

The big exam questions facing the student rental sector | *Paul Fryers, Managing Director, Zephyr Homeloans*

The ongoing debate surrounding this year’s A Level results during the coronavirus pandemic, and the impact of the pandemic itself, is creating some interesting trends in the private rental sector. As students across the country firm-up their plans for the academic year ahead, it is interesting to explore how the pandemic is affecting the market and to consider whether there will be longer-term changes to this important part of the rental sector.

As a dedicated BTL lender offering both Standard and Specialist products, at **Zephyr Homeloans** we consistently see interest in Houses of Multiple Occupancy (“HMO”) and Multi Unit Freehold Block (“MUFB”) properties for both purchase and portfolio re-structuring, and we regularly offer and complete on new mortgages for landlord clients in the student rental sector.

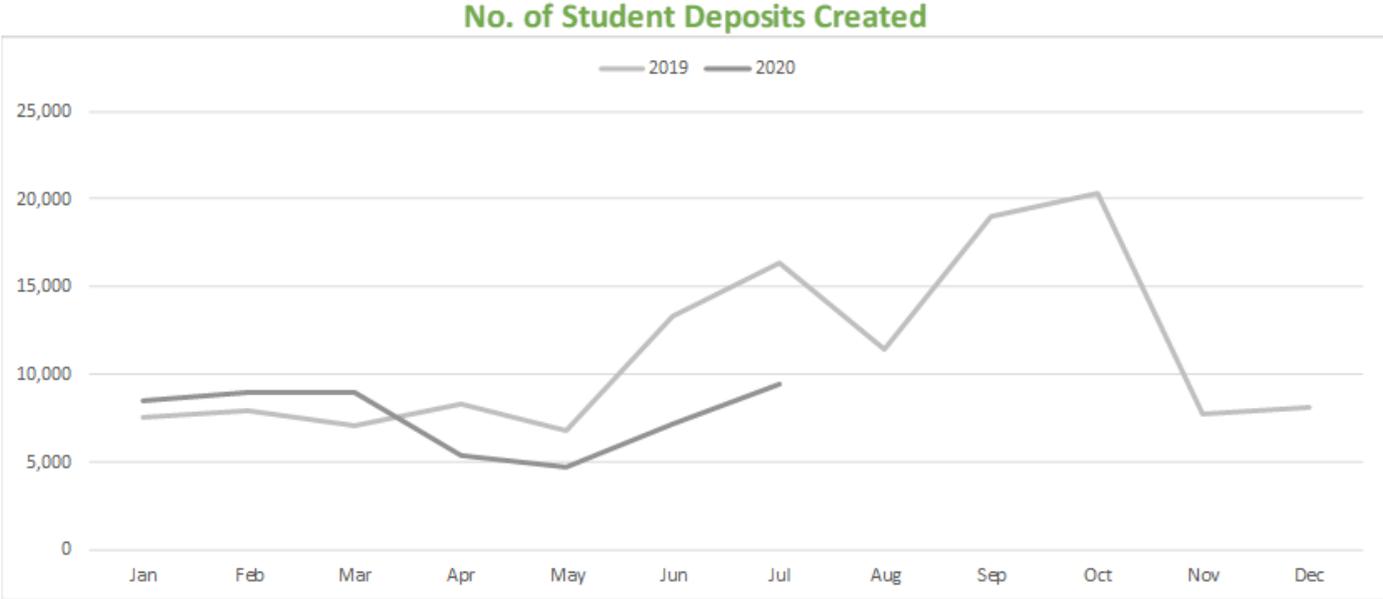
In this brief summary, I have highlighted the latest findings from our sister company **The Deposit Protection Service (The DPS)** to help illustrate the recent impact on landlords and shared some thoughts on wider trends that may affect this market in the future.

A short piece of revision

To help set some context, like Zephyr, The DPS is part of **Computershare Loan Services**, a business which in the UK manages around £41bn of residential and buy to let mortgages. Launching in 2007, The DPS is the original Government approved custodial deposit protection scheme. With over 1.75 million deposits under management, the DPS protects more deposits than any other UK scheme – and this huge footprint means we can access a vast amount of useful data about the rental market.

Here, **Matt Trevett**, Managing Director of The DPS, explores the current position around student lets, comparing the 2020 figures with 2019:

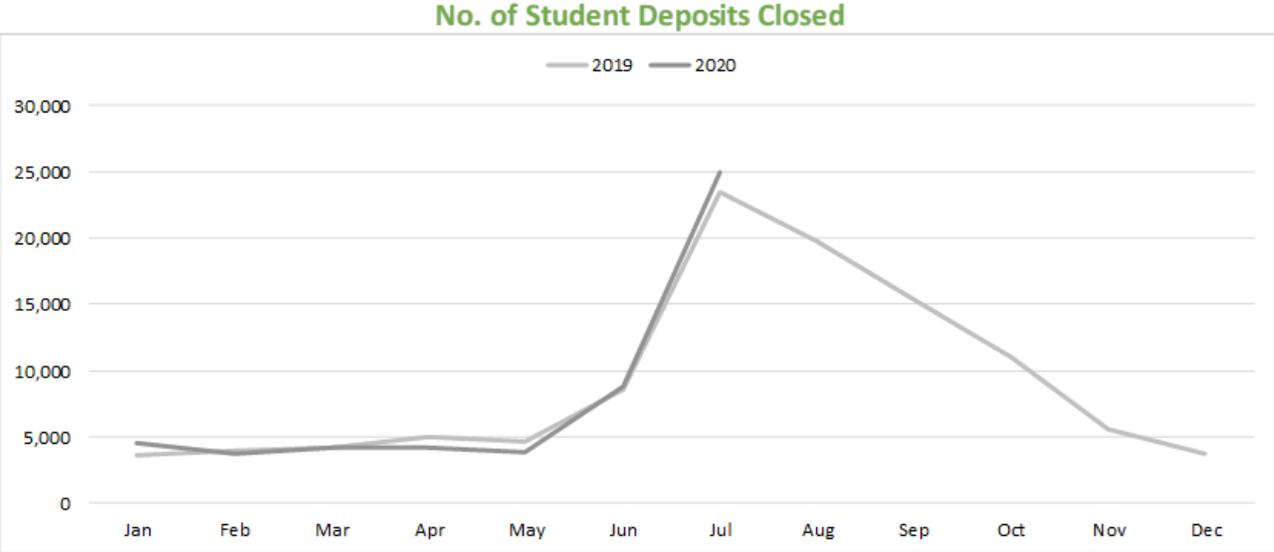
New student tenancy deposits are lagging behind previous years



"In 2019 we saw a rise in the numbers of new student deposits being taken by landlords during June and July. This is traditionally the first seasonal point when many students start to secure rental accommodation for the upcoming academic year in their University town.

"We have not seen a similar pattern so far in 2020 for student lets, which comprise 12% of The DPS' deposits. We are seeing a much flatter profile during the pandemic, one that is similar to 2018, with around 15,000 fewer new student deposits between May and July this year compared with 2019, although that could change once students finally decide whether to go back physically to University or to continue to study remotely.

Closed tenancy deposits following the usual seasonal trend



Matt continued: "As in previous years, we have seen the typical profile of closed student tenancy deposits, with around 38,000 deposits repaid during May/June/July this year, as students finish their studies for the year. We would expect to see closures fall dramatically from August onwards, and I don't expect this to be any different to normal."

Why are we seeing these trends?

Matt also explained why he thinks we've not yet seen the usual rise in student tenancy deposit submissions:

"Whilst the lack of clarity around A-Level grades clearly affects Freshers, most of whom take up university halls of residence places in their first year, the Government's decision to revert to teachers' grade predictions during the pandemic could result in a last minute rush for accommodation, providing a 'bounce-back' as universities make their plans clear on remote and onsite learning provision clear.

"The bigger impact of Covid-19 on the student lettings sector comes from those students already at University. "Quite simply, Covid-19 has created uncertainty and likely caused delays to decision making, meaning that many existing students were unable or unwilling to commit to a new tenancy during the early summer months. After all, it makes little sense to sign a new rental agreement if you've recently moved back home, cannot travel easily due to lockdown and are unsure whether there will even be any form of face-to-face learning on campus in the next semester."

Looking ahead to next term

The other question facing the sector is whether we will see a later rise in new student tenancies in line with previous years following the belated clarity around exam grades. Following the recent government clarification on using predicted A-Level grades, [we are already starting to see some Universities offering guaranteed accommodation to persuade an excess of First Years to defer to 2021](#) while others have announced they are [broadly honouring all places](#) offered this year. Over-subscribed Universities could potentially boost the private student rental sector, if some first year applicants cannot be accommodated in halls of residences, however the picture varies according to the policies of each institution and region.

Another school of thought

Looking more broadly at the higher education sector, there may also be some other fundamental trends at play that could affect demand for student lets moving forward. For example;

Despite the reports that some institutions are over-subscribed, will we see more students take gap years in 2020, to try and ride out the uncertainty created by the pandemic? What will be the impact of next year's A Level students on Universities under pressure to provide accommodation to the 2020 cohort who deferred their places? Will more students seek remote study options due to a negative perception about the reality of 'restricted' campus life? Will we see more students opting to study at a local University whilst staying in their family home? What will happen to the many foreign students who traditionally choose to study in the UK in ever greater numbers?

Whilst the majority of Universities have now said that they expect to undertake a full academic programme, it is likely that large scale lecture theatre gatherings will not be happening, with smaller scale tutor group and seminar studies continuing on campus. These changes to academic life, coupled with the ongoing restrictions affecting travel, leisure, sport and social activities mean that the whole 'student experience' is going to be rather different over the year ahead.

At this point, we simply don't know the longer-term impact of these changes on the demand for higher education or how this will affect the student rental market. So despite the record year for grades, there remains a number of unanswered questions across the sector.

Keep doing your homework

What is for sure though, is that brokers should try to stay up to date by monitoring the available data and mortgage product availability for buy to let mortgages to ensure that they remain ready to support their landlord clients operating in this sector.

For our part, we'll continue to work with our colleagues at The DPS to provide regular updates for brokers that may help to provide answers to these complex questions.

We've got Buy-to-Let lending covered from A-to-Zephyr

Zephyr Homeloans is a dedicated buy-to-let lender, providing a range of mortgage products focused on meeting the needs of professional property investors as individuals or Limited Companies. Our broad lending criteria could make us suitable for many student landlords, with product options designed for HMOs (to 6 bedrooms), MUFBs (up to 6 units), New Builds and flats that are above/adjacent to commercial properties.

Our current range of Standard and Specialist products (including MUFBs & HMOs) have Max Loan limits of £1.5m up to 70% LTV and £1m up to to 75% LTV. Our New Builds & Flats above Commercial products are available up to 75% LTV with a max loan size of £750k.

See our [website at zephyrhomeloans.co.uk](http://zephyrhomeloans.co.uk) for full details of our products and criteria.

