



Studying student buy-to-let

Examining the role of the private rented sector in the UK's growing, world-renowned higher education system





A word from Paragon Bank Managing Director of Mortgages Richard Rowntree

The private rented sector (PRS) is an important component of the student experience, providing good quality, flexible accommodation for the growing number of people who are drawn to the UK's world-renowned higher education system.

The UK's top universities are consistently ranked amongst the best in the world and have long and illustrious histories. Oxford and Cambridge are accepted as the world's second and third oldest universities in continuous operation and with some of history's most celebrated minds amongst their alumni – Charles Darwin, Sir Isaac Newton and Oscar Wilde, to name just a few – they can lay claim to some of humanity's greatest advancements.

Although the oldest and most famous, Oxford and Cambridge are only two of many diverse institutions that combine cutting-edge research and innovation with highly regarded education. The 143 universities spanning the length and breadth of the UK, from Falmouth University in the south of England, up to Scotland's University of the Highlands and Islands, have built reputations for some of the best places to study fields like law, arts and humanities, technology, medicine, and other sciences.

As a result, the UK is the second most popular destination for students studying overseas. Only the USA, home to more than 5,500 universities, has a higher population of international students.

An Oxford Economics report for Universities UK revealed that this draw for both domestic and

international study contributes £95 billion in gross output to the economy and supports upwards of 940,000 jobs, a figure that is expected to have risen since the impact of higher education was last analysed midway through the last decade.

In addition to this direct benefit, higher education provision has helped to spawn and sustain secondary industries. One of these is the PRS, with privately rented dwellings the most popular choice of term-time accommodation.

For many students, leaving home to study is an exciting first taste of freedom and life in 'the real world', making the PRS an integral aspect of the higher education experience.

Recognising this, the student letting market is popular with both private and institutional investors. Landlords who adapt their proposition to cater to this niche can be rewarded with healthy and growing demand, the stability of parental rent guarantors and the ability to achieve attractive yields.

Here, we examine some of the factors behind these and other characteristics of the student lettings market in a bid to identify opportunities and threats that may exist for buy-to-let investors.

Rental yields

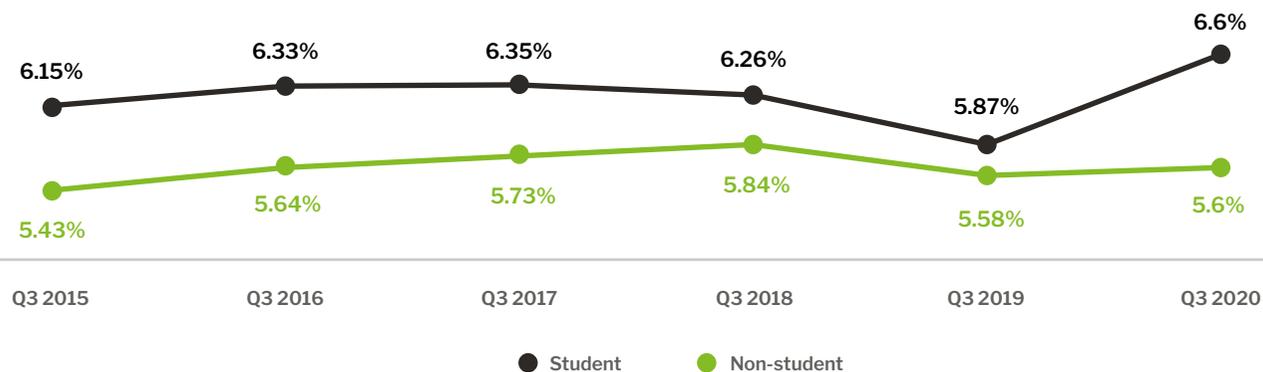
Data shows that landlords who include student lets in their portfolios have consistently achieved higher yields compared to those that don't



Rental yields are an important consideration for investors and historic data reveals a trend of higher yields amongst those who let to students compared to those that don't. It is unsurprising that when asked what is appealing about letting to students, 79% of landlords cited rental yields.

Overall mean rental yield from letting portfolio

Source: BVA BDRC



Paragon analysis of applications for property within popular student postcodes over the past 24 months has highlighted that the best yields are typically generated by student properties located in smaller university towns or cities.

For landlords who prioritise yields, single university locations, where student populations are typically below 25,000, appear to offer some of the best investment opportunities.

An example of this can be seen in Swansea, where the city's one main university, Swansea University, is home to 20,375 students. Here, the average rental income of £22,140 contributes to a yield of 9.56% against the average property purchase price of £231,534, making it the top yielding university location in the UK, according to Paragon data.

The top yielding university location in the UK is Swansea, followed by Hull and Plymouth

Hull came second in terms of yields, with the average student property in the city generating a return of 8.68%. Again, the location only hosts one main university, University of Hull, with 14,255 students.

Completing the list of the top three yielding student locations is Plymouth, where buy-to-let (BTL) properties can generate yields of 8.41%.

Out of the top 10 locations, only Liverpool, Coventry and Leeds have more than one university.

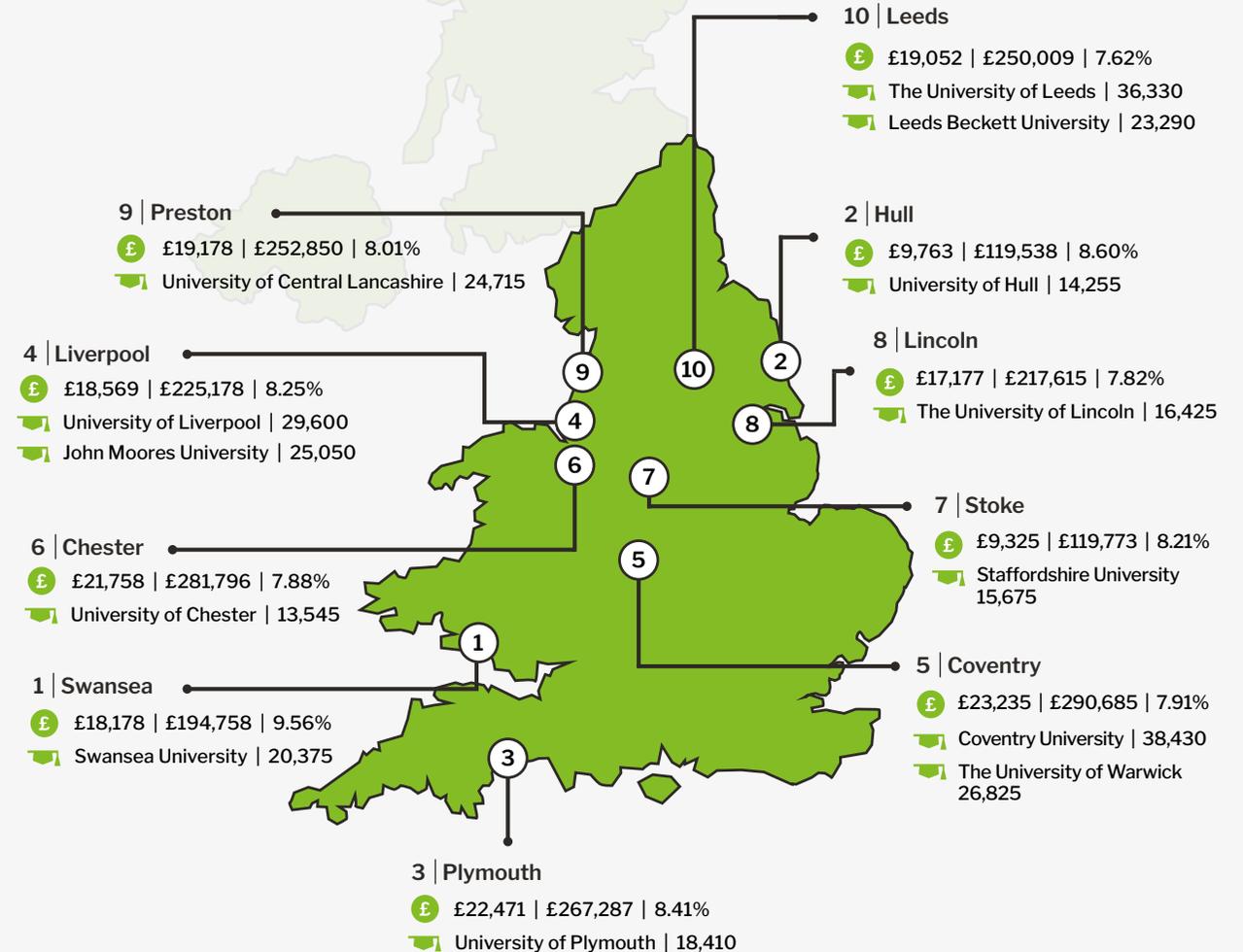
One reason for smaller towns and cities faring particularly well could be the observation that they will typically have a lower proportion of purpose-built student accommodation, which has become more commonplace in major cities, whilst major cities also offer a wider array of property that students could rent, such as city centre apartments or build-to-rent schemes.

University locations with the best yields — top 10

Source: Paragon

Location

- £ Average Rental Income | Average Valuation | Rental yield
- 🏫 Main university | Number of students





The strong yield performance seen in locations with just one university continues when we expand the list to the top 20 locations, with 14 places occupied by towns or cities with a single university.

The strong yield performance seen in locations with just one university continues when we expand the list to the top 20 locations

Places such as Salford and Huddersfield – where yields of 7.53% and 7.40% can be achieved respectively – are both examples of smaller locations where students can often be found in more traditional accommodation, such as houses in multiple occupation (HMO), and property is generally more affordable to purchase, helping to generate better returns. This is also likely to contribute to the regional spread of the best yielding student locations as when we look at the top 20, we see that very few are in the south, where property is typically more expensive to buy.

Notable exceptions to the trend in smaller, single university towns having the best yield generation potential can be seen in larger cities such as Sheffield (7.58%), Newcastle (7.30%) and Cardiff (7.16%), which all boast two universities.

University locations with the best yields – top 11 - 20

Source: Paragon

Location	Average Rental Income	Average Valuation	Rental yield	Main university (ies)	Number of students
Sheffield	£18,951	£250,155	7.58%	Sheffield Hallam University The University of Sheffield	30,960 30,055
Salford	£15,475	£205,484	7.53%	The University of Salford	21,500
Worcester	23,300	£310,435	7.51%	University of Worcester	10,180
Loughborough	£23,113	£312,306	7.40%	Loughborough University	18,295
Huddersfield	£8,666	£117,167	7.40%	The University of Huddersfield	17,305
Gloucester	£18,112	£247,367	7.32%	University of Gloucestershire	7,915
Newcastle	£14,534	£199,063	7.30%	Newcastle University University of Northumbria	28,070 28,325
Durham	£19,075	£265,615	7.18%	University of Durham	19,520
Cardiff	£20,295	£283,583	7.16%	Cardiff University Cardiff Metropolitan University	33,260 10,920
Northampton	£17,148	£240,019	7.14%	The University of Northampton	12,060

Attitudes and benefits of letting to students

The appeal of student letting to landlord and tenants

Appetite to let to students

Despite the yields on offer and evidence of growing demand, research, carried out by BVA BDRC on behalf of Paragon, shows that only 13% of landlords currently let to students. For context, 13% of landlords also let to local housing allowance claimants, 12% to retirees and 52% to families with children, the most common tenant type.



Proportion of tenant types landlords let to

Source: BVA BDRC



52%

Families with children



42%

Young couples



33%

Young singles



28%

Older singles



34%

White collar / professionals



22%

Older couples



19%

Blue collar / manual workers



14%

Universal Credit claimants



13%

Local Housing Allowance claimants



13%

Students



12%

Retired



5%

Other benefit claimants



4%

Migrant workers



2%

Executive / company lets

Student letting appeal

When asked what is appealing about renting to students, 79% of landlords responding to a Paragon survey stated that it is the ability to generate rental yields, rising to 83% amongst active student landlords.

This is closely followed by parents or guardians being reliable rent guarantors, appealing to 64% of survey respondents, and reliable demand, which was chosen by 63% of landlords who let to students.

For some landlords there is a positive social aspect of letting to students, with 16% stating that the “Feel good factor of providing housing for younger generation” is appealing.

Other factors landlords considered included the appeal of shorter-term tenancies (26%) and the availability of stock (10%).

Landlord portfolio plans

Landlords who focus on the student market have a desire to increase their portfolios, particularly those with larger holdings.

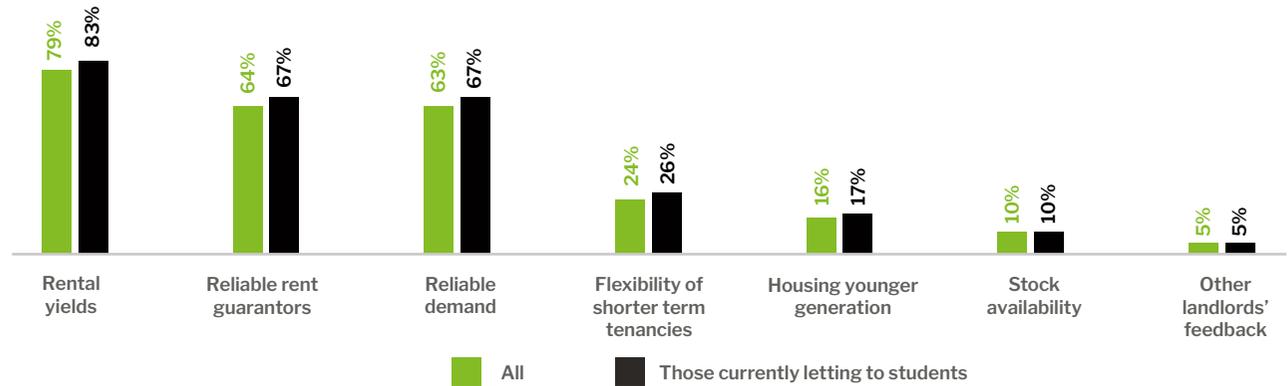
83% of the landlords surveyed said they were unlikely to sell during the next year

A Paragon survey of landlords who either let to students currently or are considering doing so in future, found that 33% think it is likely that they will purchase a student let property in the next 12 months, rising to 50% amongst landlords who have 11 or more properties in their portfolios.

Landlords were also asked how likely they would be to sell property during the next year, to which 83% responded that it was unlikely.

Motivators of letting to students

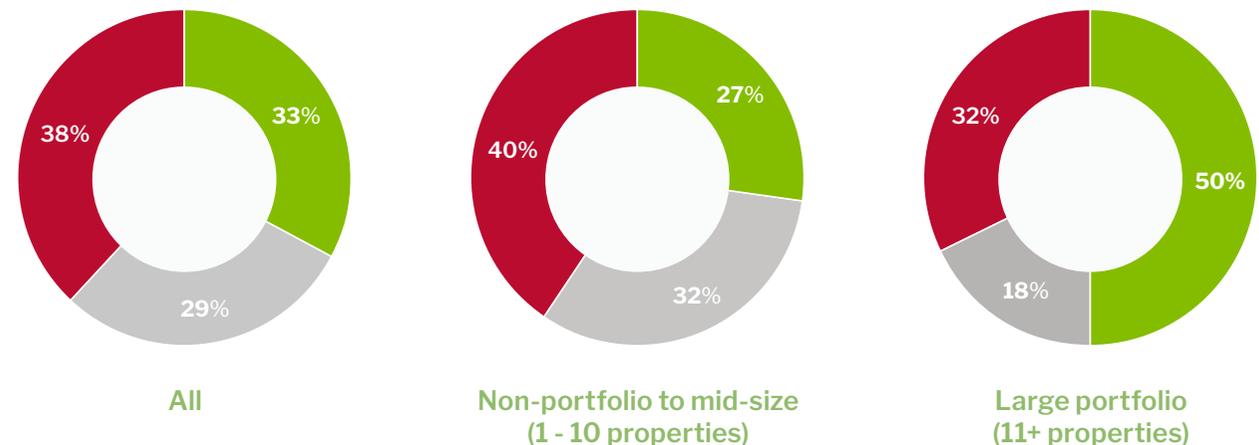
Source: BVA BDRC

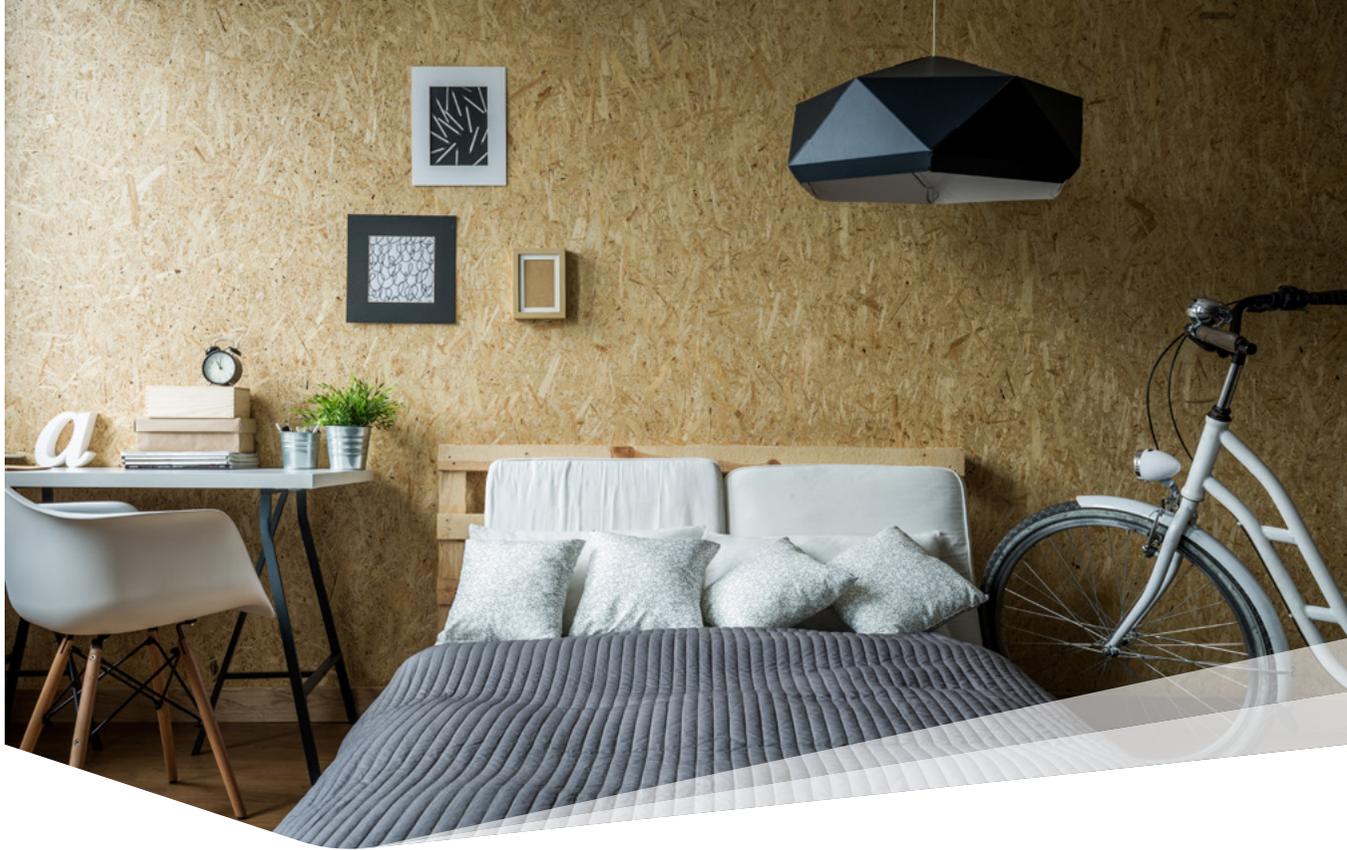


Likelihood of purchasing student let property in 12 months

Source: BVA BDRC

● Likely ● Neither likely or unlikely ● Unlikely





What students want

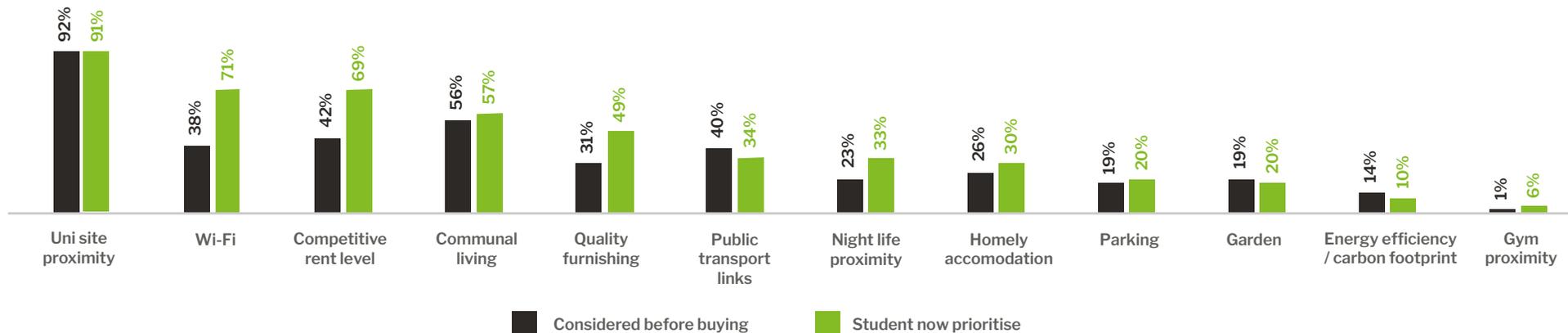
Useful insight on the features that students prioritise has been provided by those landlords currently letting to this tenant type. In some cases, there is a considerable gap between what the investor deemed to be important when purchasing the property and what they now know after marketing and letting student accommodation.

The proximity to the university campus was deemed to be the most important factor by landlords, but students placed a greater importance on good Wi-Fi and a competitive rent level.

At the other end of the scale, the energy efficiency of the property and proximity to a gym were deemed less important.

Features considered on purchase vs currently prioritised by students

Source: BVA BDRC



Student letting concerns

The relatively low number of landlords who include at least one student let in their portfolio could be explained by a number of factors, one being the perceived increased risk posed by this tenant type. When asked what, if anything, concerns them about letting to students, the most common answer was the competition of build to rent or purpose-built student accommodation (PBSA), which was chosen by 38% of survey contributors, rising to 40% amongst active student landlords. Research by Savills suggests that this concern is not completely without basis as investment in PBSA hit a new high of £5.77 billion in 2020 after an annual increase of 5.7%.

Higher Education Statistics Agency (HESA) data highlights record high numbers of students choosing to study in the UK, with an influx of students from China and India driving this growth. HESA data also shows that Chinese students are 124% more likely to live in PBSA than domestic students and those originating in India are 106% more likely, illustrating the appeal for property developers.

Savills revealed that there were 2.8 full-time students for every purpose-built student home in 2019/20

Savills also revealed that there were 2.8 full-time students for every purpose-built student home in 2019/20, so even with the growing investment and factoring in of students who choose to remain in their family homes, there are enough students to sustain demand across all types of stock.

Property damage was the second most common concern, chosen by 31% of all landlords surveyed but, suggesting that the risk is actually lower than some perceive, the proportion falls from 66% amongst landlords who would consider letting to students to 22% amongst those who currently do.

Student accommodation building at Swansea University





Case Study: Abdulkader Kadri

Abdulkader currently owns eight properties, six of which he lets to students, and is very likely to expand his portfolio in the next 12 months

Abdulkader Kadri, or Buddy to his friends, is a full-time landlord who currently lets more than half of his eight properties to students, using a property management agency to do so.

Buddy lives in Cambridgeshire and has properties in the South East of England, providing homes for both domestic and international students attending University of East Anglia (UEA).

Although expressing some concern over the impact of remote learning and the risk of arrears, Buddy feels that demand for student lets has stayed the same throughout the pandemic.

This consistent demand may contribute to Buddy saying that he is very likely to purchase one or more properties to let to students over the next 12 months. With six of Buddy's eight buy-to-let properties being student HMOs, he would like to diversify his portfolio and may also look at other areas. He is quite open to different types of property, including detached, semi-detached or terraced houses and is also

exploring the possibility of converting commercial premises into residential properties.

When purchasing properties to let to students, Buddy looks for a number of features which he has found are appealing to his young tenants. These include proximity to university sites and good Wi-Fi and, as you would expect, setting competitive rent levels.

Buddy also places emphasis on creating comfortable accommodation with a homely feel, something that leads some students to opt for privately rented accommodation over larger purpose-built developments.



Buddy said: "Students occupy their accommodation for short periods, so it makes little sense for them to go out and buy lots of furniture. In my experience, that doesn't mean that they don't value accommodation that is comfortable and feels like home. I try to provide quality furnishings and rooms that are spacious; I've found that double beds are surprisingly high priority too!"



Demand

Demand for private rented sector student accommodation has grown significantly during the past three decades, despite a range of external influences

According to Higher Education Statistics Agency (HESA) data, 61% of full-time students in the UK lived away from home in 2018/19. Of these, HESA found that just under 570,000 opted for privately rented dwellings for their term-time accommodation in 2019/20.

Despite a fall from 536,000 to 531,000 between 2016 and 2018, the number of students housed in PRS properties has increased overall since midway through the last decade and it has consistently remained the most popular choice by a significant margin.

A 2020 House of Commons briefing paper aggregated various pieces of research to conclude that there is no clear evidence of an increase in students living at home during their studies. So, by analysing the number of people choosing to enrol onto degree courses, we can create a picture of the demand for student accommodation.

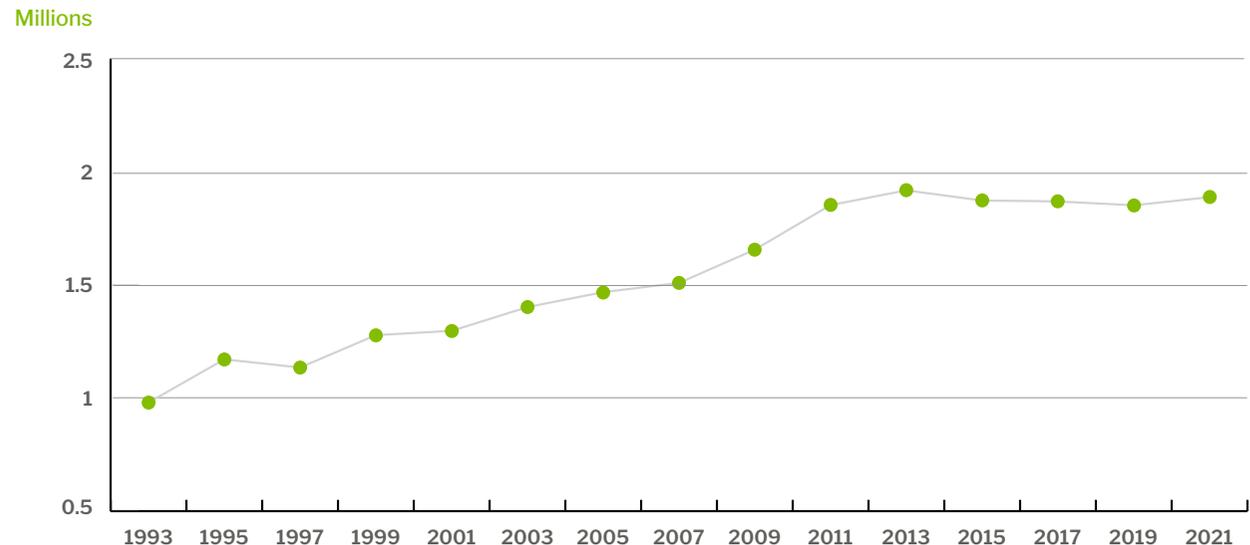
This has grown substantially since the 1990s. There were 984,000 people aged 18 to 24 in full-time education in 1993, a figure that now stands at 1.88 million, according to the latest Labour Force Survey estimates.

Despite this increase, which could go some way to suggest that student letting demand has been relatively insulated from the economic shocks of the recession of the early 90s and global financial crisis of 2007-2009, degree application numbers are not immune to influence. If we look at UCAS annual applicant data sets, we can see examples of events that have caused student numbers to fluctuate.

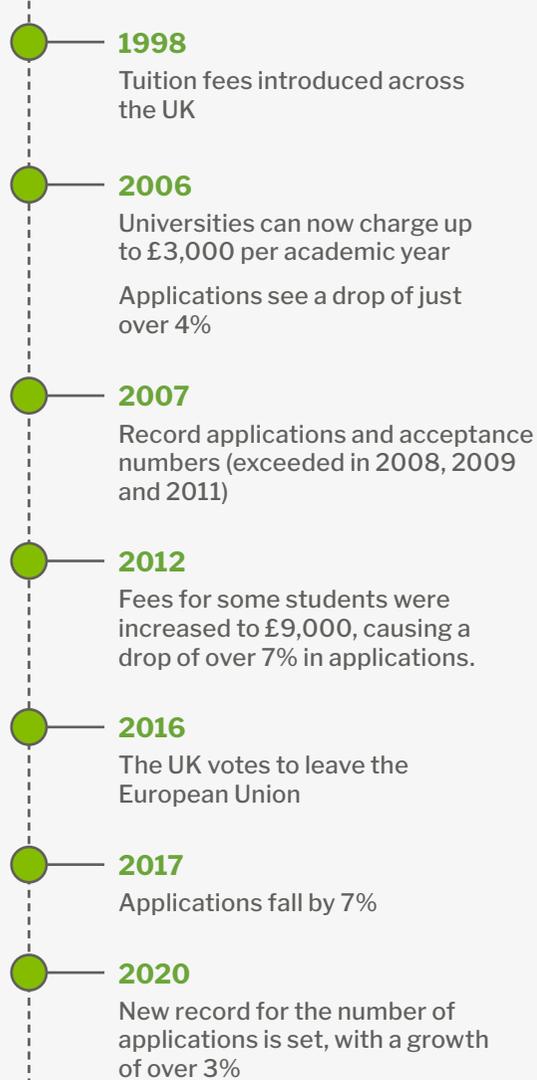


Number of people aged 18-24 in full-time education

Source: ONS



Timeline of events: 1998 - 2020



Tuition fees

The Higher Education Act of 2004 enabled universities in England to charge variable fees of up to £3,000 a year for students enrolling on courses from the 2006-2007 academic year. It is thought that this contributed to a 4.1% drop in applications in 2006, according to UCAS, which was greater than that seen when tuition fees were introduced across the UK in 1998. Application rates saw relatively large upticks in the year prior to both of these changes, suggesting that students tried to secure a place before the cost of study increased.

Following this dip, 2007 saw record applicant and acceptance numbers and these were exceeded in 2008, 2009 and 2011. The absence of 2010 from this list could be explained by an increase in the cap on tuition fees to £3,225, adjusted for inflation.

This return of the upward trend in applicant numbers was interrupted in 2012 when fees for some students were increased to £9,000, causing a 7.6% drop in applications.



Brexit

The next significant impact on demand came in the wake of the 2016 Brexit vote, with applications shrinking in 2017 by 7% on the previous year.

In 2018, the year of the Brexit withdrawal agreement, a survey carried out by BVA BDRC found that more landlords letting to students reported voids compared to those that didn't.

Consistent with the divisive debate around the pros and cons of Brexit, there are two sides to the story.

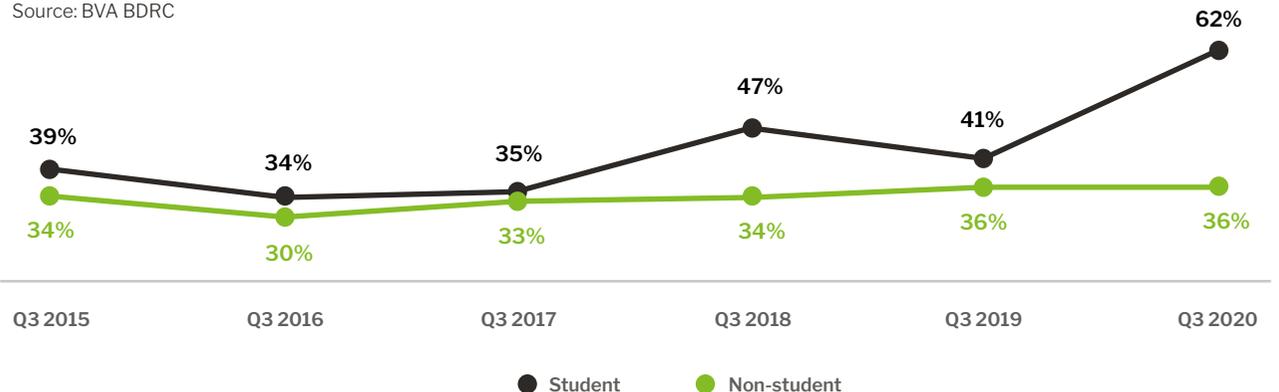
While numbers of EU applicants have fallen since the decision to withdraw from the European Union, they have been more than made up for by students from further afield.

A new record for the number of applications was set in 2020

after 3.2% growth overall. A rise of 2.1% was recorded amongst domestic students and the small decrease of 0.4% in EU applicants was more than offset by an increase of 12.3% in 'other' overseas students.

Proportion of landlords experiencing voids in last three months

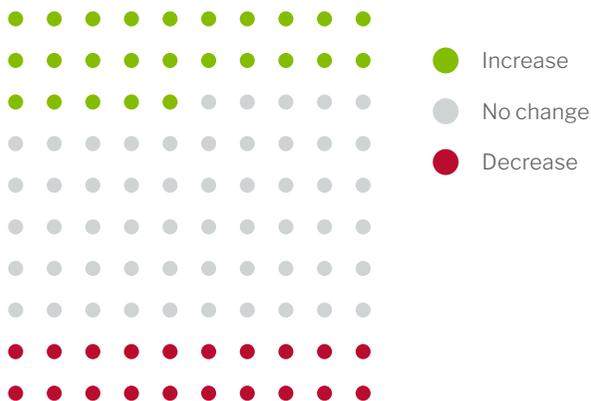
Source: BVA BDRC





Student demand since start of Covid-19 pandemic - as reported by landlords

Source: BVA BDRC



Covid-19

Seemingly undeterred by the threat posed by Covid-19 and the impact this may have on the teaching and social aspects of student life, 2021 saw another record year for applications with UCAS reporting an annual rise of 8.4%. This was driven by a climb of 17.1% in the number of applicants from countries outside of the EU.

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Paragon research has revealed that this may have translated to tenant numbers, with 25% of landlords reporting an increase in student tenant demand since the start of the pandemic and 55% seeing no change, while the remaining 20% feel demand has decreased.

Interestingly, the pandemic may have actually had a positive impact on what type of courses students are opting for – 2021 has seen just under 66,000 people of

all ages apply to study nursing. This represents a 19% increase on 2020 numbers, while a 23% increase was registered in medicine and dentistry places.

Rising, reliable and predictable demand

Although we have seen how student numbers can be affected by the macro environment, particularly Government policy, 63% of landlords who were asked what appeals to them about letting to students stated reliable demand, making it the third most popular choice.

This may be because, as we've seen, while there have been some dips in university applications, the trajectory of student numbers is one that travels upwards overall. In addition, this section of the buy-to-let market benefits from the predictability of seasonal demand, with tenancies commencing before the first academic semester in September and lasting for a period of 9-12 months.



Non-student demand in university locations

Although this report focuses on student lets, it is interesting to recognise the opportunities that also exist in providing homes for those associated to universities for means other than study.

Universities are often among the largest local employers, with 19 UK institutions directly employing more than 5,000 people, and 10 of these accounting for at least 5% of all jobs in their local authority area, according to research undertaken by Hatch Regeneris for the University and College Union.

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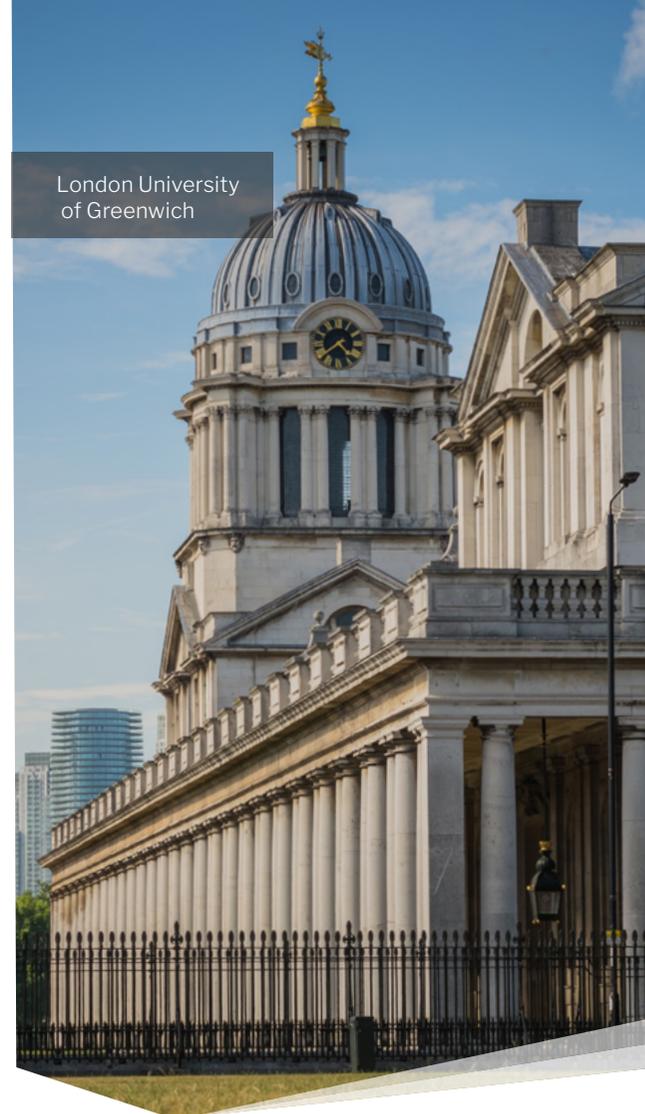
Although we have seen that single university towns and cities often perform best in terms of yields, employment is boosted to a greater degree in locations with more than one institution.

Looking at universities in 25 cities, Hatch Regeneris analysed the number of jobs they support in a bid to assess how they support local economies.

Researchers estimated that 150,000 jobs in London, 29,000 in Edinburgh, 22,000 in both Glasgow and Manchester, 18,000 in Birmingham and 15,000 in Cardiff are dependent directly or indirectly on their universities. This suggests that in addition to supporting PRS demand for students, landlords managing properties in towns and cities with universities could also provide homes for tenants such as young professionals and families with children.

Employment is boosted to a greater degree in locations with more than one institution

London University of Greenwich





Case Study: Linda Warren

Linda, a landlord with 35 years' experience, has owned up to 30 properties and currently lets to students studying at the University of East Anglia (UEA)

Despite the perceived risks associated with letting to students, landlord Linda Warren says she has no concerns. This is reflected in Linda's investment strategy because all of the properties in the portfolio she owns, some with her sister, are let to students.

Linda said: "I think that some landlords view letting to students as being a bit risky, primarily due to the likelihood of damage to the property or furnishings. While I imagine that there are examples of this, it's not something I've encountered outside of what would be considered normal wear and tear. As someone who doesn't use a letting agent to manage my properties, I have first-hand experience of student tenants and I find them to be respectful, we've had good relationships."

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Linda, a retiree who lives in Norwich, has managed a lettings business alongside her husband for 35 years. In this time, the couple has owned up to 30 properties which they have let to students studying at the

University of East Anglia (UEA). They currently provide homes to both international and domestic students across nine properties.

When asked what appeals to her about letting to students, Linda says it is the reliable tenant demand, something she feels is increasing a little.

She added: "I feel that as long as the properties are all situated within 30-minute walking distance from the university, there is a marvellous potential for letting."

As a result, Linda thinks that she may purchase a property to let to students in the next 12 months, targeting HMOs that are close to the university site, with good parking and Wi-Fi, as well as communal living spaces.





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