THE RENTERS' RIGHTS ACT 2025: KEY IMPLICATIONS FOR LIVING-SECTOR LENDERS

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UK Finance Alert

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The Renters' Rights Act 2025 (the Act), which received Royal Assent in October 2025, introduces a phased but fundamental restructuring of the private rented sector (PRS) in England, with core tenancy reforms coming into force from 1 May 2026. The changes aim to strengthen tenant protections, reshape rent-setting practices and modernise regulatory oversight.

While much commentary focuses on landlords and operators, the implications for lenders financing living-sector assets are equally significant. The reforms may affect underwriting assumptions, operating risk and the approach taken in real estate finance documentation. This note summarises the reforms most relevant to lenders.

CORE REFORMS

Abolition of Assured Shorthold Tenancies; Move to Assured Periodic Tenancies

The Act abolishes assured shorthold tenancies (ASTs) and replaces them with assured periodic tenancies (APTs). Rent periods may not exceed one month, and landlords will no longer be able to grant fixed-term tenancies. Tenants may terminate on two months' notice.

Abolition of Section 21 “No-Fault” Evictions

The Act abolishes section 21 of the Housing Act 1988, forcing landlords seeking vacant possession to establish statutory grounds under the revised section 8/Schedule 2 framework. Lenders and Law of Property Act (LPA) receivers should prepare for longer lead times and require more robust tenancy information from borrowers.

Mortgagee Protection: Retention of Ground 2

The “Sale by mortgagee” possession ground (Ground 2) continues to be available. This allows a lender exercising its power of sale to seek court-sanctioned vacant possession on giving four months' notice. In practice, however, lenders usually appoint LPA receivers rather than exercising their power of sale, in which case Ground 2 will not be available.

Rent Increases Limited to Once Per Year

The Act restricts rent increases to once per year, requiring the use of the statutory section 13 notice procedure. Increases may be challenged by tenants at the First-tier Tribunal. This may lead to income growth becoming slower and more procedurally constrained.

PRS Database and Landlord Redress Mechanisms

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The Act introduces a mandatory national PRS database for landlords and a PRS ombudsman regime with binding redress powers, reinforcing regulatory oversight and local authority enforcement. Failures in borrower compliance may delay or frustrate possession, attract fines or impair asset performance.

Restrictions on Deposits and Advance Rent

The Act limits landlords' ability to request or accept advance rent beyond prescribed limits. The policy aim is to prevent landlords using large up-front payments to screen out tenants. Where advance rent has been used to de-risk lettings, the restriction may increase reliance on affordability checks, guarantors and active credit control.

SECTOR LENS: PURPOSE BUILT STUDENT ACCOMMODATION

Advance rent payments and academic-year fixed terms are key to the operation of purpose-built student accommodation (PBSA) assets. Fortunately for PBSA owners, operators and their lenders, most institutional PBSA assets will, going forward, be exempt from the new APT regime.

Exemptions are provided for university owned/managed accommodation and PBSA providers subject to government-approved codes of practice (the UUK/GuildHE Code for educational establishments and the ANUK/Unipol Codes for private providers). Exempt providers will be able to grant common law tenancies rather than APTs, provided that the accommodation is occupied solely or principally by full-time students. However, the exemption will only apply to new tenancies granted after the Act comes into force on 1 May 2026. Tenancies granted for the 2025/2026 academic year will require active management to mitigate the effects of the Act.

SUMMARY FOR LENDERS

The focus of many institutional lenders in the living sector is on financing purpose-built PRS schemes. As these assets typically trade as stabilised income products, in a distressed scenario lenders generally expect to enforce through the appointment of receivers (over the property itself or the shares in the property-owning company), maintain operations and sell as an income-generating block. Nevertheless, lenders may still require the ability to obtain vacant possession to preserve enforcement optionality, support marketability and manage non-performing tenancies. While the Act makes this more difficult, obtaining vacant possession as a secured lender remains possible.

Aside from the consequences for PRS borrowers for non-compliance with the Act (which, for serious or persistent breaches, can range from fines of up to £40,000 to criminal prosecution) and the reduced saleability of non-compliant PRS assets in an enforcement scenario, non-compliance by PRS borrowers also carries significant reputational risk for lenders who are active in the sector. The Act cannot therefore be ignored by lenders.

Whilst some lenders may seek to address borrower compliance with the Act through specific representations, undertakings or events of default, others may be comfortable relying on standard Loan Market Association “compliance with laws” provisions. It is, however, clear that any conditions precedent or provisions that assume the existence of ASTs, fixed terms or contractual rent reviews will need to be updated. Once operational, lenders may require evidence of PRS database registration as a condition precedent. We also expect the quarterly property monitoring report to come into sharper focus, with enhanced reporting on arrears, rent challenges and possession activity.

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For student accommodation financings, it will be important to establish from the outset whether units fall inside or outside the APT regime. Given the availability of the PBSA exemption, it seems likely that the identity and reputation of the PBSA operating company will become increasingly important from a credit perspective and that lenders will seek to include covenants requiring compliance with government-approved codes.

In summary, the Act does not undermine the investment case for PRS assets, but it changes the rules, placing greater emphasis on process, compliance and evidential rigour.

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