

What do parents buying a property for their children's student accommodation need to know? Would they be better off using bespoke student accommodation instead?



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About this report

This report has been created thanks to the support of the TDS Charitable Foundation. The Foundation “*works to advance education about housing rights and obligations in general*”.

In particular, the charity focuses on:

- Best practice in the management of private rented housing;
- Legal rights and obligations of those involved in the provision or management of private rented housing;
- Using alternative dispute resolution for more efficient and effective resolution of disputes between landlords and tenants.

The charity has provided a grant to Kate Faulkner who runs Designs on Property Ltd (designsonproperty.co.uk), to produce a series of reports and surveys on the private rented sector which are designed to increase knowledge on the private rented sector in England and to promote best practice.

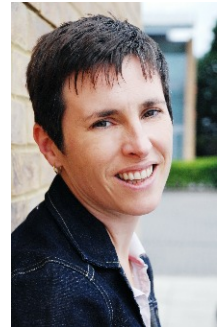
Opinions expressed in this report are those of Kate Faulkner and do not necessarily reflect the views of Tenancy Deposit Scheme (TDS) or The TDS Foundation.



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About the authors

Kate Faulkner Bsc (Econ) MBA CIM DipM was originally a consumer in the residential property market, buying, selling, renovating and renting property for many years. At that time she was a sales and marketing professional working with major brands such as PG Tips.



Having enjoyed working in her spare time in residential property, she went on to set up one of the UK's first property portals prior to the advent of Rightmove, then used her experience to help create on- and off-line tools designed to take the stress out of corporate relocations for employees.

From here she moved to set up the Self-Build and Renovation Centre in Swindon, and subsequently helped build and professionalise a part exchange business. Kate was also a Future Homes Commissioner for RIBA.

After gaining so much experience across the property market, Kate embarked on a mission to improve the way people carry out property projects, especially within the private rented sector. So whether it is banishing cowboy builders and rogue landlords, or helping the public approach a property project as simple as hanging a door or as complex as letting or building their own home, Kate is always on hand, either via her consumer website at Propertychecklists.co.uk or at the property clinics she runs around the UK, to help landlords, tenants, first-time buyer, self-builders, renovators and investors carry out their property projects in the right way, using qualified people and industry experts.

Kate's consultancy, Designs on Property Ltd, provides help and support to companies and organisations that want to communicate better to the public, or to introduce new products and services which help people carry out their property projects successfully, first time around.

She is fanatical that property facts and figures such as prices and rents should be reported correctly in the media, by the industry, and by organisations and policy-makers involved in the property market.

Kate regularly appears in the national and local media, and comments on TV, radio and in regional and national newspapers on property news items of the day. In this way she continues to pursue her chief objective, which is to help ensure the public get an independent, honest view of what's happening in the residential property market.

This report is part of a series of reports and surveys that Kate will be producing thanks to the support of the TDS Charitable Foundation.

The aim of the research provided is to improve the understanding of the private rented sector and to make recommendations on changes which will impact positively on the experience of landlords and tenants.

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Introduction

In 2015-16 the number of students in higher education in the UK reached 2.28 million, of whom undergraduates made up 1.75 million.¹

Much publicity is given to the rising costs facing students, and the debt they will carry into adult life.

With only 19% of university students living in their parental home while studying,² most students will face accommodation and living costs on top of tuition fees of up to £9,250 per year.

The average debt graduates take into adult life is now £49,800, according to the Institute for Fiscal Studies,³ which may be difficult for parents to accept, coming from a generation which had their own university fees paid by the government, and often a maintenance grant on top.

In a Guardian article from October 2016,⁴ Shelly Asquith, vice president of welfare at the National Union of Students (NUS), said the increase in accommodation costs now ranks among students' biggest concerns. This is in the context of a rise of 23% in average weekly rent for student accommodation between 2009/2010 and 2016, according to the Guardian's analysis of figures from the NUS/Unipol accommodation costs survey.

This compares to an average increase of 8% between 2011 and May 2016 in private rent in the UK (source: Index of Private Housing Rental Prices⁵ [IPHRP]) which is actually lower than the overall inflation increase of just under 12% over the same period.⁶

¹ <http://www.universitiesuk.ac.uk>

² <https://www.hesa.ac.uk/data-and-analysis/students/chart-4>

³ <https://www.ifs.org.uk/publications/9964>

⁴ Courtesy of Guardian News & Media Ltd: <https://www.theguardian.com/education/2016/oct/26/cost-of-british-student-housing-has-risen-by-a-quarter-in-seven-years>

⁵ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/previousReleases>

⁶ <https://www.bankofengland.co.uk/monetary-policy/inflation>



Images: © Envirovent; Torsak/Dreamstime.com; creativ ecommonsstockphotos

These increases have occurred at the same time as a striking change in provision of student accommodation. In 2006 82% of the sector was operated by educational institutions, but by 2015-16 this has shrunk to 59%. Between 2011 and 2016, 20 times more studio apartments intended for students were built by private providers.¹

In addition, increases in costs for student accommodation do not automatically mean decent living conditions. Even university accommodation can be of poor and insanitary quality, with students from the University of Sussex describing the King's Road halls in Brighton in December 2017 as "dilapidated and insanitary", reporting rodent infestations, black mould, a lack of hot water, and faulty showers, toilets and kitchen appliances.²

Given this background, parents who have the financial wherewithal – or substantial equity in their own home – may consider buying property for at least the duration of their children's undergraduate studies, with the aim of renting out of the spare bedrooms to fund the mortgage.

This study outlines what parents should know before buying and letting a property for their children as students and gives a summary of the advantages and disadvantages of buying and letting a property, compared to undergraduate students simply renting student accommodation during their university studies.

¹ https://www.nus.org.uk/PageFiles/12238/Unipol_NUS_AccommodationCostsSurvey2015.pdf

² https://www.theargus.co.uk/news/local/15772700.University_rent_strikers_to_stage_protest_over_39_squalid_39_halls_conditions/



Image: © creativcommonsstockphotos | Dreamstime.com

How much does it cost to gain a degree?

According to the Institute for Fiscal Studies, the average debt accrued by a student starting a three-year course in 2017 is £49,800, made up of tuition fees and maintenance loans.¹

Fees

In England, most universities and colleges can charge a maximum of £9,250 per year for degree courses. This is currently frozen until 2019. A three-year course can therefore cost £27,750. For a first degree, a loan is available for the full amount and is paid directly to the place of study.

Tuition fees by region for courses starting in 2018				
Student's home region	Studying in England	Studying in Scotland	Studying in Wales	Studying in Northern Ireland
England	Up to £9,250	Up to £9,250	Up to £9,000	Up to £9,250
Scotland	Up to £9,250	No fee	Up to £9,000	Up to £9,250
Wales	Up to £9,250	Up to £9,250	Up to £9,000	Up to £9,250
Northern Ireland	Up to £9,250	Up to £9,250	Up to £9,000	Up to £4,160
EU	Up to £9,250	No fee	Up to £9,000	Up to £4,160
Other international	Variable	Variable	Variable	Variable

Source: UCAS²

¹ <https://www.ifs.org.uk/publications/9964>

² <https://www.ucas.com/ucas/undergraduate/finance-and-support/undergraduate-tuition-fees-and-student-loans>

Costs of living

On top of this, students may apply for maintenance loans, which are means-tested based on their parents' income.

Source: Gov.uk¹

Full-time student	2017 to 2018 academic year	2018 to 2019 academic year
Living at home	Up to £7,097	Up to £7,324
Living away from home, outside London	Up to £8,430	Up to £8,700
Living away from home, in London	Up to £11,002	Up to £11,354
You spend a year of a UK course studying abroad	Up to £9,654	Up to £9,963

Some examples of maintenance loans

Full-time study, living away from home, outside of London²:

Parents' combined income	Maintenance loan available (per year)
£20,000	£8,700 (max. available)
£35,000	£7,452
£50,000	£5,579
£75,000	£4,054 (min. available)

Higher loans – up to a maximum of £11,354 – are available for those studying in London, but not for other expensive cities such as Oxford.

¹ <https://www.gov.uk/student-finance/new-fulltime-students>

² <https://www.gov.uk/student-finance-calculator>

Paying it back

For students graduating after April 2018, repayments begin when the graduate starts earning £25,000 per year. If their salary drops below this level, the payments stop.

Borrowers pay back 9% of any income above the threshold. The payments are deducted from their salary, along with tax, National Insurance and any pension contributions.

Interest is also payable on the loan but, after 30 years, the debt is written off.

For this reason, only the highest earners are likely to clear their debt and, according to a 2014 article in the Daily Telegraph, six in 10 graduates will have their debt written off.¹

Having debt does not affect a graduate's credit rating. However, if they apply for a mortgage, their loan repayments will be considered as part of the affordability checks.

Your annual income before tax	How much you repay per month now	How much you'll repay per month from 6 April
£21,000	£0	£0
£23,500	£18	£0
£25,000	£29	£0
£27,000	£45	£15
£30,000	£67	£37
£33,000	£90	£60
£35,000	£104	£75
£40,000	£142	£112

Source: Student Loans Company²

¹ <http://www.telegraph.co.uk/education/educationnews/10747315/Six-in-10-students-will-have-their-debts-written-off.html>

² <https://www.slc.co.uk/students-and-customers/loan-repayment/interest-rate-and-threshold-changes/threshold-changes.aspx>



Image: © Natalie Shmeleva/Dreamstime.com

Does student finance cover living costs?

Maintenance loans are means-tested according to parents' income, and therefore assume that if parents can afford it, they will provide a level of financial support.

If the parents have a good income, the student may find they are only entitled to receive the minimum loan of £4,054. Even with the cheapest accommodation at the University of Derby,¹ although this just covers the rent, it only leaves £8.85 a week for living costs.

This is backed up by the 2018 accommodation survey by Save the Student², which found that the national average for rent is £130.59 per week, while the average maintenance loan works out at £138.85 per week leaving only of £8.26 per week (£33.04 per month) for living costs.

As a result, many students are faced with relying on parental support or have to balance their studies with part-time work just to meet their day-to-day living costs. A 2015 study by insurer Endsleigh³ showed that 77% of students now supplement their income with part-time work.

The fact that the maintenance loan barely covers students' rent is shocking. Students are forced to get a job at the expense of their studies, or rely on their parents who may struggle to support them. It's quite clear that the sheer cost of just having a roof over their heads is putting a huge strain on students across the country, exacerbating mental health issues and the temptation to drop out of university.

Jake Butler, student money expert at Save The Student

¹ Princess Alice Court, University of Derby: <https://www.derby.ac.uk/campus/accommodation/apply/2018-19-prices/>

² <https://www.savethestudent.org/accommodation/national-student-accommodation-survey-2018.html>

³ <https://www.endsleigh.co.uk/press-releases/10-august-2015/>

Renting bespoke student accommodation

Students choosing university/bespoke accommodation get the full experience of living independently, and have freedom to gain life skills that do not come from living at home while studying.

As with the wider property market, prices vary around the country and, just as with property sale prices, averages can be misleading. The headline prices quoted in an NUS survey of student rents in 2015-16¹ revealed the average weekly rent to be £146.73 for purpose-built student accommodation and £168.94 for private accommodation.

But when you drill down into the table of figures, the average weekly price is £91 for a standard room outside London, and £144 for a standard room in Greater London.

In addition, the survey also states that accommodation students experience has improved: *“Rooms with their own private bathroom are now the norm and the provision of what would have been thought of as ‘traditional’ catered halls with shared bathrooms has dwindled to a residual level.”*



Image: © Monkeybusinessimages/Dreamstime.com

¹ https://www.nus.org.uk/PageFiles/12238/Unipol_NUS_AccommodationCostsSurvey2015.pdf

However, all of the “cheapest halls” prices in the table below are for rooms in halls with shared bathrooms, which formed the majority of student accommodation in the cities considered.¹

Accommodation costs

Figures quoted are per person, per week for 2018 (single accommodation, bills included)

University/city	Private renting	Cheapest university halls	Luxury bespoke private	Premium university halls
Derby	£80-£100*	£105.00	From £130	£139.02
Nottingham Trent	£90-£115	£94.64	From £100-£135	£155.05
Nottingham	£65-£90	£105.91	From £100-£135	£160.51
Birmingham	£80-£106	£86.78	From £155	£136.50
Bath	£106	£106	£170	£155

*University accredited

Sources:

<https://www.derby.ac.uk/campus/accommodation/apply/2018-19-prices/>

<https://www.collegiate-ac.com/uk-student-accommodation/derby/roman-house/rooms-rent>

<https://www.derbystudentpad.co.uk/Property/536936>

https://www.ntu.ac.uk/_data/assets/pdf_file/0027/157194/3167_Accommodation-Guide-2018_webv.pdf

<http://www.almerostudentmansions.com/properties/nottingham/>

<http://www.nottingham.ac.uk/accommodation/prospectivestudents/undergraduates/yourcontract.aspx>

<http://nottingham.ac.uk/accommodation/accommodationoptions/privatesector/privatehousingcosts.aspx>

<https://www.birmingham.ac.uk/Documents/students/accommodation/Accommodation-Brochure/Living-Brochure-2018-19.pdf>

<http://www.prestigestudentliving.com/birmingham>

<http://homes.bcsu.com/propertysearch?Area=&MinRent=0&MaxRent=0&MaxBeds=rp&TenType=&StudentOrOther=Any&Branch={0004-87be-f6fb-7d1c}&origin=qo>

<http://www.crm-students.com/crm-accommodation/bath/twerton-mill/>

<http://www.rightmove.co.uk/student-accommodation/property-71865905.html>

The most expensive rents are to be found in swanky private halls, although – at around £146/wk – they’re just a tenner a week more than average uni rents.

National Student Accommodation Survey 2017 – Results, Save The Student

¹ https://www.unipol.org.uk/documents/publications/unipol_nus_accommodationcostssurvey2015.aspx

Is the accommodation on offer better or worse than parents can provide?

Universities in 2016 provided almost 25% less student accommodation than in 2006, leaving a gap which private companies are increasingly rushing to fill. These command high rents but do not always provide accompanying quality of accommodation and service, according to the NUS.¹

In 2006 82% of the sector was operated by educational institutions but by 2015-16 this has shrunk to 59%.

Private providers have put on considerable growth with a 42% rise in the number of bed spaces provided in the years 2014-15 to 2015-16. Whilst institutions still remain the largest supplier of accommodation, their provision of bed spaces grew by just one per cent in the last year. If this trend continues the private sector will be the majority supplier by the time of the next survey in summer 2018.

*The changing shape of purpose-built student accommodation,
NUS Accommodation Costs Survey, 2014-16*

Availability

Accommodation availability seems to differ widely around the country, so parents considering buying a property for their children should first make sure they understand what is available, and costs involved, and not assume it will be difficult to find accommodation or indeed cheaper to provide it themselves.

In January 2018, The Scotsman reported “a severe accommodation shortage” for students on campus.² In contrast, the student housing charity Unipol stated that, in 2017, there was expected to be a surplus of 3,500 bed spaces for students in Leeds.³

Standards

Parents should also be aware that choosing expensive, university-managed accommodation does not automatically guarantee decent quality, so checking halls of residence first to see what they are like should also be another important factor in determining whether to buy a property or let students rent.

¹ https://www.nus.org.uk/PageFiles/12238/Unipol_NUS_AccommodationCostsSurvey2015.pdf

² <https://www.scotsman.com/news/politics/scotland-faces-severe-accommodation-shortage-for-university-students-on-campus-1-4664491>

³ <http://www.unipol.org.uk/advice/students/everything-you-need-to-know/market-conditions>

The 2017 survey of university accommodation carried out by the website Save The Student¹ revealed that 65% of students polled had experienced serious accommodation issues, including gas leaks, severe damp and broken plumbing. These issues were reported even in university accommodation.

We hear from stressed out students with housing issues pretty much daily, but far too many landlords and even university accommodation providers will just shrug off major issues.

Jake Butler, Editor, Save The Student

Results of the 2018 survey² were better, but one in three students still wait for up to a month for maintenance issues to be resolved, and 7% (down from 25%) said problems were never fixed.

In December 2017, University of Sussex students voted for a rent strike in protest about the “dilapidated and unsanitary” conditions at the Kings Road Halls, in Brighton, after one hall was flooded with sewage and two student residents reported infestations of rats.³

A group of students from University College, London received £100,000 in compensation after campaigning for months against noisy demolition works, rat infestations and generally unsanitary conditions which they said made it impossible to study or sleep.⁴

However, it is worth noting that these are unusually extreme cases and universities are obliged to sign up to one of three codes of practice:

1. Universities UK/Guild HE Code of Practice for the Management of Student Housing (also known as the Student Accommodation Code)
2. Accreditation Network UK (ANUK)/Unipol Code of Standards for Larger Residential Developments for student accommodation managed and controlled by educational establishments
3. ANUK/Unipol Code of Standards for Larger Developments for student accommodation not managed and controlled by educational establishments.

Universities that provide halls of residence must belong to a government approved code or be licensed by the local authority.

The codes aim to ensure that you have safe, good quality accommodation.

Citizens' Advice

¹ <https://www.savethestudent.org/accommodation/national-student-accommodation-survey-2017.html>

² <https://www.savethestudent.org/accommodation/national-student-accommodation-survey-2018.html>

³ <http://www.theargus.co.uk/news/local/15772700>

⁴ <https://www.thedailytouch.com/sally-bracegirdle/these-ucl-students-are-receiving-compensation-for-unacceptable-student-accommodation/>

The Student Accommodation Code, for example, includes six key criteria:

- A healthy, safe environment
- Timely repairs and maintenance
- A clean, pleasant living environment
- A formal, contractual relationship with your landlord
- Access to health and wellbeing services
- A living environment free from anti-social behaviour.

Research is therefore key for any parent making a decision about whether it is worth their while purchasing a property in their child's university town or city. If the accommodation already on offer is decent and represents good value, they may wish to consider investing their money elsewhere. Students and parents are advised to give as much thought to the accommodation as the courses available when shortlisting their university choices.



Image: © Forca/Dreamstime.com; Michal Popiel/Dreamstime.com; Marco Scisetti/Dreamstime.com

Parents buying university accommodation for their children

According to a 2016 report by Post Office Money Mortgages,¹ figures released in 2016, at that time 730,000 parents were renting to their offspring and they predicted that figure to double to 1.4million. However, these figures cover all “parent landlords” and not just those renting to children while they were studying at university.

David Blake, principal mortgage adviser at Which? Mortgage Advisers, says the practice of parents buying property for their student offspring to live in while at university is “relatively common” but, because the ways people raise the money vary so much, it is difficult to find accurate figures. He outlines some of the most popular financing methods later in this report.

Ownership of the property

There are several options open to parents and students, which are described in this section. The most suitable option will depend on many factors, so parents would be wise to seek the advice of an independent financial adviser, mortgage broker and solicitor.

Student owns the property

A handful of lenders, including Loughborough Building Society, are now offering tailored mortgages for parents wanting to help their student offspring onto the property ladder.^{2 3}

These enable students to buy a property with 100% finance and support from a parent, step-parent or grandparent. Rent from housemates is used to pay the monthly bill.

The loans can be secured with a 20% deposit or, if this is not possible, are secured on the parents’ property and/or savings.

“Borrowing to fund a purchase for your child at university involves taking out a specialist mortgage, which only a few lenders provide. Products vary between lenders, but generally they allow for the child to live in the property, while two or perhaps three rooms are let out under licence to other tenants. Depending on individual circumstances, either the mortgage can be applied for solely by the child, or jointly by both the parent and child. However, there are likely to be certain restrictions in terms of the upper limit that can be borrowed under such a mortgage, together with specific criteria in terms of the property’s proximity to the campus and the fact that it is the child’s main residence for the duration of their time at university.”

Brian Murphy, Head of Lending for Mortgage Advice Bureau

¹ <http://corporate.postoffice.co.uk/our-media-centre#/pressreleases/pa-rentals-number-of-parent-landlords-on-the-rise-1598119>

² <https://www.theloughborough.co.uk/mortgages/buy-for-uni%20>

³ <https://www.bathbuildingsociety.co.uk/mortgages/mortgage-products-for-individuals/buy-for-uni>

As the property is mortgaged in the name of the student only, the parents/family members are not named on the deeds and have no legal right to the property.

We want to offer families who have students in further education the opportunity to be in a home they own and not rented accommodation. It helps to address real practical issues with high rents and sometimes difficult landlords. It's our aim to help students take charge of their university and college life and focus on their studies while getting onto the property ladder.

It has a wide appeal to those from a variety of backgrounds and is not just for professional classes. So from grandparents who want to help their grandchildren or parents their children it provides a means of using the equity in their existing homes or spare cash to help stand as collateral behind the mortgage.

A great aspect of our offering is that unlike conventional mortgages, the supporting family members' names will not appear on the mortgage. Instead they act as a guarantor meaning that the student will be the sole owner of the house which could help them in later life when they go on to buy their next property.

We designed our Buy for Uni mortgage as part of a wider range of mortgage products that help families from a variety of backgrounds support the next generation with their housing needs. This means that those who are at the start of their careers can be helped by family members in a tangible way especially when property prices would be out of their reach just based on their earnings alone. Since launch these mortgages have proven very popular, in fact they are among the highest level of enquiries we receive.

Gary Brebner, Chief Executive, Loughborough Building Society

In a family offset mortgage arrangement, loan interest is reduced via interest on savings in an account parallel to the mortgage account, and the child buying the property is only assisted by the savings account interest.

Tax implications

- If the property is in the student's name only, stamp duty is not be payable on properties under £300,000 in England as they are a first-time buyer.
- A homeowner can earn up to £7,500 a year tax free by renting out a spare room under the Government's Rent a Room scheme, although mortgage lender approval is required.¹
- Even renting outside of the Rent a Room scheme, if they have no other income, they still have their personal tax allowance of £11,500 (£11,850 after April 2018).

¹ <https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme>

Other things to consider

- Rental income needs to be able to cover the mortgage repayments and household bills, as the latter are often included in the student's rent.
- If the loan is secured on the parents' savings, they are unable to touch this money, although it will accrue interest.
- If the student defaults on the mortgage, the supporting parents/family members become liable. They must make the payments or the money is taken from their savings. If the loan is secured on their own property, their home is ultimately at risk and it may affect their future borrowing ability. This is particularly important if the child decides the course is not suitable for them and leaves.
- Undergraduates may not fully understand what they are signing up to and may not be aware of hidden costs such as deposits, and agents' and surveyors' fees, even if monthly payments look attractive compared to payments to rent a property.
- Interest rates may be higher than normal for a first-time buyer, even with parental security.
- The loan-to-value ratio needs to be at around 75%. What this means in practice, according to Steve Matthews, head of mortgages at Bath Building Society, is that applicants tend to come from middle-class, quite well-off families. It is possible for students from less wealthy families to get a mortgage under these conditions, but considerably less likely.

Case study: student buyer

Having the opportunity to invest in a property at this early age not only meant that I wouldn't have to spend most of my student loan on rent but it also gave me the chance to learn the processes involved in buying and maintaining a house; skills that may help me when I end up buying my next home! By owning the property, it encourages me to take pride in where I live and to keep it in a homely state rather than your average student house, something my friends always comment on whenever they see the house for the first time. I also have the benefit of renting the other rooms to friends, which easily covers the mortgage payments, so by the time I've finished my three-year university course, I will have paid off some of the mortgage without having to contribute myself.

Natalie Tseu, who bought using Bath Building Society's Buy for Uni mortgage

We worked hard to pay off our mortgage as early as we could so when I lost both my parents early I was keen to help my children onto the housing ladder. I thought it was a nice way for my parents to support their grandchildren, something I knew they would love to have done, and way for my children to have something to remember their grandparents by.

Helen Barker, Natalie's mum

Parents and student share ownership

Ownership can be shared between parent(s) and student, which means the parents' incomes are considered by the lender.

Purchasing as tenants in common (rather than a joint tenancy) allows the size of each party's share in the property to be defined (eg the parents may own 25% to represent the deposit, while the student owns the remainder). It also means each party can leave their share to anyone they like in their will; with a joint tenancy the property automatically passes to the surviving owner.

There are several implications of parents and student children sharing ownership. The child may not actually be old enough to apply for a credit or their credit history may be poor. Even though the parents will probably be paying the mortgage, in the event of default it will affect the child's credit file which could cause them problems in the future. You can purchase with a child, however it would be treated as a second home for the parent so there would be stamp duty issues to consider and possible tax implications on any future sale.

Jane King, Mortgage Adviser, Ash-Ridge Private Finance

Tax implications

- The student will miss out on the first-time buyer stamp duty exemption due to the parents being part-owners.
- Due to the property being classed as a 'second home' for the parent, an additional 3% stamp duty will be payable across the full purchase price.

How stamp duty is calculated for a £150,000 property

(including second home surcharge)

3% on the first £125,000	£3,750
5% on the amount between £125,000 and £150,000	£1,250
Total payable:	£5,000

How stamp duty is calculated for a £300,000 property

(including second home surcharge)

3% on the first £125,000	£3,750
5% on the amount between £125,000 and £250,000	£6,250
8% on the amount between £250,000 and £300,000	£4,000
Total payable:	£14,000

- On selling the property, the parents – who presumably have not lived there – become liable for Capital Gains Tax, if the capital growth exceeds their allowance
- Rent a room relief can only be claimed on the portion of the rent equal to the portion owned by the residing student.

If the property is owned and split 50:50, any rental income would be allocated in the same way, ie 50% to each owner. The student may claim rent a room relief, but the non-residing parent would not be eligible for the rent a room scheme, instead treating the income as standard income from property.

There may be opportunities to change the split from 50:50 to a more favourable split where the property is jointly owned. This is often the case where the parent(s) are in full-time employment but the student has little or no income. Buyers are recommended to seek advice here.

Michael Wright, of RITA4Rent, landlord taxation specialists

Other things to consider

- The parents' home is still at risk if the mortgage on the student property falls into arrears.
- If spare rooms are let out on an Assured Shorthold Tenancy, both the parents and student, as owners, become landlords, with all the accompanying responsibilities and tax liabilities. See section [Buying a property and becoming a landlord](#).
- The parents' credit score will become linked with their child's, which could affect their ability to get credit in the future.



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Case study: student and parent share ownership

A mother of a nursing student solved an accommodation issue by purchasing a home with her daughter, as tenants in common.

The daughter spent her first year at the University of Birmingham in halls, and her second sharing private accommodation with three friends. When two friends decided to move out to share with their partners for their third year of study, the remaining two students looked for a smaller house or flat together.

When this proved difficult, the daughter suggested to her mother that they buy a property. As a student nurse, she is confident that there will be employment opportunities for her in the city after graduating and she plans to remain there.

The possibility of a purchase was born out of difficult circumstances. The mother was widowed a few years earlier so had capital available and the daughter had a pension from her late father's employer, which counted as income in the eyes of the lender. As the mother had recently been made redundant, it was her pension which provided her with an income.

After seeking independent financial advice, the mother decided that both she and her daughter should be named on the deeds. This would protect her son's part of the capital, which she has temporarily invested into the property, with his knowledge and permission, and also allow her daughter to build up her credit rating by making regular mortgage payments. The mortgage is portable, so the daughter can take it with her to a different property in the future, should she wish to.

The daughter takes full responsibility for the mortgage payments and rents a room to her friend under the Rent a Room scheme. As a resident landlord, she has to follow fewer rules and regulations which apply to those renting through an Assured Shorthold Tenancy.

So far there have been no problems affecting the friendship. The tenant is apparently "the tidy one" and more likely to "lay down the law" than the landlord herself, and both parties seem happy with this arrangement.

The only maintenance issue so far has been a broken down boiler but, living only just over an hour away, the mother is able to get there easily to help out.

Words of advice from the mother:

- Take advice from an independent financial adviser
- Think very carefully about the long term plans for the family and for the property. My daughter may stay in Birmingham but whether this is the right property for her in the long term, we don't know.
- I made sure the mortgage was portable, so my daughter could take it with her to another property in future, if she wishes to. It was more expensive but I felt it would be better in the long run.
- Get it right legally, make sure you know who owns the property and what happens if you die as it affects where your child lives, as well as any other siblings.
- Understand the tax implications and how ownership affects what you can claim from an income and relief perspective.

Parent purchases property in their own name

Parents may consider buying a property in their own name for their student son or daughter to occupy, rent-free, with the option of letting out any spare bedrooms to other students.

This gives the student no claim to the property; they are merely a tenant in a property which just happens to be owned by their parents.

Unless the mortgage is a regulated contract you cannot let an investment property to a close family member. You can use a regulated mortgage contract but there are very few lenders that offer them. It may be possible for parents to purchase the property as a 'second home' and then allow the student to live there.

Jane King, Mortgage Adviser, Ash-Ridge Private Finance

Financing a purchase

David Blake, principal mortgage adviser at Which? Mortgage Advisers, outlined some of the ways parents could finance a property purchase:

USE CASH FROM SAVINGS

Pros: No need for a mortgage, buyer is in a strong position to negotiate with seller and act quickly;

Cons: If all of a person's savings are tied up in property, they are wholly reliant on the property market, investing cash potentially reduces returns when compared to gearing, it is harder to mitigate against inflation and may take months or a year or more to sell.

RAISE MONEY AGAINST ANOTHER PROPERTY TO BUY OUTRIGHT

If the buyer has lots of equity in their own home, or a rental property they own, they can use this to remortgage and release some capital to purchase a student property.

Pros: With no loan on the student property, there are no restrictions about renting. Anyone can be named on the deeds. The money can be borrowed ahead of time, so the buyer is ready to purchase as soon as they find a suitable property. This method of borrowing is acceptable to most lenders, so product availability should not be an issue.

Cons: Some people may be wary of remortgaging their home, particularly if they have worked hard to pay off the loan over many years.

RAISE MONEY AGAINST A PROPERTY THEY OWN PLUS OFFSET MORTGAGE

This is similar to the method above but, instead of using the capital released to buy a property outright, the funds are placed into a linked bank account. Instead of earning interest on the savings, this is set against the mortgage.

Pros: As above, there are no renting restrictions and anyone can be named on the deeds. Money can be borrowed in advance. Savings can be accessed if needed. Monthly payments reduce the capital owed more quickly. As no interest is earned on the savings, there is no tax to pay, which can be an advantage for higher earners.

Cons: As above, some people may be reluctant to remortgage their family home.

PURCHASE WITH A REGULATED MORTGAGE

Pros: This allows the property owner to rent to a member of their own family, without breaching their mortgage terms.

Cons: This limits the buyer's options as there are fewer regulated mortgages available.

PURCHASE WITH A RESIDENTIAL MORTGAGE WITH "CONSENT TO LET"

This is a standard residential mortgage with permission from the lender to let the property.

Pros: This can be a cheaper way of borrowing, as specialist mortgages can be more expensive. More products are available.

Cons: The loan amount is based on personal income rather than rental income. Lender is unlikely to agree to this unless you have had the mortgage with them for 6-12 months already and there is a plausible reason for taking this route.

With so many options available, potential buyers are advised to seek the advice of an independent financial adviser, mortgage broker and also seek legal advice about ownership of the property, as what is right for one person may not be the best option for another.

Tax implications

- As with the joint ownership method, there will be the 3% second home stamp duty surcharge to pay
- The parent landlords must declare any income for tax purposes, which may take them into a higher tax bracket. In any case, advice should be sought from a tax expert.
- On selling the property, the parents – who presumably have not lived there – become liable for Capital Gains Tax if the price growth exceeds their allowances.
- If the student has the permission from the parent to sub-let, then the student can do this and claim Rent a Room relief on any rent they receive from a lodger.

Things to consider

- If letting under an Assured Shorthold Tenancy, the parents take on the responsibilities of being landlords, and must comply with all the relevant rules and regulations. See section *Buying a property and becoming a landlord*. If the child occupies the property and sub-lets under license, most of these rules and regulations will not apply.
- The parents' home is still at risk if the mortgage on the student property falls into arrears.
- Parents may wish to consider letting through a self-regulated agent who is a member of ARLA or RICS. They will make sure the property is let legally and abides by the 400+ rules and

regulations. They can also handle any maintenance issues, which is particularly useful if the property is located a long way from the parents' own home.

- Parents may also consider paying a cleaner to visit weekly, to keep the kitchen and bathroom in good condition and help ensure the property's value is maintained.

Case study: Parent owners

Parents can underestimate how difficult it is to rent to people you know.

A couple whose child was due to start university in a Midlands city purchased a three-bedroomed property in time for the start of the first year of the course. The student had friends attending the same university so rented the remaining spare rooms to them.

Unfortunately, one of the friendships broke down and one of the tenants moved out, effectively halving the parents' rental income.

There have been so many problems that the parents have said they may sell the property once their child no longer needs to live there, although the letting agent has pointed out that the problems experienced are far less likely when there is no personal involvement with the tenants, as there is currently.

Problems have included:

- Tenants changing the locks so the letting agency cannot gain access for fire safety checks etc
- Failing to clean the property, and damaging several items
- One tenant deciding to change the tenancy length and payment programme, then falling into arrears.



Image: © Property checklists .co.uk; creativ ecommonsstockphotos/Dreamstime.com; Property checklists .co.uk

Reducing capital gains tax

Capital gains tax (CGT) is not usually payable on the sale of a main home, as it qualifies for Private Residence Relief (PRR). But if a parent is still on the mortgage when the student property is sold, they may be liable for CGT if the capital growth exceeds their allowance as long as this allowance has not been used to mitigate tax on other gains. Purchase and sales costs, including stamp duty, can also be deducted. At the time of writing, the capital gains tax rate is 18% for basic rate tax payers, and 28% for higher rate tax payers. Any investor is strongly urged to seek advice on capital gains taxation from a specialist.

Property bought in 1998 (Q4) for £66,313 with a 75% interest-only mortgage

Mortgage loan	£49,735
Equity	£16,578
Value in 2008 (Q4)	£156,828

Remortgaged in 2008 at 75% LTV

Mortgage loan	£117,621
Equity	£39,207
Sale price in 2017 (Q3)	£210,982
Equity realised	£93,361
Total growth in value	£144,669

(Average house prices from Nationwide data)

CGT is applied to the total growth figure, less the personal allowance (£11,300 for the 2017-18 tax year), which in this case would result in a bill of £24,006 for a basic-rate tax payer and £37,343 for those on the higher rate.

The personal allowance is due to rise to £11,700 from April 2018.

Buying a property and becoming a landlord

As well as the considerations already mentioned, there are many other aspects to consider, including financing the property, and the fact that the student, parents or both may become landlords.

Financial considerations – is this the right way to fund your kids?

Anyone purchasing a buy to let property has to decide how much mortgage debt they are comfortable taking on, or if they wish to commit an enormous lump sum of cash to purchase the property outright.

What parents need to understand from the start is that buy to let mortgages differ from those taken out on own homes, and you have to prove the rent will cover the mortgage payments and provide a surplus too, in addition to providing a bigger deposit. It also ties up your capital in property, meaning that you cannot realise your assets quickly if you need to.

When going into a property investment you have to think about the liquidity factor. If you need liquid assets you can spend, remember you can't sell a property overnight.

Patrick Connolly, Chase de Vere

Potential investors need to discuss plans to purchase buy to let properties with a financial adviser, wealth manager, property tax adviser, and other landlords to get the fullest possible picture of the knowledge, finance and time needed to successfully buy to let.

The table on the next page shows the large amount of tax you will need to pay and although it assumes property prices rise by 3% each year, they may not rise at all or fall, reducing or negating any profit over time.

This also assumes the investment is for a minimum of 10 years, so over a three year period, it would be difficult to secure a good return.

It is also vital to speak to a specialist mortgage broker before starting a searching for a property so they are clear on what they can afford and are happy to risk.

Finally, buyers should seriously assess the pros/cons of buying and owning with 100% cash which means investors could miss out on better capital growth achieved through gearing via a mortgage.

INVESTMENT FUNDS AVAILABLE: £200,000

Investment options	One 4-bed HMO property, bought outright with cash	Two 4-bed HMO properties, mortgaged	Financial investment, via broker/fund manager
INITIAL INVESTMENT			
<u>Purchase costs</u>			
Legal fees	£800.00	£1716.00	
Mortgage arrangement fees/financial advice		£1500.00	£3000.00
HomeBuyer Report	£500.00	£1000.00	
Sub-total	£1300.00	£4216.00	
<u>Ready to rent costs</u>			
Fire/Health & Safety measures	£3000.00	£6000.00	
Furnishing	£4700.00	£9400.00	
White goods	£1200.00	£2400.00	
Sub-total	£8900.00	£17800.00	
Total up-front costs	£10200.00	£22016.00	
Value of property(ies)/assets	£183100.00	£332600.00	£197000.00
Deposit		£166300.00	
Stamp duty at basic rate	£6655.00	£11630.00	
Total capital employed	£199955.00	£199946.00	£200000.00
Net amount invested	£183100.00	£166300.00	£197000.00
Mortgage LTV		50%	
Total mortgage borrowing		£166300.00	
ONGOING			
Return			3%
Gross income	£21600.00	£43200.00	£5910.00
<u>Annual costs</u>			
BTL mortgage, interest only at 4.3%		£7151.00	
Other ongoing costs	£9374.00	£18748.00	£1970.00
Allocation for bigger periodical upgrades	£1150.00	£2300.00	
Letting agent fees, full management at 10%	£2160.00	£4320.00	
Allowance for voids (3 weeks per annum)	£1246.00	£2492.00	
Total costs	£13930.00	£35011.00	
Annual income after costs	£7670.00	£8189.00	£3940.00
Deductible costs applying MIR @ 20%		£29290.59	
Taxable annual income	£7670.00	£13909.00	£3940.00
Tax @ 20%	£1533.95	£2781.88	£0.00
Net annual income	£6136.00	£5407.00	£3940.00
Annual pre-tax return - on capital employed	3.8%	4.1%	2.0%
Annual pre-tax return - on capital invested	4.2%	4.9%	2.0%
Annual net return - on capital employed	3.1%	2.7%	2.0%
Annual net return - on capital invested	3.4%	3.3%	2.0%
EXITING AFTER 10 YEARS			
Projected capital value of assets @ 3% growth p/a	£246071.00	£446987.00	£264752.00
Capital growth	£62971.00	£114387.00	£67752.00
<u>Exit costs</u>			
Estate agent fee @ 1.5%	£3691.00	£6705.00	
CGT payable - one allowance of £11,700, rate of 18%	£9229.00	£18464.00	£0.00
	£12920.00	£25188.00	
Mortgage loan repayment		£166300.00	
Capital realised after sale	£233151.00	£255499.00	£264752.00
<u>Returns over 10 years</u>			
Net increase in capital after 10 years - asset only	£33196.00	£55553.00	£64752.00
Net income return over 10 years	£61358.00	£54068.00	£39400.00
Total actual return/profit over 10 years	£94554.00	£109621.00	£104152.00
Annual rate of return	4.73%	5.48%	5.21%

Insurance

Specialist insurance will be required, such as landlord insurance, contents insurance (for any furnishings and appliances provided) and public liability insurance.

Ordinary home insurance won't cover you as a landlord, as you have tenants who are your paying customers. Specialist landlord insurance will help cover your commercial interests. For instance, if you have to rehouse your tenants because the property is uninhabitable due to fire or flood.

Other risks insurers have to consider is if the property is empty for a month or more if you struggle to find a tenant, or have to carry out repairs to let the property legally and safely.

Financing and Insuring a Buy to Let. The Buy to Let Show

Even if the room is being let under the Rent a Room scheme – for instance if the property is owned by the student – the home insurance provider will need to be informed, as this may affect the policy and cover. The tenant – or lodger – will need to be informed that their own personal belongings are not covered by the homeowner's insurance and they will require their own contents insurance.

Being responsible for 400+ rules and regulations

A major consideration when undertaking any purchase with the intent to let spare rooms to students is that the owner will become a landlord and will most likely need to comply with more than 400 rules and regulations, including:

- Health and safety measures, such as gas and electrical safety checks, installing smoke alarms and making sure any furniture complies with safety regulations
- Protecting the deposit in a government-approved scheme
- Carrying out Right to Rent checks, to ensure the tenant has the legal right to live in the UK. These do not apply to students living in university-managed accommodation but are essential for those renting privately and have the further complication of monitoring student visas.

In addition, depending on the relevant local authority rules, the property may be classed as a House in Multiple Occupation (HMO), so additional regulations may apply, and the property may need to be licensed.

According to a MHCLG English Housing Survey (Headline Report 2014-15), many landlords and tenants are unaware of their responsibilities and legal rights respectively,¹ and local authorities are either not aware of legal violations, or are not taking action.²

¹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658478/2015-16_EHS_Headline_Report.pdf

² <http://www.propertychecklists.co.uk/downloads/20180602>

Landlords who breach regulations can now face fines of up to £30,000 for individual breaches, so this is not something to be taken lightly. Legislation is changing constantly, so potential buyers need to keep up with future amendments.

One way to stay within the law is to use the management services of a self-regulated letting agent who is a member of ARLA, NALS, RICS, UKALA or a local accreditation scheme. They will then take care of the many legal responsibilities that come with being a landlord and their fees can be offset as expenses. The agent will also find and reference tenants and, if you wish, take on the responsibility for maintenance, which could prove challenging for parents to manage from a long distance.

If the child pays rent and has all the trappings of a normal agreement, like a written tenancy, then the landlord should follow all the rules and regulations. This is because they intended to create a real tenancy agreement which is treated no differently from any other AST. If they don't have a written tenancy agreement, then the courts should presume there was no intent to form a contract and so it would be considered a sham tenancy.

James Wood, Senior Advisor, Residential Landlords Association

When do the landlord rules and regulations not apply?

According to James Wood, Senior Advisor, Residential Landlords Association, there are some circumstances where some landlord rules and regulations do not apply, even if other students are living in the property:

- If the tenant does not pay rent, or pays a nominal sum of money (less than £250 per annum) then the deposit rules would not apply as it is not an AST.
- If the tenant pays nothing at all, this is a licence to occupy so very few of the rules and regulations would apply.
- If the child has a genuine tenancy from the parent and then they sublet to lodgers, the child will avoid most rules and regulations regarding deposits, protection from eviction, etc in their dealings with their lodgers.¹

¹ https://www.rla.org.uk/landlord/documents/tenancy_agreement/excluded_tenancy_agreement.shtml

Timing

With the uncertainty surrounding university places – which may hinge on a student’s A Level results – the timing of the purchase is an important consideration, especially as a fifth of students feel the need to book their accommodation many months in advance.

A fifth of respondents (21%) had signed for their properties seven or more months in advance of their move-in date, with some signs of panic. The most common reasons cited for beginning househunting were thinking that they would be left with no house (40%) or that the best houses would be taken (35%).

NUS report, Homes Fit For Study, 2014¹

Having said this, September remains the most popular month to sign for accommodation, according to the report, and only a minority who sign at this time of year (certainly no more than 21%, according to NUS research) will be for the following year.

Whether the fear of losing out on “the best properties” is justified is likely to depend on the location, with students reporting peer pressure and advertising by letting agents creating a sense of urgency.

In recent years, there has been a notable increase in some areas of properties being marketed earlier in the academic year and large numbers of students signing contracts before Christmas.

NUS Report, Homes Fit for Study, 2014¹

As we are part of the university accreditation scheme, we are not allowed to market properties to students until 1st December for the next academic year, but other agents who are not part of the scheme will begin marketing in September, a full year ahead.

Becci Munro, Belvoir! Lettings Office Manager, Lincoln

Although unconditional offers are becoming more common², many students will not know for sure where they will be studying until August, when A Level results are published – and unexpected results could lead to a change in plans.

With a short timeframe precluding a property purchase, it may be worth considering buying at a later stage, perhaps for the second year of study. In any case, many students choose to live in halls for their first year, as this is a popular way of forging new friendships. It also allows time for

¹ <https://www.nus.org.uk/PageFiles/12238/Homes%20Fit%20for%20Study%20report.pdf>

² <https://www.telegraph.co.uk/education/2017/12/14/universities-accused-making-mockery-a-levels-following-huge/>

the student to settle in; although drop-out rates are relatively low – 6.2% in young students embarking on their first degree¹ – the consequences are more significant if their parents have invested in a property in their chosen city.

For those whose child has firm plans and prefers to have a property ready for their first year, the Bath Building Society has considered this for its Buy for Uni mortgage, which allows the student to become a homeowner. Under its terms, the property can be rented under an Assured Shorthold Tenancy, as long as it becomes a student residence at the start of the next academic year. This does mean the property must be available to let no later than March, as the lender stipulates that the AST must be for a minimum of six months.²

STUDENT LETTING TIMELINE

September	<p>Most popular month for booking accommodation. It can be assumed that most will be booking for term starting within the same month.</p> <p>A minority of students (less than 21%, mainly first and second years) will be booking accommodation for the following September.³</p>
December	Marketing begins (in Lincoln at least) for university-accredited accommodation for the following September.
February	A fifth of students will have their accommodation for September booked by this point. ³
March	Last month for letting a property under a six-month tenancy, enabling it to be available for students at the start of term.
April-August	Complete on a property within this period and it could stand empty until the start of term. It may be possible to rent to second and/or third years, who are looking for a tenancy to begin in the summer.
August	A Level results are published and students who did not receive the results they required for their choice of university can apply through Clearing.

¹ <https://www.hesa.ac.uk/data-and-analysis/performance-indicators/non-continuation-summary>

² <https://www.bathbuildingsociety.co.uk/mortgages/mortgage-products-for-individuals/buy-for-uni>

³ <https://www.nus.org.uk/PageFiles/12238/Homes%20Fit%20for%20Study%20report.pdf>

Pros and cons of buying a student property

PROS

- Comforting to know that the student is living in suitable accommodation.
- Money earned from renting or sub-letting could contribute towards or even cover mortgage costs.
- Student debt could be reduced.
- Student's income could be supplemented by the rental income.
- The property would be an asset which can be sold on in the future. Given enough time, there may be a capital gain.



Image: © publicdomainstockphotos/Dreamstime.com

CONS

- If the student goes straight into an owned house in their first year, rather than halls, they may miss out on the opportunity to meet people from different courses.
- Maintenance – student properties generally experience high levels of wear and tear, and maintenance may prove difficult to manage over a long distance, but could be handed over to a self-regulated letting agent.
- Independence – the student may not feel truly independent if they are living in accommodation provided by their parents.
- Family conflict – parents may worry that the property is not being cared for properly.
- Personal involvement – if one tenant falls behind on their rent (and 37% of students report having some degree of difficulty paying their rent, according to the NUS¹), it could prove awkward chasing payments if they are a friend of the landlord's son or daughter.

Renting property to somebody you are personally involved in can be very awkward, both for you as a landlord and for the tenants. It can put a strain on relationships.

Becci Munro, Belvoir! Lettings Office Manager, based in Lincoln

- Long-term investment for short-term usage.
- Drop-outs – university is not for everyone and the drop-out rate in 2014-15 was 6.2%, having risen for the second consecutive year.²
- Fairness – can the parents afford to offer the same level of support to all of their children?
- Imbalance between housemates – the student whose parents own the property may feel a level of responsibility which could create an unwelcome hierarchy within the house and be a potential source of conflict.
- The asset is not liquid, ie any cash invested cannot be easily accessed as the property would need to be sold.

¹ <https://www.nus.org.uk/PageFiles/12238/Homes%20Fit%20for%20Study%20report.pdf>

² <https://www.timeshighereducation.com/news/dropout-rate-young-uk-students-rises-again>

Case study: Reluctant student landlady

Parents of an undergraduate student in Nottingham considered buying a house for their daughter to live in for at least the last three years of her four-year course.

She had spent her first year in university halls but wanted to move to private rented accommodation with three friends to gain more independence. They were also finding university-provided accommodation expensive.

They struggled to find a suitable privately-rented house or apartment off-campus, finding some merely shabby and other having clear physical defects, including dangerous-looking wiring, faulty heating and antiquated and leaky plumbing. It also tended to be in areas where the four girls did not think they would feel safe. More affordable accommodation was quite a distance from the university, which would increase travel costs.

The student's parents decided that the solution would be to purchase a suitable house that would accommodate the four girls, and to allow their daughter to keep the rent from the other three students to supplement her income. They planned to continue to let the property after their daughter had graduated, so the type, condition and location of the house needed to be attractive to potential tenants who were not students.

They found a house in a relatively affluent residential area convenient for the university and on a main public transport route. It was relatively new and good repair, spacious, with three bedrooms and a separate 'granny flat'. The estate agent secured a competitive deal for the parents, and the deal was set to be done.

However, at the last minute, the daughter asked her parents to stop the purchase as she felt she would lose her 'friend' status with the other three girls, and ultimately be forced to play the role of landlady. She did not wish to, as she expressed it, "wind up spying on them" to make sure that the property was well treated.

She felt that living in the annexe, as planned, would highlight the difference in status and, since the friends relied upon one another for socialising and support, this would represent a major loss to her. In the end, the students continued their search for private rental accommodation and eventually found a suitable flat in Nottingham city centre which, while expensive, was close to many amenities and public transport routes to the university.

As an aside, the daughter's parents did eventually buy her an apartment in Nottingham city centre while she completed her postgraduate degree. By this stage she preferred to live on her own. She has now moved on but the parents continue to rent out the property, although admit to having taken quite a financial bashing following the recession, leading to a steep drop in its value.

What should parents do if they are considering buying?

Five key questions to ask:

- What could the cash you are looking to use for the property generate if invested?
- Would the capital lump sum rise in line with inflation?
- Pros and cons of investing in a property versus a range of financial investments
- Can you really spare the cash? Are there other financial costs you hadn't considered?
- What would the tax implications be of investing a cash lump sum versus investing in a property?

Before starting

- Potential purchasers should seek advice from an independent financial adviser
- They should get advice on the best type of mortgage for their circumstances – and those of their child. It is a good idea to speak to brokers who specialise in buy to let to find the best deals, which may not be available on the high street.
- Parents should research the market to learn if there is demand for student property in their chosen city, or if the market is already saturated. If the latter, they may wish to invest in a property which could be let privately (ie to non-students) once their child has completed their degree.
- Parents should find out what rental income could be earned from the spare rooms.
- They should consider the pros and cons of their own child paying them rent. They would need a regulated mortgage ([see Page 25](#)) and there would be tax implications.

If the student pays the parent rent, then of course, this is property income to be reported on their self-assessment tax return, with any allowable expenses deducted. However, if the rent is not at a commercial rate, then allowable expenses must be capped to ensure they do not exceed rental income, as a loss is not permitted.

Michael Wright, director, RITA4Rent

- Parents should consider the ownership of the property, and update their wills to stipulate what should happen to their share if they died.
- If the parent's name is on the deeds, they could be liable for taxes such as property or inheritance tax. They should get up-to-date advice on the tax implications of buying a second property in the UK.

- Buyers should treat the investment as a business – open a separate bank account, keep records of all income and outgoings etc.
- Additional money may need to be invested to bring the property up to a legal and safe letting standard and the landlord will need to keep up to date with changes in the law.
- It is important to make it legal. Buyers should not rely on informal agreements, which can lead to disaster further down the line. A solicitor can draw up a legally binding agreement that makes clear what type of arrangement this is. The arrangement should be made clear to the child, eg whether this is an outright gift, a loan, whether interest-free or not, or an investment.
- Parents should keep lines of communication open with their child and make sure they feel comfortable to say if they are falling behind on repayments.
- Buyers should sign up to the property alert system on the Land Registry to avoid the prospect of the child selling the property without their consent, even with a legal agreement in operation.
- If the property is a joint purchase, all parties should discuss any home improvements at the start so they can agree on what is suitable.
- Buyers should bear in mind potential changes such as rate rises, mortgage interest rate increases, or a crash in the UK housing market, and think carefully about the financial implications they face if conditions change.

Location

As with any property investment, assessing the local market conditions is essential before purchase.

Parents should consider if there will be a demand for the rooms not occupied by their son or daughter, and if demand for the property will continue once their child has completed their course and, perhaps, moved on.

A guide to analysing a buy-to-let property can be found on Propertychecklists.co.uk here: <http://www.propertychecklists.co.uk/articles/analysing-buy-to-let>

As we have seen, some university towns and cities are already saturated with student accommodation.

I wouldn't advise anyone to invest in student property in Lincoln as there is already too much. New university blocks are being built all the time and big businesses are investing in hundreds of properties, which is driving out the smaller landlords.

This fierce competition for tenants does mean some rooms end up sitting empty, or are being let for as little as £50 a week.

Becci Munro, Belvoir! Lettings Office Manager, based in Lincoln

For their report, Spotlight: UK Student Housing 2017¹, Savills produced a 'league table' of university cities, highlighting ones which they believe offer the best opportunities for investment.

Well-located assets in strong markets will enjoy high occupancy and rental growth. Assets in secondary locations could struggle with competition for occupancy and rental growth regardless of the university town.

Our analysis takes account of a range of factors such as current and future supply, demand, affordability and the potential for rental growth.

Spotlight: UK Student Housing 2017, Savills

FIGURE 6

Student Housing Development League Table

FIRST	UPPER SECOND	LOWER SECOND	THIRD
→ Bath	→ Belfast	→ Bangor	↓ Aberdeen
↑ Birmingham	→ Cambridge	→ Bournemouth	→ Aberystwyth
→ Brighton	→ Canterbury	→ Buckingham	→ Chelmsford
→ Bristol	→ Chichester	→ Cardiff	→ Cheltenham
→ Edinburgh	→ Norwich	↓ Chester	→ Derby
↑ Exeter	→ Nottingham	↑ Colchester	→ Dundee
↑ Guildford	→ Portsmouth	↓ Coventry	↓ Falmouth
↑ Leeds	↑ Reading	→ Durham	→ Farnham
→ London	→ Winchester	→ Egham	→ High Wycombe
→ Manchester		→ Glasgow	↓ Huddersfield
→ Oxford		→ Hatfield	→ Inverness
→ St Andrews		→ Leicester	↓ Kingston-upon-Thames
		→ Newcastle upon Tyne	→ Lancaster
		→ Northampton	→ Lincoln
		↓ Plymouth	→ Loughborough
		↓ Sheffield	→ Salford
		→ Southampton	↑ Stoke on Trent
		→ Stirling	
		→ Swansea	
		→ Twickenham	
		→ York	

KEY
 ↑ Up from last year
 → Same as last year
 ↓ Down from last year

Source: Savills Research

¹ <http://pdf.euro.savills.co.uk/uk/spotlight-on/spotlight-uk-student-housing-2017.pdf>



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Choosing a property

- A reputable self-regulated local agent who is active in the student/general rental market in the relevant location will have a good knowledge of what and where to buy.
- Speak to the student accommodation office as they may have an accredited landlord service.
- Modern properties may have higher upfront purchase costs while older properties may be cheaper, but require a lot of money to be legally let.
- The property should ideally be within a short walk of the university campus or at least within easy reach to minimise public transport costs.
- The property will need to be fully furnished and equipped. Good broadband connection and a modern flat-screen television are likely to attract future tenants as well as students. Students can be hard on fixtures and fittings, so it's wise not to overspend on these, and to factor in the cost of replacements in a forecast of future outgoings. These will need to meet strict safety standards.
- A second bathroom or toilet is an advantage for several people sharing a property.
- The longer term should be considered, so if the plan is to rent the property to a couple/family in future, a location outside of the recognised 'student area' is ideal.
- A property which will be easy to rent out to other students or to a couple/family is ideal.
- A freehold house or a purpose-built maisonette will eliminate the cost of service and annual maintenance charges imposed by freeholders.
- Outgoings should be established immediately if buying a purpose-built flat, as annual maintenance charges cannot be passed on to the tenants and can vary substantially from one year to the next.

More information about choosing a property can be found at [Propertychecklists.co.uk](http://www.propertychecklists.co.uk):

<http://www.propertychecklists.co.uk/articles/analysing-buy-to-let>

In Nottingham there has been a massive uptake in student development. The more traditional style of university-provided halls makes them less appealing to students, and has led to developers taking advantage by providing a new style of halls, with cinema rooms, gyms and a concierge or caretaker on site round the clock. This appeals to parents who want a safe, secure, modern set-up for their student children.

Apartments in developments such as this are being sold with guaranteed income for three or more years. So, rather than pay rent for their child, the parents will buy a flat as an investment, and the company they buy from will find tenants for them when their child no longer has a need for the accommodation.

It sounds like a perfect solution but it is not without its problems. Student accommodation suffers a lot of wear and tear so there is often significant dilapidation over a year, reducing the appeal. These developments are also seen as first-year accommodation, as many students move out for their second and third years, partly through tradition but also with the social reluctance of second and third-year students to mix with 'freshers'.

After three years, the incentive to live there is reduced as newer developments will have become available and, once the guaranteed rent period is over, the "race to zero" begins, as landlords begin undercutting each other's rent. Parents may then wish to exit their investment, which puts more properties of this type on the market and triggers more undercutting of prices.

However, for many well-off parents, it's a way to buy without the aggro of being a landlord, and with guaranteed rent. For many, it is not seen as an investment, more of a movement of funds and a way to give their child a suitable place to live.

Lloyd Rumbold, director, Belvoir Nottingham Central & Belvoir Nottingham West

Further reading

[UCAS guide to student fees and loans](#)

[The Buy to Let Show](#)

[The government's guide for resident landlords](#)

Menzies blog: [Should you buy a house for your kids to live in at university?](#)

[Saga guide to helping children/grandchildren onto the property ladder](#)