



LIFE AFTER LOCKDOWN THE HMO MARKET

ARSH ELLAHI

Hi Arsh,
I am a student HMO landlord, and I'm worried about the next few months and potentially academic year as students are dropping out due to COVID-19.

Could you suggest anything to help?
Mr L, Market Drayton

What an interesting question and I am sure many landlords with student housing are worried about this too.

2020 is certainly a year that will go down in history, because it is the year that made the world stand still.

Historically, student landlords would start advertising their properties as early as February with the hope of securing a group of students to take the property on from July or August for the next academic year.

Depending how you feel about students, student HMOs can either be an absolute dream or a nightmare to deal with.

Here are my reasons why:

PROS

- Students are paid every term, normally via student loans and therefore they pay in advance
- Students are (generally) protected by their parents/guardians acting as a guarantor, therefore the void and debt level is also very low
- 10 months' guaranteed income
- Students generally pay all the bills between them and are exempt from paying council tax

CONS

- Two months' void every year
- Wear and tear on the property as students can be a little heavy handed
- Student parties ... say no more



As a result of COVID-19 and social distancing, there has been a massive change to the educational system. A level results are now being predicted on previous coursework and assessments instead of written exams. Ultimately, this now puts pressures on universities who were reliant on this information to make a judgment on whether they wish to accept the student.

For the new academic year, some universities are making at least the first term (September 2020–January 2021) mandatory remote learning and therefore students won't need to attend university. As a result, thousands of university students have held off finding a place to live as they continue to live at home and save costs. If they were to secure a property from summer 2020, they would be paying rent for a property that they would not be using. As I write this article in June 2020, I have seen many student landlords having vacancies as a result.

Having spoken to a few universities, they have confirmed that attendance levels for this academic year have dropped due to COVID-19. Students have decided to either retake their A level year to get their desired exam grade, or have taken a gap year so they can immerse themselves into full student life by going in September 2021.

This will ultimately have an effect on universities as they suffer lower student numbers in 2020, but may also have a negative impact in 2021 as too many people may try and attend.

Student landlords as a result, also face the same issue. Their previous security of having students in every year will be tested as they fail to their properties due to lack of demand. A quick search on Spareroom in certain university locations like Sunderland, Liverpool, Manchester and Birmingham show a number of empty HMOs within close proximity of universities. It is a clear indicator that they are concerned for this year, and are now employing Plan B.

PLAN B

The way I see it, Plan B is to let student HMOs to workers and professionals for the next 12 months, while waiting to see how the student market has changed for the next academic year. At present, landlords have a vacant property that is costing them a mortgage, utilities, Council Tax and so on. Therefore they need an income to service the outgoing.

SOME SOLUTIONS ...

Some landlords may want to entice students by offering an incentive to letting and securing their house from July 2020. The incentive could be a discount on the rent from July 2020–January 2021 based on the fact that they probably won't be living there.

This would be a benefit for both parties – the landlord would still have an occupied property (albeit at a slightly reduced income) and the students would benefit from less rent and the security of knowing they have a place to live with the universities fully reopen.

Another solution is to rent to professionals from July 2020 to January 2021, which is six months (give or take a few weeks).

By doing this, the landlord doesn't have all their eggs in the student basket and has safeguarded their investment. The landlord can then reassess at Christmas 2020 and decide whether they want to continue letting their property to professionals at the full rate (minus the bills) and the certainty of an occupied property.

However, if the the student market has picked up by then, the landlord would have the freedom to rent the house to students from January onwards, and normal service would resume.

The final option is to sell the property. Selling HMOs has become quite popular, especially if the landlord is a little older. For some, COVID-19 plus Section 24 plus Brexit are

the final nails in the coffin. I have seen numerous vacant HMOs come up for sale after the landlord has decided enough is enough. Unfortunately, as we are certain to fall into a recession, you may not get a great price, as property prices are predicted to fall. However, it does create an opportunity for the property investors who are looking to purchase some property below market value.

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So there you have it ... 2020 will no doubt be challenging for all property investors in all categories, but the strong and strategic will survive. I have tried to outline many possibilities and solutions, which I hope you will find of interest.

If you have a question you would like me to answer in next month's article, please email me: arsh@arshellahi.com and I'll aim to answer as many as I can over the coming months.

CONTACT

As always, you can connect with me on my social feeds by finding me on:

- Mailing List www.arshellahi.com/deals
- Facebook Profile www.facebook.com/arsh.ellahi.1
- Facebook Page www.facebook.com/ArshEllahi123
- Instagram www.instagram.com/arshellahi
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