

Hilltop Property

What is...



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House of Multiple Occupation ?

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A house of multiple occupation (HMO) is a property where three or more unrelated individuals live in separate rooms, but share communal areas such as kitchen and bathrooms.

HMOs are typically found in urban areas and can consist of properties such as flats, student accommodation, or shared houses.

Landlords of HMOs are required to obtain a license from the local council and adhere to certain regulations to ensure the property is safe and suitable for multiple occupants.

Example

A five-bedroom house in a popular university town is purchased for £200,000. Each room is rented out to students for £400 per month.

Assuming all rooms are occupied, the total rental income per month is £2,000 (£400 per room x 5 rooms). The annual rental income would be £24,000.

After deducting expenses such as maintenance, utilities, insurance, and management fees, the net rental income is estimated to be around £18,000 per year.

If the property is mortgaged with a 75% loan-to-value ratio at an interest rate of 4%, the annual mortgage interest would be approximately £6,000.

The return on investment (ROI) can be calculated by dividing the net rental income by the total investment cost:

$$\text{ROI} = (\text{Net rental income} / \text{total investment cost}) \times 100$$

$$\text{ROI} = (£18,000 / £50,000) \times 100$$

$$\text{ROI} = 36\%$$

This means that the property would yield a 36% return on investment when mortgaged.)

Advantages

- Increased rental income: HMO properties have the potential to generate higher rental income compared to single-let properties.
- They offer rental yields that can be up to three times higher than regular properties, making them an attractive investment opportunity for property investors.
- The property value of an HMO is often appraised higher than neighbouring properties on the same street.

Disadvantages

- Increased management responsibilities: Managing an HMO property requires more time and effort compared to a single-let property, as landlords need to deal with multiple tenants and address any issues that may arise.
- Regulatory requirements: HMO properties are subject to additional regulations and licensing requirements.