What is a HMO or Multi-Let?

‘Multi-Let’ is a general term used to describe a property that is let out to more than one household, whether these are students, professionals, or singles. A Multi-Let may, or may not, be classed as a ‘HMO’, depending on the number of bedrooms, the number of occupants, and the nature of the property. HMOs are properties that are occupied by multiple households, each of whom occupies a separate floor or room, and who share a common kitchen, bathroom, and living room. Multi-Lets are typically properties that are occupied by multiple families or groups of friends, who share common facilities such as a kitchen, bathroom, and living room.

Why should I invest in a HMO or Multi-Let?

Superior rental returns...

Many HMO & Multi-Let investors make fantastic rental returns on their property, compared to a typical single-let rental income. I often see a gross rental yield of 12% - 15% achieved, with a typical single-let rental income. I often see rental returns on their property, compared to single-let properties ...

Tax considerations when setting up a HMO...

HMOs & Multi-Lets often need refurbishment and structural work to ensure the property has the optimal number of rental units (bedrooms), and is of the right standard for the local market. Practically, most spending on HMOs is a revenue cost, and so income tax-deductible. Capital items (added to the purchase price) are usually easily identifiable: e.g. adding an extension, knocking down walls, building an annex. If the spend is on an existing item even using modern equivalent materials, it is a revenue cost. ‘Repair’ means general day-to-day works needed to maintain the asset to earn rental income. A repair has to be way beyond simple repair, or an equivalent replacement, to be considered capital.

Income tax aspects of HMOs & Multi-Lets...

For tax purposes, HMOs and Multi-Lets are treated as any other rental property. This applies regardless of whether it’s for residential or commercial financing.

Capital Gains Tax aspects of HMOs & Multi-Lets...

HMOs & Multi-Lets are treated as rental property for capital gains purposes. For example, the sale of a property used as a HMO will attract CGT. HMO landlords will include utilities, broadband and council Tax within the rent charged to tenants. All these costs must be separately calculated and operated within the investor tax return. However, any additional costs are fully income tax deductible if incurred ‘wholly and exclusively’ as part of the property rental business.

HMO & Multi-Let investors...

Many investors are turning to HMOs and Multi-Lets as an alternative to single-let properties. Although it is usually the case that there is a much higher level of capital spend to be deducted as properties are often extensively improved. However, many investors don’t want to sell such an income-generating asset, and so CGT is not an issue.

Capital Gains Tax...