How To Multiply Your Buy-To-Let Income By Up To 3 Or 4 Times

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An HMO (House of Multiple Occupation) is defined as a property rented out by at least 3 people who are not from one 'household' (e.g. a family), but share basic facilities like the bathroom and kitchen. It's sometimes called a 'house share', 'bedsit' or a 'studio micro flat'.

However, certain HMO properties will require a licence (3-storeys or more with 5 or more occupants) and if your property falls within the designated Article 4 area, you will need to obtain planning permisssion before you can lawfully let your property.

The new Government consultations which have been proposed for HMO and residential property licensing reforms include plans to make these changes through secondary legislation to increase the number of properties subject to mandatory licensing:

- Remove the storey rule so all houses with 5 or more people from 2 or more households are in scope
- Extend mandatory licensing to flats above and below business premises (regardless of storeys)
- Set a minimum size of 6.52sq-m in line with existing overcrowding standards (Housing Act 1985) to close said loophole created by upper-tier tribunal rulings

You will need to speak to your local authority on when and how these changes will impact your HMO strategy.

But moving forward, why would you want to let your property out room-by-room?

HMOs (House of Multiple Occupancy) or multi-let properties have the potential to provide a higher yield and are a completely different beast compared to a standard 'vanilla' buy-to-let.

A 3 bedroom house with a downstairs lounge and a separate reception room, that would normally rent to a family for £600 per month could bring in £2,257 if you were to rent each of the 5 rooms out at £105 per week; that's an additional £1,657pcm (gross), ie. an extra £19,884 per year (gross).

HMOs/Multi-Lets

The demand for rooms is growing fast. People can't afford to buy like they used to, access to lending for ordinary people is hard, plus rents and prices are very high compared to salaries.

The population is exploding through larger families and immigration; towns and cities are becoming more and more densely populated, without the available land to build on.

It has gotten harder and harder for developers to make margins, so they build smaller and smaller houses and flats to reduce costs.

People are more transient in their careers now and do not hold down jobs or relationships for as long as they used to, so they need more flexible living accommodation to match their changing lifestyles.

The reaction to this is obvious and necessary. You will notice that many more houses are being converted into room lets, especially in and around the town centres. You will notice more and more people renting out a room in their house. You will notice more and more pubs, clubs, nursing homes and old offices being converted into multi-lets.

Why?

Its quite simple, higher cashflow!

With a single-let property, you are doing well if you can clear £200pcm net income. In some low-yielding areas around London, it's virtually impossible to achieve cashflow on single-lets without a 50% deposit. Not a great use of leverage or cash. With HMOs, you should be looking at a minimum of £500pcm net, and with the higher-end models you could be looking at £800 plus per property per month, even with a repayment mortgage.

You may need to single-let 20 properties to get to your income target, whereas four larger HMOs can achieve the same goal. We recommend that total beginners cut their teeth on a few single-lets before stepping up, but if you're reading and you have a few already, perhaps it's time to step up and accelerate your cashflow.

If you want to start investing in HMOs you will need to create an investment plan detailing the steps and actions you will need to take to get started in HMOs. This includes:

- Assessing your budget and cash availability
- Timescale for sourcing
- Target market research
- Power team needed
- Time deadlines (such as start of term for Student HMOs)
- Furnishings and fittings plan
- Tenanting plan

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You need to consider each of these steps alongside your chosen strategy to be confident that you can create a cashflowing investment. Having a plan which details each of these areas will also allow you to pin-point your Goldmine Area more effectively as you can determine how much of your own time, money and effort will be needed. You can then decide how quickly you want to scale up and create multiple streams of HMO income.

Legal Issues:

There are four key areas you need to know about to stay abreast of the law and ensure you set up your HMO correctly from the start:

- Planning
- Building Regulations
- HMO Licensing
- Environmental health (& safety compliance)

In most local councils, these all fall into separate departments so you will have to do your research to find the information, and the people you need to talk to. Many investors jump into HMO investing without taking the time to understand the implications for licensing or planning, and later find that they are spending time and money putting right their earlier mistakes. Most councils offer a wealth of information on their websites which you can download and read for free. Along with identifying a local Goldmine Area, this is probably the second-most important piece of research you can do.

Don't rely on your builder or architect to understand the rules – HMOs require more advanced thinking, as they are a more advanced strategy.

The more rooms you have (5 or more) the more your cashflow increases, and many old commercial units, old hospital and council buildings, clubs, nursing homes, retail and pubs are prime for HMO conversion. Since April 2016, the UK government has made permanent changes to Permitted Development Rights, which allows offices to change to residential use without necessarily requiring panning permission. However, any development, which is within an Article 4 area has severely restricted planning with regard to HMOs – this is something to check before you start.

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How To Multiply Your Buy-To-Let Income By Up To 3 Or 4 Times

As with any investment, to make sure it continues to work for you long term, you need to look after it. You may have completely leveraged your HMO investment by using specialists such as developers, fellow investors, agents and brokers, with little of your own active involvement and time. Keeping a regular eye on Key Performance Indicators (KPIs) will allow you to assess and grow the profitability of your investment over the long term, and make tweaks and changes as a result. Certain measures you may wish to track will include:

- Monthly room rents & changes to this
- Rent collected
- Time to fill rooms
- Void periods
- Monthly (annual) bills
- Management time
- Maintenance expenditure

You should be working with your agent (or indeed, when you own a few, a member of your own team) who can easily produce a monthly KPI report. If you don't have a system for reporting and monitoring these metrics, you will not be able to maintain and grow your portfolio.

When developing HMOs you take a single unit of accommodation and turn it into 4, 6, 7, 9 or more units of accommodation – each with an individual tenant. You may be receiving 7 times the income of a single-let but you (or your agent) may also be dealing with 7 times the number of people with their issues, problems and queries! There are a number of hands-free apps and online products that allow you to see how your property is performing at a glance.

There are 5 main Progressive HMO/Multi-Let strategies, and 5 main finance strategies to acquire them, many of which don't need a deposit if you combine them with an innovative finance strategy such as rent to rent or option purchases. Progressive are currently the only people training you on all of them.

Which strategy or strategies work for you will depend on your available cash, your local Goldmine Area and your local planning regulations. It is important that you research to find these before you scale up your chosen HMO strategy or strategies, and it is something many investors are getting wrong now.

The 5 Progressive HMO *Strategies*:

High-End 'Boutique'

The most profitable room-by-room model is the 'Boutique'. It is also the model that requires the largest initial outlay of cash. This model provides Boutique, mini-hotel-room accommodation for high-end professionals near town centres or more affluent parts of towns and cities. This model commands the highest room rent, attracts the best tenants and needs to be furnished accordingly. It also attracts more liquid finance partners.

Post Grad/Professional

One step down in 'quality' to the 'Boutique' model, but with a slightly larger market, with less input costs to you or your JV partner.

Blue Collar

A larger market than Professional/Post Grad, and not as necessary to be right in the town centre, where prices are often higher, as these can be located close to the main industry of the town/city, for example near the hospital or a large manufacturing plant.

Less input cost. Tenants are less fussy about the quality of the accommodation and perhaps an extra room can be squeezed in per house. The lower down the 5-step model you go, the more management the tenants need.

Student

Especially effective in University cities, and usually within one mile of campus. Voids are higher because of holidays, and maintenance and management are also higher, but tenant expectations lower and a greater tolerance of higher numbers. Accordingly, rent is higher. Obviously useless in a non-university town, but can be a great market for breakthrough university towns and cities.

LHA/DSS

The 'lowest' end of the market, needing the lowest amount of capital outlay, but commanding the lowest rent per room and requiring the highest management in time and costs. Space can be maximised to great effect, and the market is wider than 'Boutique' and 'Post Grad/ Professional' but tenant turnover can be high and management intensive.

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The 9 Progressive HMO *Finance Models*:

Here are the different finance models for buying the cashflowing HMOs:

BRR

You buy with a deposit, refurbish, then rent out. You own the bricks and mortar. In some cases, you can achieve a higher income valuation if you've significantly increased value. You can recycle most, and in some cases, all the cash back out.

Rent to Rent

Also known as sub-letting or corporate letting (watch that some fraternities have negative associations with these terms). You rent an 'HMO-able' property from a landlord on a single-let basis, and then 'HMO' it yourself, renting out multiple rooms.

You create all the cashflow of an HMO, yet you don't buy it. No deposit needed. No big upfront costs, just small refurb costs. Big upside is it's virtually NMD. Trade off is you don't own it, so don't want to spend much refurbing it. You can mix and match this finance strategy with one of the 5 Progressive HMO strategies above.

[Lease] Options

Rather than buying the HMO and needing the big deposit, you take an option to purchase it. You take control of it through an option that excludes all other potential buyers, giving you the right but not the obligation to buy it, but you don't 'pay' for it until you 'complete' it, which could be many years down the line. Virtually NMD HMO 'control' (not ownership) except for legal costs, and a great way to generate significant cashflow with limited finds.

Trade off is that you'll need to learn and master this strategy, get the legals right and 'educate' vendors, landlords and agents. It's a bit more technical, but that's the same for most finance innovations anyway, which puts your competition off. Lease Options and other option variations such as purchase and sandwich are detailed in **'Make Cash in a Property Market Crash'**.

Delayed Completions [EDC's]/Instalment Contracts

A variation on an option where you exchange on a property, thereby negating the risk of lost refurb costs. Once you exchange, you basically own it, but you can then 'delay' completion, or own in 'instalments' over a period of time, often many years.

LOs & ICs are as relevant to single-lets as they are to HMOs, and are a creative and evolutionary finance strategy that negates the need for mortgages or large chunks of cash.

JVs

Any property buying strategy becomes NMD [no money down to you] when a JV partner fronts all the costs. A big advantage of working with a JV partner is that you can still own properties by using more traditional purchasing methods with your partner's money, and you have a partner who gives other benefits such as knowledge, experience and contacts that you wouldn't have working alone.

Cashflow

With a single-let property, you're doing well if you can clear £200pcm net income. In some low-yielding areas around London, it's virtually impossible to achieve cashflow on single-lets without a 50% deposit. Not a great use of leverage or cash.

With HMOs, you should be looking at minimum £400pcm net, and with the higher end models, you can be looking at £800 plus per property per month, with some well over £1,000 (even with a repayment mortgage).

The more rooms you have (5 or more; 8 optimum) the more your cashflow increases, and many old commercial units, old hospital and council buildings, clubs, nursing homes, retail and pubs are prime for HMO conversion.

You may need 20 single-let properties to get to your income target, whereas 4 larger HMOs can achieve the same goal. We recommend that total beginners cut your teeth on a few single-lets before stepping up, but if you're ready and you have a few already, perhaps it's time to step up and accelerate your cashflow?

Never Mix Tenant Types

There are different tenant types in single-lets and HMOs, and you should never mix them. Don't put a high-end professional in an LHA house, and don't put an LHA tenant up market. Especially, don't mix tenant types in multi-let HMOs, in the same house. It's like when one infected virus-vampire gets locked in a room full of innocent people, soon enough they're all eating each other and trashing the place.

Match Refurb Standard With Tenant Type

If it's a nicer area, the standard of the refurb will need to suit. If you're going for high-end tenants in your 'Boutique HMOs' then they need to look like 'Boutiques'. If you are in the lower, single-let LHA areas, clean and tidy is more than enough, you'll be wasting money on fancy fittings and it'll make no difference to the rent.

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Top Tips

Know Your Target Market & Design Accordingly:

All HMOs have a target market. You need to know and understand the market you are targeting to make sure you prepare and plan properly (and invest wisely). At the LHA end of the scale, tenants need robust, hardwearing fixtures, fittings and appliances.

At the 'Boutique' or luxury end of the scale, tenants will demand quality interior design, beautiful lighting and high-end kitchen and bathroom finishes. Your market should not only determine where and what you buy, but also the cost and type of the refurb and furnishings.

As the appetite for investing in HMOs has grown, it has become apparent that bland, dull, monotonous rooms do not have the appeal of a well-designed space. Utilise good design principles by using colour, focal points and features to create a flow to your interiors that sets them above the competition, and makes your rooms stand out from the crowd.

Stick To One Tenant Type (as above):

Avoid mixing tenant types in HMOs. Tenants like to know that they are renting with like-minded people who share similar values and lifestyle choices. Do not be tempted to mix up students with professionals, for example if you have a void room. You will face more problems in the long run and will just confuse your marketplace.

Include Bills:

An important decision to make is whether you will offer an 'all-inclusive' service which is where the price per room includes all services such as utilities, council tax, broadband, and TV license. Nowadays, most professional and many student HMOs offer the one-price model, where there are no extra costs passed on to the tenants.

Include Cleaning:

In addition, you may wish to offer a regular cleaner to ensure the property is well maintained. All these costs need to be factored into the price you set for your rooms, and estimated as part of your ongoing cost analysis. Whether you charge a weekly or monthly price is up for debate - this is something to decide in conjunction with your agent, as different markets will require different approaches.

Case Study 1:

A 3-bedroom, large, Victorian double-fronted terraced house, which was converted into a 7-bedroom HMO with an attic conversion. It was aimed at the young professional market i.e Post/Grad Professional.

- Purchase Price: £93,000
- Building work (to convert to 7-bed licensable HMO): £53,000 Furnishings: £7,600
- TOTAL cost: £153,600
- Valuation at end of project: £190,000
- Remortgage @ 70% LTV: £133,000
- Money left in: £20,600
- Annual income: £33,000
- Net income (minus bills): £25,200
- ROI: 122% i.e the return on my own money left-in

With that Return On Investment [ROI], any investor would lend you the £20,000 you needed to leave in the project, assuming you gave them a great return. With a 122% ROI you could pay them off in less than a year, and have a property paying great income (cashflow) with none of your own money left in [NMLI]! By making sure you are generating a healthy ROI, there will never be a shortage of investors who want to work with you.

As with all the models outlined here, you need to have a sound financial analysis system that allows you to see the actual ROI. Undertaking due diligence, sourcing the correct property in the right area for your chosen market, preparing it to the appropriate standard and costing the added inclusive bills all need to be factored into your financial spreadsheet. Only then will you be able to compare properties and decide which offers the best returns.

HMOs are becoming an increasingly core strategy for many investors, inevitably due to the high returns and cashflow. HMOs do generally take more management and maintenance than single-let properties, so getting a good agent or team to manage them is critical. Now that lenders are opening up the market more widely to limited companies, scaling up your business is getting easier and easier.

With the right knowledge, education and systems, you could grow a very healthy income in a very short space of time with HMOs – thus replacing your income and creating the life you always wanted.

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But To Give a Balanced View, Single Let Vs Multi-Lets – Which Is Better (For You)?

When investing, what's your end game?

What's the bottom line you want, when all is said and done?

Ask 100 investors and you will get a varied response.

Which one is better, single lets or multi-lets?

OK, that was a trick question.

You see, that's akin to 'Which is better, a fastball or an off speed pitch?'

If you need immediate income, you know cash flow is a yield on a pile of gold.

And, the one with the most and biggest piles of gold wins, right?

But not all of us can unanimously agree as to which strategy will help best accomplish our objective...

Some investors are die hard single let investors, whilst others focus intently on multi-lets. Both are viable strategies and each has its advantages and disadvantages, which will be discussed overleaf.

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01
Ease of Purchase

Bread & butter or 'vanilla' single lets are by far the most reasonably priced and easiest to finance, which makes them very popular and accessible to the majority of investors.

Although smaller multi-lets are also relatively easy to finance, you will find difficulty financing larger units where the property needs mandatory licensing.

They will either need to be financed for cash or through specialist commercial arms. The bigger buildings will also carry a higher price tag, which will require a higher deposit, but with knowledge, experience and joint venture cash, they will also have the highest cash upsides.

02
Consistency of Income

If you're lucky to land a 5 star tenant who renews their AST every 6-12 months, with no issues, no voids, no rent arrears, then you can ignore this section and you can comfortably rest on that high horse of yours looking down upon the rest of us mere mortals…..

If you want the reality then read on.

This is the part where you can lose your shirt, where a vacancy can take months to fill, costing you a boatload of mortgage costs.

You see, with single lets, most tenants (especially at the lower end) tend to stay longer term, making recurring income on auto-pilot.

But, when vacant, they can seriously take a bite out of the cashflow, as there will be zero income, but the mortgage will still need to be met. With multi-lets, you are diversifying the income which clearly isn't possible with single lets.

This can offset potential higher vacancy rates.

03
Income Diversification – A Genuine Question:

Going into war, is it better to have one soldier on your side, or four?

Of course you would have four –if one goes down, you still have three others to get the job done.

You with me?

This is one of the advantages multi-lets have over single lets.

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04
Ease of Tenant Management/Maintenance

This is another area where the burden, up-keep and maintenance of tenants of single lets can outshine multi-lets.

Perhaps you've also tried HMOing.

You hated it.

You tried to self manage, you got too involved, you didn't vet the tenants properly, put the wrong types of tenants together, in the wrong location, to the wrong living standard.

Never again, I'll stick with single let thanks.

But consider this also:

Needing 100 single lets in order to achieve your investment objectives (but scattered) compared to 5/6-twenty multi-lets in a tight geographical location?

The multi-lets would make more sense right? There is a lot of efficiency in this model too. But there might be another reason to own smaller single lets which brings us on to the next point..

05
Ease of Sale

The simple reality is single lets are much easier to liquidate should you ever want to exit.
The potential pool of buyers is much larger along with generous financing & mortgage options.

Given that smaller multi-lets are also easier to finance, the problems arise with larger licensed buildings which often have many drawbacks with the availability of finance, and larger deposits needed.

Naturally, there are a few commercial players who could offer niche finance for this market, but this would require the buyer to have deep pockets and some past business borrowings.

05
Conclusion

While both strategies and financing options are different, which one is the best depends on the investors strategy.

Cash-Flow vs. Capital Appreciation? Multi-lets will deliver mammoth returns whilst single-lets will likely break even after all costs are factored in. This is of course based on the assumption you have recycled your capital after the 'title has seasoned'.

Yes, each strategy has its own benefits and drawbacks, but remember, whichever strategy you choose, your priority should be not to lose!

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Case Study 2:

Deal Example Pub in Peterborough

We recently purchased a pub which we then converted into 3 Flats of Multiple Occupation (or cluster flats). Running as a pub, the business was not making much/loosing money and needed a new use. After purchasing it for £250k and obtaining planning permission we converted it into 3 self contained units; each with a lounge/diner and with 6 ensuite bedrooms. You can see with a gross yield of over 20% the return on investment is mind blowing.

- Pub Purchase price: £250,000
- Conversion cost: £235,000
- Converted into a HMO creating 18 ensuite rooms
- Value with 20% deduction for running costs and applying a 11% yield: £720,000
- Remortgage: £540,000
- Average rent per room (monthly): £450-£500
- Total gross rent (yearly): £99,000
- Running costs yearly): £31,000
- Mortgage (5.5%) (yearly): £29,700
- Net cashflow (yearly): £38,300
- Money left in (after legal, finance and other development costs): £10,000
- Gross Yield (gross rent / purchase price and conversion cost): 20.4%