

# INTRO TO HMO



- **WHY IT WORKS**
- **DEFINITION**
- **LICENSE**
- **WHAT IS DIFF TO BTL?**
- **DEMAND QUALIFICATION**
- **IDENTIFYING OPPORTUNITIES**
- **THE NUMBERS**
- **STANDARDS – EHO – NATIONAL OR LOCAL**
- **DEAL EXAMPLES**
- **COMMON MISTAKES**
- **TOP TIPS**
- **SCALING UP (SUI GEN + CT)**

# WHY IT WORKS



- POPULATION INCREASE AND BUILDING TARGETS NOT BEING MET – RISE IN THE POPULARITY OF HMOs
- WE ARE VERY MUCH IN TIMES OF COLIVING CULTURE – WITH PEOPLE ENJOYING SHARED LIVING AND WORK SPACES

## FOR LANDLORD

- A SINGLE HOUSE THAT ORGINALLY MIGHT HAVE BEEN LOOKED AT AS A LOW PERFORMING BTL, TYING UP CAPITAL, CAN WORK AS A HIGHER CASHFLOWING HMO
- RATHER THAN RENTING A HOUSE FOR EXAMPLE AT £500 PER MONTH, EACH ROOM CAN BE RENTED OUT FOR A SIMILAR AMOUNT
- SINGLE TRANSACTION PURCHASE – IN MANY WAYS THE SAME AS BTL

## FOR TENANTS

- ITS HARDER AND HARDER FOR PEOPLE TO GET ON HOUSING LADDER – GOOD WAY TO SAVE MONEY FOR A PERIOD WHILST BUILDING A DEPOSIT
- AFFORDABLE - COMPARED TO WHOLE DWELLING RENTAL
- MONTHLY BILLS INCLUDED (IN MOST CASES) – COUNCIL TAX, GAS, ELEC, WATER, INTERNET AND A CLEANER
- PERFECT FOR TRANSIENT PROFESSIONALS AND STUDENTS – MOVE IN A WITH A BAG AND YOU'RE GOOD TO GO

# DEFINITION



**A PROPERTY RENTED OUT BY AT LEAST 3 PEOPLE WHO ARE NOT FROM ONE HOUSEHOLD BUT SHARE FACILITIES LIKE THE BATHROOM AND KITCHEN.**

**A BUILDING IS CONSIDERED AN HMO IF IT IS OCCUPIED BY MORE THAN ONE HOUSEHOLD. THE HOUSING ACT 2004 DEFINES A SINGLE HOUSEHOLD AS:**

- A FAMILY, EG A COUPLE (WHETHER MARRIED OR NOT AND INCLUDING SAME-SEX COUPLES) OR PERSONS RELATED TO ONE ANOTHER**
- AN EMPLOYER AND CERTAIN SPECIFIED DOMESTIC EMPLOYEES**
- A CARER AND THE PERSON RECEIVING CARE**
- A FOSTER PARENT AND FOSTER CHILD.**

**HMO HAS ITS OWN USE CLASS - C4 (up to 6 residents)**

**SINGLE RESIDENTIAL DWELLING - C3**

# LICENSING – MANDATORY AND ADDITIONAL



**MANDATORY** – GENERALLY SPEAKING YOU DO NOT NEED A HMO LICENSE IF YOU HAVE LESS THAN 5

THE HOUSING ACT 2004 INTRODUCES THE MANDATORY LICENSING OF HMOs. THE ACT ALSO PROVIDES FOR LICENSING TO BE EXTENDED BY A LOCAL AUTHORITY TO INCLUDE HMOs NOT COVERED BY MANDATORY LICENSING (ADDITIONAL)

## **MANDATORY**

FROM 1<sup>ST</sup> OCT 2018 LICENSING WILL BE REQUIRED WHERE THE HMO IS OCCUPIED BY FIVE OR MORE PERSONS LIVING IN TWO OR MORE SEPARATE HOUSEHOLDS. THERE IS NO REQUIREMENT AS TO THE NUMBER OF STOREYS - IT USED TO BE 3 FLOORS AND 5 PEOPLE.

## **ADDITIONAL**

IN ADDITION TO THE MANDATORY LICENSING OF CERTAIN HMOs, THE HOUSING ACT 2004 GIVES LOCAL AUTHORITIES THE POWER TO IMPOSE ADDITIONAL LICENSING ON HMOS BEYOND THE NATIONAL MANDATORY REGIME. FOR EXAMPLE, A LOCAL AUTHORITY COULD EXTEND LICENSING TO INCLUDE ALL HMOS IN A SPECIFIC AREA, OR THE WHOLE DISTRICT, TO INCLUDE THOSE NOT COVERED BY MANDATORY LICENSING.

## **SELECTIVE LICENSING**

LOCAL AUTHORITIES ALSO HAVE THE POWER TO INTRODUCE SELECTIVE LICENSING SCHEMES IN RELATION TO PRIVATELY RENTED HOUSING THAT ARE NOT HMOs. UNDER PART 3 OF THE HOUSING ACT 2004

# LICENSING CONDITIONS



**LOCAL** – ALL CONDITIONS AVAILABLE TO DOWNLOAD ON LOCAL BOROUGH COUNCIL WEBSITE

- CHECKLIST OF WHAT YOU NEED TO PROVIDE AS A LANDLORD
- SPACE STANDARDS
- FIRE SAFETY GUIDANCE
- KITCHEN PROVISIONS
- BATHROOM PROVISIONS
- ENGAGE WITH HMO LICENSING TEAM PRIOR TO REFURBISHMENT
- MUST HAVE A LICENSE IN PLACE BEFORE PROPERTY CAN BE OCCUPIED BY MORE THAN 4 PEOPLE

# BTL

# HMO

<b>TENANT TYPE</b>	FAMILIES OR COUPLES	MULTIPLE TENANTS IN DIFFERENT HOUSEHOLDS – STUDENTS / PROFESSIONALS
<b>TENANCY</b>	LONGER TERM	SHORT TERM TRANSIENT TENANTS
<b>BILLS</b>	EXCLUDED	GENERALLY INCLUDED
<b>PROPERTY FEATURES</b>	BATHROOM WITH BATH, GARDEN	EN-SUITES, LARGE COMMUNAL SPACE
<b>ASTs</b>	SINGLE	MULTIPLE (OR MULTIPLE PEOPLE ON ONE AST)
<b>LOCATION</b>	NEAR PARKS AND PRIMARY SCHOOLS	NEAR EMPLOYERS, UNIs AND TRANSPORT LINKS
<b>FURNISHED?</b>	UNFURNISHED	FURNISHED – INC BEDS AND WARDROBES
<b>MORTGAGE</b>	MORE OPTIONS, ONE AST	MORE SPECIALISED, PERMITS MULTIPLE ASTs, CAN BE COMMERCIAL
<b>INSURANCE</b>	BUILDING ONLY	BUILDING AND CONTENTS

# QUALIFYING DEMAND



- **VERY IMPORTANT**
- **COMES BACK TO TENANT DEMOGRAPHIC**
- **DON'T GENERALLY WORK IN RURAL AREAS – FAR AWAY FROM EMPLOYERS, EDUCATION INSTITUTIONS AND TRANSPORT LINKS**
- **CHECK WEBSITES LIKE RIGHTMOVE & SPAREROOM TO QUALIFY DEMAND**
- **DON'T PUT TEST ADS OUT – ADVERTISING STANDARDS AGENCY DON'T PERMIT THIS**
- **VIEW HMOs IN YOUR AREA AS A PROSPECTIVE TENANT**
- **SPEAK TO LOCAL LETTING AGENTS – SPECIALISED IN HMO LETTINGS**
- **SPEAK TO OTHER EXPERIENCED INVESTORS/SOCIAL MEDIA**
- **DRIVEN BY TENANT DEMOGRAPHIC**

# ARTICLE 4



- RELATES TO PLANNING NOT LICENSING
- CHECK FOR ARTICLE 4 – DIRECTIVE THAT REQUIRES PLANNING PERMISSION IN ORDER TO CONVERT A HOUSE TO A HMO
- GENERALLY SPEAKING THIS COMES IN TO EFFECT IN AREAS THAT ARE OVERSATURATED WITH HMOS AS A WAY FOR THE COUNCIL TO LIMIT THEM
- ALL COUNCILS DIFFER AS TO WHETHER THEY WILL ACCEPT FURTHER HMOS - CHECK PUBLIC ACCESS
- OPPORTUNITY TO PURCHASE EXISTING/TIRED HMOS AS THE USE STAYS WITH THE BUILDING - CONTACT LANDLORDS ON HMO LICENSE REGISTER
- IF NO PLANNING, HAVE TO SUBMIT A LAWFUL DEVELOPMENT CERTIFICATE APPLICATION PROVING CONSISTENT HMO USE OVER 10 YEARS (DIFFERENT TO RESIDENTIAL USE WHICH IS NORMALLY 4 YEARS)

# IDENTIFYING OPPORTUNITIES



- TYPES OF PROPERTY – FLATS, HOUSES, COMMERCIAL BUILDINGS
- INSIDE THE PROPERTIES
- ADDITIONAL RECEPTION ROOMS
- LARGE BEDROOMS
- LOFT CONVERSIONS
- EXTENSIONS
- STUD WALLS THAT CAN BE KNOCKED DOWN AND RECONFIGURED
- LOCATION
- EXISTING TIRED HMOs
- HMOs in ARTICLE 4

# THE NUMBERS (M.O.E. / LTV)



- ON TOP OF PURCHASE PRICE, HIGHER COSTS TO REFURB THAN A BTL
- RENT MUCH HIGHER
- MOE HIGHER – AROUND 20% MINIMUM
- MANAGEMENT – GENERALLY SLIGHTLY HIGHER THAN A BTL E.G.11/12%
- LTV – VARIES BUT STANDARD IS 75%
- VALUATIONS AFTER WORK – BRICKS AND MORTAR BASIS OR COMMERCIAL DEPENDING ON SIZE OF THE HMO
- MORTGAGE CAN BE SLIGHTLY HIGHER THAN BTL

# DEAL EXAMPLE – 5 BED HMO



# DETAILS

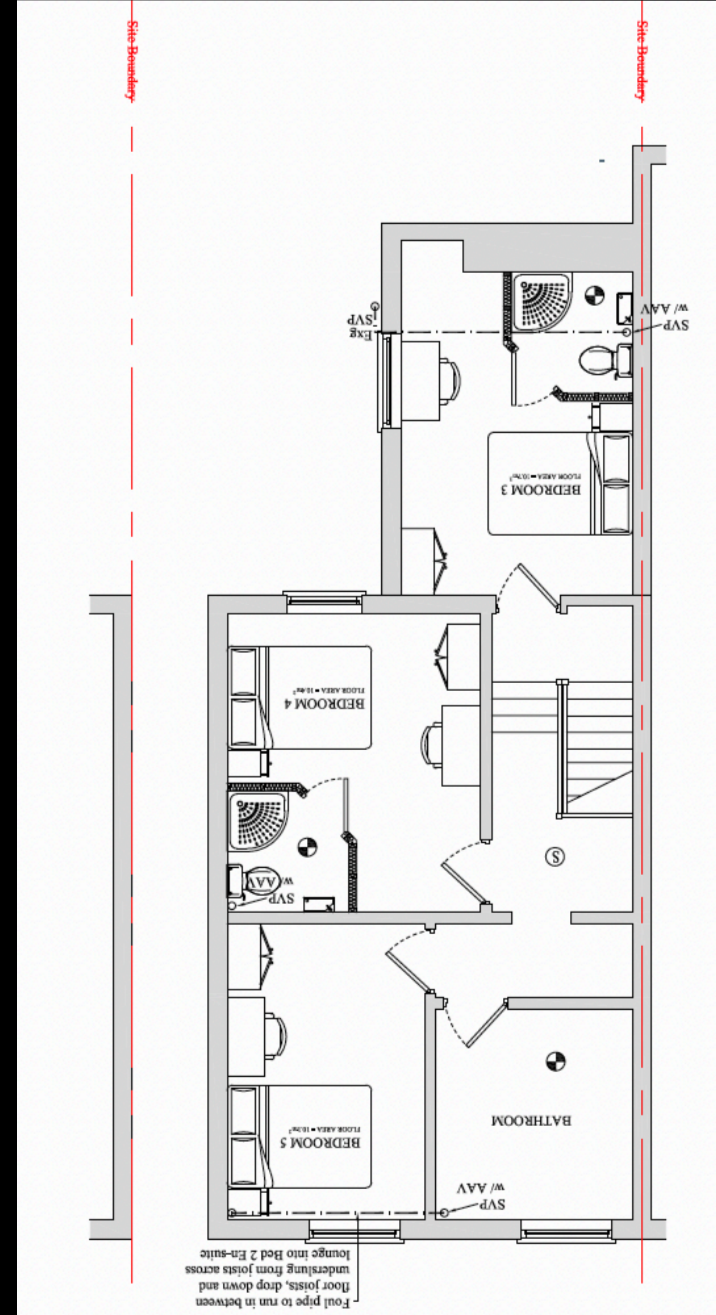
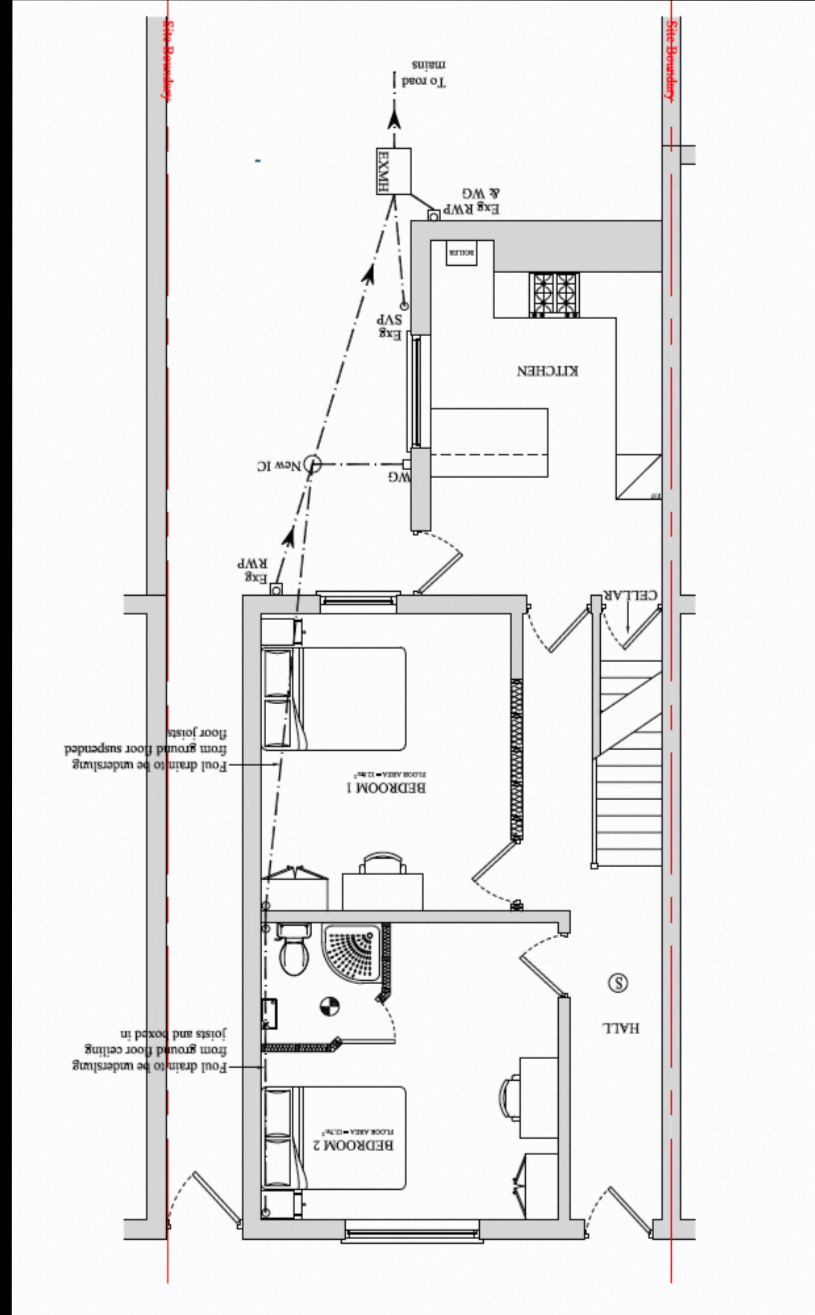
- **3 BED SEMI DETACHED HOUSE**
- **CITY CENTRE LOCATION**
- **PERFECT FOR HMO CONVERSION**
- **LARGE BATHROOM (!)**



# DEAL EXAMPLE – 5 BED HMO



# DEAL EXAMPLE – 5 BED HMO



# BATHROOM EXAMPLE



# IMAGES



# THE NUMBERS



<b>PURCHASE</b>	
PURCHASE PRICE	£124,000
REFURB & COSTS	£49,500
COST OF THE DEAL	£173,500
MARKET VALUE (COMPARABLES)	£175,000

<b>REFINANCE</b>	
MARKET VALUE	£175,000
MORTGAGE @ 75% LTV	£131,250
LESS COST OF THE DEAL & COB	£173,500
MONEY LEFT IN THE DEAL	-£42,250

# THE NUMBERS - ORIGINAL PLAN



<b>CASH FLOW</b>	
GROSS RENT PER MONTH	£2,250
MORTGAGE @ 4%	£437.50
MANAGEMENT @ 10%	£225
MOE @ 20%	£450
NET CASHFLOW	£1137.50
RETURN ON INVESTMENT	32%

# THE NUMBERS - FLIP SALE EXIT



<b>PROFIT CALCULATION</b>	
TOTAL COSTS	173,500
SOLD AT 12% YIELD	225,000
PROFIT	51,500
	(PLUS 6 MONTHS OF RENTAL INCOME)

## WHY DID I SELL?

- **TOO GOOD TO REFUSE - SIGNIFICANTLY HIGHER THAN MARKET VALUE**
- **COULD PUT THE FUNDS TO BETTER PROJECTS**
- **SOMETIMES STRATEGY CAN CHANGE BASED ON OPPORTUNITIES PRESENTED**

# DEAL EXAMPLE - 6 BED HMO



# DETAILS



- **4-BED HOUSE WITH 2 BEDROOMS TO 2F**
- **MINIMAL STRUCTURAL CHANGES AND ATTRACTIVE BUILDING**
- **HIGH RENTAL DEMAND AREA**
- **STRONG CAPITAL GROWTH**
- **LOTS OF SPACE TO ADD ENSUITES**
- **FUTURE OPPORTUNITY TO MAKE COUPLE ROOMS IF GET PLANNING FOR SUI GENERIS (MORE ON THIS LATER)**

# DEAL EXAMPLE - 6 BED HMO



# AFTER



  
**PROPERTY**  
NETWORK

# THE NUMBERS



PURCHASE	
PURCHASE PRICE	£195,000
REFURB & COSTS	£60,000
COST OF THE DEAL	£265,000
MARKET VALUE (COMPARABLES)	£290,000

REFINANCE	
MARKET VALUE	£290,000
MORTGAGE @ 75% LTV	£217,500
LESS COST OF THE DEAL	£290,000
MONEY LEFT IN THE DEAL	£72,500

# THE NUMBERS



<b>CASH FLOW</b>	
GROSS RENT PER MONTH	£3,300
MORTGAGE @ 3.8%	£688.75
MANAGEMENT @ 10%	£330
MOE @ 20%	£660
NET CASHFLOW	£1,641.25
RETURN ON INVESTMENT	27%

# COMMON MISTAKES



- **DON'T UNDERESTIMATE REFURB – IT WILL PUT MASSIVE STRESS ON YOU. RECOGNISE COSTS FOR FURNITURE, FIBRE BROADBAND, STAGING, PHOTOGRAPHY, ETC.**
- **IF ADDING A LOT OF EN-SUITES, ENSURE YOU HAVE THE BUILDING SET UP TO HANDLE THIS MANY SHOWER ETC. MAY NEED TO ADD WATER TANKS TO MAINTAIN GOOD PRESSURE**
- **DON'T LEAVE REFINANCE TOO LATE - PREPARE WELL IN ADVANCE FOR YOUR REFINANCE – START EARLY**
- **THERE IS ALWAYS MORE MAINTENANCE THAN YOU THINK - LONG WARRANTY ON NEW APPLIANCES/BOILERS, ETC.**

# TOP TIPS



- **GET A GOOD SYSTEM TO TRACK COSTS**
- **WORK CLOSELY WITH YOUR LA – MAKE SURE THEY KNOW HMOS**
- **ENGAGE WITH HMO OFFICER EARLY – THEY WILL APPRECIATE IT**
- **KNOW YOUR END DEMOGRAPHIC - ARE THEY BLUE COLLAR WORKERS, YOUNG PROFESSIONALS, SOCIAL HOUSING AS THIS WILL AFFECT THE END DESIGN/LAYOUTS**



# LARGER HMO PROPERTIES

# HMO'S NOW AND THE FUTURE.....













- **What EVEN is a HMO? So many different considerations.....**
- **Housing Officer (EHO)**
- **Planning (variations)**
- **Building Regs**
- **Licensing (recent changes)**
- **Mortgage Lender (bricks and mortar or Commercial Valuation)**

C3 - Residential Use Class

C4 - Multi - Let Property (3-6 People)

Sui Generis - Large HMO (7 + people)



	PLANNING	LICENSE	BUILDING REGS
C3 - C4	 Unless A4	  5+      3/4	
C3 - Sui Generis			
C4 - Sui Generis			

# SUI GENERIS HMO STRATEGY



- 7+ Sharers (people) - be careful with 5 and 6 beds
- Planning permission needed under a change of use - considerations?
- Building Regulations needed
- Generally conversions of very large houses, or commercial property.
- Commercial Valuations only (pros and cons)
- How to qualify a Sui Generis deal
- Deal Examples
- Selling “performing assets”
  
- Council Tax Challenges

# VALUATION DIFFERENCES



**“Bricks and Mortar” vs “Commercial Valuation”**

# VALUATION DIFFERENCES



- **How do you know if you will get a commercial valuation or not?**
- **Licensing or planning needed?**
- **How easily could this be converted back to a residential property?**
- **Substantial structural and layout changes to the residential property?**
- **Identified through multiple tenancies?**
- **Lenders are now labelling them “Investment Grade” and “Standard Grade”**

# VALUATION DIFFERENCES



**One valuation – two properties with two different valuation methods.**

**66 Bewsey Street = 5 bed multi let (conversion from b1 to c4) – 2 en suites.  
133 Old Liverpool Road = 14 Bed, 8 en suite conversion from 6 x 1 bed or studio flats**

# VALUATION DIFFERENCES



1.2.13	Valuation Date :	18 October 2016
1.3	<b>VALUATION :</b>	Figures are reported in £s (GBP)
1.3.1	Market Value (Present Condition) : Investment	
	£140,000	(Forty thousand pounds)
1.3.2	Market Rent:	
	£22,100 pa	(Twenty two thousand one hundred pounds pa inclusive of bills)
	£15,470 pa	(Fifteen thousand four hundred and seventy pounds pa exclusive of bills)
	£7,800 pa	(Seven thousand eight hundred pa as a single residence)
1.3.3	Special Assumption 1 : Vacant Possession, with 12 months marketing.	
	£130,000	(One hundred and thirty thousand pounds)
1.3.4	Special Assumption 2 : Vacant Possession assuming 180 days from inception of marketing to exchange of contracts as at the date of valuation.	
	£130,000	(One hundred and thirty thousand pounds)
1.3.5	Special Assumption 3 : Investment basis subject to marketing period of 180 days from inception of marketing to exchange of contracts as at the date of valuation.	
	£140,000	(One hundred and forty thousand pounds)
1.3.6	Special Assumption 4 : Market Value after completion of works as outlined.	
	N/A	
1.3.7	Building Reinstatement Cost :	
	£162,000	(One hundred and sixty two thousand pounds)

# MULTI-LET VALUATION



## 9.5 Licences and Sui Generis HMOs

Whilst occupied as a HMO a licence is not required for this property. We note the property is not located within an Article 4 direction or an area of selective licensing.

**28 Crossfield Street, Warrington** – this is a three bedroom garden fronted mid terraced house marketed for the period 9<sup>th</sup> June 2016 to 11<sup>th</sup> June 2016 at an asking price of £150,000. This property sold on 10<sup>th</sup> June 2016 at £146,000. This property is of similar size and is presented to a high standard throughout.

**7 Bath Street, Warrington** – this is a three bedroom garden fronted mid terraced house marketed for the period 19<sup>th</sup> May 2015 to 12<sup>th</sup> September 2015 at £130,000. This property sold on 11<sup>th</sup> September 2015 at £125,000. This property is of smaller proportions and is presented to a good standard throughout.

**22 Crossfield Street, Warrington** – this is a three bedroom garden fronted end terraced house marketed since 22<sup>nd</sup> August 2016 at £200,000. We note from the agents that this property is under offer, however they would not disclose the agreed price. We understand it is close to the asking price. This property is of larger proportions and is presented to a high standard throughout.

# COMMERCIAL VALUATION



## 22 Comparables

The property is a 14 bedroom licensable HMO arranged over three floors. We consider that the appropriate method of valuing this property is by the investment method. The property is currently available for rent. We detail below evidence of the current rent for properties of this nature within the area which is listed as follows:

We would advise that the gross rent is £67,860 pa where we have deducted 30% which produces gross adjusted rent of £47,500.

In view of the above evidence we have adopted a yield of 11.11% (9.0` 2341q2341qYP) which produces a market value of £428,000.

# FUTURE OF HMO'S



- **Licensing Standards to change (number of people not floors)**
- **Council Tax changes (potential changes to rates)**
- **Lenders becoming more definite on what they feel about Multi Lets and or HMO's**
- **Demand plateau? – finish to a higher standard to protect.**
- **Rental drop? (HMO markets are peaks and troughs)**
- **Widespread Article 4?**
- **Brexit Impact? Is this being felt?**



# BIGGER HMO'S COMMERCIAL TO HMO CONVERSION

# ORDER OF ACTION



- **QUALIFIED RENTAL DEMAND – KEY TO KNOW YOUR TENANT PROFILE BEFORE PURCHASE. CAN THE LEVEL OF HMO YOU ARE LOOKING TO INTRODUCE SATISFY A DEMAND IN THIS AREA?**
- **VIEWING – ESTIMATED MINIMUM NUMBER OF ROOMS LIKELY IN THE PROPERTY WITHOUT COMPLEX RECONFIGURATION. ROUGH CALCULATION BASED ON SQ FT .**
- **(SQUARE FOOTAGE X 70%) / 175 = ROUGH NUMBER OF ROOMS ACHIEVABLE**
- **DO THE FIGURES – WILL THE PROPERTY CASH FLOW AND ACHIEVE A VALUE THAT YOU ARE HAPPY WITH? (YOU CAN GET A POST WORKS VALUATION FROM A COMMERCIAL VALUER)**

# ORDER OF ACTION

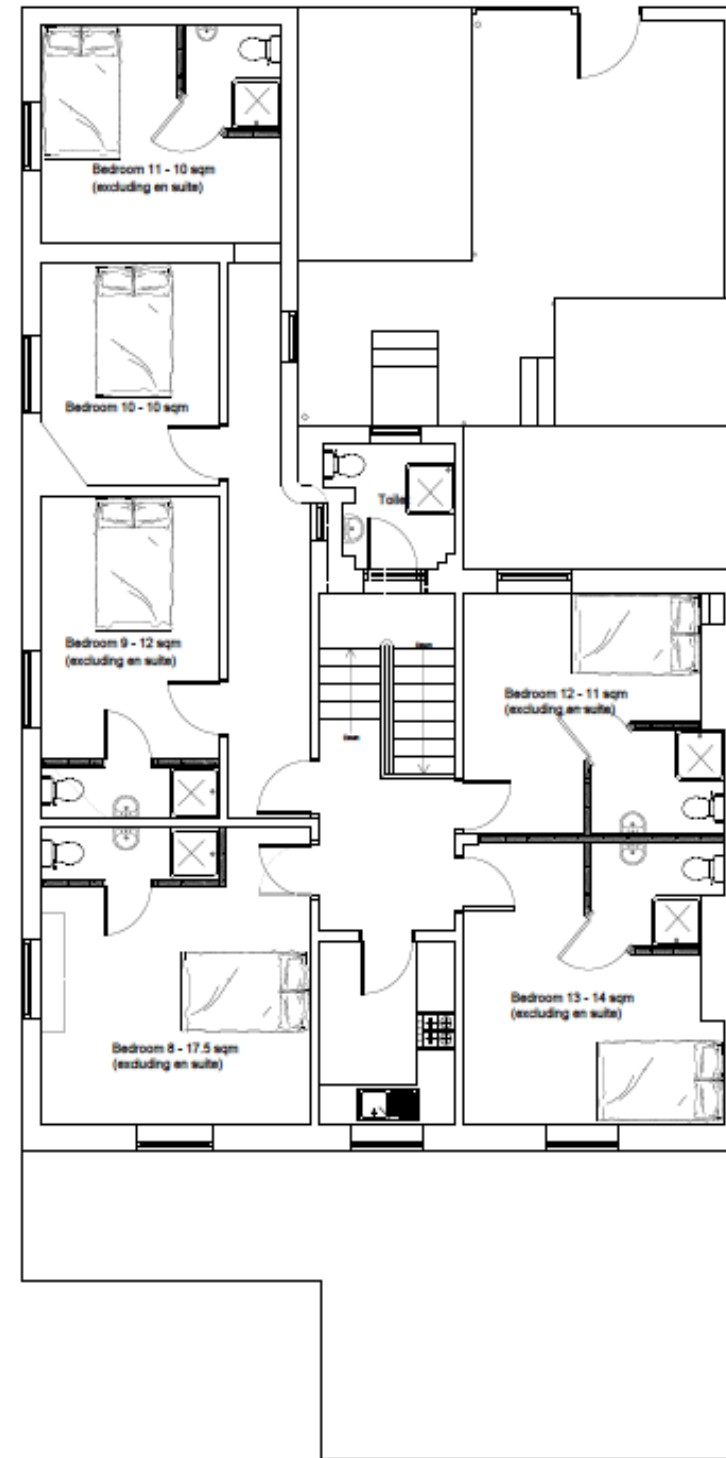
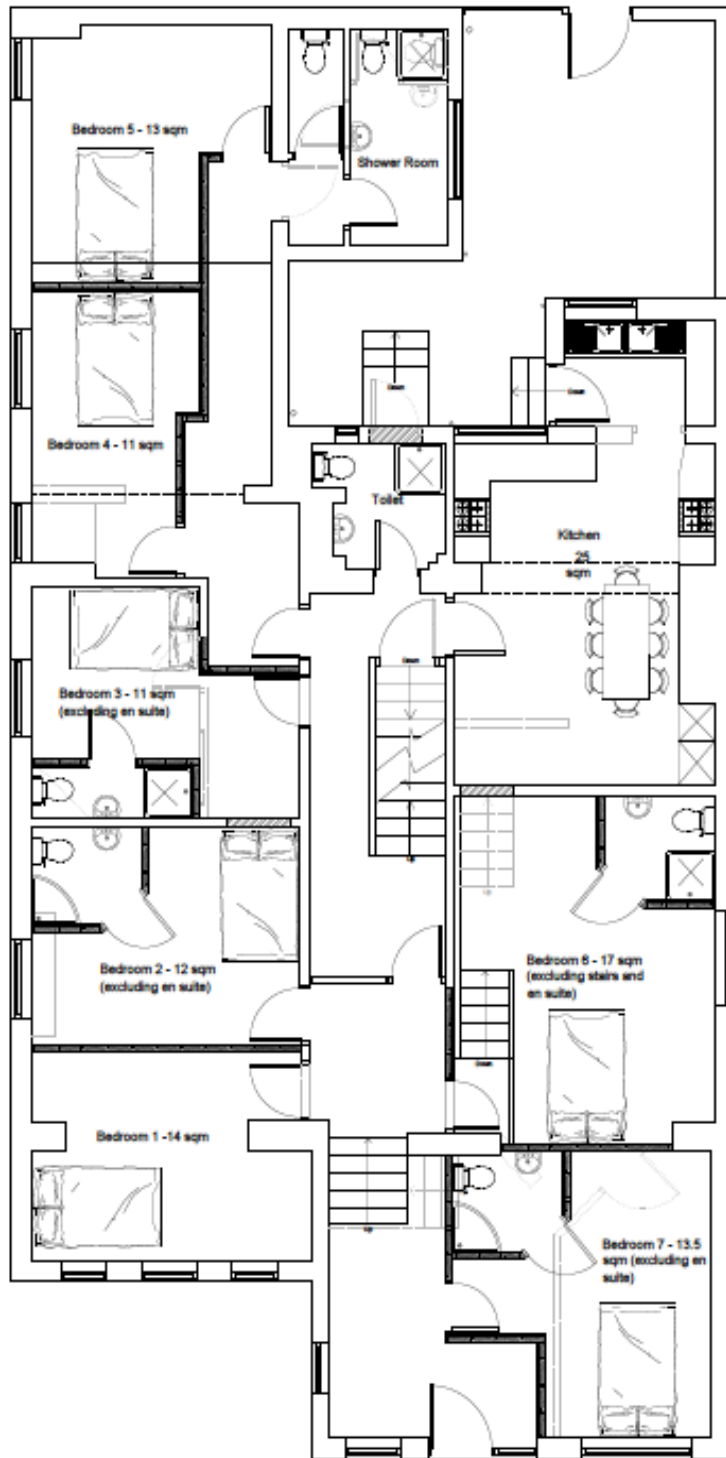


- **MAKE OFFER – CONDITIONAL COMPLETION WHERE POSSIBLE (OR PAY LESS) – SUBJECT TO PLANNING APPROVAL AND BUILD INSPECTION**
- **PERSONAL REFURBISHMENT ESTIMATE AND THEN FIRM BUILD QUOTATION (GET THIS DONE BEFORE EXCHANGE WHEN POSSIBLE WITH TIME SCALES)**
- **BUILD ESTIMATES DONE IN A NUMBER OF WAYS**
- **Build Estimate = Remember Viewing Process - cost spreadsheet (per room based on specification - plus contingency and structural)**
- **Now get planning drawings done (exchange first)**

# 101 Albert Road, Widnes

- Office to HMO conversion
- Purchase price £135,000
- Exchange with conditional completion
- 14 BED, 9 EN SUITE
- CIRCA - 3500 SQFT  
(DO YOUR CALC)





# ORDERS OF ACTION



- **PLANNING APPROVAL – THEN COMPLETION**
- **ON COMPLETION GET THE VOA IN TO ZERO RATE THE BUILDING FOR BUSINESS RATES PAYABLE.**
- **PRIVATE BUILDING REGS INSPECTOR – NEVER USE THE COUNCIL – YOUR COSTS WILL DOUBLE AND MORE. THEY WILL COME IN AT LEAST 3 STAGES DURING THE PROCESS, START, MIDDLE AND END – COSTS £280 FEE TO COUNCIL, £500 - £1000 ON AVERAGE TO PRIVATE INSPECTOR. THE CERTIFICATE IS WHAT WE NEED.**
- **BRING IN THE COUNCILS HMO OFFICER TOO – THEY WILL ALL HAVE DIFFERING NEEDS – MAKE SURE WE ARE FINISHING TO A LICENSED STANDARD AS WELL AS A BUILDING REGS STANDARD. EVEN IF NONE LICENSED THE COUNCIL WILL KEEP A REGISTER OF IT BEING A HMO (3 OR MORE NON RELATED PEOPLE) – AND WILL INSPECT FOR YOU TO CONFORM WITH THE HOUSING ACT OF 2004 AND THE MANAGEMENT OF HMO REGULATIONS 2007.**

# 101 Albert Road, Widnes

- Office to HMO conversion
- Purchase price £135,000
- Exchange with conditional completion
- Refurb £82,0000 – total spend including fees circa £245,000
- 14 bedrooms, 9 En suites
- Commercial Valuation



Space Construction	£80,000
R Bates	£750
SALUS	£708
EDS Carpets	3500
Appliances	£1,538.95
Furniture	£5,500
United Utilities	6597.85
Blinds	1900
MC3 Finance	495
Buildings Insurance	426.27
SSE Energy	32.19
Legals (jefferies purchase)	£1,530.98
Hampshire acceptance	£612.50
Legals (lenders)	1065
EPC	234
Valuation - Appraiseres UK	1050
Lenders Legals	416
Jefferies Legals Refinance	937.45
Interest Payments to angels	6210
	£33,504
	£113,504



# 14 BED HMO



ITEM	70% LTV	75% LTV
GDV	£374,000	£374,000
Mortgage Loan	£261,800	£280,500
Mortgage Payment (6% I/O)	£1309.00 pcm	£1402.50 pcm
Rent IN	£5243.33 pcm	£5243.33 pcm
Management (10%)	£524.33 pcm	£524.33 pcm
Monthly Op. Expenses (20%)	£1048.66 pcm	£1048.66 pcm
<b>CASHFLOW</b>	<b>£ 2361.33 pcm</b>	<b>£2267.83 pcm</b>

## 1.3 VALUATION :

1.3.1 Market Value (Present Condition) : Investment  
£374,000. (Three hundred and seventy four thousand pounds)

1.3.2 Market Rent:  
£62,920 (Sixty two thousand nine hundred and twenty pounds) - inclusive of bills  
£44,000 (Forty four thousand pounds - exclusive of bills)

1.3.3 Special Assumption 1 : Vacant Possession, with 12 months marketing.  
£350,000 (Three hundred and fifty thousand pounds)

1.3.4 Special Assumption 2 : Vacant Possession assuming 180 days from inception of marketing to exchange of contracts as at the date of valuation.  
£350,000. (Three hundred and fifty thousand pounds)

1.3.5 Special Assumption 3 : Investment basis subject to marketing period of 180 days from inception of marketing to exchange of contracts as at the date of valuation.  
£374,000 (Three hundred and seventy four thousand pounds)

1.3.6 Special Assumption 4 : Market Value after completion of works as outlined.  
£374,000 (Three hundred and seventy four thousand pounds)

1.3.7 Building Reinstatement Cost :  
£544,000 (Five hundred and forty four thousand pounds)

1.4 Security Advice : We consider that the property will have an economic life to be sufficient for commercial secured lending purposes. Furthermore, we believe that the property will provide suitable security for your lending purposes in accordance with the figures given below.

# SELL BASED ON YIELD



- **Commercial Valuation = £374,000 Rental Income = circa £60,000 p.a**
- **Sold for £400,000 (15%) Gross Yield**

Sale Price	400000	
Total Spend =	£248,504	
Sales Fees		256854.19
Sales Legals	1000	
Redemption Penalty	7350	
Net Profit	£143,146	

# HMO STRATEGY CONSIDERATIONS



- **4 BED UNLICENSED MULTI LETS MAY GET MORE POPULAR TO STAY UNDER THE LICENSING LEVELS**
- **SELL BASED ON YIELD – IT IS A VERY STRONG MARKET AT THE MOMENT, BOTH IN AUCTION AND WITH SPECIALISED AGENTS.**
- **BUY IN ARTICLE 4 AREAS**
- **SPREAD YOUR RISK – IT IS A SENSITIVE MARKET SO DON'T BE TOO ROOM DOMINANT.**
- **ALLOW FOR LOWER RENTS IN CASE COUNCIL TAX BECOMES A NATIONAL CONSIDERATION.**
- **TARGET COMPANY LETS ON A NET OF BILLS RATE**





# COUNCIL TAX BATTLES FOR HMO PROPERTIES

**VOA set Council Tax Bandings - the council enforce/chase.**

**Have now been many cases of council tax being charged by the room in HMO properties**

**Why is this happening? (Council tax responsibilities passed to local councils)**

The New Homes Bonus is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas.

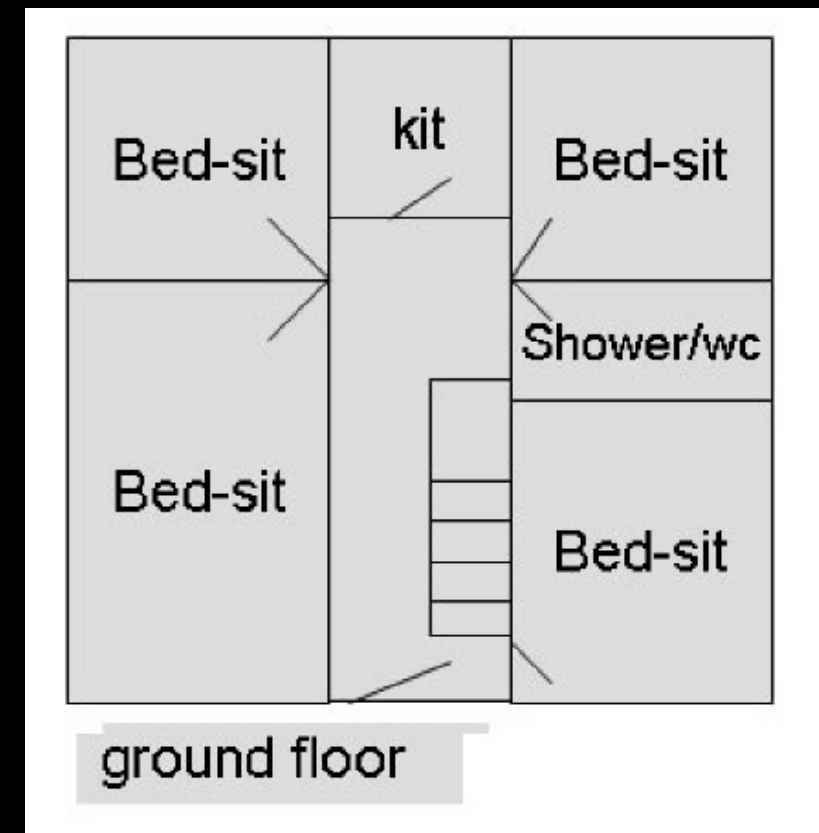
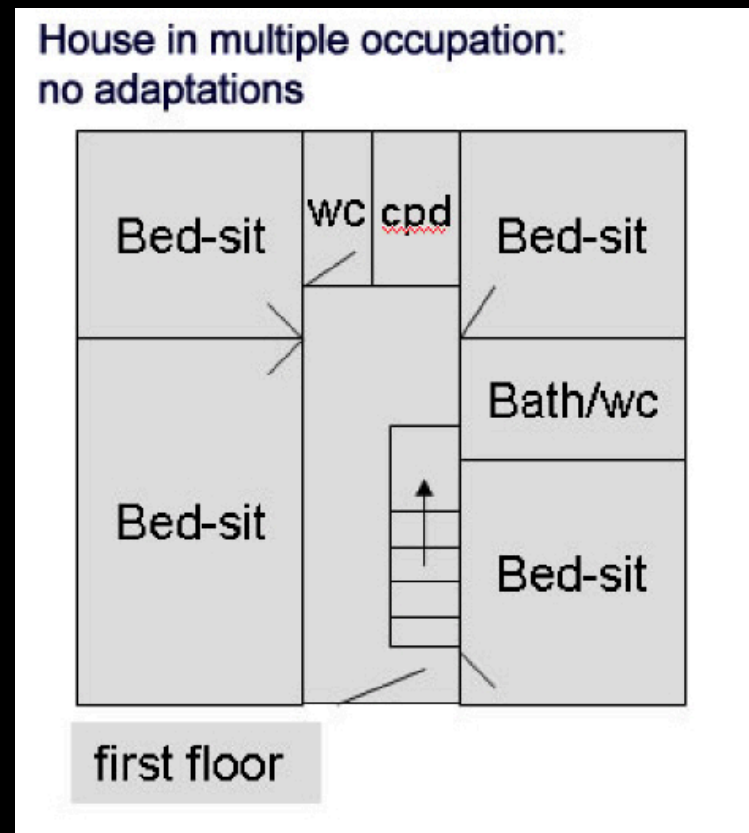
It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

**Legislation is very vague and open to interpretation**

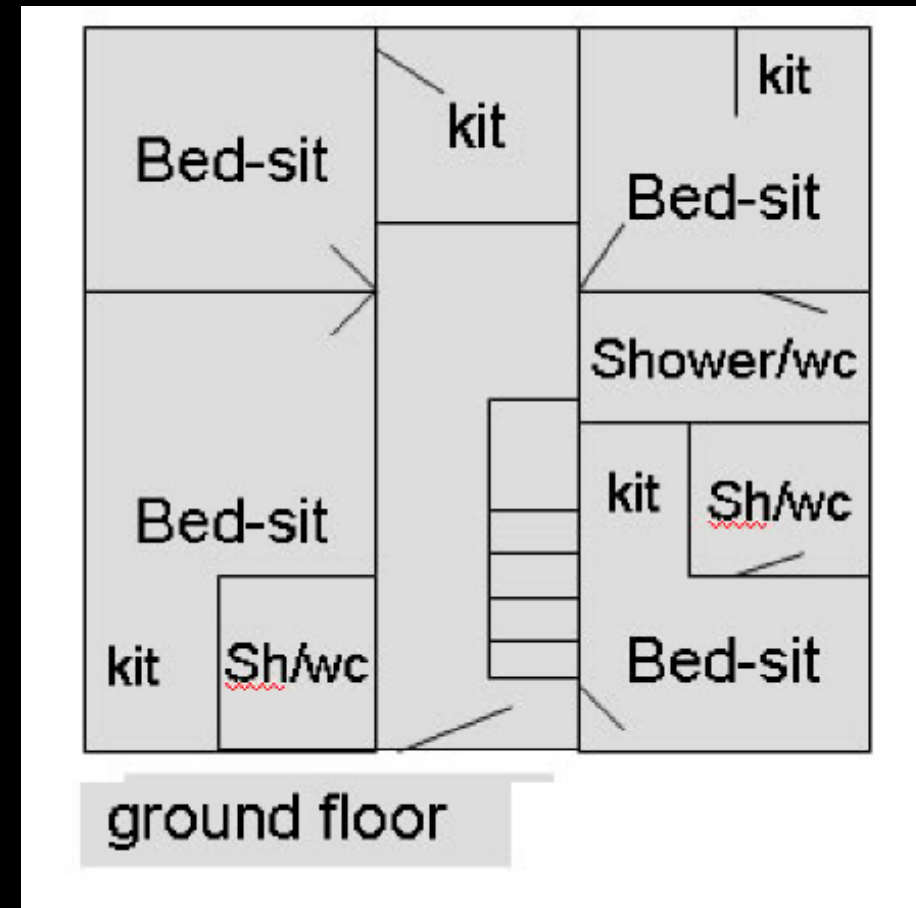
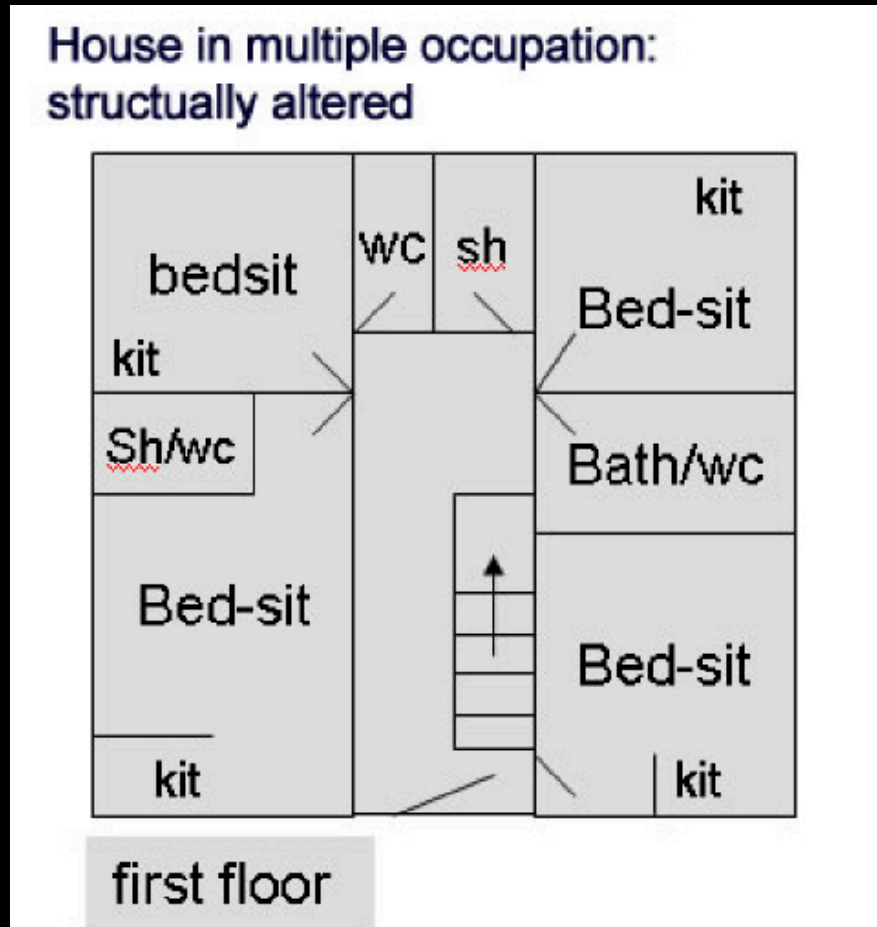
**Lots of referencing of “SCU’s” in the legislation (self contained units)**

In this example, the single SCU is still clearly defined – the original house. Though multi occupied as separate dwellings, with the sharing of kitchen and bathrooms, the original design of the house is still recognisable. There may be door locks, but little else by way of alteration.

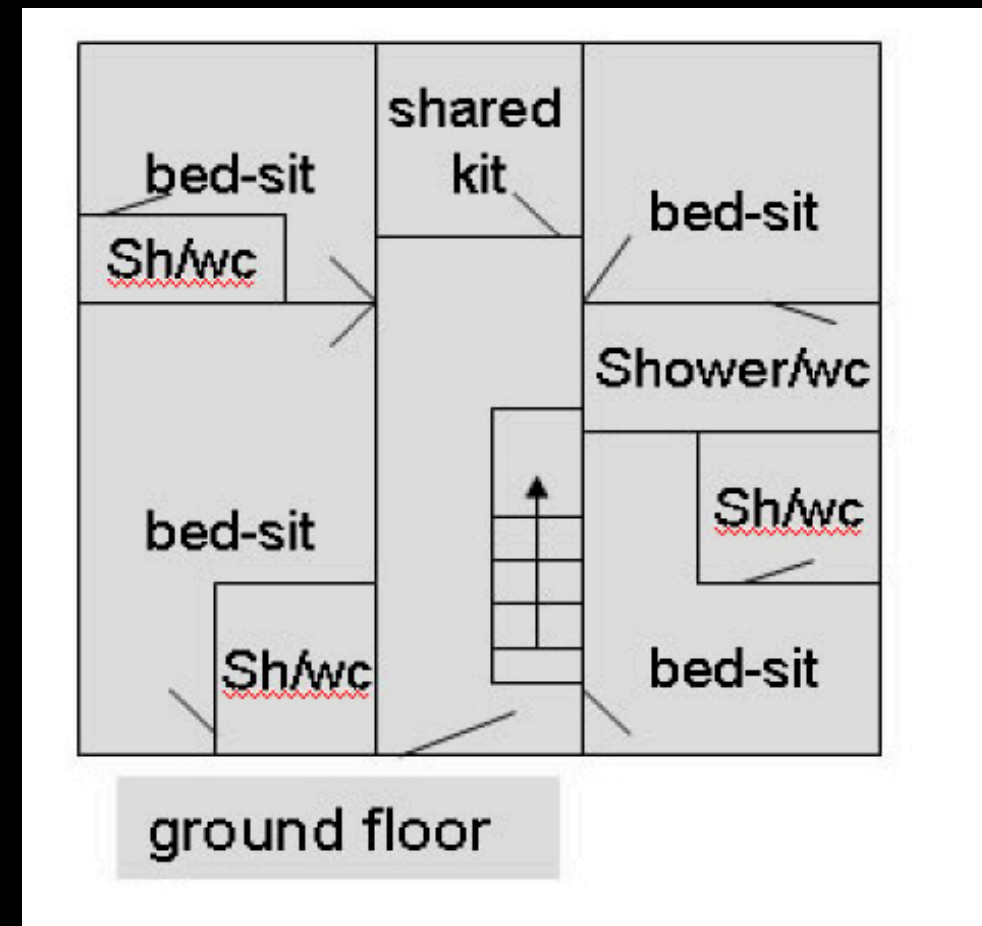
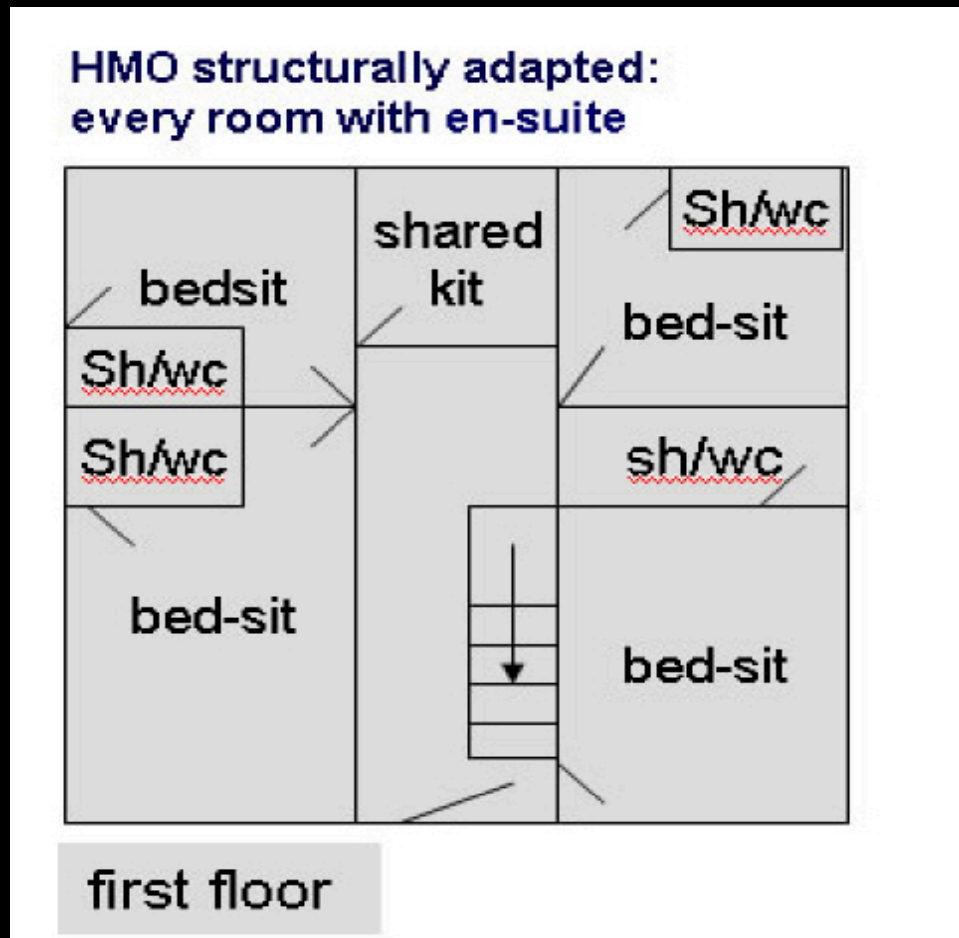
**Result: The LO will have no obstacles in exercising discretion to aggregate the separate dwellings.**



Aggregation can only take place where a single SCU exists. Where is the single self contained unit here? Most parts have been altered to provide either self contained units in themselves or kitchen areas have been constructed within the rooms\*. Though there may be some sharing of facilities by some occupiers, there has been significant structural alterations to the property that make identification of a single SCU impossible. Result : No aggregation possible - each separate dwelling should have its own band.



It is becoming increasingly common for multiple dwellings to be created as purpose built clusters, either as purpose built new build or constructed within a converted house, former hotel or other former commercial building. Where the physical layout is similar to the above example, and separate hereditaments exist, then it will be difficult to establish a SCU for aggregation, where every room has a purpose built en-suite bath/shower and WC. Under Article 4 of the Order the LO must take into consideration the degree to which each part has been structurally altered.



# DETECTION



- **Rebandings**
- **Planning Applications and planning portal**
- **Licensing applications**
- **Spare Room Advertising**
- **Local Letting Agents**

# COUNCIL TAX BATTLES.....



- **Have won a number of appeals**
- **18 BED HMO, 12 en suites, 2 main kitchens. One of the 18 rooms was self contained (had its own bathroom and kitchenette)**
- **The VOA (valuation office agency) come to inspect the property. Letter will be sent to the property or the companies registered address, if you miss the letter they will gain access or value off the plans (TIP = look out for the letter or divert first)**
- **VOA website is purposefully vague....**

# SOME TIPS



- **Attend the VOA meeting on site is a must**
- **Correct the Local Officer EVERY time they call the rooms flats.**
- **Aggregate your rooms where possible into clearly recognised defined SCU's – take your drawings with you and draw these out for the valuer.**
- **Rapport and friendliness but firm**

# APPEAL PROCESS



**VOA on site inspection**

**Rebanding decision**

**Appeal to VOA (make your case)**

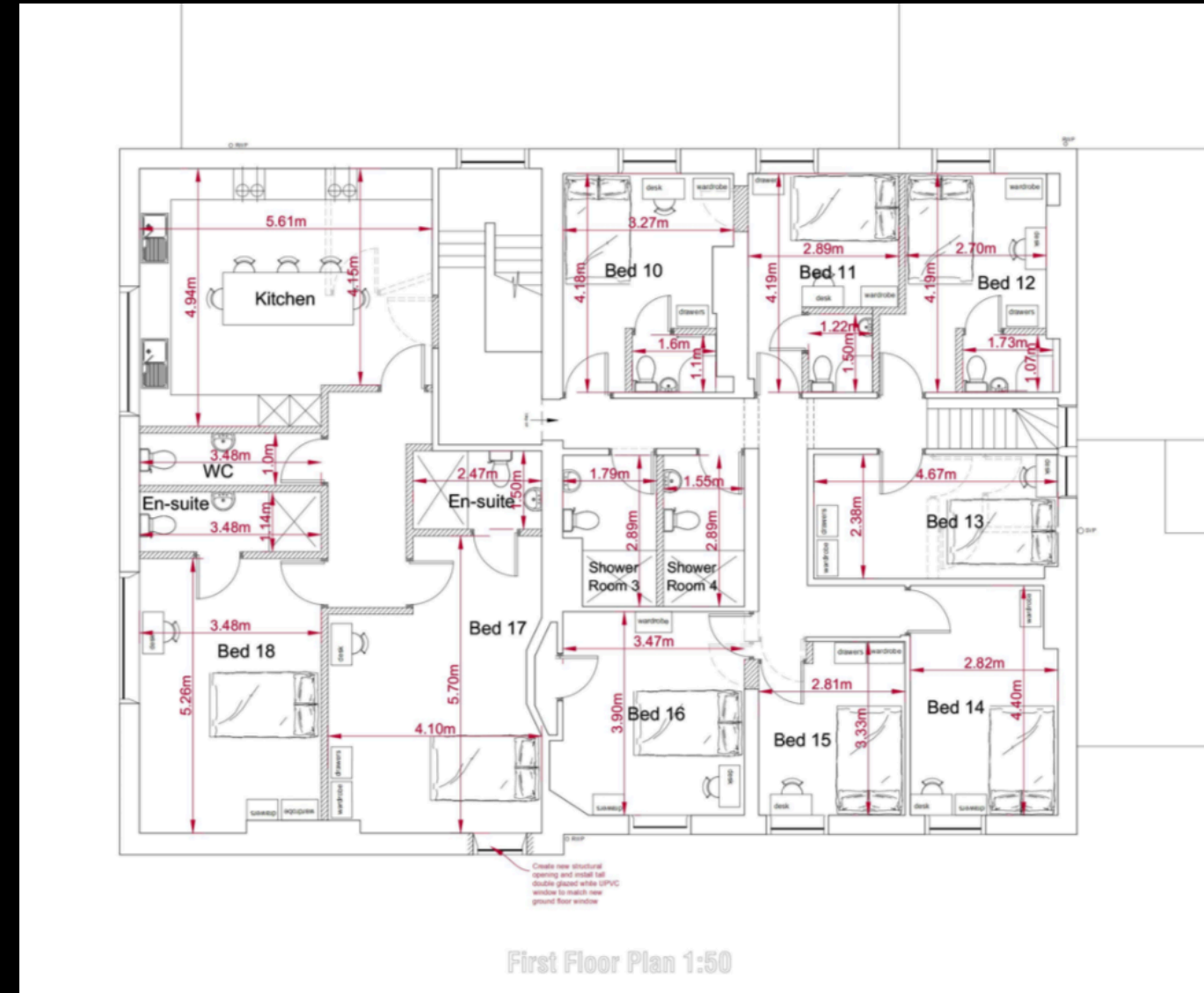
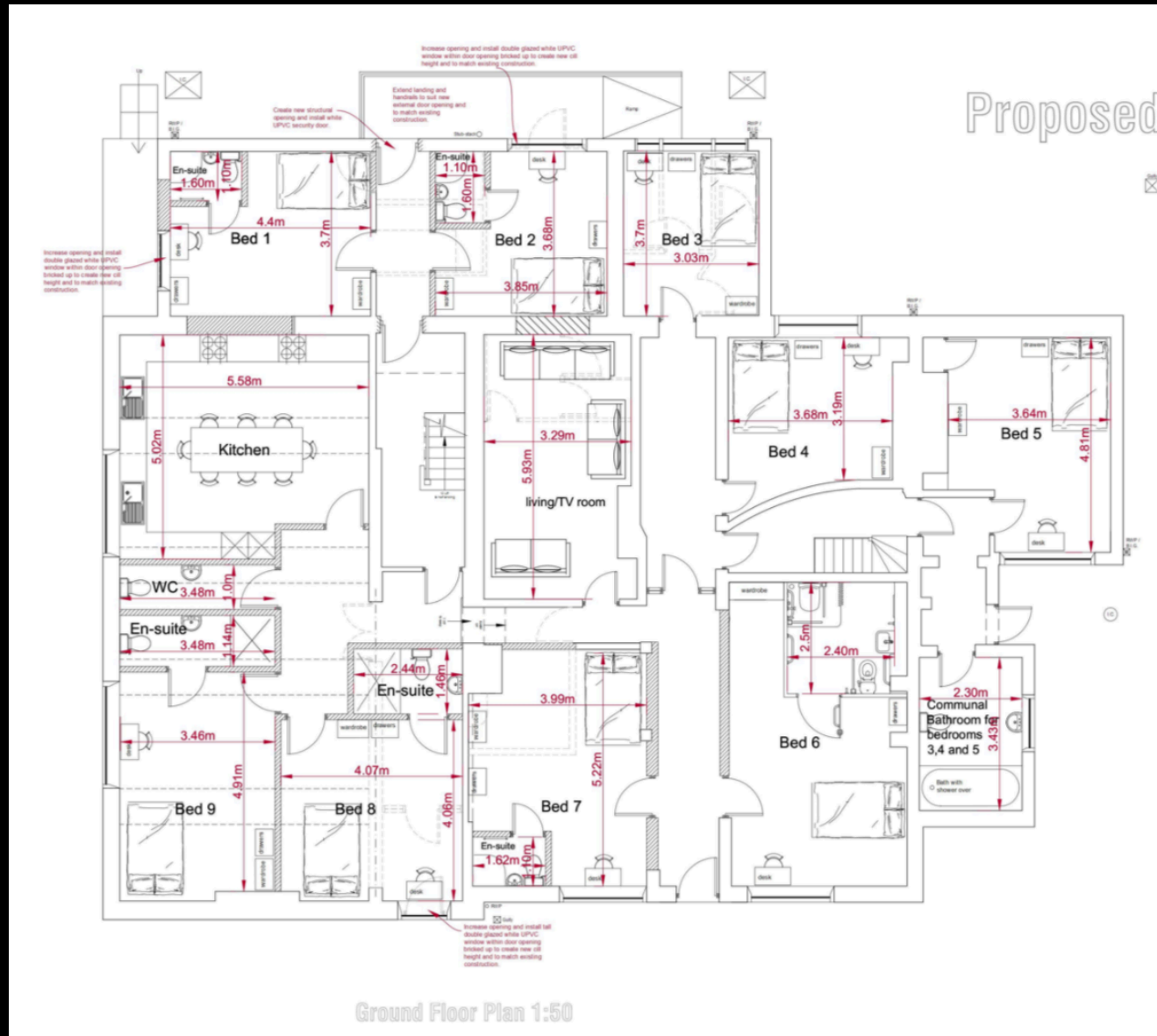
**Local VOA officer to inspect again**

**Local officer decision**

**Tribunal**

**Final Decision**

# BOATHOUSE PLANS



# APPEAL DECISION



**3 x Band A**

**One for ground floor**

**One for first floor**

**One for Room 6**

# 133 OLD LIVERPOOL ROAD, WARRINGTON



- **14 bed HMO**
- **Received 14 council tax bills – backdated for 2.5 years (a total of around £30,000)**
- **Do not panic.....**
- **Council can only pursue the individual who has the “highest legal agreement on the dwelling being charged.”**
- **An AST is classed as a third party agreement.**

**If you get a council tax bill that is favourable.....pay it.....as far in advance as possible.**

**Rents may well need to be re-negotiated with tenants. They qualify for single person discount (25% off band A) – so we may well have to drop their rents a little to suit their payment of council tax – in our area discounted band A costs £65pcm**

**All tenancies (HMO) are outlining that the landlord has responsibility for a certain level of council tax (e.g. One council tax payment, or capped at £350 pcm for instance) in all of our tenancies.**

**Raise attention with local MP**

**NLA are currently debating with the VOA and the HMRC**



**More units of C3 within a building (to then be converted to multi let) is now our favoured approach for anything that we are looking to convert to multi-let use.**

**VOA to come in and reband as clear separate units – e.g 3 x 4 bed flats – which can then be operated as a 12+ bed HMO.**

**Assess whether zero rating is worth while, or whether it is worth paying the council tax during refurb to keep you under the radar.**

**What might the future hold?**