scheme
- What happens if tenants don't pay rent
- Tenant responsibilities, such as:
    - o Keeping the room clean and in good condition
    - o Not damaging the property, either structural damage or damage to furniture and fixtures
    - o Notifying the landlord when repairs are needed
    - o Not causing a nuisance (e.g. loud noise) for other tenants and neighbours
- Landlord responsibilities, such as:
    - o Giving appropriate notice (usually 24 hours) before entering the property (obviously not applicable if you are a resident landlord)
    - o Conducting repairs in a proper and timely manner
    - o Keeping communal areas clean and in a good state of repair
    - o Providing facilities such as water, electricity and drainage, without unreasonable disruption of service

- o Providing rubbish disposal facilities
- o Ensuring smoke alarms and fire safety equipment is installed and maintained and that a means of escape is provided
- o Ensuring proper safety checks, like the annual gas safety check and five-yearly electrical installation check.

PART III: MANAGING YOUR HMO

You've got your property set up, sorted planning and licensing, made sure you can comply with management regulations, and got your tenancy agreement drafted. Now you're ready to attract tenants and manage your HMO on an ongoing basis. This is a really rewarding part of the journey: providing tenants with quality accommodation and receiving a great return on your investment.

If you're working with a managing agent, they will either advise you on or take care of the various aspects covered in this section. However, as this is your first HMO, I'm working on the assumption that you will probably start out by managing it yourself, like I did. Once you've found your feet and perhaps expanded your portfolio, then you may want to bring in a managing agent or someone else to take over the everyday running of your HMOs.

Valuing your rooms: Should utility bills be included?

You should have done your sums on how much to charge for your rooms before now, and got a feel for typical room rental rates in your area through websites like SpareRoom. But one question that always comes up for first-time HMO landlords is whether to include bills in the rent or have the tenants take care of the bills themselves.

There are pros and cons to both approaches. Personally,particularly when dealing with professional tenants, I prefer to cover the following bills myself and absorb them into the cost of the rent:

- Heating
- Electricity
- Water
- Council tax
- Internet
- TV
- Cleaning

The advantage of this is that tenants tend to prefer the simplicity of an inclusive price (and not having to sort out bill-sharing with other tenants whom they may not know that well), so including bills will undoubtedly make your property more attractive. The downside is that when tenants aren't responsible for paying the utility bills, they can play pretty fast and loose with their energy usage. And this can mean big bills for you!

To manage this, it's worth investing time and money in making sure your property is as energy efficient as possible, so that it remains warm in the winter and cool in the summerwithout using too much energy. Double or triple glazing windows, energy-saving lighting, good insulation and draft-proofing on doors are all sensible measures to take. You might also want to consider installing smart thermostats that let you control the heating remotely. You should also shop around to find the cheapest utilities and review this on a regular basis to ensure you keep getting the best deal.

<u>Finding the right tenants for your property</u>

In Part I we looked at identifying the audience for your HMO, so you should have decided to rent either to professionals, students or social housing clients. Whichever path you choose, don't mix tenant groups – if you start marketing to professionals, they won't be happy if you bung in a couple of students further down the line.

Advertising for tenants

The best way to make sure you're attracting quality tenants is to keep your rents as competitive as possible, and provide quality accommodation that people actively want to live in. With that taken care of, two of my tried-and-trusted methods for finding tenants are:

• **Advertise online:** SpareRoom is perhaps the leading website for professionals wanting to rent a room. You can advertise for free on the site, or upgrade to a paid 'bold' ad for greater visibility. Include as much detail as possible on both the room and communal facilities (is there a garden, for instance?), along with multiple, high-quality, high-resolution photographs.Prospective tenants will also want to know about the local area, particularly transport links. If you want to advertise to students, try accommodationforstudents.com.

• **Enlist the help of existing tenants:** Once you've attracted your first tenants and worked with them for a while, you'll build up a good reputation and will probably find that future tenants will come your way via word of mouth and personal recommendations. Enlist the help of current tenants to spread the word in their social circles (both in real life and on social media). The advantage for them is that they get to live with people they already know and get along with, which makes life easier for you.

Carrying out due diligence on prospective tenants

You should ask tenants to complete an application form setting out details like:

- Name and date of birth
- National insurance number
- Current and previous address
- Contact details for current and previous landlord or letting agent
- Current income, employer's name and address, and how long they've been working there
- Details for previous employer if they have been with the current employer for less than, say, two years
- Contact information for at least two personal references

This information will enable you to carry out thorough reference checks on every tenant before entering into an agreement with them. To do this, you can use a tenant screening service like the one provided by Experian, or conduct a background check yourself, such as:

- Asking the tenant's previous landlord for a reference
- Calling the tenant's employer to check they are employe where they say they are
- Speaking to the personal references

Personally, I would always have the reference check carried out by a professional screening service, as they'll be able to conduct a thorough credit check. You should also secure the appropriate deposit (usually equivalent to one month's or six weeks' rent) and one month's advance rent before the tenant moves in.

Running your HMO

Typically, there's a progression in running HMOs, often starting with running it yourself, then building up to employing a managing agent or someone else to manage properties for you. My experience developed in three stages:

1. Initially, I lived in my first HMO with my tenants, managing all aspects of tenancy and the property myself.
2. Next, I moved into a separate property, but continued to run the HMO myself remotely.
3. Finally, as my portfolio grew, I employed staff to help with the day-to day running of my HMOs.

<u>Maintaining your HMO</u>

Because of the higher number of tenants and turnover, HMOs often require more maintenance to keep them in the condition needed to attract quality tenants. That means it's even more important to keep on top of maintenance and deal with any maintenance issues in a swift manner. Obviously, this is easier to do if you live in the property. If you're managing the HMO remotely, you should encourage tenants to contact you with any issues they identify, but it's also wise to be proactive and check the property yourself regularly. To make sure you're properly discharging your duties under management regulations and that the property is in good order, I recommend conducting regular inspections – monthly is a good idea, or every three months at a minimum.

Common areas such as kitchens, bathrooms and hallways should also be kept to a high standard of cleanliness. I recommend employing a cleaner to take care of this for you, and build the cost into the rent. Having a cleaner will also make your property more appealing to young professionals.

Managing tenants … and problems with tenants

Remember to treat your tenants as customers and provide an excellent level of customer service, just as you would in any other area of business. Not only does this make for a more pleasant working relationship (especially important if you're a resident landlord), it also makes tenants more likely to recommend your HMO(s) to people they know.

However, there may come a time when you experience problems with tenants, such as making a nuisance for other residents or neighbours, or not paying their rent. In my experience, this is mercifully rare, especially when dealing with professional tenants, but you should be prepared to take action when needed. One bad apple in an HMO can drive away other excellent tenants.

In the first instance, it may be worth trying to talk through the problem and reach an amicable agreement. Often, making it clear that, if their behaviour continues, you won't renew their tenancy or give them a good reference for future properties is enough to resolve the issue. If that doesn't work, you'll need to weigh up whether you want that person to continue living in your property. It's illegal to attempt to drive a tenant out through underhand means (withholding services, for instance), so you need to take action through proper legal means. There are two ways to go about evicting tenants who have an assured shorthold tenancy agreement:

- A Section 21 notice is for when you want tenants to leave at the end of their fixed-term agreement.
- A Section 8 notice is for when tenants have broken the terms of the tenancy.

Either way, you'll need to give your tenants proper notice, and this notice period will depend on which route you go down and what the circumstances are. And either way, expert legal advice is a must. If your eviction notice isn't perfectly worded, and written by a legal specialist, it may not stand up in court (if it comes to that).

Adding to your portfolio with more HMOs

All being well, you'll enjoy running HMOs and want to expand your portfolio to take on more properties and more tenants. However, with more properties and more tenants comes more work, so it's likely you'll want to get professional assistance to help you scale up and continue to provide a great level of service. This is where a good managing agent is worth their weight in gold – more on this in Part IV.

PART IV: GETTING PROFESSIONAL HELP AND ADVICE

HMOs are a highly specialised area with a lot of complex rules and egulations, so, when working with experts, it's vital you choose those with specific experience of HMOs.

Working with a managing agent

As you scale up your HMO portfolio, the ongoing management can be very time-consuming; finding and vetting tenants, conducting viewings and inspections, handling all the licensing requirements, and managing the maintenance can easily add up to a full-time job. It's therefore worth employing a managing agent or someone else with HMO experience to manage your properties for you. This will give you greater freedom, but still deliver a good return on your investment – even taking into account the managing agent's fees.

Ultimately, this is a personal choice: are you prepared to sacrifice some profit to free up a lot of your time? Only you can answer that question. For me, it's worth the trade-off as the time gained allows me to focus on growing my portfolio and building more passive income.

Working with a solicitor

From drawing up tenancy agreements to handling problem tenants, expert legal advice is critical. Tempting though it may be to use a solicitor you already know, it's really important to choose a solicitor who understands the peculiar complexities around HMOs and has plenty of experience of dealing with HMOs.

Contacting your council for advice and an HMO licence

So many of the specifics around HMOs vary from council to council, so I recommend getting in touch with your local authority's dedicated HMO Enforcement Officer (or Housing Officer). To get started, head to the gov.uk HMO licensing portal. There, you simply put in your postcode and you'll be directed to information that's tailored to your local council, including licensing specifications and how to apply.

ABOUT THE AUTHOR: NICHOLAS WALLWORK

Nicholas Wallwork is a multi-millionaire property investor living in the UK and the owner of www.propertyforum.com.

Nicholas fell into property in 2002 when he realised turning his first house into a small HMO (rather than living in it himself) made complete financial sense. HMOs and development were to form the key strategy of his property career. Aged just 24 he had no mortgage or bills to pay and could effectively retire (all be it modestly), teaching him a very early lesson that passive income from property was the way to build long term wealth and a flexible and comfortable lifestyle.

16 years on, he now controls a property portfolio of over £20million and runs and owns a group of successful property businesses including a property investment consultancy, several property development companies, a lettings & management business and not to forget www.propertyforum.com.

Any journey through property (or indeed life) is never all plain sailing and Nicholas definitely faced his share of challenges. Surviving the credit crunch was one of the biggest, teaching him many important lessons which he will share with you in his education ebooks on The Property Forum as time goes on.

To be successful in any business including property you need to stay at the top of your game. This means continually educating yourself and improving your skills and knowledge to further your business and yourself. This is where forums give such incredible value. Nicholas has big plans to help educate the community members of www.propertyforum.com with helpful ebooks, training, seminars and much more. Property Forum is already the largest international online property community and aims to become the largest and most useful property training and education resource available in the world. Property Forum also has two Sky TV shows which provide property education and property investment deals to a new audience. You can read more these TV shows on www.propertyforum.com.

Chat to Nicholas and almost 64,000 other property investors for free, on www.propertyforum.com

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