PROPERTY PORTFOLIO INVESTOR

DEEP DIVE GUIDES · WHERE THE SEASONED MONEY GOES

THE HMO PLAYBOOK

Where the double-digit yields really live, and what they cost to earn.

Houses in multiple occupation remain the highest-yielding mainstream residential strategy in Britain, at 8 to 12 per cent gross in the right cities. This guide sets out the model honestly: the licensing and planning gauntlet, the true gap between gross and net, the finance, and the operating discipline that separates an asset from a headache.

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START WHERE THE YIELD LIVES

Renting the house by the room

The HMO trades one tenancy's simplicity for four or five rents; the premium is real, and so is the work that earns it.

A house in multiple occupation is, in law, a property let to three or more people from two or more households who share facilities; in practice, the investor's HMO is a four-to-six bedroom house share let by the room to students, young professionals or contractors, usually with bills included. The economics are simple to state: four rooms at £500 to £600 a month out-earn the same house let whole at £1,100, and across the strong northern and Midlands cities well-run HMOs typically gross 8 to 12 per cent, against 5 to 7 per cent for single lets in the same postcodes, with the best-managed stock in university cities pushing the top of that range. The premium compensates for three things: higher operating costs, since the landlord carries utilities, broadband and more intensive maintenance; higher regulatory load; and management intensity that never quite sleeps.

Why does the strategy matter now? Because the single-let arithmetic has tightened, and yield-seeking capital is moving up the effort curve; because room demand is structurally strong, with affordability pushing sharers into good shared housing for longer; and because the barriers that make HMOs harder to create, Article 4 planning directions and spreading licensing, simultaneously protect the incumbents who already hold compliant stock. That last point is the strategic heart of this guide: in HMO markets, regulation is the moat. The investor who masters licensing, planning and fire safety is not merely complying; they are acquiring a position that new competition finds ever harder to replicate. The rest of this guide is the mastery.

BY NUMBERS

- 8% to 12% - typical gross yields on well-run HMOs in strong northern and Midlands cities
- 5+ occupants from 2+ households - the national mandatory licensing trigger, any number of storeys
- 70+ councils - now operate additional licensing catching 3-4 person shares; check every time
- 6.51 sq m - minimum bedroom size for one adult under licence conditions (10.22 sq m for two)
- 12 months' rent - the maximum a tenant can reclaim through a rent repayment order on an unlicensed HMO

THE NEW MACHINERY

Licence and planning: two gates, not one

An HMO needs permission to be safe and permission to exist, and confusing the two is the most expensive beginner's error in the strategy.

Gate one is licensing, which is about management and safety. Mandatory licensing applies across England to any HMO with five or more occupants from two or more households, regardless of storeys, on licences lasting up to five years at fees typically between £500 and £1,500 and carrying conditions on gas, electrics, alarms, amenities and minimum room sizes of 6.51 square metres for a single adult and 10.22 for a couple. Below the five-person line, more than seventy councils now run additional licensing schemes capturing three- and four-person shares in designated areas, and selective licensing can overlay everything else besides. Operating without a required licence is a criminal offence carrying civil penalties, rent repayment orders of up to twelve months' rent, and, under the Renters' Rights regime, database consequences; the checking habit is therefore absolute and per-council, because every authority is its own regime.

Gate two is planning, which is about whether the use is allowed at all. A share of three to six unrelated occupants is a distinct planning use (class C4), and while national permitted development rights normally allow a family house to become a small HMO without an application, councils can and widely do withdraw that right through an Article 4 direction, after which conversion needs planning permission that policy may be written to refuse. Larger HMOs of seven-plus always need permission. The investment consequences cut both ways: inside an Article 4 area, creating a new HMO is hard, but an existing lawful one carries scarcity value and should be bought with evidence of its lawful use; outside Article 4, conversion is easier and so, eventually, is your competitors'. Check the direction map before you buy, and never pay an HMO price for a house that may not lawfully be one.

RULE OF THUMB

A licence proves the HMO is safe; planning proves it is allowed. Buy nothing described as an HMO without evidence of both, and price any doubt as if the answer were no.

Gross is the advert; net is the business

Bills, voids and management take a far bigger bite from an HMO than from a single let; the strategy still wins, but only for those who count properly.

Work an honest example. A four-bedroom terrace in a strong northern city, bought and converted for £180,000 all-in, lets four doubles at £550 a month including bills: £26,400 a year, a 14.7 per cent gross yield on paper against the £110-to-£130-a-week room rates typical of such markets. Now deduct what the single-let investor never sees: utilities and broadband commonly £4,000 to £6,000 a year for a filled four-share; council tax where the landlord is liable; licensing amortised; more frequent redecoration and repairs, because four households wear a house faster than one; and management at 12 to 15 per cent of collected rent if outsourced, since HMO agents charge for the intensity. Allow room-level voids too, one room empty for a month is a 2 per cent hit, and a realistic net yield lands at 8 to 10 per cent, roughly double a good single let and roughly double the work.

Two structural numbers complete the picture. Conversion cost: taking an ordinary house to a compliant, lettable share, fire doors, interlinked alarms, en-suites where the market expects them, furnished throughout, typically runs £15,000 to £40,000-plus depending on specification and whether walls move, and this capital must be counted in the yield denominator, not forgotten beside it. Valuation: most smaller HMOs are valued as houses, on bricks-and-mortar comparables, meaning the conversion spend does not automatically return at refinance; only larger, clearly commercial HMOs in some areas attract investment-basis valuations off the income. Assume bricks-and-mortar unless a valuer tells you otherwise in writing, and let any commercial uplift arrive as a bonus rather than a plan.

Line	Single let (same house)	Four-room HMO
Annual rent	around £13,200	around £26,400
Bills borne by landlord	None	£4,000 to £6,000
Management	10-12%	12-15%
Realistic net yield	5% to 6%	8% to 10%
Management intensity	Low	Continuous

Illustrative figures for a strong northern city at mid-2026 room rates; run your own street-level numbers. Gross yields of 8 to 12 per cent and the operating cost ranges shown reflect published market analyses, hedged.

Running the machine compliantly

An HMO is an operating business wearing a property's clothes; the compliance calendar is the operating system.

Fire safety leads everything, because in shared housing it is both the law and the moral floor: interlinked detection appropriate to the layout, fire doors with closers, protected escape routes, emergency lighting where required, and a written, reviewed fire risk assessment. Around it sit the familiar certificates on a denser schedule, gas annually, electrical installation five-yearly, appliance testing as specified in licence conditions, plus the amenity standards of the licence itself: kitchens, bathrooms and room sizes matched to occupant numbers. Insufficient room sizes and inadequate fire provision are, on published analysis, the two dominant reasons licence applications fail, which tells you exactly where councils look. The Renters' Rights Act applies in full, room tenancies are tenancies, with periodic status, Form 4A rent increases and Section 8 possession per room, and deposit compliance per tenant is now a precondition of possession.

Operationally, the craft is occupancy and harmony. Marketing runs continuously, because a four-share generates roughly four times the tenancy turnover of a single let; the best operators pre-market rooms the day notice lands and keep a waiting list in student cities timed to the academic cycle. Tenant mix is managed deliberately, one bad sharer can empty a house, so referencing includes the question the forms omit: will this person live well with the others? Bills-included pricing needs energy assumptions revisited at each re-let, with fair-usage clauses where the market accepts them. And the record-keeping habit pays twice: licence conditions typically require management arrangements a council can inspect, and the same tidy file is what convinces the eventual buyer that your HMO is a business, not a bet. This is the strategy's honest bargain, hotel-keeping's workload for hotel-keeping's margins.

COMPLIANCE CHECKLIST

Before you buy or convert: check mandatory, additional and selective licensing with the council; check the Article 4 map and any existing lawful-use evidence; measure every proposed bedroom against minimum sizes; cost fire works into the conversion budget.

While you operate: licence conditions diarised and met; fire risk assessment reviewed; gas, EICR and alarm tests current; per-tenant deposits protected and paperwork served; room-level rent diary maintained; occupancy never above the licence number.

Borrowing against a house share

HMO lending is a specialist market that prices the operating risk and rewards the experienced; know how the valuer will see it before the lender does.

The lending panel narrows and re-prices as soon as the word HMO appears. Specialist and some mainstream lenders offer dedicated products, typically to 75 per cent loan-to-value, at rates a margin above standard buy-to-let, with interest coverage stressed on the aggregate room income, often at 125 to 145 per cent depending on borrower status and increasingly inside limited company structures, which suit the strategy's reinvestment economics. Most lenders want landlord experience, some insist on prior HMO experience for larger properties, and licence status is a condition: lending completes against a licensed or licensable property, and a licence refusal is also a finance problem. First-time HMO investors commonly start with a small share below mandatory thresholds or buy an already-licensed, tenanted HMO, where the licence, the planning history and the income record arrive with the keys.

The valuation question from the previous page returns here with money attached. On a bricks-and-mortar basis, a £180,000 house plus £30,000 of conversion refinances against comparable houses, not against £26,000 of income, so the conversion capital stays in the deal; strategies that promise recycling all your money out of every HMO are describing the minority of large, commercially valued stock, or describing optimism. Bridging finance has a legitimate role, buying unmortgageable or auction stock and funding conversion before a term refinance, at 2026 pricing of very roughly 0.6 to 1 per cent-plus a month, but the exit must be underwritten before the entry: a term lender identified, the ICR modelled at stressed rates on realistic room rents, and the valuation basis confirmed. The seasoned structure is unexciting and works: sensible gearing, five-year money, and room income that clears the stress test with margin to spare.

Route	How it works	Watch for
Specialist HMO mortgage	Term loan to 75% LTV on room income	Experience requirements; licence conditions
Limited company HMO loan	SPV borrows; suits reinvestors	Personal guarantees; slightly higher pricing
Bridge then refinance	Buy and convert, then term loan	Exit valuation basis; cost of delay
Buy tenanted and licensed	Income and permissions from day one	Verify licence, planning and tenancy files hard

EARNED THE HARD WAY

The investor's playbook

The HMO rewards operators and punishes tourists; these are the habits that put you in the first category.

Everything in this guide reduces to a single trade: the HMO pays a premium yield for premium diligence. The double-digit outcomes are real, but they are earned in the licensing office, the fire-door schedule and the Tuesday-night re-marketing of room three, not in the spreadsheet that first made the numbers dance. Buy where room demand is provably deep, secure both gates, planning and licence, before capital is committed, count the bills and the voids honestly, finance on the valuation basis you will actually get, and operate like the small hospitality business you now run. Do that, and the moat that regulation builds around compliant stock works for you for as long as you care to hold it.

TEN HABITS OF THE SEASONED HMO OPERATOR

- Checks licensing and Article 4 status with the council before viewing, not before completing.
- Measures every bedroom personally; a room below 6.51 square metres is storage, not income.
- Builds the fire strategy into the conversion budget from day one, never as a snag list.
- Underwrites on net yield with bills, voids and full management costed, then adds margin.
- Assumes bricks-and-mortar valuation and treats any commercial uplift as a windfall.
- Pre-markets rooms the day notice lands and keeps a waiting list in student cities.
- References for compatibility as well as covenant; one bad sharer empties a house.
- Reviews bills-included pricing at every re-let against current energy costs.
- Keeps an inspection-ready file per property; the council, the lender and the buyer all read it.
- Buys existing licensed HMOs in Article 4 areas when priced sensibly; scarcity is the asset.

KNOW YOUR EXIT

The bigger picture

Every force reshaping the rental sector, affordability, regulation, professionalisation, is concentrating value in well-run shared housing.

Demand first. Room-by-room renting is the affordability release valve of the English housing market: as whole-property rents rise faster than young wages, good shared housing retains tenants deeper into their careers, and contractor and key-worker demand runs alongside the student base. Nothing in the demographic or affordability outlook weakens that; the Renters' Rights framework, by improving standards and security, arguably strengthens demand for the professional end of sharing while regulating the bottom end out of existence. Supply, meanwhile, is being actively constrained by the very rules this guide teaches: each new Article 4 direction and licensing scheme raises the cost of creating compliant rooms, and each enforcement wave removes non-compliant ones. Markets in which demand compounds while supply is rationed are the ones investors are usually told they missed; in HMOs, the rationing is happening in public, on council websites, in real time.

The forward risks are policy and saturation. Watch the Renters' Rights second phase, whose database will expose HMO compliance histories property by property; watch energy rules, since shared houses are heavy consumers and the EPC C deadline applies in full; and watch local saturation, because student cities can and do overbuild rooms in specific postcodes, which is why the demand check is street-level and annual, not city-level and once. The exit, thought about early, shapes the build: a compliant, documented, income-recorded HMO sells as a business to the next operator, often without a void day, while an improvised one sells as a tired house minus the cost of undoing it. Build the first kind. In a sector being professionalised by statute, the professionals are the ones the legislation is quietly working for.

QUICK REFERENCE

Item	Position at the time of writing	Source and date
Definition	3+ people, 2+ households, shared facilities	Housing Act 2004 s254
Mandatory licence	5+ occupants, 2+ households, any storeys; up to 5 years	2018 Order
Additional / selective	70+ councils run additional schemes; check per council	Published analyses, 2026
Licence fees	Typically £500 to £1,500 per 5-year term	Council schedules
Room minimums	6.51 sq m single adult; 10.22 sq m couple	Licence conditions
Unlicensed letting	Civil penalties; rent repayment orders up to 12 months' rent	Housing Act 2004; RRA
Planning	C4 use; Article 4 areas need permission; 7+ always needs it	Planning framework
Typical yields	8-12% gross; realistic net 8-10% for good operators	Market analyses, 2026, hedged
Finance	Specialist products to 75% LTV; experience often required	Lender criteria, mid-2026
Tenancy regime	Renters' Rights Act applies per room	From 1 May 2026

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