How HMOs can be your key to financial freedom

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nickfox property

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Build a passive income, quit your job and take back control of your time and life – by owning just 3 HMO homes.

My story

I've never had a "proper" job – and from what I've heard about them, I don't think I'd like them very much!

I've been self-employed since I was 18 – building up then selling one the UK's leading software companies. Since then I've built up a property portfolio worth over £25 million, while continuing to run an assortment of other businesses and get involved in all sorts of charity projects.

I work hard, and sometimes it's stressful (especially when you factor in that I also have five kids!). But however manic everything gets, I count myself lucky that *I've always had control over my time*. Whatever I do is my choice and mine alone, which means I've never suffered from that "Sunday Night Dread" of having to clock in all week at a job I don't like to make money for someone else. I never have an alarm clock to turn off in the morning.

Lots of other people I speak to have that dread though: they come to me wanting my advice about using property as a way out of the rat race. Those people have identified property as a good vehicle for escaping the nine-to-five, and they're right. But they want property to replace their income *now* – they can't wait around for any long-term property strategy to take effect.

Why investors need to make immediate cash from the start

Most people don't have the time or the cash reserves to build up a portfolio of 20-25 properties. In the old days when mortgages were easy to come by, you could buy 10 properties in a year easily – in fact, I once bought 14 on a single day! Unless you're sitting on a huge pot of cash, that's not going to happen now. Also, before the credit crunch you were seeing the value of your properties going up and up on almost a daily basis – meaning you could constantly be pulling out cash to fund your lifestyle.

Those days are gone, and I don't see them coming back any time soon. That's why what any investor needs now is **cashflow** – and lots of it.

My HMO "light bulb moment"

By 2007 I already owned a fair number of properties, but interest rates were rising and I was in the same position as many investors at the time: I had equity, but I also had a large amount of debt - even small rises in rates could drastically affect my portfolio.

I was in the same position as you might be now: I needed cash. In particular, I owned one lovely 4-bedroom detached house that was actually *losing me money* each month. It was bringing in £1,200 per month, but the mortgage and other costs were pushing it into the red.

As a businessman, I like to see each individual property as its own mini-business: even if my portfolio as a whole is doing well, I can't stand having one individual property losing money. So I took action: I created two extra bedrooms to turn it into a 6-bedroom HMO property.

Almost overnight, the property went from making £1,200 per month to £2,500 per month. And the "business" of that property went from being a liability to a hugely profitable asset.

That was a huge light bulb moment for me.

I rushed to turn as many of my properties as possible into HMO properties...and immediately regretted it!

Why?

> I suddenly had a huge glut of rooms to fill, and no efficient system for filling them.
>
> I had to say "yes" to every potential tenant, regardless of their quality, just to fill rooms.
>
> I made countless expensive mistakes while setting each property up.
>
> I didn't take full account of all the council's health and safety rules, and had to undo lots of my work to do it again properly – a costly mistake!
>
> I was running around like mad because I suddenly had nearly six times as many tenants, and no system for dealing with them!

But the financial rewards were there, so I persisted. **I now own and run over 50 HMO properties, making me one of the largest HMO landlords in the country.**

Not only that, but **my occupancy rate runs at at least 98%**. It's because I provide a quality product, so my tenants tend to stick around.

Becoming an expert

I've learnt from my mistakes and turned my business into a huge success story. But if I'd known from the start what I know now, I could have taken **years** off my learning curve, saved hundreds of hours of stress and unnecessary work, and – not insignificantly – **saved tens of thousands of pounds in costs I needlessly incurred.**

We'll talk more later about how my mentoring services can give you the shortcut to HMO property success I wish I'd had, but first I want to discuss why I see HMO properties as such an enormous opportunity for anyone who's seeking financial freedom.

What makes HMO property such a great investment for anyone seeking financial freedom?

Investors on my scale are actually pretty rare: the majority of investors in the UK have three properties or fewer.

Many people want to use property to achieve “financial freedom” – to be able to sustain their lifestyle without having to have a job. But are they likely to succeed with three normal, single let properties?

Almost certainly not – there’s just not enough profit in them. It might have been OK when property prices were going up all the time so you were making money when you sold, but not anymore.

That’s why I’m obsessed with recommending that people look into HMO property investing. You saw from the example of my first HMO that they can easily bring in double the rent that a single let can achieve – and with that kind of cash coming in, financial freedom can be achieved with far fewer properties.

The myth of “difficult” HMO properties

Now let’s shatter some of the myths that new investors tend to have around HMO properties.

Firstly, what is an HMO property? The definition technically means slightly different things for planning, regulation and mortgage purposes, but to all intents and purposes it’s just a house that you let out to several unrelated people, i.e. not just one family. Nothing more complicated than that.

From the idea of “multiple tenants”, people tend to get the impression that there’s endless hassle – collecting rent from six or so different people in a house, making sure all the rooms are filled, dealing with bad tenants and disputes...

To some extent, that’s true. But I look at it like this: if you’ve got six people in a house, you’re going to have exactly the same amount of work to do as you would with six single-let properties. Plus you’ve got the added bonus that all your hassle is under one roof, so you don’t have to spend your days driving endless miles to sort things out!

That’s really all there is to it. The maintenance work is the same, the contracts you have with the tenants are the same, and the legal responsibilities are the same. Often, people have the impression that HMOs are bottom of the market, “Rising Damp”-style squalor with tenants to match. As you’ll see from the photos of my own properties, nothing could be further from the truth: I’m proud to offer a quality product, and my tenants take pride in living there and treating my houses as their homes.

The many benefits of HMO property investing

So with the myths cast aside, here's why I think HMO properties are such a great investment for anyone seeking financial freedom:

It's a huge growth market. We're in the grip of a housing crisis in the UK, and the government is actively promoting communal living as a way for people to find and afford a place to live. Not only that, but recent changes to the housing benefit rules mean that single people under 35 years old are only entitled to a room in a shared house – pushing tens of thousands more people into the HMO market.

People are looking for a cost-effective solution to their housing needs. In every part of the market from people on benefits to highly paid professionals, people want quality shared housing. Unlike when anyone could get a 100% mortgage to buy their own flat, the mindset is shifting towards living with others – but they won't settle for shoddy standards. The demand is huge for anyone with a quality product.

HMO properties generate large amounts of cash. You'll make drastically more money from a well-chosen HMO property than you ever could for a single let. That means you can pocket the money to live on, save it to quickly reinvest in another property, or overpay your mortgage so you've got an unencumbered asset as your pension for when you retire.

You can stop worrying about what's going to happen to property prices. If the capital value improves that's a bonus, but who really cares when you're generating money every month? You're making your profit now, rather than waiting for a possible payout sometime in the future.

You're at less risk from voids and non-payment of rent. People struggle to get their heads around this one, because more tenants equals more risk in many people's minds. But the way I see it, if you've got one tenant in a house of five paying you late, you've still got 80% of your income on time. If one family living in a five bedroom house decide not to pay you one month, you've got *nothing*. With an HMO property, even if there's one problem tenant you know you can still cover your mortgage and bills from the remaining rental income, and not have to service the bills and mortgage from your own pocket.

HMO properties offer a lot of personal freedom. Because you're making a large amount of profit from one property, you're not constantly chasing around all over town doing viewings, making repairs and solving problems at multiple different addresses. You can work from home, and there'll be weeks on end where you'll never hear from any of your tenants – if you've been smart and set things up properly, that is.

So, how many HMO properties does it take to achieve financial freedom?

Obviously there are a thousand different factors to consider, but let's set down some assumptions so you can see what's possible.

Let’s assume you’re earning £30,000 before tax in a job. That’s £2,500 per month before tax, or roughly £2,000 take home.

When I’m buying an HMO property, I refuse to consider anything that makes less than £500 net profit per month.

So with five quite average HMO properties, you could replace your income completely.

Really though, I like to be making far more than £500 profit. Some of my properties make more than £1,500 per month, but a fair average would probably be about £1,000.

That means that it would only take three well-chosen, smartly set up HMO properties to completely replace your income so you could completely ditch your job and get paid every month wherever you are and whatever you’re doing.

Even if you had a tenant leave, a washing machine break down and an issue with the council tax to sort out one week, do you think you could get that done in less than the 35-40 hours you probably work now?

As I said earlier, I own over 50 HMO properties and I still find time to run several other businesses, spend time with my family and get involved in charity projects. HMO properties aren’t as difficult and time-consuming as people often assume they are – if you know what you’re doing.

How much does it cost you to buy and set up an HMO property that generates that kind of money every month? I can’t tell you without researching your chosen investment area. But remember: you only really need enough money for one property to start with, because if your investment property earns profits of £1,000 per month and you reinvest those profits, it doesn’t take long before you’ve got your next deposit saved up.

Invest in a profitable, systemised HMO property. Then repeat – simple!

To help you see that these kind of numbers are perfectly achievable, I’ll show you a pretty typical deal that I’ve done.

A typical HMO property deal

To give you an idea of the kind of returns it's possible to get from an HMO property if you know what you're doing, here's a pretty typical deal I did recently.

Purchase price: £190,000

Refurb and set-up costs: £10,000

Number of bedrooms: 6

Rent per bedroom: Average of £85 per week / £370 per month

Total turnover: £2,220 per month

Finance costs: £142,500 @ 3.79% = £45o (75% loan-to-value)

Bills: £500

Net monthly profit: £1,270

Frequently asked HMO questions

Hopefully by now you're convinced that HMO properties aren't as difficult as people will have you believe, and you're thinking that it might be the perfect vehicle to help you achieve financial freedom.

So how do you go about finding, setting up and running an HMO property effectively? Really, this could be a series of books in itself – there are so many little pieces of knowledge I've picked up over the years that would have been invaluable if I'd known them at the start.

For the sake of this quick overview though, I'll focus on some of the most common questions I get asked at each stage of the process.

How do I find a potential HMO property?

Being able to spot whether a house could make a good HMO property is an art, and it's something you get an eye for over time. If you and I were both looking on the property portal www.rightmove.co.uk at a list of potential HMOs, we'd probably each have a totally different list at the end – because I've learnt from trial, error and hands-on experience what to look out for when assessing opportunities quickly.

As part of my mentoring service, I offer to come to your area and look at some potential HMO properties with you. My customers/mentees tend to find this a huge eye-opener, and it makes their search much more efficient in future.

Other than knowing how many bedrooms a house has or could have (which we'll come to), you'll need to look at factors that will affect tenant demand: parking, proximity to transport links, whether there are shops nearby, whether it's close to major employers, and so on. You'll also need to consider the character of the area and whether you're likely to have any problems with the neighbours: even if you're not doing anything wrong, neighbours tend to react to *perceived* problems rather than actual ones. Good communication skills are essential.

Every town has good and bad areas, and ideally you should be looking somewhere in the middle. At the very top end you can charge premium rents but will have a small pool of potential tenants who can afford to live there. At the very bottom you're getting into niche markets such as migrant workers, which can be very lucrative but needs a degree of specialist knowledge.

How many bedrooms does a house have, or could it have?

This is where the floor plan is your friend – I refuse to view houses unless I've been shown some kind of floor plan first. You'll also need to know the minimum allowable bedroom size, and think about how much remodelling work it's wise to do. After looking at the floor plan, you'll need to visit to work out which walls are structural, where the soil pipe runs, and so on.

You'll be able to find out from your local council what the minimum allowable room size is, bearing in mind that it's often good to have a mix of sizes with different prices: a small single demands less rent than a large single, then you'll also have separate rates for a small double, large double, and double en suite.

A note of caution: people often get pound signs in their eyes and start trying to cram in as many bedrooms as possible. I don't advise this at all. For a start, it's more important to provide a quality home where good tenants will be proud to live for a long time – tenant turnover and voids will hurt you far more than extra rent will ever benefit you. Also though, think about your exit: if you decide HMO properties aren't for you or you need to sell for some other reason, who are you going to sell it to if you've split the living room into four shoeboxes? You'll either have to undo all your work, or sell to an investor – and investors aren't keen on giving you the best price!

What standard of furnishings do I need to include?

This depends very much on the type of tenant you're targeting. I've even experimented with putting flat screen TVs in every bedroom in some of my houses, and installing hot tubs and jacuzzis!

It's more important for the rooms to be well-presented, light and airy, and for the whole house to be clean and well-maintained. I also dress every room with artwork on the walls, curtains and quality furniture, so anyone viewing it can picture themselves living there.

What about safety regulations?

On the whole, your legal safety requirements as a landlord aren't at all arduous or unreasonable – it stands to reason that if you've got a group of unrelated people sharing a house, you'll have to take a few more precautions than you would if you were renting to a family. That's all there is to it, and your local council will clearly publish what they require from you.

That said, you can get into a mire of run-ins with the local council and extra expense if you don't know what you're doing and aren't fulfilling your obligations properly. We'll return to these safety issues later.

Will I have to mediate disputes between housemates?

Not if you've picked your tenants carefully in the first place! As I said earlier, when I went crazy converting my houses into HMOs I had a glut of rooms and had to say "yes" to everyone who viewed. Bad idea. It pays to be picky, and over time you get a good sense of what kinds of people will get on well together.

I've had some problems, as is inevitable when you've got 50 HMOs on the go, but people are often astonished when they find out how few.

What do I do if someone's not paying the rent?

The contracts with your tenants are no different from a single let – if they don't pay, there's a clearly defined legal process to follow. It can take time to go through the courts, but in the meantime you've still got income from every other room of the house – that's the beauty of HMO properties!

HAPPY TENANT= HAPPY CUSTOMER = HAPPY LANDLORD!

Again, you want to provide a quality product and be picky about choosing quality tenants. Tenant turnover and voids are a hassle, and it hurts your profits. Of all the things I've achieved, one of the things I'm most proud of is having 75% of the tenants in my first HMO still living there five years later.

Potential pitfalls

As much as I think HMO properties are the perfect investment, there are of course pitfalls that can send your dreams of financial freedom off the rails – or at least cause you untold preventable aggravation.

I want to give you a balanced picture of the risks HMO investing entails, and also show you some of the problems that working with a mentor can help you to avoid. So let's run through the biggest problems that can trip up a novice HMO investor.

Buying the wrong house

This is the big one. If you don't choose wisely, you could have an expensive liability on your hands rather than a cash machine that's making you over £500 profit every month. HMO properties are big purchases, and getting it wrong can be expensive.

A house can be "wrong" for lots of reasons, but the most common one is not doing your research about where your target market wants to live. You can have the nicest house in town, but if it's two miles from a bus stop or with no parking, you're going to struggle to find professional tenants. You can recover from most problems, but the one thing you definitely can't change about a house is its location.

You could also buy a house that you can't configure into the layout you want, or that has major structural issues.

Failing to meet health and safety requirements

Councils each have their own set of requirements, and while these aren't unreasonable they do tend to change frequently. That means it's important to stay on top of the latest regulations, and not just rely on what someone's told you (who might be in a different area or working off old information).

The main requirements are interlinked fire alarms, emergency lighting, escape routes and fire doors – but you'll also need to consider minimum room sizes, the ratio of cookers and fridges and so on. If you're not diligent, it's very easy to get something wrong without realising – and when the council notices, you'll have to put it right promptly. That can mean undoing work you've already done, or – the nightmare scenario – having to evict paying tenants because the work can't be done with people living in the house.

Not being aware of Article 4 or licensing requirements

In general, changing a house from single occupancy (C3) to an HMO dwelling (C4) falls under "permitted development", meaning you don't have to seek planning permission. However, some areas of the country have adopted "Article 4", which removes this automatic permission.

If you buy a property without realising that Article 4 has been adopted in that area, you're in big trouble – because obtaining planning is virtually impossible (they've normally adopted it to control HMO numbers, which is why it's common in student towns). You'll then be stuck operating as a single let and making far less money – maybe even a loss.

Something else to be aware of is mandatory licensing for HMOs above a certain size. Local councils can also choose to adopt selective licensing for smaller properties. It's vital to know what paperwork you need and do everything by the book.

Picking the wrong tenants

Everyone has their own criteria for how they check prospective tenants, but getting it wrong can be an expensive ordeal. You don't want to spend your days chasing up late payments and starting eviction proceedings, so you should develop a system to check people to a level you're comfortable with.

You can't rely on stereotypes either: there are different challenges dealing with tenants on housing benefit rather than professionals, for example, but it's not true that one group is less work than the other. Your tenant profile should be determined by the demand in the area where your house is located, not prejudices or assumptions.

Putting the right tenants in the wrong house

I'm always asked about conflicts between tenants, but I've prevented the problem by being very diligent about selecting tenants who I think will get on together. The problems occur when you just say "yes" to the first people who come through the door without putting any thought into whether the balance will work. I've now developed systems to get this right before anything has a chance to go wrong. If things do occasionally flare up, I've got a proven system for intervening effectively to put an end to bad behaviour before it gets any worse.

Not having systems in place

I absolutely guarantee that you can run three HMO properties in less time than the 35-40 per week that most people work, but you can still cause yourself a lot of unnecessary work by failing to put effective systems in place.

What do you do when a tenant gives notice? When rent is late? When someone reports a repair? When you're marketing a room? Or the million other things that can happen from week to week? If you're just winging it every time it happens instead of finding out what works and having a process to stick to, you're wasting time when you could be working to save up for the next one, researching a new purchase, or doing something more fun!

Not putting effort into the quality of your houses

I said it earlier, but the "Rising Damp" view of communal living is totally outdated. Sharing a house is now a mainstream lifestyle choice for all areas of society, and the demand for quality accommodation is huge.

That's why it's worth spending a bit of money achieving a high-end finish, furnishing the rooms nicely, and dressing them so people can picture themselves living there. "Quality" also includes the professionalism of your management, the standard of cleaning, and all the other things that your tenants care about.

If you fail to provide a quality product, you're either going to have empty rooms, be forced to lower your rents, or have to accept tenants who've been rejected by landlords with nicer houses. Any one of those things can cost you financially and emotionally.

How working with me can save you thousands – of hours, and pounds

We're living through a housing crisis in this country, where people are crying out for high-quality, cost-effective solutions to their housing needs. This is a huge opportunity for investors, with upsides that are virtually unlimited compared to the very manageable downsides.

I'd hate for a lack of knowledge or confidence to hold you back from grabbing this opportunity with both hands. Being mentored by me can solve your confidence and knowledge problems in one go.

The benefits of working with a mentor

All types of property education are valuable, and I'm constantly reading books and going on courses to brush up on my knowledge of property investment.

But have you ever been on a course, come away all pumped up, then weeks later failed to take a single step towards action?

Or have you ever got started, been overwhelmed by indecision or some small setback, and given up?

In my experience, the majority of people who go on courses or read books fail to take action – and it's normally because they don't have a plan of action and they don't have anyone holding them accountable.

That's what makes mentoring so special:

> You can get specific advice on the questions you have – not just general information that's designed to apply to everyone and no one at the same time.
>
> You'll have someone on hand who's been there and done that, who you can call whenever you stumble.
>
> You'll have access to systems and information that's been hard-won over time – and you'll have it from day one.
>
> You'll be held accountable and be inspired by being able to model someone else's success. Nothing will seem impossible or beyond you, because you'll be speaking to someone who's already done exactly what you're striving for.

My mentoring approach

Reading about HMO properties is fine, but it feels too abstract to be the basis for action. How can you set up an HMO property when you've never seen inside one before? How can you even go out looking for a property to buy when you don't really know what you're looking for?

That's why my own mentoring packages are 100% hands-on. Every student I've spoken to has said that actually coming and walking around my HMOs, talking to my tenants and asking questions to my staff has been by far the most valuable aspect and has hugely helped them to take action in their own HMO property journey.

My mentoring packages will give you the option to:

Visit my HMO properties, talk to my tenants, and speak to people at every level of my organisation.

See the exact documents and systems I use to run my HMO properties.

Benefit from the knowledge I've gained from setting up over 50 high quality HMO properties – allowing you to **avoid mistakes that have taken me years and cost me tens of thousands of pounds**.

Have me on the end of the phone whenever you've got questions.

Get my opinion on potential purchases, and let me show you how you can make more money out of each property.

Even **have me visit your area** and visit potential properties with you.

On occasion, I even co-invest with my students – entering into a mutually beneficial 50/50 partnership.

Visit my website to view the different mentoring packages I have available.

A success story

Here's an extract from an email I received the other day from Brian - one of my current clients.

He's buying a house for £190,000 (after I made sure it was suitable), and wanted to check his calculations with me:

Adding Stamp Duty, my purchase and renovation costs come to £19170.

If I assume long term mortgage rate of 6%, Rent 1 x en suite double @ £125pw, 4 x doubl rooms @ £100pw and 1 single room @ £85pw. Running Costs per month £500.

That should give a profit of £1278pm according to my spreadsheet.

If I use my actual 3 year fixed rate mortgage of 3.79% then my profit goes up to £1567pm.

I'd appreciate if you check my numbers please and make sure the numbers look about rigl to you?

His numbers do look right to me – **he really will be making £1,567 per month from a single HMO property.**

But without my involvement, he wouldn't have had the knowledge or the confidence to reconfigure the layout in the way that's necessary for him to make this excellent profit.

I showed Brian exactly how to re-site the main family bathroom to create three en suite bedrooms upstairs, how to create three more bedrooms downstairs from two reception rooms, and how to install a new shower room into a hallway cupboard.

With my years of experience, I can look at a property's layout and very quickly spot the potential to make more profit without sacrificing quality. That's what I did for Brian, and over the years he's going to achieve a stratospheric return on his investment in my mentoring services.

Let’s get started!

I’ve said it before, but opportunities of a lifetime are to be grabbed with both hands – not missed out on because of fear or lack of knowledge.

By working with me, you’ll have your eyes opened – HMO property investing will go from something that *sounds great* in theory, to something that feels totally real and achievable.

And remember – **three smart HMO property purchases could mean quitting your job and never having to work for someone else ever again.**

Even if you’re utterly convinced and ready to rush out and do it alone, remember: the knowledge that I’ve accumulated could save you tens of thousands of pounds and years worth of learning curve.

Visit my website to view the different mentoring packages I have available. If you’d like to have a chat first to see if HMO property investing could be right for you, just contact me at nick@nickfox.co.uk.

Thanks for reading and best wishes,

Nick Fox

HMO Property Expert