HMO INVESTOR MISTAKES: TOP 10

ROOMHUB

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1. Not Investing or Delaying Investing in HMOs

We anticipate that over the forthcoming five years, a critical evaluation of the required capital investment for the acquisition and conversion of properties into House in Multiple Occupancy (HMO) structures, alongside with the prospective return on investment (ROI) within our existing operational HMO regions, may lead to a situation where the economic viability of expanding our HMO portfolio becomes increasingly challenging.
In essence, rising property acquisition costs and comparatively stagnant rental income levels may hinder the ability to realize a satisfactory return on investment from property conversions into non-mortgageable units (nMUs).

Hence, we strongly advise prompt consideration of investment in HMOs if this aligns with your strategic interests.

2. The Numbers Don't Lie

Approach every project with a well-informed perspective, emphasising the importance of clearly defining HMO objectives, thoroughly evaluating associated expenses, and specifying desired return on investment from the project's outset. Research indicates that HMOs housing less than five tenants tend to yield higher profitability and are better suited for family occupancy. Conversely, in cases where permitted development rules apply, a six-tenant HMO configuration proves optimal, delivering superior management efficiency, increased ROI, and favorable bank valuations. While striving for top-quality tenant living conditions, it is vital to approach HMO operations as a business, requiring the same discipline and rigor as any successful enterprise.

3. Highering a poor Managing Agent

Investing in HMOs demands significant resources and thoughtful property arrangements to ensure tenant satisfaction. Poor management can harm your investment. If you have the capacity to dedicate your full time, it's advisable to manage your HMOs personally. Otherwise, it's wise to enlist a reputable and experienced specialist property management agent.

4. Do not mix Tenant Types

Our observations indicate that our tenant demographic typically comprises the following categories:

- Employed individuals
- College or university students
- Recipients of housing assistance or benefits

Mixing different types of tenants in the same HMO is a bad idea. It's likely to make tenants leave, causing longer empty periods. It's better to put tenants with similar backgrounds and ages together to promote a more peaceful living environment.

5. Insurance

Insurance plays a vital role in HMO development and management. In our two decades of experience, we've witnessed situations where investors and occasionally tenants caused damage to nearby properties, leading to costly legal disputes due to inadequate insurance.

Furthermore, many landlords have only basic buy-to-let insurance for their HMOs, which isn't enough and can render their insurance void, leaving them responsible for all expenses.

We strongly advise working with knowledgeable insurance brokers who grasp your requirements and guarantee comprehensive coverage.

6. Gas or Electric?

HMO landlords must make a strategic choice between utilising electricity exclusively or incorporating both electricity and gas within their property.
Gas boilers need an annual Gas Safe landlord certificate to show they work well for hot water and heating. But when they break, finding quick repairs can be hard. Electric boilers are smaller, more efficient, and cheaper to install than gas ones.

RECENTLY COMPLETED HMO FIGURES:

PURCHASE PRICE
£270,000

BUILD COST
£175,000

OTHER FEES
£60,000

REVALUATION
£650,000

PROFIT
£5,250

MONTHLY PROFIT
£1,417

LOCATION
PORTSMOUTH

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7. Fire Risk Assessment

Lots of HMO landlords don't do proper fire risk assessments. But landlords have a legal duty to keep their rental properties safe from fires. Through the performance of fire risk assessments in your privately owned or socially rented accommodations, you gain the capacity to ascertain the probability of a fire occurrence, pinpoint hazards affecting those in close proximity, and establish comprehensive fire safety procedures for individuals in the event of a fire incident.

8. Undercharging Rent

It is imperative to have a precise understanding of the valuation of your House in Multiple Occupation (HMO) and to avoid undervaluing rental rates. When managing HMO properties, it's essential to recognize that you are operating a business, and rental rates should be established in alignment with market dynamics. By accurately setting rents, you can secure a robust profit margin, which can serve as a financial cushion during market downturns, such as the economic challenges encountered in the year 2020.

9. Picking the wrong street

A common recurring mistake among investors when acquiring HMO properties is the misplacement of investments in less-than-ideal locations. While HMOs generally prove lucrative in major urban centers, it is paramount to recognize that not all areas, postcodes, or specific properties offer the same investment potential.

Even with comprehensive research and a favorable postcode, it remains possible to select a property on an unsuitable street for HMO use. Factors such as proximity to essential amenities, nighttime noise levels, and other local conditions can significantly impact a property's long-term viability. Careful street selection is essential for maximizing investment prospects.

10. Failing to comply with Standards

Many landlords excel at creating excellent HMOs but stumble when it comes to upkeep and meeting standards. To avoid this, landlords should regularly:

- Get annual gas safety checks with certification
- Arrange for an Electrical Inspection Condition Report (EICR)
- Obtain an emergency lights certificate
- Secure a fire alarm tested certificate
- Perform fire risk assessments

Failing to do these things can lead to problems with local HMO officials, potentially affecting current and future HMO applications.

For HMO investment inquires please get in touch below:

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