



Houses in Multiple Occupation

Information Guide



What is a HMO?

(House in Multiple Occupation)

A property is classed as a HMO if at least three tenants live in the property, forming more than one household, and sharing a toilet, bathroom or kitchen facility. A property with five or more residents living in the property, forming more than one household, with shared facilities, requires a mandatory HMO licence.

A HMO could be:



A shared house or flat, where the sharers are not members of the same family



A house split into separate bedsits



Shared accommodation for students



A property that has been converted into units, where the standard of the conversion does not meet the relevant building standards



Some councils have included 'section 257 HMOs' within their Additional Licencing Scheme. These are buildings that: have been converted into self-contained flats; the conversion did not comply with the relevant Building Regulations in force at that time and still does not comply; minimum standards being 1991 Building Regs; and less than two-thirds of the flats are owner-occupied.



Considerations of managing a HMO

- ✓ Potential of greater return on investment and higher rental yield from multiple tenants (but capital values can reflect the use in prime locations)
- ✓ Lower impact from rental voids – if one tenant moves out, the remaining rooms are still occupied
- ✓ High demand – living in shared accommodation is a popular choice with a wide variety of tenants, including students and professional workers
- ✓ Less exposure to arrears because if one tenant fails to pay their rent, other tenants are still paying
- ✓ Legislation requirements – there is significant legal onus on HMO landlords eg meeting licencing requirements, implementing fire safety measures and providing electrical and gas certificates
- ✓ Maintenance costs may be higher as the property will generally be larger and/or contain communal areas
- ✓ Increased administration relating to managing multiple tenancies
- ✓ Management regulations will apply
- ✓ HMO licencing and planning considerations (see pages 3 and 4)

Planning permission

A standard residential dwelling occupied by a family has C3 planning use. However, this same property with three or more people who are not from one household changes to a C4 planning use (a small HMO). A large HMO, a property with more than six occupants, falls into 'Sui Generis', a class of its own.



C3 property



C4 property



Sui Generis

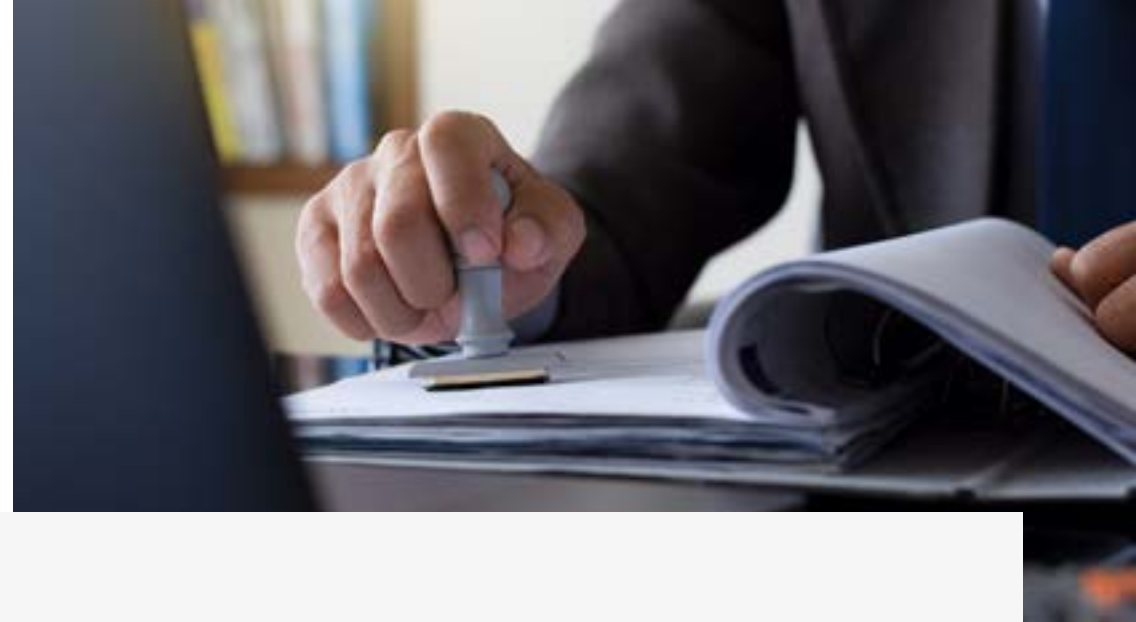
Having a HMO licence doesn't necessarily mean that the property has planning permission. HMO licences are granted by the licencing department under The Housing Act, whereas planning permission is granted by the planning department under the Town and Country Planning Acts and associated orders. These departments look at the different considerations.

Please check with a legal advisor that the required planning is in place as well as a HMO licence where appropriate.

You can move from C3 to C4 under permitted development rights. However, where an Article 4 Direction Order has been implemented, you are no longer able to move from C3 to C4 without planning permission.



Once you stop using your property for HMO purposes, and let to a family for example, it may lose its planning use as a C4 HMO, and you will be required to apply for new planning permission to reinstate this use where an Article 4 Direction Order is in place.



What is an Article 4 Direction Order?

An Article 4 Direction (A4D) limits the works that can be carried out without needing planning permission from the Council.

A4D's aren't specific to HMOs, but are used in certain instances, for example:

- ✓ To preserve areas of special character and appearance
- ✓ To protect heritage and listed buildings
- ✓ To maintain integrity of conservation areas
- ✓ To control over the provision of fencing
- ✓ Outbuildings in visually sensitive locations
- ✓ Where there runs a risk to visual and/or residential amenity.

Almost all Councils include an Article 4 Map where you can see which streets or boroughs are within Article 4 restrictions. Some areas have city-wide A4D's.

Regulations and licensing

There are additional requirements and specific standards that landlords must adhere to when running a HMO. The council must be satisfied that the proposed licence holder and/or manager of the property is a fit and proper person.

Specific property licences are required for HMOs and are generally valid for five years. You need one for every HMO property you own. This means one licence cannot cover a portfolio of properties.

As licences are granted on a case-by-case basis, it's not a one-size-fits-all approach. There are three types of licences. The one you need will depend on your individual circumstances



Types of licences



Mandatory

All large HMOs must be licenced by the relevant local authority. This includes all properties with five or more tenants, forming more than one household and sharing facilities.



Additional

A council can impose a licence on any category of HMO in its area which is not subject to mandatory licencing. The council can do this if it believes that a large number of these HMOs are being managed ineffectively and are causing problems for the occupants or members of the public.



Selective

Local authorities have the power to introduce selective licencing schemes to privately rented housing within a defined area. This is used in cases where the authority believes it would reduce specific housing problems or help control anti-social behaviour.



There may be some HMOs which do not fall within any licencing requirements. However, it's important that you meet the appropriate standards of amenity provisions, fire precautions and room size.

HMO management regulations impose duties on managers of HMOs, whether they are licenced or not.

Contact your local authority to find out more about your responsibilities if you manage a HMO or shared property.

Health and safety

Significant improvements made to the quality of HMOs have, in part, been driven by tougher health and safety legislation.

Some examples of the regulations you must comply with include:

- ✔ Room sizes must be at least 6.51m² for single adults, and 10.22m² for two adults, though local authorities can impose larger room sizes
- ✔ Fire doors and seals on door frames
- ✔ A smoke alarm must be installed on every level of the house
- ✔ A heat detector is required in the kitchen
- ✔ Carbon monoxide detectors must be fitted where applicable. For example, wood burning stoves, gas appliances or working open fires
- ✔ Furniture must be fire resistant
- ✔ You must instruct an annual gas safety check on each gas appliance to receive a Landlord Gas Safety Record or Gas Safety certificate
- ✔ You must have the electrics tested every five years and complete required work
- ✔ The government require you to regularly carry out portable appliance testing (PAT)
- ✔ Adequate waste and recycling collection and disposal is arranged
- ✔ Adequate heating throughout the property



Repairs

Landlords are responsible for keeping all appliances in working order. They are also responsible for maintaining external and internal living spaces. This includes, but is not limited to, external repairs, plumbing and heating.



Energy efficiency

Due to changes to EPC requirements proposed by the Government, the energy efficiency of a property is now front of mind for many landlords. With 62% of properties holding a D-G Energy Performance Certificate (EPC) rating.

Since 2020, all privately rented properties are required to have a minimum EPC rating of at least E. If your property falls below an E, you will have to make improvements to the property before renting it out or continuing to do so.

An EPC is produced by a qualified Energy Assessor who visits your rental property and gathers vital information to produce the certificate. Each certificate will last for ten years unless major renovation work is carried out on the property.



> Find out your EPC rating

Things to consider

In recent times it's no surprise that with more time spent working from home, demand for higher speed broadband has increased. As well as faster internet connection, landlords have noted the desire for larger rooms, en-suite bathrooms, and better-quality furnishings. Additional perks such as office furnishings, green outdoor areas and allowing pets are also things to consider.

Choosing compatible tenants is key to a successful business. It is worth considering the following:

- ✔ **Tenant Harmony** – it is recommended that you house people in similar situations, or with similar lifestyles, together ie young professionals or students. This will minimise potential upset, disputes and ultimately, void periods
- ✔ **Tenant Guarantors** – having an additional person guaranteeing the tenancy commitments, including rents should they not be paid on time
- ✔ **References** – including credit checks, proof of income from employers and references from a previous landlord

As the landlord you must follow certain criteria when selecting your tenants and setting up the tenancies. This includes but is not limited to:

- ✔ **Right to rent checks** – landlords must conduct a right to rent check to make sure they are not entering a HMO tenancy agreement involving an illegal migrant
- ✔ **Tenancy agreements** – if both parties agree, a tenancy agreement can end if a tenant wants to leave before the end of the notice period.
- ✔ **Deposit management** – landlords must adhere to the Tenancy Deposit Act 2007. The Act caps how much a tenant can pay for a deposit and how it is held in terms of providing protection. It also sets out the terms for returning the deposit at the end of the term.



Financial stability

Landlords must also remember that a tenants' financial security can change. They are encouraged to speak to their tenants to set up repayment plans to help reduce void periods.

If increasing rent is in the pipeline, certain legal processes must be followed. Current government guidance says that for existing tenants, rent rises must be 'fair and realistic' and in line with average local rents, though there are no caps.



> Find out more



Financial outlays

In England, the biggest financial outlays to expect with HMOs are:

- ✔ **The mortgage** – can this be covered when each room isn't being let? We recommend having a cash flow forecast in place, including budgeting for voids
- ✔ **Tax and stamp duty** – letting a property can increase income and therefore tax liability. It may also affect any benefits landlords may receive
- ✔ **Accreditation scheme fees** – these are voluntary arrangements under which landlords agree to meet a set of benchmark minimum standards
- ✔ **HMO insurance** – this is tailored to provide specialist cover for landlords. There can be specific risks associated with this type of rental property, which might not be covered by standard property insurance. Though not a legal requirement, it may be a requirement from a mortgage lender



Running costs

As well as considering what tenants are looking for, running costs also need to be considered. The main running costs are:

- ✔ **Property maintenance** – nearly two thirds of landlords spend over 10% of rental income on annual property maintenance. With multiple tenants, more frequent maintenance is expected
- ✔ **Leasehold Properties** – where a landlord has a leasehold interest, particularly flats, payments may well be required for ground rent and service charges that include elements for the upkeep of the building, communal areas and grounds.
- ✔ **Letting agent fees** – would you outsource your letting or do it yourself? When hiring a letting agent, you must make sure they are registered with a member of a government approved redress scheme
- ✔ **Bills** – 83% of landlords include some level of bills, whether that be all in, or just utilities, we encourage landlords to consider how they intend to manage this for optimum cash flow management
- ✔ **Management costs** – Some properties may require testing and management plans for shared areas that are included in the title



Though the rules that apply to HMOs in Wales are similar to England, they're not exactly the same. So, we encourage you to check all the requirements before applying.

[> Find out more](#)

HMO finance

Paragon have over 25 years of experience with complex buy-to-let mortgages for HMOs.

Key features of our HMO products

Here at Paragon, we'll consider:

- ✓ Up to 20 rooms
- ✓ Multiple kitchens
- ✓ Locks on doors
- ✓ Single or multiple tenancies
- ✓ Students
- ✓ Professionals
- ✓ Benefit recipients
- ✓ Lets directly with the local authority or housing association for up to five years
- ✓ Hybrid of HMOs and self-contained properties

Paragon has a flexible approach to applications and will consider outside of the box requirements where the property is in good condition.

Our criteria

For information about our criteria and application requirements:



> **View our guidelines**



How to apply

Please apply via an intermediary. Our experienced underwriters review each application on an individual case-by-case basis. Call our Regional Managers today or visit our [online portal](#).



> **Contact your Regional Manager**

HMOs in Scotland

As in England, a HMO in Scotland is classed as a property rented out by at least three unrelated people who share some facilities, such as the bathroom and kitchen. Landlords in Scotland must follow the Housing (Scotland) Act 2006 and apply for a licence with the council district the property is in.



Before granting a licence, the local authority must be satisfied that:

- ✓ The owner and any manager of the property is 'fit and proper' to hold a licence
- ✓ The property meets required physical standards
- ✓ The property is suitable for use as a HMO (or could be made so by including conditions in the licence)

Once a HMO licence is granted, the owner is automatically placed on the landlord register if they are not already on it. A licence usually lasts three years and must be renewed before it runs out.



> Apply for a HMO licence in Scotland

Though the rules that apply to HMOs in Scotland are similar to England, they're not exactly the same. So, we encourage you to check all the requirements before applying.



For more information about the requirements, visit the official [Scottish government website](#). Alternatively, you can get in touch with our Scotland-based Regional Manager:



Holly Morrison

Mobile: 07970 250 386
holly.morrison@paragonbank.co.uk

Independent advice

As well as contacting our RMs, there are online sources available to you.

For advice, resources and helpful services

> [Visit nrla.org.uk](http://nrla.org.uk)

Lets with Pets

> [Visit letswithpets.org.uk](http://letswithpets.org.uk)

Local Trading Standards

> [Visit gov.uk](http://gov.uk)

How to Let government guidelines

> [View guidelines](#)

Model Tenancy Agreement template for adhering to best practice

> [Visit gov.uk](http://gov.uk)

How to Let government guidelines

> [Visit hmo-architect.com](http://hmo-architect.com)

Find your local council for licencing rules

> [Visit gov.uk](http://gov.uk)

Energy Savings Trust

> [Visit energysavingtrust.org.uk](http://energysavingtrust.org.uk)

Tips for student landlords

> [Visit landlordvision.co.uk](http://landlordvision.co.uk)

Tenant Fees Act 2019

> [Visit gov.uk](http://gov.uk)

HMO Supplementary Planning Document

> [Visit birmingham.gov.uk](http://birmingham.gov.uk)

For Wales specific information

> [Visit gov.wales](http://gov.wales)




Glossary

A4D	Article 4 Direction
ARLA	Association of Residential Letting Agents
AST	Assured Shorthold Tenancy
BOE	Bank of England
CTB	Council tax band
DLA	Disability Living Allowance
EICR	Electrical Inspection Condition Report
EPC	Energy Performance Certificate
HHSRS	Housing Health and Safety Rating System
HMO	Houses in Multiple Occupation
IFA	Independent Financial Advisor
Household	The Housing Act 2004 defines a single household as: A family, for example a couple, married or not, same-sex couples or persons related to one another, an employer and certain specified domestic employees, a carer and the person receiving care or a foster parent and foster child
LTV	Loan to Value
MUB	Multi-unit block
PAT	Portable Appliance Testing
PCM	Price Per Calendar Month
PRA	Prudential Regulation Authority
RICS	Royal Institute of Chartered Surveyors
RM	Regional Manager
ROI	Return on Investment
SSC	Single self-contained properties
STD L	Stamp Duty Land Tax
SVR	Standard Variable Rate
TDP	Tenancy Deposit Scheme
S.8	'Section 8' typically served when tenants are in arrears if a landlord wishes to end the tenancy
S.21	'Section 21' the notice that a landlord must give to their tenants if the landlord wishes to end the tenancy




Contact us

Contact our team to discuss any enquiries you may have on:

 0345 849 4040

 btlenquiries@paragonbank.co.uk

 www.paragonbank.co.uk/intermediary/btl

This guide aims to give general information, it is not advice, and it may not be applicable to all circumstances. The information contained is primarily applicable to properties in England.

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