

YOUR HMO

NAVIGATOR

A PROJECT MAP FOR INVESTORS

BY HMO
DESIGNERS.



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WHAT IS THIS.

This guidebook is an essential resource for landlords looking to expand their HMO portfolio and acquire the necessary knowledge and skills to achieve profitability.

As experienced interior designers, architect and investors who have worked on over 100 properties, we understand the importance of consistent and transparent advice in this field. Whilst they do exist, **beware when presented with property deals that seem too good to be true, they probably are.**

Investing in HMOs can be a challenging task, with various factors such as planning, building regulations, licensing, and finding a reliable builder. That's why we've put together this guidebook to provide a project map to help you navigate through the complexity of investing in HMOs.

It outlines the key considerations and risks involved and offers practical solutions to mitigate them.

Additionally, we don't sell mentorship, we provide valuable insights based on our experience and daily interactions with HMO investors.

WHY ARE WE SHARING OUR KNOWLEDGE.

Why, you might ask, are we sharing this wealth of information? The answer is simple yet crucial: transparency. In an industry rife with half-truths and distorted perspectives, we believe in empowering aspiring investors with the knowledge to make informed decisions.

Our commitment is to guide you through the maze of possibilities, ensuring that you not only grasp the potential rewards of HMO investments but also comprehend the strategies to navigate and mitigate associated risks.

As you embark on this journey, remember that knowledge is the foundation of sound decision-making.

The HMO Navigator is your compass, offering a transparent guide through the complexities of HMO investments, right from the inception of property exploration.

YOUR PROJECT MAP.

00 Business Case

- Finding your property
- Due Diligence
- Financial Appraisal
- Feasibility Studies
- Surveys

01 Pre-Construction

- Health and Safety (CDM)
- Optimising Design
- Planning Requirements
- Planning Classes Explained
- Planning Conditions
- Building Regulations
- Party Wall Act
- Finding your Build Team
- Building Contracts

02 Construction

- Advanced Payments
- Pre-commencement Meeting
- Regular Progress Meetings

03 Handover

- Snagging
- Commissioning Certificates
- Warranties
- Maintenance Manuals
- Fire Risk Assessment
- Building Control Approval
- Furnishing
- HMO Licensing
- HMO Management
- Refinancing through a HMO Mortgage

A person's hands are shown typing on a silver MacBook Pro keyboard. The laptop screen displays a blurred office scene with several green indoor plants on a black metal shelving unit. The background is a soft-focus office environment. The text 'BUSINESS CASE' is overlaid in large, white, bold, sans-serif font across the center of the image.

BUSINESS CASE

Key Outcomes

Sourcing the property

Appraising the deal

Completing your own due diligence

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Remember, careful planning and research are crucial when venturing into property conversion for HMOs.

If you are new to property, this can be a daunting task. This section covers all the main considerations that you should be making when viewing a property.

FINDING YOUR PROPERTY

You can find deals using online services such as Rightmove or Zoopla however some of the best deals are often off-the-market. Access to these deals are often difficult to find but provide unique opportunities for investors.

Networking with Estate Agents, Brokers, or investors can maximise your chances of hearing about those off-market deals. These individuals may have connections to property owners looking to sell, before they've listed on the market.



DUE DILIGENCE

Before you get emotionally invested in your prospective project. Make sure you complete your own research and due diligence on the property. Some of these considerations may be project killers, or at least make the deal significantly less attractive.

Completing these checks prior to discussing the project with your Architect will mean a more comprehensive brief so they can deliver quickly, meaning you could have tenants in earlier than you thought!

- Check out who your Local Planning Authority is [here](#). It is important you are familiar with the Local Development Plan. This will provide you the local planning policies that may be applicable to your development including any restrictions such as loss of family homes / employment space, HMO Density thresholds and minimum distances from Amenities.
- Check the Local Planning Register and analyse similar applications. This will give you a good feel for the Local Planning Authorities stance on HMO s in the area and their key considerations.
- Visit the property to ascertain its condition and any likely remedial works required.
- Check for any restrictive covenants with your Solicitors
- Check if the Building is Listed. This will mean you'll most likely also need Listed Building Consent and be restricted on what you can do to the building.
- Check if your property is in an Article 4 Designation specifically blocking Class L Permitted Development Rights. If your property falls within one, you'll need to apply for Full Planning Permission to convert a dwellinghouse into a 3 - 6 person HMO.
- Review availability and local room rates to feed into your Appraisal

FINANCIAL APPRAISAL

You should utilise a quick and easy to use appraisal spreadsheet. You'll be testing several properties so your spreadsheet needs to make your life easier and allow you to analyse the following:

- Total Purchasing Costs
- Multiple Exit Strategies
- Predicted Returns

When analysing your purchase costs it's key that you analyse and account for the following:

- Purchase Price
- Stamp Duty
- Legal Costs
- Loan Value
- Deposit
- Interest
- Refurbishment Costs
- Planning Obligation Costs

This should give you a good idea of what your total project costs will be, and how much cash you will need to put into the deal.

Following this, you need to appraise your exit strategy. This often includes:

- Target Revaluation
- Loan Value
- Deposit (Residual)
- Annual Interest
- Equity Gain

With these figures, you'll be able to analyse how much equity is left in the property with the cash that you put into the development.

You'll then want to know what your predicted returns are. You'll be able to analyse this with the following information:

- Target Rent PCM
- Number of Rooms
- Occupancy Assumption
- Annual Bills
- Management Fees
- Annual Mortgage Interest
- Annual Maintenance

This will give you a net rent and yield for your property, giving you an idea of what your returns will be. Make sure to stress test your appraisal. What happens if your occupancy is 10% less? What happens if your annual bills suddenly increase by 10%?



FEASIBILITY STUDIES

Have a good feeling about this property?

Of course, you could explore this yourself but consider getting a specialist HMO Architect to complete a feasibility study for you. This will assist in minimising the risk and opening up opportunities that you may not have even considered. A good Architect should be able to maximise the use of your existing space for minimal construction cost, saving you money in the long-term from day one.

The best time to have these completed is at the earliest point possible. Your Architect should be able to explore a few options, identifying yield, risks and considerations around planning, building control, licensing and construction. This will help inform your thought process and highlight what may be the best planning route for you to minimise risk of refusal.

Accurate existing survey information is key to checking if space standards can be achieved. We appreciate that sometimes there is not the time or money for a full measured survey to be completed. Estate Agent plans will vary in accuracy. They can often be used to provide a rough test for accommodation but a measured survey should be commissioned ASAP prior to exchanging. As a minimum we would expect the following to be considered:

- Relevant Planning Policy
- Relevant Planning History
- Article 4 Check
- Permitted Development Restrictions
- Conservation Area
- Flood Risk Designation
- Listed or Heritage Structure
- Local HMO Amenity & Space Standards
- Parking Provision
- Provision for Waste Storage
- Provision for Bike Storage
- HMO Sandwicing (if applicable)
- HMO Density (if applicable)



SURVEYS

If everything appears good to you, and you've had your offer accepted that is great!

Before you exchange it is key that you complete some additional due diligence before you exchange on the property.

It is recommended that in most cases you should procure a building survey from a chartered surveyor (RICS). This will allow you to get a better understanding of works that may be required on the property. This will reduce the risk you're taking on with the property, allowing you to better account for any damp / asbestos related works for example.

Completing this exercise will ensure you can make an informed decision.

If you had a feasibility study completed on the Estate Agent's plans, you should procure a measured building survey. Due to how critical HMO room sizes can be, a few centimeters across the property can often mean a reduction in en-suites or even bedrooms.

Get this confirmed before you exchange to ensure your appraisal matches up with the practicalities and parameters of your property.

If you are submitting any planning / building regulation applications, more often than not you'll need elevations / sections to demonstrate compliance. Your Architect / Designer can advise what is required.

A modern bedroom interior featuring a bed with white linens and patterned pillows, a white dresser with a potted plant on top, and a dark chair in the foreground. The room is lit by a pendant light. The text "PRE-CONSTRUCTION" is overlaid in large white letters.

PRE- CONSTRUCTION

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HEALTH AND SAFETY (CDM)

The Construction (Design and Management) Regulation 2015 apply to every construction project.

CDM 2015 makes a distinction between commercial clients and domestic clients. Client duties apply in full to commercial clients (for domestic clients the duties normally pass to other dutyholders).

A commercial client is any individual or organisation that carries out a construction project as part of a business.

It's important that these regulations are considered at the outset and throughout the project. [For more details click here](#)

OPTIMISING DESIGN

The key outcome of your feasibility study is in the name, is what your proposing feasible?

Now that you're moving ahead with your project and have your measured survey this is the time to continue to iterate and optimise your design before you make the necessary submissions.

Key questions will come out of the process, and sometimes flipping an en-suite or repositioning a door can completely change a room. Work with your Architect / Designer to test a few options before progressing onto the next stages. Your Architect / Designer will be able to provide feedback on planning / building regulation approvals and how these may affect the layouts.

PLANNING REQUIREMENTS

It's key that you obtain the correct and necessary planning consent prior to starting any work.

Depending on your existing property use class, you may be able to complete some of the proposals

A good Architect/designer should be able to guide you and assess planning policy from the outset. They should be able to also provide an overall planning strategy, potentially providing a mixture of applications to minimise your planning risk. The strategy will often also be guided by your appetite for risk, and what timescales you need to work to.

Often our most typical brief is for (C3) Dwellinghouses converted into either a (C4) HMO or Sui Generis 7+ Bedroom HMO.

PLANNING CLASSES EXPLAINED

Class C3

Use Class C3 is split into three sub-sections which all form part of the same use class. These are:

- C3(a) covers use by a single person or a family (a couple whether married or not, a person related to one another with members of the family of one of the couple to be treated as members of the family of the other), an employer and certain domestic employees (such as an au pair, nanny, nurse, governess, servant, chauffeur, gardener, secretary and personal assistant), a carer and the person receiving the care and a foster parent and foster child
- C3(b) covers up to six people living together as a single household and receiving care e.g. supported housing schemes such as those for people with learning disabilities or mental health problems
- C3(c) allows for groups of people (up to six) living together as a single household. This allows for those groupings that do not fall within the C4 HMO definition, but which fell within the previous C3 use class, to be provided for i.e. a small religious community may fall into this section as could a homeowner who is living with a lodger

Planning Permission is not required to change the use within these three sub-sections.

Class C4

Use Class C4 covers small HMOs being occupied by between 3 and 6 unrelated persons. The use class is predicated upon person's resident and not on the number of bedrooms within the building.

A property can change its use from Class C3 to C4 using permitted development rights. However the catch is, Local Councils can designate certain areas under an "Article 4 Direction". This essentially means they can remove certain permitted development rights. If your property falls within an Article 4 Direction, then you'll need planning permission to change the use and therefore be required to meet all of the relevant planning policy.

Sui Generis

Sui-Generis (latin for of its/his/her/their own kind, in a class by itself) describes a number of uses which do not fit within a prescribed use class. With respect to HMOs, anytime a HMO is proposed with 7 or more unrelated persons, the property will fall under Sui Generis use class. If this is approved and implemented, then you should note that your residential permitted development rights are also removed.

PLANNING CONDITIONS

Even if you've achieved planning permission, this isn't always the end. It's very likely that your planning permission has been granted but with 'conditions'.

Sometimes these require further information to be submitted as part a 'discharge of planning condition' application. For example, these could be details relating to the final design of a cycle shelter, or an energy report confirming that the property will meet the councils renewable energy.

Make sure you review your planning conditions carefully and begin discharging these in good time. Some conditions may need to be discharged prior to commencing work, and some will need to be discharged prior to occupation of the property.

BUILDING REGULATIONS

- **What are the building regulations?**
- **How do you start this process?**
- **What are the options to get approval?**
- **Material Change of Use**
- **BCA Guidance**
- **Typical Upgrade Requirements when changing use**