HMO OR SERVICED ACCOMMODATION

The Great Debate

ARSH ELLAHI

Hi Arsh

I hope you don't mind me getting in contact, but I am in two minds about my property strategy. I recently purchased a property with a view of turning it into a HMO. However, everyone is telling me to use it for serviced accommodation instead.

Can you shed some light on this? Which would provide the better returns and a more sustainable model?

Mrs E, Bradford

Thank you for getting in touch, Mrs E. You are not alone in this dilemma. Investors around the country are asking themselves the same question, but perhaps sometimes act without examining the pros and cons of both strategies.

I too have been pulled into the debate as to whether the SA strategy would work better than the HMO model. Is the SA hype is all it's made out to be? Or is it a flash in the pan?

I have operated a HMO business for a long time but recently looked at serviced accommodation in detail and tested it by converting one of my units to short term lets. As a result, personally I feel HMOs are a more 'sustainable' model. Here's why.

It is fair to comment that since platforms like Airbnb and Booking.com have come along, there has been some confusion between the feasibility of serviced apartments vs HMOs. While some say they can make upwards of £200 pw by offering a room as a serviced apartment, which would generate £100 pw as an HMO, seasoned investors still believe HMOs hold the best long term returns in the market.

One of the key factors that made me look at SA was that you can apply it to houses, bungalows, cottages and apartments. Whereas, generally speaking, a property might need a minimum of five lettable rooms to become a profitable HMO, which means focusing on larger houses. Therefore, SA allows more scope to acquire different styles of properties, and in areas where there is an oversupply – of apartments, for example – it could really work … or so it might seem.

> ***"Most of my HMOs have en-suites and kitchenettes, which on paper you might think would make a perfect SA unit. As a HMO, my rooms would normally command circa £80 pw; a studio circa £100 pw"***

Having tested the SA model in my home town of Wolverhampton, I found it to be hard work and very stressful. Now, while anyone who knows me will know I don't shy away from hard work (especially if I believe the rewards are there), I found that the property we used for serviced accommodation performed poorly in comparison to my usual HMO model.

When researching the SA model, I found demand in Wolverhampton from the worker clientele (mainly ground workers), who come to work Mon–Fri and disappear back to their families at the weekends. My research indicated that many hotels were operating around the £28-£40 per night region; on paper, if I only let the room for three nights at £35 per night I would make ever so slightly more than letting it as a HMO. It was only after I started to look at the other costs associated with the strategy, and the time entailed, that I decided this would turn my luscious black hair to grey very quickly.

You need to factor in the costs for:

- **Time employed (no longer your normal 9am–5pm as guests arrive at all times)**
- **Additional staff for more frequent cleaning**
- **Linen and towels**
- **Fees from the associated platforms and card providers**
- **Etc**

My calculations had shown that, yes, I would be generating more turnover, but as the costs increased, I would actually be worse off. Also, in my opinion, the SA model is not very sustainable, as your forecast for the next few months' income is exactly that … a forecast. My HMOs, however, provide me with a solid base; I know that a six-month tenancy is going to provide an income for that period at the very minimum.

Frankly speaking, the results of comparing the two will really come down to your location, advertising, and just how good the property actually is in reality.

Serviced apartments are excellent earners if you can get the traffic. London, for example, thrives through having a number of different types of clientele, including corporate clients, contract workers, holidaymakers, people attending events, weekenders, stag/hen events and so on. Wolverhampton, unfortunately, only saw the contract workers; and the demand showed, as many hotels operate at approximately 50% occupancy at best.

Finally, I would like to comment on an important factor, which does make the SA strategy extremely attractive if you can make it work in your location. Desirable tax breaks have added to the appeal of serviced accommodation ownership, which is attractive at a time when the government is slashing tax reliefs associated with other property investments, such as BTL.

> ***"It's worth noting, however, that running a serviced accommodation business is treated by HMRC in the same way as any trading business, so losses can be carried forward and offset against future profits"***

Please note, in no way am I offering you tax advice here. I am not a tax specialist so do not want to go into the details – if you are considering embarking on the SA journey, I recommend you speak to your own qualified property tax accountant for confirmation on your tax relief entitlements, if any.

There are also a number of other factors you would have to consider if you enter into serviced accommodation, including consideration of planning class, and funding, as SA units cannot normally be funded using standard BTL or HMO products.

If nothing else, I hope you have found this article of some use. I am always willing to help as and where required. If you have any specific questions, please feel free to email me directly: arsh@arshellahi.com

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Arsh Ellahi is the author of **"Boom, Bust and Back Again: A Property Investor's Survival Guide"**