

Purpose Built Student Accommodation -what now?

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The purpose-built student accommodation market was estimated to be worth more than £50bn by Knight Frank ahead of the Covid-19 outbreak, but the sector now faces significant challenges.

The sector had seen rapid growth as students and in particular international students demanded more from their accommodation than the mainstream private letting market could offer and due to a general undersupply in the sector. Purpose built student accommodation, was, as the name suggested, designed and built specifically for modern students' needs, both in terms of prime proximity to transport links and universities, but also in terms of the interior design, ensuite or studio rooms and amenities such as gyms, cinemas, game rooms and large communal spaces. Given the number of students in the UK and the low vacancy rates seen in well operated schemes, it had become an attractive proposition for commercial lenders and investors.

Financial implications

Now following government guidance on managing the spread of Covid-19, universities are shut and it is not clear when they will reopen. In the short term, students in the main have vacated their accommodation to return home which has left the headache for both operators and students as to what to do about the existing tenancy agreements. Contractually students are likely to still be liable to pay rent and have no ability to terminate the tenancy, but with no likelihood of universities opening for the summer term, students are often seeking to terminate the tenancy or unwilling to pay further rent. It is likely that non-payment of rent will be increasingly common place. The rental payment profile under the tenancy agreement is likely to affect whether rent is paid. Students are more likely not to pay rent that falls due monthly or termly under tenancy agreements, than seek a refund of rent already paid upfront for the year. Operators are now faced with a real financial headache.

The government is urging operators to consider fairness over rent, but has resisted any specific intervention despite lobbying from the National Union of Students.

Students will continue to receive their maintenance loans, but income from part-time work, which they may have used to supplement their income may no longer be available and financial support from parents may also be under pressure. However, if rent is not paid then where does that leave operators who have their own financial obligations and cashflow requirements in order to maintain the accommodation?

Reputational risks

Operators will need to consider how to mitigate both the financial risk of potentially breaching financial covenants under their financing agreements and the reputational risk of continuing to charge rent. Some operators have already taken the decision not charge rent for the remainder of the current academic year. With increasing pressure from the National Union of Students for rent to be waived, it seems that operators will be in the spotlight. Similarly, lenders will be under pressure to act reasonably and to work in partnership with operators to support them at this unprecedented time. Communication and a collaborative approach are likely to be the best solution.

Occupancy rates

It is likely that until a vaccine is found for Covid-19, health concerns may have an impact on occupancy rates for the next 2020/1 academic year. It is too early for universities to be able to confirm their position on courses due to start in September. However, there is now speculation that face-to-face teaching may not commence until January 2021. Some operators are already reporting an increase in prospective student deferrals due to the uncertainty, particularly from international students. However, those with a more domestic occupancy are reporting a steady number of rebookings for the next academic year. The exact breakdown of tenants before the crisis, as well as an operator's ability to attract more postgraduate or domestic undergraduates, is likely to be a key factor for navigating the post Covid-19 storm.

Change of use

There are suggestions that purpose-built student accommodation could be repurposed into serviced apartments or accommodation aimed at young professionals, but given the specialist nature of the purpose-built student accommodation sector, patience may pay dividends for all parties in the long-term. The purpose-built student accommodation sector was built on strong fundamentals and will have its day once more.

All stakeholders in the purpose-built student accommodation market, particularly the lenders and investors, need to have patience. Owners need a strong platform from which to operate, which includes having strong relationships and good lines of communication with their various stakeholders and sufficient cash reserves to withstand the undoubted shortfall in rental income.

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