

Financing and Buying HMOs



The HMO

Many HMOs (especially those with gross yields above 10%) have strong buyer demand due to their increased income potential over BTLs or other property investment types. We value HMOs, in most cases, based on their income and, understanding investor demand and market forces, attribute an asking price based around this.

An HMOs value is dictated by several factors but ultimately by how much buyers are prepared to pay for them.

The 'HMO' is a combination of the 'house' and the 'business' resulting in an up-and-running, cash flowing asset that has gone through strict processes to be able to operate legally.

The 'House'

We refer to this as the 'bricks and mortar' and this is the stripped-back value of the house without the alterations, certification, license, furniture, tenants or any other factor that relate to the 'HMO'.

Depending on how a buyer is looking to fund an HMO purchase, they may find that their chosen lender may only borrow against the 'bricks and mortar' aspect of the HMO. This does not mean that the HMO gets 'down valued' because of this, rather the lender's risk appetite restricts them to only secure loans against the 'house' not the 'business'.

The 'Business'

An up-and-running quality HMO is of course much more than the 'house' – it's a business. When we value HMOs based on their income we are including many additional factors that create a 'going concern' purchase for the new investor.



The value of the 'business' extends further than the value of the 'house' in many of the HMOs we sell and, whilst it is usually the aim to obtain lending for the whole HMO value, our buyers often lend against the 'house' (at bricks and mortar level) and then top up in cash for the 'business' or going concern HMO.

They do this because the ROI on the cash deployed for the HMO can be attractive and, at the 10%+ gross yields that are most common in this scenario, having lower lending and more cash tied up still works very well.

Sales Valuation & Lending

The market dictates how much up-and-running HMOs sell for – the 'market' includes cash buyers (and many other buyer types not relying on standard lending)

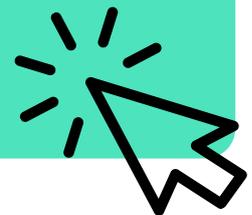
There are exceptions and many HMOs where lending is available at the full yield HMO value but, often for 4, 5 & 6-bed HMOs with yields above 10%, we expect sales at the full HMO 'business' value for quality properties but lending can still sit the bricks and mortar level and the commercial value.

There are some great HMO products available for C4 HMOs (large Sui Generis 7+ person HMOs will automatically secure an investment valuation and commercial lending) and we would recommend that you speak with a specialist finance broker in advance of making an offer.

VIBE Finance - Specialist Funding Partners to HMOX

Whether you are purchasing your first HMO or scaling a large portfolio, VIBE Finance delivers practical solutions, fast decisions and funding structures designed to help you move forward with certainty.

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If a bank only wants to lend against the 'house' then that does not mean that the 'market' is saying the HMO is worth any less. It's down to the buyer to be happy with how much cash they put into the HMO for the return it provides, and this is the acid test which dictates HMO resale values.

It's our job as HMO brokers to ascertain the difference between these valuation levels and to never make the 'business' value of the HMO unjustifiably higher than the 'house'.

Consideration goes into ensuring our HMOs retain excellent investment value should the buyer decide to pay cash, lend and 'top-up' or lend against the full value.