

HMO Due Diligence Checklist

Your practical guide to evaluating HMO deals
— based on real ownership experience, not spreadsheet theory.

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How to Use This Checklist

Work through each section before making an offer. Not every item will apply to every deal, but skipping a section entirely is how investors get caught out. Flag anything you can't verify independently — that's your negotiation leverage.

1. Pre-Offer Research

Location and Demand

- Check local HMO room supply — search SpareRoom/Rightmove for room lets in the postcode. More than 20 active listings signals saturation risk.
- Identify primary tenant demographic (professionals, students, DSS, contractors). Single-demographic reliance increases void risk.
- Confirm no major employer closures or relocations planned in the area.
- Research local transport links — HMO tenants prioritise commute times.
- Check area crime statistics and neighbourhood trajectory (improving or declining).

Planning and Licensing

- Check if the property is in an Article 4 direction area (restricts C3 to C4 conversion without planning permission).
- Confirm whether the local authority operates mandatory HMO licensing (all councils for 5+ occupants sharing) or additional licensing (smaller HMOs).
- Request the council's HMO licence fee schedule — costs vary significantly (£500-£1,500+ for 5 years).
- Check for any selective licensing schemes in the area.
- Verify whether planning permission is needed for the intended room configuration.

Market Comparables

- Identify 3-5 comparable HMOs in the area — what are rooms letting for?
- Note average void periods for similar properties (ask local letting agents).
- Check if comparable HMOs are offering incentives (reduced deposits, first week free) — a sign of oversupply.

2. Financial Analysis

Purchase Costs

Agreed purchase price: £ _____

- Stamp Duty (SDLT) — remember the 5% surcharge for additional properties above £250k threshold.

Legal fees (conveyancing): £ _____

Survey cost: £ _____

Broker/mortgage arrangement fees: £ _____

Sourcing fee (if applicable): £ _____

Total acquisition cost: £ _____

Income Projections

- Calculate gross rental income based on current market room rates, not agent optimism. Use SpareRoom data for the specific postcode.
- Apply realistic void rate — minimum 4 weeks/room/year for strong areas, 6-8 weeks for average, 8-12 for saturated.
- Factor in non-payment risk (typically 2-4% of gross for well-managed HMOs).

Projected gross annual income: £ _____

Projected net annual income (after voids + non-payment): £ _____

Operating Costs (Annual)

Mortgage payments: £ _____

HMO licence (annual equivalent): £ _____

Insurance (specialist HMO landlord policy): £ _____

Gas Safety Certificate: £ _____

EICR (5-yearly): £ _____

Fire risk assessment and equipment: £ _____

Council tax: £ _____

Utilities (water, gas, electric): £ _____

Broadband: £ _____

Communal area cleaning: £ _____

Garden/external maintenance: £ _____

Management fees (10-15% of gross): £ _____

Maintenance reserve (10-15% of gross): £ _____

Total annual operating costs: £ _____

Return Metrics

- Gross yield: $(\text{Gross annual rent} / \text{Purchase price}) \times 100$
- Net yield: $(\text{Net annual income} - \text{Operating costs}) / \text{Total acquisition cost} \times 100$
- Cash-on-cash return: $(\text{Annual cash flow} / \text{Cash invested}) \times 100$
- Breakeven occupancy: What % of rooms need to be occupied to cover all costs? Above 85% means tight margins.

3. Legal Checks

- Confirm title is clean — no restrictions on HMO use, no covenants prohibiting multi-occupancy.
- Check lease terms (if leasehold) — some leases prohibit subletting or multi-occupancy. Check remaining lease length (below 80 years = problem).
- Verify planning permission status — is the property lawfully used as an HMO? Request a Certificate of Lawful Use if unclear.
- Check for outstanding enforcement notices from the council.
- Review any existing HMO licence — is it transferable? Are there conditions attached (max occupancy, required works)?
- Confirm EPC rating — minimum E required by law, but check for upcoming regulation changes (possible C minimum by 2028).
- Check building control sign-off for any previous conversions or extensions.
- Verify right to rent documentation processes are in place (if buying with sitting tenants).

4. Physical Inspection

Structure and Condition

- Commission a full building survey (not just a HomeBuyer's report) — HMOs take more wear than standard residential.
- Check roof condition — age, material, any evidence of leaks.
- Inspect damp and ventilation in all rooms, especially ground floor and bathrooms.
- Assess window condition (double glazing, draughts, condensation between panes).
- Check external drainage and guttering.
- Look for evidence of subsidence (cracks, uneven floors, sticking doors).

HMO-Specific Requirements

- Verify room sizes meet minimum standards: Single 6.51m², Double/twin 10.22m², Child under 10: 4.64m².

Check fire safety provisions:

- Fire doors to all bedrooms and kitchen (FD30S minimum).
- Mains-wired interlinked smoke/heat detectors on every floor.
- Fire blanket in kitchen.
- Emergency lighting on escape routes.
- Clear fire escape routes (no locked gates, no storage in hallways).
- Assess kitchen facilities — adequate for the number of occupants? (General rule: 1 cooker per 5 persons, adequate fridge/freezer space.)
- Count bathrooms/toilets — minimum 1 per 5 persons, but tenants expect better (1 per 3-4 is competitive).
- Check heating in all rooms — each letting room needs independent temperature control.
- Verify electrical installation is adequate for multi-occupancy load.

Conversion Potential (If Not Yet HMO)

- Assess room layout — can rooms be reconfigured without major structural work?
Estimated conversion costs: £ _____
- Factor conversion timeline into your cash flow — how many months before first rental income?

5. Operational Assessment

Management Model

- Decide: self-manage or use an agent? HMOs are more management-intensive than single lets.
- If agent-managed: confirm they have HMO experience. Check their tenant vetting process and emergency response times.
- If self-managed: confirm you can respond to maintenance requests within 24 hours (council requirement for licence holders).

Tenant Profile

- Define your target tenant — professionals, students, or DSS? This determines furnishing level, management intensity, and void patterns.
- Verify demand for your target demographic in this specific location.
- If buying with existing tenants: review current tenancy agreements, check deposit protection, verify rent levels against market.

Compliance Calendar

HMO licence renewal date: _____

Gas Safety Certificate renewal (annual): _____

EICR renewal (5-yearly): _____

Fire risk assessment renewal (annual recommended): _____

EPC renewal (10-yearly): _____

Legionella risk assessment (annual recommended): _____

PAT testing if providing appliances (annual): _____

6. Post-Completion Setup

Immediate (Week 1)

- Transfer or apply for HMO licence in your name.
- Set up landlord insurance (ensure HMO-specific cover).
- Register deposit(s) with approved scheme (if tenants in situ).
- Set up rent collection (standing orders or payment platform).
- Introduce yourself to existing tenants (if applicable) and provide emergency contact details.
- Create property inventory with photos.

First Month

- Complete any compliance works identified in due diligence.
- Set up maintenance reporting system (even a simple WhatsApp group works).
- Establish relationships with local tradespeople (plumber, electrician, locksmith).
- Schedule first quarterly property inspection.
- Set up financial tracking (rental income, expenses, compliance dates).

Ongoing

- Quarterly property inspections (minimum).
- Monthly financial review (rent received, arrears, maintenance spend).
- Annual compliance calendar review.
- Annual rent review against market comparables.

Quick Decision Framework

Before making an offer, answer these three questions honestly:

1. Does the net yield (after realistic voids and all costs) still meet your target return? If your target is 8% net and the numbers only work at 4 weeks void when the market suggests 8, walk away.

2. Can you meet all HMO compliance requirements within budget? Fire safety upgrades, licensing, and room size requirements are non-negotiable. If the property needs £30k of works to be licensable, factor that into your offer.

3. Is there sustainable tenant demand for this specific property in this specific location? Not "is there demand for HMOs generally" — is there demand for this configuration in this postcode?

If all three answers are yes, you've got a deal worth pursuing.

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