Welcome to Market Financial Solutions’ Property Training on Student Accommodation! In this session, we'll cover a range of topics related to student accommodation, enabling you to adeptly prepare your clients for their investments in this sector.

So, what is student accommodation?

Essentially, student accommodation is defined as a building, or part of a building, used for the sole purpose of providing residential accommodation to students during academic term times. Generally, there are two main types of student accommodation that clients can invest into, they are houses in multiple occupation (or HMOs) and purpose-built accommodation (PBSA).

A house in multiple occupation (HMO), in simple terms, is a shared house. It is a property that is rented out to 3 or more people who are not from the same household, and share some amenities such as a kitchen, toilet, and bathroom facilities.

A student HMO is essentially the same thing, with the caveat that the tenants living in the property are students. Features can include a communal kitchen, living area, and bathroom. Typically, these are renovated outdated terraced houses, focused on maximizing student occupancy but often resulting in smaller bedrooms and living spaces. Students typically transition to this type of accommodation after completing their first year of university.

Purpose-built student accommodation (PBSA) is exactly that, buildings that have been designed specifically with the needs of students in mind. There are a few different types of PBSA, from studio apartments where students can elect to live alone, to shared apartments where students can have their own bedroom with an ensuite but share a kitchen and/or a lounge.

Like any financial endeavour, it's essential for clients to weigh the advantages and disadvantages before making a final decision. So, what are the pros and cons of each type of student accommodation?

The advantages of student HMOs are:

That they are typically cheaper to buy – HMOs tend to have a lower price point than PBSAs, and owners can rent out individual rooms to multiple individual tenants

HMOs can offer very high yields in comparison to other property types. And student HMOs can offer some of the highest yields of all HMOs. Research by Paragon Bank suggests that student letting yields generally are almost 20% higher than non-student letting yields – 6.6% on average compared to 5.6% for non-student HMOs.

No Council Tax is payable on HMOs wholly occupied by full-time students. This reduces the running costs compared to other types of HMOs.

Tenant turnover is lower than other HMOs. Students will likely stay for the whole year (or at least the whole academic year) rather than just a few weeks or months. There is therefore less need to be constantly advertising for or checking in new tenants if someone unexpectantly moves out.

Reduced risk of missed payments – If one tenant decides to move out, you still have income from other tenants to fall back on.

Easier to get mortgage finance than PBSAs - Although it’s important to note that mortgages may now be becoming more specialist for HMO’s, and many lenders will want to see that your client has experience owning rental property before they will agree to lend to them to purchase an HMO.

Disadvantages

properties may end up unoccupied in the summer months as students go on holiday or return home. This could cut rental income, at least for a few months.

There is competition from university halls and privately run student accommodation blocks in some student towns and cities. This has reduced the demand for student HMOs in some places.

The standard of accommodation needed in a student HMO is higher than in the past. This is both to meet student (and parent) expectations and to stay competitive with other types of student accommodation. For example, students often expect contemporary decor, well-equipped accommodation and superfast broadband. Poor quality student HMOs may be difficult or even impossible to let.

Investors’ legal duties – Since the ‘The Licensing of Houses in Multiple Occupation Order 2018’ came into force in October of 2018, more properties will need to be licensed for the protection of their tenants, giving owners extra legal responsibilities.

Wear and tear on a property can be higher with student HMOs than might otherwise be the case. Student HMOs have a reputation for being harder to run and manage than other HMOs. There can be problems with parties, noise and rubbish etc. as well as complaints from neighbours.

Additionally, student HMOs will be subject to stricter regulation than ordinary buy-to-let properties. For example, fire doors will need to be installed and maintenance costs are also likely to be high. Specific licences may also be needed from local councils.

Advantages of PBSA

This type of accommodation is designed to meet the demands of today’s student rental market and therefore has the modern design, layout and amenities students are willing to pay a premium for. Students usually report having a better experience in this type of property and so retention rates are higher.

Student accommodation developers will normally appoint a dedicated student accommodation management company to effectively run the entire site. This includes the sales process of letting the properties, managing the entire tenant lifecycle and maintaining both the rooms/apartments and communal areas of the building. This can simplify the process of running the accommodation for your client.

Confidence in the market –2022 was a record-breaking year for PBSA, with £7.2 billion of investment in the sector that year

Better locations are available – Because multistorey PBSAs generally requires less ground space, the developments are usually built in prime city-centre locations close to the university – increasing the chances of high yields and capital growth for your clients

Disadvantages of PBSA

Client’s may find it more challenging to find suitable PBSA properties to invest in as there has been a noticeable decline in supply. This lack of supply could hurt the profitability of your client’s investment.

Although it can be hugely time-saving, the rates charged by student accommodation management companies are likely to be a lot higher than high street agents for regular residential properties, but due to the extensive communal facilities and inclusive pricing model, it is normally justified.

Resale Market - Another key factor to consider is your resale market. When you come to exit and want to sell on the property, you may only be able to sell to a cash investor, not an end-user. This restricts your options drastically. Specialist lenders, however, do finance these types of projects and tend to be the go-to in the space.

Investing near universities may yield lower capital growth due to the high cost of properties in those areas. Student demand for premium amenities, coupled with budget constraints, can also impact their rent affordability. As well as semester breaks potentially decreasing the annual occupancy rates, capital growth could be much lower than that of a student HMO.

It’s time for our first quickfire question! Test your knowledge on what you’ve learned so far by answering this question:

Why may finding suitable PBSA properties for investment be challenging? Is it:

A. An increased supply in the market

B. A noticeable decline in supply, or

C. Lower demand from students

The correct answer is B. Finding suitable PBSA properties may be challenging due to a decline in supply.

PART 2

How to find the best location

Student accommodation is largely only feasible in towns and cities that are home to universities. Within these cities, there will be certain areas that have existing student accommodation, as well as establishments that are popular with students like bars, restaurants, and shops, so choosing somewhere near to this could aid in the success of your clients investment. Considering the proximity to the university campus is crucial when selecting a location for student accommodation. This is because students are more inclined to choose housing that is within a 25-minute walk or a short bus ride from their campus.

There are a few obvious places that clients are likely to consider when investing in student accommodation, and this is largely due to the fact that they have a significantly large student population. This makes them a logical place to start, examples include Birmingham, London, Manchester, and Nottingham. However, it will also depend on your client’s location and where they are comfortable investing as to where they should start their search for a property.

The East midlands and the north of England have also become increasingly popular places to invest in student accommodation, as students are wanting to experience the student life as much as possible while maintaining a low cost of living

Regulations in student accommodation

As with most property types, clients considering investing in student accommodation will need to follow regulations. While there aren’t many student-specific regulations, they will still need to adhere to laws that are specific to HMO properties.

The regulations for investing in student accommodation can vary across the country. For example, in England and Wales there isn’t a need to acquire a license for an HMO property that houses less than 5 tenants. Whereas in Scotland and Northern Ireland, a license is required for HMOs of any kind, including those that house just three tenants. However, across the board, an HMO license is only achievable if the landlord adheres to laws, the code of practice, and has a clean criminal record.

HMO building regulations

The Housing Act 2004 states that properties that match the definition of an HMO must fall into the following categories:

* A house or flat that more than one household shares a basic amenity (i.e., not self-contained)
* A converted building
* A building that does not comprise of self-contained apartments
* A building that is declared as an HMO by a local council

Your clients should note that certain local councils or authorities may have their own set of regulations. For example, if landlords intend to convert a single-let property into an HMO, they must obtain planning permission to alter its 'use-class.' It is crucial for landlords to thoroughly review the regulations specific to their local area to avoid potential fines, which can range from £10,000 to £40,000.

Room size regulations are put in place to ensure the comfort and suitability of the living spaces for tenants. In HMOs, there are specific rules regarding room sizes. Since October 2018, any room below certain sizes cannot be used as a bedroom.

Single-occupancy rooms must have a minimum floor space of 6.51 square metres

Double-occupancy rooms must have a floor space of at least 10.22 square metres

If any part of the room has a ceiling height of less than 1.5 metres, it cannot be included in the floor space calculation

Fire regulations

Add the below text:

Following fire safety requirements is part of the responsibility of being a landlord. Your clients should always be prepared to provide proof that they have taken all reasonable and expected measures to safeguard their property and tenants from the risks of fire and smoke damage. This could involve tasks such as installing appropriate alarms and ensuring the safety of the furniture they supply.

HMOs have stricter fire safety regulations compared to smaller rental properties. Due to multiple households sharing one residence, the level of risk can escalate. Therefore, government regulations are necessary to safeguard the safety and well-being of HMO tenants. The regulations are:

* A risk assessment must be carried out
* Furniture and furnishings should be ‘fire safe’
* All tenants must have clear escape routes out of the building and have fire doors on bedrooms, kitchens and living rooms.
* A smoke alarm has to be installed in every room of the property (tested at the end of each tenancy)
* There must be a mains-powered, central fire alarm system
* There must be emergency lighting on each floor (i.e., lighting that will work when the power goes down)
* A fire extinguisher is required on each floor and a fire blanket in the kitchen

Failure to comply with these regulations could pose a life-threatening risk to tenants. Consequently, negligence in adhering to fire regulations may result in arrest and imprisonment.

Universities offering halls of residence are required to be part of a government-approved code or hold a license from the local authority. These codes are designed to guarantee secure and high-quality accommodation. They serve as a mechanism for addressing any issues that may arise in the tenants living arrangements.

Three codes are assigned to halls of residence, they are:

The Universities UK/Guild HE Code of Practice for the Management of Student Housing, often known as the Student Accommodation Code

The Accreditation Network UK (ANUK)/Unipol Code of Standards for Larger Residential Developments, for student accommodation managed and controlled by educational establishments; universities must register with one of the two designated codes for access. And

ANUK/Unipol Code of Standards for Larger Developments for student accommodation not managed and controlled by educational establishments.

Universities would need to sign up to one of the first two codes, and the third is for student accommodation owned and managed by private companies. These codes cover repairs and maintenance, fire, gas, and electrical safety, security, management of the tenant’s tenancy, and complaints. These codes could be a useful resource for your clients to be aware of what they should be doing.

Test your knowledge again with our second quickfire question:

What is the minimum floor space required for single-occupancy rooms in HMOs, according to room size regulations?

A. 4.5 square meters

B. 6.51 square meters

C. 8 square meters

The correct answer is B. 6.51 square meters is the minimum floor space required for a single occupancy room in an HMO.

PART 3

Financing student accommodation

There are a range of things that need to be considered when choosing the most suitable type of finance for student accommodation. Lenders will likely vary in their offerings, and monthly payments can be greatly affected by a small fraction of a percentage point, so speaking with an expert such as yourself to understand all of their options would likely aid them in getting the best deal.

Financing a PBSA

Typically, clients purchasing purpose build student accommodation are companies like investment funds, and large real estate companies. One of the reasons for this could be largely to do with the fact that historically, traditional mortgage providers often don’t borrow against this specific type of property. Clients may need to purchase this type of property with cash, covering the entirety of the cost of the purchase up front.

However, specialist finance is an area that could help clients looking for to apply for finance for a PBSA purchase. Clients could consider obtaining PBSA finance from a specialist lender as a financing option. In order to do this, they would need to meet certain criteria regarding the following:

The location of the property

The number of beds and bedrooms

Whether they will utilise a Nomination agreement, which involves universities committing to provide a set number of students for the accommodation, therefore ensuring stability for developers. Or a direct let where developers market and manage rentals, offer higher yields but involve more risk and effort.

The cost of facilities management and the track record of those responsible for delivering it may also be considered by the lender

Lenders can also consider student tenancy agreements, which typically span 43 to 51 weeks, and can significantly influence revenue, especially during non-term periods; while securing a 51-week commitment is ideal, alternative revenue streams, such as hosting conferences and events in purpose-built student accommodation, may be explored, considering additional costs for marketing and occupancy.

Lenders will likely need confidence in your client’s ability to deliver the student accommodation project on time and within budget, which crucial for aligning with academic year schedules, and lacks the flexibility of other development types.

There are also other funding options available through specialist lenders, such as development. Bridging, and mezzanine finance, so it is advisable to conduct thorough research to ensure that all options available are considered.

Financing a student HMO

Clients exploring student HMO investments often enjoy broader financial options than those investing in PBSA. Despite investing in a student HMO, they can typically apply for general HMO finance, therefore expanding their funding possibilities. They may be able to utilise an HMO mortgage, which is a long-term product designed specifically for this kind of BTL investment. These mortgages may be marketed as HMO mortgages, or advertised as regular BTL mortgages that happen to allow investors to borrow against an HMO property.

These types of mortgages will often feature additional criteria that needs to be met, such as minimum property values, a maximum number of bedrooms, communal space requirements, and a minimum level of experience from the applicant.

Often, these mortgages are long-term products covering 25-35 years or so, with terms initially set up for 2, 3, or 5 years. Generally, mortgage eligibility adheres to a rigid tick-box lending criterion. Applicants must fit in within a narrow set of parameters, which can sometimes leave little wiggle room for property investors with complicated backgrounds.

This is where bespoke, specialist finance can come into play. Bridging loans and specialist BTL mortgages are short-term forms of finance designed to help borrowers move from one financial transaction to another, while long-term solutions are secured.

Specialist loans tend to be more flexible than their mainstream counterparts. Meaning they can accommodate missed payments, County Court Judgement (CCJ), overseas interests and other complications that may not be accepted on the high street.

Bridging loan terms generally sit between 3 – 24 months, although some lenders may offer loans that stretch to 36 months. They could also have flexibility in how they’re repaid. Bespoke lenders may offer rolled up interest, or deferred interest repayment plans, for example. Specialist BTL mortgages also combine some of the traditional elements of the mortgage market with bridging like speed and flexibility.

How do specialist loans work?

While processes will vary between lenders, there are generally a few shared key stages. Lenders will receive an enquiry, assess its merits, and determine if they can help. So long as everything falls into place, lenders will then issue funding to the applicant.

If we take Market Financial Solutions as an example, bridging loan applications follow a simple 5-step process. We receive your client’s initial enquiry, which will be responded to within 4 hours. We will then issue indicative terms, subject to credit approval and receipt of their information.

A decision in principle (DIP) will be issued by Market Financial Solutions once all of the required paperwork has been completed. Following this, valuations will be completed, due diligence will be followed, and any legal requirements are met. Beyond this, valuers and solicitors will be instructed to act, and commitment fees will be paid.

Finally, as we reach the final stages, legal paperwork is provided, the loan is issued for drawdown, and commitment fees are refunded.

For our specialist BTL mortgages, once we receive your clients’ initial details, we can categorize their deal into one of our 4 tiers which will determine the rates and terms available to them. If they’re happy to progress, we will then issue a DIP and move onto completing the valuation, much like the bridging process.

From here, the solicitors involved will issue contracts and get everything wrapped up on their end. Once everything is good to go, we will deliver funding for the BTL investment.

What needs to be remembered is that for both our bridging loans and BTL mortgages, all of this can be done in mere days from your client’s initial enquiry.

PART 4

Now, let’s move on to the next topic.

Will certain property details or issues in financial history affect your client’s loan?

Specialist finance is generally very flexible, and at Market Financial Solutions our underwriters are adept at finding creative solutions for a range of complications. Common examples include what’s already been mentioned: CCJs and missed payments etc.

However, we can also deal with more challenging or unique circumstances. This can include divorce settlements, bankruptcies, or business cashflow issues.

Broadly, the more complicated your situation, the higher your client’s rates may be. Although, we have a range of tools at our disposal to help with their affordability.

Are there any set questions clients should ask their underwriter?

Your client will have an assigned underwriter from day one, who will be there to cover every single detail of their case. They’ll be able to answer any questions they may have on costs, their options, and more.

Every case we deal with is assessed on its own merits. Meaning, what’s needed from our borrowers over and above the standard documents may vary from person to person. But what’s key is that your client is open with us from the beginning. Transparency allows our underwriters to get ahead of any potential problems.

Throughout, we will consider the wider economic picture, your client’s experience, and any additional assets they may have to support their deal and exit strategy. If you or your client have questions on any of this, we can be reached online, via email, or over the phone.

Congratulations! You’ve made it to the end of the training! Don’t forget to test your knowledge with the exam questions at the end.