HMO X

The Tier Methodology.

How HMO X reads every HMO: what it is, how it's performing, and where it's heading. And what knowing that is worth to you.

T1	T2	T3	T4	T5
Premium	New Quality	Standard	Functional	Opportunity

Edition 2 · 2026

Your community of HMO experts.

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Read it end to end, or go straight to your question

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WHY YOUR TIER MATTERS

Every HMO has a level it can sustain. Knowing yours changes every decision you make.

HMO owners keep making the same mistake: they plan, borrow and price against launch-year rents that the local market can't sustain across a mortgage term. It happens in every city, with every kind of operator and broker.

The conversations that bring people to us all sound alike. *"We're developing the best HMO in the town." "The licensing officer said our conversion is the best they've seen." "Another all-money-out deal."* Each is sincere. None answers the question a refinance, a buyer or a lender will ask: **what will this HMO sustainably earn, and how far is it from that today?**

The Tier Methodology answers that question the same way every time. It draws on hundreds of HMO valuations, appraisals and inspections every year, our own sold, refinance and room-rent evidence across 201 towns, and HMO X Auctions, the UK's first specialist HMO auction house.

What knowing your tier does for you

Improve your rents

See whether you're under-earning against your tier, and by how much.

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Understand your value

Know what the HMO is worth today and where that's heading.

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Weigh up capex

Test a refresh or refit against the rent and value it brings back.

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Optimise bills and costs

Spend what your tier's tenants expect. No more, no less.

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Management sets how long you hold your tier. Compliance sets who'll buy.

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Prepare to sell

Price at what buyers will underwrite, through the route that fits.

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THE READ-OUT

Your HMO in three numbers and two flags

Every HMO X report, valuation and Tier test gives you the same read-out, in the same order.

1	**Home tier**	What the building really is: T1 to T5, set by its rooms, bathrooms, condition, location and management.
2	**Trading position**	Rent received as a % of what its home tier earns in that town. 100% means settled at tier.
3	**Trajectory**	Where its trading position is heading over the next 3, 5 and 10 years if nothing changes.
Flag	**Tenant market**	Who it's let to: professionals, students, supported, benefits or mixed.
Flag	**Legal position**	Green, amber or red: lawful use, licence, Article 4 and certificates. Can a buyer or lender rely on it?

EXAMPLE READ-OUT

Home tier **T2** · trading at **94%** (drift) · typical pace: T3–level rents by about Year 8 without a refit · professional let · legal: **amber**, LDC advised.

The home tier tells you **what you own**. The trading position tells you **how well it's performing**. The trajectory tells you **what happens next**. The two flags tell you **who will buy it, and on what terms**.

THE FRAMEWORK

The five tiers

Tiers are set by fundamentals, never by price and never by bed count. The quality order runs from T1 down to T5, but opportunity doesn't follow it: each tier has a sound strategy for the right owner. Evidence lines compare with the town's typical mid-earner room rent and yield band, from HMO X's own Tier calls.

T1

PREMIUM / STUDIO

A discrete product, not a level a terrace climbs to

Rooms of 15 sqm+ with kitchenettes, hotel-grade fit-out and acoustics, run by a co-living operator in an A1 location. Must pass all four T1 tests.

TENANTS	THESIS	WATCH
Relocating professionals, well-paid contractors	Brand-led premium	Thin demand; oversupply in many corridors

T2

NEW QUALITY

The defensible mainstream

Recently converted or refurbished, full en-suite of about 10 sqm, modern finish, A1 or A2, professionally managed. Where most portfolios should be anchored.

TENANTS	THESIS	WATCH
Mid-level earners, longer stays	Core income, sustainable scale	The specification ages faster than the capex plan

Rent about 5% above town · yield about 0.3 points below the town's band

T3

STANDARD / OLDER EN-SUITE

A legitimate hold tier, or a refurbisher's way in

T2 stock past its first cycle, or spacious non-en-suite. Good order, visibly ageing. Agent or active private landlord.

TENANTS	THESIS	WATCH
Working low-to-mid earners, often local	Steady cashflow, modest growth	Local affordability caps the rent

Rent in line with town · yield about 0.4 points above band

T4

BASIC / FUNCTIONAL

A cashflow asset, held for yield

Older, mostly shared bathrooms, dated but trading and compliant. Often a B location with a private or live-in landlord.

TENANTS	THESIS	WATCH
Locals on lower incomes	Cashflow, low growth	Compliance needs constant watching; no refinance step-ups

Rent about 15% below town · yield about 1.7 points above band

T5

DISTRESSED / OPPORTUNITY

Worth more empty, as a project

An older HMO that has fallen behind. Often a retiring landlord has hit one hurdle too many on compliance or age, and doesn't have the time or budget to put it right. The value is in its established use rights, which can't easily be got today. A scheme of works can lift it back to T2 or T3.

BUYER	THESIS	WATCH
Experienced refurbisher	Add value and relet	Planning, licensing and build risk in one purchase

The critical break is between T4 and T5.

T4 is an operating tier: it trades and earns. T5 is an opportunity tier: the value sits in its rights and footprint, not its income. They need different underwriting, finance and buyers.

THE FRAMEWORK

Setting the home tier

Five tests. Three describe the building; two set a ceiling it can't rise above.

BUILDING

Rooms

Average and smallest bedroom. T2: 10 sqm+ average, 8 sqm+ smallest. T3: 9 sqm+, or 12 sqm+ if not en-suite.

BUILDING

Bathrooms

T2: all rooms en-suite. T3: half or more en-suite, or no more than 4 people per shared bathroom.

BUILDING

Condition and presentation

Years since conversion or last full refurb set the start: 0–7 T2, 8–14 T3, 15+ T4. Condition moves it: excellent with a refresh budget, one tier up; dated or poor, one tier down.

CEILING

Location grade

- **A1** (up to T1): high demand, several tenant sources, excellent transport, strong inflow of well-paid workers or students near campus. Often Article 4, a large conurbation.
- **A2** (up to T2): longer walks to transport and work, one or two genuine tenant sources, usually not Article 4.
- **B** (up to T4): edges and fringes, visible signs of falling demand. T3 only in exceptional cases, confirmed on a visit.

CEILING

Management

Co-living operator up to T1 · agent or verified landlord with systems up to T2 · active private landlord up to T3 · passive or live-in landlord up to T4.

THE RULE

Middle reading, then capped

The home tier is the middle of the three building readings, capped by location and management. One standout feature can't lift a house a tier; one weak room can't sink it.

THE T1 TEST: ALL FOUR, TODAY

- Rooms 15 sqm+ (dual 18–22 sqm)
- An A1 location
- Hotel-standard acoustics (typically £1,500–£3,000 a room beyond a standard refurb)
- Hotel-grade functionality: food prep, storage, a desk, 1Gb+ broadband

Fail one and the home tier is T2. T1-level rents are then a trading position of about 115%, and they fade.

THE T5 QUESTION

Is it fully let, licensed and compliant? Then it's operating: T1–T4. If not, are its established use rights the main source of value? Then it's **T5**. If not, it's probably worth more as a house: bricks-and-mortar value, or Back to Resi.

Improve your rents

Your trading position: the one number that travels

Once the home tier is set, any HMO reduces to one figure: rent received as a % of what that tier earns in that town. A 92% HMO in Preston and a 92% HMO in Poole are in the same position, whatever the £ figures.

115%+ LAUNCH PREMIUM	**New, or marketed beyond its fundamentals.** Will revert. Borrow against the home tier, never this.
105–114% SETTLING	**Premium fading.** Expect about 100% within a year.
96–104% AT TIER	**Market, asset and operation aligned.** A defensible refinance and sale.
85–95% DRIFT	**Recoverable.** Capex deferred, management slipping or rents not kept up. The Health Check starting point.
<85% SUB-TIER	**A tier or more below where it should be.** Value-add territory.

How we measure it

- **Rent actually received** (after voids and arrears) is the headline. Contracted rent sits alongside it: an HMO can read 98% contracted but 94% received.
- **Home tier rent** comes from the town's own room-rent ranges and HMO X evidence for that tier, adjusted for room size and en-suites. It moves with the market each year, so your % shows how you perform against today's market.

WHAT OUR REGISTER SHOWS

Across recent readings, the median HMO trades at **97.5%**. Two in three sit below 100%, and one in three below 95%. Drift is normal, and it's the most recoverable position in the framework. Closing a gap from 94% to 100% on the sample HMO (page 08) is worth **£3,600 a year in rent**.

Understand your value

Every HMO slips. Management decides how fast.

Even a well-run HMO drifts gently as it heads from its first refurbishment towards the next big capital spend. What separates owners is how long it holds before it starts to creak.

VERY WELL RUN

12–15 years

Holds its home tier until a major refit is due. Annual refresh, quick repairs, settled tenants, compliance always current.

TYPICAL

8–10 years

Starts to creak. Repairs done, but no refresh budget; en-suites and kitchens age together.

POORLY RUN

Under 5

Five years is a long time. A substandard original build (thin walls, cheap finishes, squeezed rooms) gets there faster still.

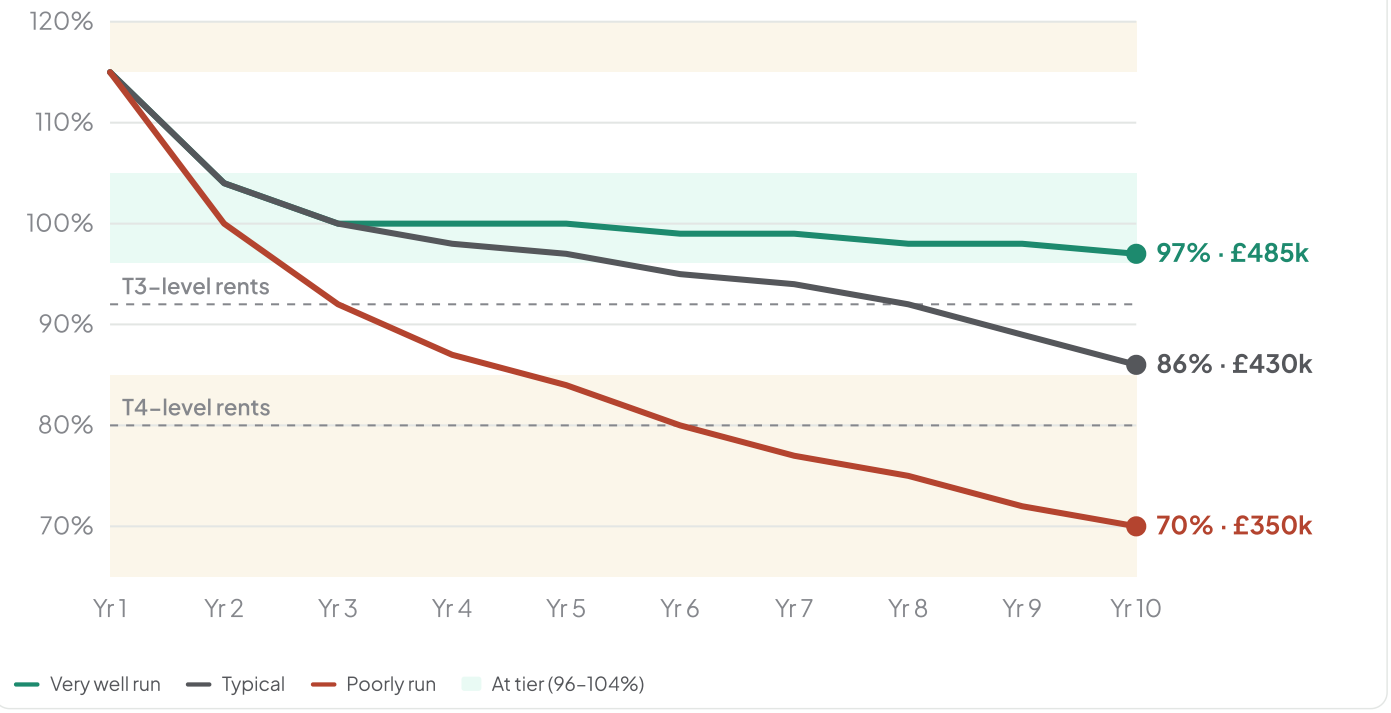
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Meet the sample HMO

This booklet follows one illustrative HMO throughout: an 8-bed, all en-suite conversion of a large terrace, rooms of about 11 sqm, an A2 location in a regional city, agent-managed. It fails the T1 test on room size and location, so its **home tier is T2**. Figures are illustrative and in today's money; market growth comes on top.

£625	£60,000	£500,000	115%
home tier rent per room per month	home tier rent a year (100%)	value at a 12% applied yield	launch rent, £69,000 a year

Three owners, one HMO: the first ten years



A newly launched HMO lets at 110–120% of its home tier for its first 12–24 months, whoever owns it. After that, the three owners part company. By Year 10 the very well run HMO is still a T2 at 97%, worth **£485,000**. The typical owner reached T3-level rents around Year 8 and is worth **£430,000**. The poorly run HMO fell to T4-level rents by Year 6 and is worth **£350,000**.

£135,000

The value of holding the home tier: very well run against poorly run, same house, same street, ten years on. Left longer, the poorly run HMO ends up a T5: a project worth more empty than trading, provided its use is established.

Weigh up capex against gains

Price every project in rent and value

Knowing your tier turns a capex decision into simple arithmetic: what it costs, how much trading position it buys back, and what that rent is worth at your applied yield.

THE RULE OF THUMB

Value gained = extra rent a year ÷ applied yield. At 12%, every £1,000 of sustainable annual rent adds about £8,300 of value. Every 1% of trading position on the sample HMO is £600 a year, or £5,000 of value.

CASE 1 · RECOVERING FROM DRIFT

A refresh at Year 4

The poorly run owner calls at Year 4, trading at 87%. A refresh of the en-suites and communal areas, plus a change of management, brings it back to 100% within about a year.

Refresh, about £2,500 a room	£20,000
Rent back: 87% → 100%	+£7,800 a year
Value: £435,000 → £500,000	+£65,000
Payback on rent alone	**about 2.6 years**

CASE 2 · TIMING THE REFIT

A full refit at Year 10

The typical owner is at 86% and sliding. A full refit resets the clock to 100%. Without it, the slide continues to about 80% by Year 12.

Full refit, about £8,000 a room	£64,000
Year 12 with refit (100%)	£500,000
Year 12 without (about 80%)	£400,000
Value protected	**about £100,000**

The same arithmetic tells you when **not** to spend: a project that lifts an HMO above what its location or management can sustain buys rent that won't hold. The home tier is the ceiling the money has to respect.

Refresh and refit costs are illustrative; your Health Check prices the actual works.

Optimise bills and costs

Spend what your tier's tenants expect

Each tier carries a different cost shape. Spending below your tier's expectations shows up as voids and slippage; spending above it buys nothing a tenant will pay for.

TIER	WHAT TENANTS EXPECT TO BE INCLUDED	WHERE COSTS CREEP
T1	All bills, 1Gb+ broadband, weekly cleaning, concierge-style service	Service levels that the rent can't carry at less than full occupancy
T2	All bills, fast broadband, regular communal cleaning, quick repairs	Energy on older heating systems; en-suite maintenance
T3	All bills, good broadband, communal cleaning	Repairs bunching as the fit-out ages; higher turnover costs
T4	Bills included, basics done reliably	Compliance work and reactive repairs

The sample HMO's running costs, at home tier

Rent at 100%, less a 5% allowance for voids	**£57,000**
Bills (about £1,800 a room a year)	**-£14,550**
Management (15.6% inc VAT)	**-£8,892**
Maintenance (about £650 a room)	**-£5,200**
Refresh reserve (£750 a room)	**-£6,000**
Net, before finance	**£22,358**

WHY IT MATTERS

Every £100 a room saved on bills is £800 a year more profit on the sample HMO. Buyers judging net return see it, and a cash buyer's offer is set by it. Knowing your tier tells you which costs are protecting your rent, and which are just costs.

HMO X working assumptions, used in our Buyer Demand analysis. Your own accounts replace them in any report.

Improve management and compliance

What a valuer sees in the first ten minutes

Management is one of the two ceilings on your home tier, and it sets the pace of your trajectory. Compliance sets your legal flag, and with it who can buy and lend. None of it appears on a rent schedule; all of it shows up in the rent within two years.

On every visit we read the same signs

- [ ] How settled the tenants are, and how long they stay
- [ ] The en-suites: the classic weak spot for maintenance and cost
- [ ] How well the communal areas are kept
- [ ] The entrance-hall noticeboard: licence, certificates and contacts, or nothing
- [ ] The streets around it
- [ ] Whether tenants come out to chase the landlord about unresolved issues
- [ ] The quality of tiling, hard flooring and worktops
- [ ] The garden or yard: weeds and cigarette butts, or proper seating
- [ ] The compliance bundle: complete and current, or patchy

YOUR LEGAL FLAG

Green: lawful use evidenced, licence and certificates current. **Amber:** a gap a buyer's solicitor will ask about, such as a missing certificate or unconfirmed use class. **Red:** lawful use in doubt, or a compliance failure. Amber and red don't change your tier, but they narrow your buyers and lenders until they're fixed.

WORTH IT IN CASH

On the sample HMO, the difference between typical and very well run management is about **£55,000** of value by Year 10, before any capex. Good management is the cheapest way to hold a tier.

Understand your value · Borrow safely

The leverage trap

The most common HMO underwriting error is borrowing against launch-year income, about 115% of home tier, on an asset that will settle to 100%. The sample HMO shows why.

Borrowed against launch rent

Valued at **£575,000** on £69,000. At 75% LTV that's a loan of **£431,250**. Here's the Year 5 refinance at 75% of value:

OWNER	YEAR 5 VALUE	NEW LOAN AVAILABLE	SHORTFALL TO FIND
Very well run	£500,000	£375,000	**£56,250**
Typical	£485,000	£363,750	**£67,500**
Poorly run	£420,000	£315,000	**£116,250**

Even the best owner can't refinance like-for-like. The launch premium was never bankable.

Borrowed by the HMO X rule

Against 100% of home tier: valued at £500,000, a loan of **£375,000**. At Year 5 the very well run owner refinances with **no shortfall**; the typical owner finds £11,250. The poorly run owner is still £60,000 short: the rule protects the lending, but only management protects the owner.

> **The HMO X underwriting rule**
>
> 1. Never underwrite above **100% of home tier from Year 3 onward**. The newness premium in Years 1–2 is real, but it isn't bankable.
> 2. **Stress-test at 90%.** A third of the HMOs we measure sit below 95%. For the sample HMO, 90% is £54,000 a year, a value of £450,000; the borrowing should still pass the lender's interest cover test there.

A fresh conversion blended across a five-year fix (115%, 104%, 100%, 100%, 100%) averages about 104%, and passes the rule.

Prepare to sell

Price at what a buyer will underwrite

Buyers, and their lenders, value your HMO on its home tier and its trading position, not on its launch rent. Selling well means knowing both before you list, and choosing the route that fits.

ASKING AGAINST CLEARING

Marketing the sample HMO at Year 5 on its launch rent (£575,000) when it trades at 97% (£485,000) asks about **19%** more than it trades at. Buyers see it and quietly walk past. Priced at its trading position, it sells.

LIFT BEFORE YOU LIST

With 12–36 months' runway, an HMO in drift can be brought back to 100% before sale. For the sample HMO at 87%, that's about **£65,000** of value for a £20,000 refresh. That's what Exit Planning is for.

Matching the route to the tier

ROUTE	BEST FIT	COMPLIANCE	TIMING
Committed Sale	T1, T2, strong T3	Complete, or completable	90–180 days
Auction	T3, T4, T5, mixed	Workable with gaps	30–60 days
Exit Planning	Any, with a one-tier uplift available	Gaps are the plan	12–36 months
Back to Resi	4–6 person C4, never 9+	Fit-out stripped out	6–18 months
Hold and review	Any	Any	No fixed window

PUTTING IT TO WORK

What your town can sustain

Local earnings set the ceiling on what a market can sustain, and ambition doesn't move it. A working tenant spends about 30% of gross income on housing, whether they know it or not.

GROSS INCOME	RENT CAPACITY AT 30%
£25,000	about £625 a month
£30,000	about £750 a month
£35,000	about £875 a month
£40,000+	£1,000+ a month, but the pool is thin

Which tier that budget buys **depends on the town**. HMO X maps it against each town's own room-rent ranges for lower, mid and higher earners across 201 towns, not against national figures. Most HMO rents include bills, so the 30% test is a cautious one.

In many Midlands and northern markets, HMO tenants cluster at £25,000–£35,000, which puts the sustainable tier at T2 and T3. A developer chasing T1 rents won't find demand missing all at once. They'll find it slowly, through creeping voids and incentives over the first two years.

PUTTING IT TO WORK

What it means for you

Find your situation. Each one asks a different question of the same framework.

IF YOU'RE…	YOUR QUESTION	WHERE HMO X HELPS
Building one	Will the rent I'm planning hold across the fix?	GDV appraisals, Location reads, developer consultancy
Buying one	Is the asking price based on rent it won't hold?	Buyer Valuation Pack, HMO X Sales listings, the Hub's Deal Thread
Owning one	How do I get back to 100%, and what's it worth?	**HMO Health Check** £995, includes a visit by Richard · **Established HMO Client Report** £395
Selling one	What will it clear at, and through which route?	**Free personal valuation** · **CSA call** £150, credited · **Committed Sale** £400 + 2% (min £4,000) · **Auction** £400 + 2.5% (min £5,000) · **Exit Planning** £995 first HMO, £200 each extra · **Back to Resi** £995, credited; 2% (min £5,000)
Rescuing one	Are the rights worth more than the trading?	Scheme of works and relet · HMO X Auctions buyer support

All fees plus VAT. Every paid report includes 12 months of Hub membership; the CSA call does not.

PUTTING IT TO WORK

The evidence

From 197 HMO X valuations with a Tier call, April 2025 to October 2026.

TIER	VALUATIONS	RENT PER ROOM	RENT VS TOWN	GROSS YIELD	EN-SUITE SHARE
T2	58	£696	1.05×	12.0%	100%
T3	91	£606	0.97×	12.9%	83%
T4	21	£564	0.84×	14.8%	0%

Medians. "Rent vs town" compares each HMO with its own town's typical mid-earner room rent. Raw £ figures mislead: some northern T2s let below some southern T3s, but against their own towns the order is clear. The evidence is refreshed every quarter. T1 and T5 have too few cases to publish benchmarks.

HMO X

Test your HMO

The free HMO X Tier test gives you an instant read of your home tier, trading position, trajectory and buyer demand, with the next step that fits. Or book a CSA call with Richard Nicholls, Senior Valuer & HMO Sales Lead and author of the Tier Methodology, to apply it to your HMO directly.

Take the test at **richard-nicholls.co.uk/tier-methodology.html**

Take the Tier test | **Book a CSA call**

Call **0330 441 5888** · Email **sales@hmox.co.uk**

Your community of HMO experts.

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