Your Definitive Guide to Property Investment

Residential, commercial and student property investments

Aspen Woolf

Introduction

The **Definitive Guide to Property Investment** has been created by property investment company Aspen Woolf.

It is for first time investors and investors who are thinking about investing in property but don't know where to start.

This guide covers property investment in three sectors:

- **Residential property investment**
- **Commercial property investment**
- **Student housing property investment**

Your **Definitive Guide to Property Investment** is a clear, detailed and easily digestible source of information for potential investors, including links and sources for further information.

Introduction

This guide starts with a simple Introduction to Property Investment, including clearly stated facts and figures sourced from various official channels.

The top 10 reasons to invest in property offers an at-a-glance introduction to the reasons for investing money in property. The risks of property investment are also covered, to give balanced advice to those new to property investment.

Finance options

The guide explains different financing options for property investment, including an in-depth look at buy-to-let mortgages, indirect property investments and legal investment structures.

Information is provided for both commercial and residential property investment.

Diversification

Reasons for diversification of property portfolios are examined. Depending on your investment goals, Aspen Woolf lays out why diversification could make sense for you.

Property development

For investors who are looking at property development, the guide sets out the basic information needed. Aspen Woolf talks about the benefits of investing in property development, how it works and what investors need to do. The guide also talks about investing in off plan property, including the risks and likely returns.

Tax implications

The different tax implications of different investment models, ranging from a straightforward buy-to-let mortgage to investing in a property fund, is examined. The aim is to clearly outline the likely taxation on different forms of property investment.

Student accommodation

There is a separate section for those considering investing in student accommodation, with information on Purpose Built Student Accommodation (PBSA).

At the end of the guide is a glossary explaining common terms used throughout, and a list of sources.

While the aim of this guide is to provide a definitive account of the top-level of information new and existing investors need to know, we recommend that you contact Aspen Woolf for an in-depth discussion.

Aspen Woolf is an award-winning property investment company, specialising in identifying property investment opportunities for all levels of investors from around the world.

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Introduction to Property Investment: Why Invest?

The demand for housing has never been higher. Between 2014 and 2015, the population increased to around 65.1 million (up 500,000 in just 12 months[1]). If the population continues growing in this way, it will exceed 70 million people by 2026[2] – and they'll all need somewhere to live.

It's also likely that homes with just one person will increase by 159,000 per year, leading to the UK becoming the most densely populated country in the EU[3].

Rising housing demand in the UK

To keep up with demand, the government has predicted that at least 232,000 new homes need to be built in England every year[4]. However, as it stands in 2017, we are building fewer homes than during any other period since the 1920s.

Due to the constant demand for housing, property investment is often seen as a safer investment than other asset classes (such as stocks and shares). While the economy can and does affect housing prices, for medium and long-term investment it remains the safest asset class.

Different ways to invest

There are many ways you can invest, ranging from converting your current residential mortgage to a buy-to-let mortgage to investing in a property fund.

We cover all the common ways to invest in this guide, to help you decide which would work best for your investment goals.

How do you make money from property investment?

If you don't want to go all in and buy a property by yourself, you can invest into a fund that then invests into a property. There are also property maintenance services and management services that you can invest in.

1.

20% of the UK population will be renting by 2023[5]

People are increasingly being forced out of the housing market, leading to a rising demand for rental property. Since 2002, this demand has just about doubled, with rental properties now forming 11% of housing stock. In addition, there are record levels of population increase, meaning buy-to-let is the perfect way to invest.

2.

Bricks and mortar always will be 'safe as houses'

Like all clichés, 'safe as houses' has a ring of truth. Investing in property will always be a robust investment class, particularly for investors looking long term. Despite an unstable political situation in the UK, the world's economy frequently reeling from global events, and an uncertain foreign policy, investing in property remains the safest bet.

3.

It's simple to get started

Unlike with other investment asset classes, you don't necessarily need specific knowledge to begin your property investment career. Often, it just takes an increase in value on your own property to give you the boost you need to look further into this way of making money. There is an entire industry of help, advice, brokers and consultants to help private investors make the most out of their money.

4.

It's easier to understand than stocks and shares

Sure, if you have the time and inclination it's possible to learn enough about investing in stocks, shares and bonds. But there's no doubt at all that it's not easy to understand the complexity of the trading world, and it takes a lot of time, energy and dedication. Investing in property, by contrast, can be more easily understood with some simple online research and judicious advice.

5.

It's relatively simple to get financed

Generally, lenders like to lend for property investment, whether that's a mortgage or another form of investment. All banks offer mortgages as a main part of their business model, and they are always more likely to lend on residential property than other assets. They will generally lend a much higher proportion of the value of the property and at much lower interest rates than other asset classes, including commercial property.

6.

Leverage can help you

Using property instead of a share portfolio as security means you can borrow more money. Lenders will typically allow you to borrow up to 95% of the property value, but will only go up to around 60% on the value of shares. If you can borrow more money, then you can benefit from the capital growth of the asset. The greater leverage is one of the most compelling reasons to invest in property, rather than stocks and shares.

7.

Property investment is your flexible friend

There are many different investment strategies, so you should be able to find one to fit your goals. Depending on whether you're looking for a cash injection in the near future, or want to build a reserve for retirement, you might consider anything from long-term capital growth or positive cash flow to adding value.

8.

Control is yours

While you may well use a broker to start with, or get advice from professional financiers, when the property is finally under your ownership, you alone have complete control over it. Assuming you stick within the bounds of your mortgage, lending stream and planning restrictions you can then choose where you go. Raise the rent to improve cash flow, or add value by improving the property. This sort of flexibility just isn't possible when you have invested in shares in a company.

9.

Overseas investors can take advantage of the 30-year low in value of the pound[6]

Pre-Brexit the average UK residential property was worth $297,250 for overseas investors. Since the result of the referendum, the pound has plunged and the value is now $30,259 lower. That's a 10% drop leading to a really important opportunity for investment.

10.

Commercial property in the UK is less expensive in 2017

Again, due to the ongoing political uncertainty and Brexit, recent figures show that commercial real estate values in the UK have fallen by 3% (offices in London have fallen 3.8%) – the largest fall since March 2009. Some offices are worth from 5 - 19% less than pre-Brexit prices. It's a good time to get in on the action.

Property investment risks

Prices of property and rental demands fluctuate.[7] They always have and they always will, so property investment is best viewed as a long-term investment.

Giving the investment a decent length of time means that you can ride out losses if the housing markets slow, and earn again when they improve. However, if you invest everything you have into a buy to let property and the market slows considerably, then you could make life awkward for yourself.

One way to avoid this is to diversify your investment portfolio and hold different types of investments that will cover you if or when one type struggles.

Pros and Cons of Residential Investment

Is investing in residential property in the UK really a safe bet? Here are some advantages and things to consider as a first-time investor.

✔ PROs

- You can expect higher yields than commercial property investment.
- Depending on the area, it’s the cheapest time since 2009 to invest in residential property[8].
- More people than ever are now renting – a rise that won’t be stopping any time soon.
- Rental income is a steady yield that you can increase over time.
- You can make more money as the property value increases.
- Interest on your borrowing, and other expenses, are tax deductible.
- Getting a mortgage is a good way to enforce a savings programme if you struggle with saving.

✖ CONs

- Interest rates can always rise as well as fall.
- You may struggle to find tenants, although this can be mitigated by researching the area of investment thoroughly.
- You could be unlucky with tenants, but this can offset by using management companies to take care of the nitty gritty.
- It could be time consuming if you take on all landlord duties yourself.
- House prices could fail to rise quickly, or alternatively fall.

What makes a property hotspot?

Keeping aware of the up-and-coming key investment areas in the UK takes research, much of which you can do online. Physically visiting areas is always a good idea, as there are signs that you can look out that show a booming area.

1. Café culture...

...areas with lots of new bars, restaurants and cafés opening are always a good bet, particularly if there are many local and independent names. New openings and bustling trade in luxury items is a sign that there is plenty of money in the area. If the area has already been infiltrated by big chains, its prime time may have passed.

2. Building and construction works...

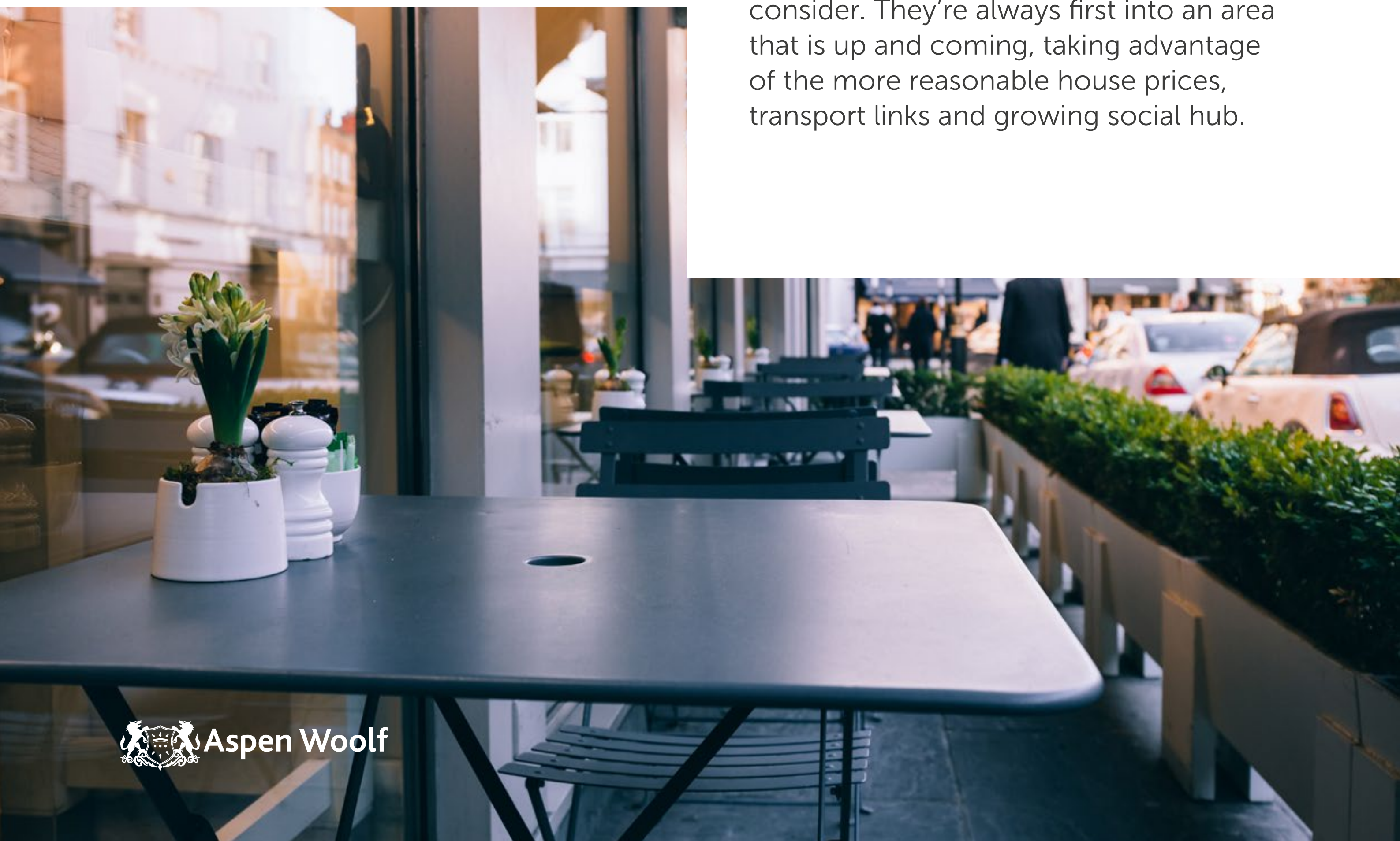
...keep your eyes peeled for signs of construction and building. Look up and see if you can spot cranes on the horizon and look around for hoardings and building sites. Lots of activity means plenty of people are investing in the area. Take notes of developers and projects that may be ideal for your investment.

3. Transport links...

...are there good links to London and other major cities? If the town/city has a good transport hub then it's an ideal target for young working professionals who want more affordable living. Look out for plans to improve the local transport infrastructure as well.

4. Young professionals...

...if you see an influx of young professionals then it's an area to consider. They're always first into an area that is up and coming, taking advantage of the more reasonable house prices, transport links and growing social hub.



Section 3

Finance Options

Cash, mortgage or investment fund?

You need to consider which form of financing will work best for your investment goals.

If you decide on a buy-to-let investment, then there are certain factors to consider:

1. **You won't have fast access to your money** – while investing in shares and bonds mean you can sell fairly easily, property takes time to sell.
2. **It's a big commitment** – try to avoid putting all your financial eggs into one basket.
3. **There are buying and selling costs** – estate agent fees, surveyors costs, solicitors' and conveyancing bills... there are many costs involved. Since April 20169, an extra 3% was added to each Stamp Duty band for those buying a buy-to-let property.
4. **It can be a time suck** – maintenance work and property management will always take time and money. If you don't own the freehold, you may need to extend the leasehold and this takes time and money to arrange.
5. **Think about the mortgage risks** – if you take out a mortgage or another type of loan to buy property, then there is no concrete guarantee that you will always earn enough rent to cover the repayments. The cost of the mortgage may rise, and failure to meet its costs will mean losing your property if you don't have contingency plans.

Investing indirectly through a fund

If you don't want to go 'all in' and hold sole responsibility for your property investment, then there are several different types of property funds allowing for indirect property investment.

Fund managers are people who collect money from lots of different investors and invest it directly into property shares or property. This is known as a collective (or pooled fund) and it can be a safer way to invest in property. It means you're not solely responsible for the investment, but you will have to pay fees to the fund manager.

Before you invest

Research, research, research!

Lots of useful information can be found online, and there are also many advisors available to help you.

Make sure you find out as much as you can, and consider which kind of investment will best suit you and your investment goals.

Section 4

Introduction to Buy-to-Let

In simple terms, buy-to-let is exactly as it sounds – you buy a property and let it out.

This kind of investment should be looked at as a medium to long-term project. It's not a way to get fast cash, but can pay off in the long run.

Investing in a buy-to-let property is different from owning your own home, and brings with it additional responsibilities. When you decide to become a landlord, you are running a small business, which has legal ramifications.

Is a buy-to-let property right for you?

If you like the idea of investing in something tangible, then buy-to-let property investment could be a good idea.

Investing in bricks and mortar will always feel more 'real' than putting your money in stocks and shares and you can be more in control of your investment.

You will need to be prepared to have your money tied up for a long time and accept the fact that property prices can go up, and down.

How does it work?

You can use your own money to buy the residential property you want to rent out, or you can take out a buy-to-let mortgage. You'll obviously need a cash deposit for the mortgage, in the same way that you would for a traditional mortgage.

Where does the return come from?

- Rental yield – this is the money coming in from your tenants. You will have to deduct management costs, repairs and agent fees from this.
- Capital growth – the amount you earn if you sell the property for more than you bought it for.

The differences between a buy-to-let mortgage and a residential mortgage

Residential mortgages are designed for regular home owners. Therefore, they come with legal protections and regulations designed to lessen the risk of people losing their homes. All mortgage lenders must follow the same rules, from the very start of the process through to it either being paid off, or at worst, the property being repossessed.

For more on buy-to-let mortgages, see SECTION 5.

New to buy-to-let?

If this is your first investment in a buy-to-let property, then it's good to be very clear on the responsibilities you have as a landlord.

The National Landlords Association website is a great source of information.

How much rent can you charge?

Be aware that rents cannot be guaranteed and the amount you can charge is subject to external factors not under your control.

The amount you can charge will depend on the area, other rentals nearby, wider market trends, and the general state of the economy.

Risks of buy-to-let investment

- If you can't make the rent needed to cover the mortgage then you still need to make the payments, so it's vital to work out how much you can realistically get from your property.
- If house prices fall, then it's likely that your property's value will reduce. This means when it comes to selling it, you may not make as much capital as you want. Further, if the sale price doesn't cover the mortgage, then you'll have to make up the difference. However, if the housing market performs well, you may be able to benefit from capital return as well as from the ongoing rent before you sell.
- It's always worth considering that unexpected repairs or problem tenants could increase your costs.
- You can't access your money quickly. You'd have to either sell the property or take out another mortgage, both of which take time.
- You'll also need to cover the costs of buying, which include solicitor and conveyancing fees, stamp duty land tax and survey fees, among others.

Buy-to-let tax implications

Stamp Duty Land Tax (SDLT) applies to residential properties worth more than £125,000 and non-residential worth £150,000 (except for Scotland where you'll pay Land and Buildings Transaction Tax instead).

SDLT applies to leasehold and freehold properties whether you're a cash buyer or buying with a mortgage. You must also pay it if you buy through a shared ownership scheme or if you are transferred land or property (if you buy a share in a property or take on a mortgage).

Since 1 April 2016, an additional 3% has been added on to each SDLT band for residential buy-to-let properties.

Income tax

You'll likely have to pay income tax on your income from rent as well as Stamp Duty. You can, however, offset mortgage payments and some costs against this income.

Since April 2017, additional rates of tax relief have started to be phased out and by 2020 will be restricted to 20% for all landlords.

You will also have to pay Class 2 National Insurance if it counts as renting out a business.

If you make money when you sell your property, you'll be liable to Capital Gains Tax.

Ready to be a landlord?

As soon as you rent out your property you are a landlord, and in becoming one you have to adhere to various regulations.

You must:

- Make sure your rented property is safe and non-hazardous.
- Ensure all gas and electrical equipment is safely installed and maintained.
- Have an up-to-date Energy Performance Certificate for the property.
- Protect the tenant's deposit in a scheme approved by the government.
- Check whether the tenant has the right to rent your property if you're in England.
- Give a copy of the 'how to rent' checklist from the gov.uk site to your tenant when they start renting your property.
- Fit and test carbon monoxide and smoke alarms.
- Follow fire regulations for property that has been adapted into flats or for purpose built developments.

You may be subject to an inspection from the Housing Health and Safety Rating System. These are carried out when a tenant requests one, or when the council thinks that your property might be a problem.

Repairs and rebuilding

You can enter the property to make repairs or for an inspection, but you must give the tenant 24 hours' notice of your visit...

If the property is damaged by flood or fire, then you don't have to rebuild or renovate it. But if you do, the cost falls entirely to you. You cannot charge tenants to help out with costs.

If you own an apartment block then you're also responsible for repairs made to common areas, such as gardens and car parks.

If you fail to carry out repairs, tenants can make a claim against you for repairs under £5,000 or make the repairs themselves and deduct the cost of repairs from the rent.

If any repairs you carry out are disruptive to your tenant's lives, then they might be able to claim a reduction on their rent. However, depending on your tenancy agreement, you may also be able to increase the rent after the repairs or improvements are completed.

Be informed

There are many consumer protections on most other investments, but these do not apply to buy-to-let properties. It is vital to understand everything possible before you commit to a property, a mortgage or any other type of funding.

Section 5

Buy-to-Let Mortgages

Although the rules and regulations around buy-to-let mortgages are similar in some ways to a standard residential mortgage, there are important differences:

- Interest rates are generally higher than with a residential mortgage.
- Fees tend to be higher.
- Most are interest-only mortgages, so you don't pay every month but at the end of the term you repay it in full.
- The deposit is usually 25% of the property value, but can vary between 20-40%.
- Many are not regulated by the Financial Conduct Authority. There are exceptions to this. For example, if you let the property to family member it is called a consumer buy-to-let mortgage and is assessed in the same way as a residential mortgage.

Who is eligible for a buy-to-let mortgage?

If you want to invest in property (this includes houses, apartments and flats), then you need to meet certain criteria to get a buy-to-let mortgage.

1. First, you need to ensure you can take the risk. If you have a period without tenants, for example, you need to cover the mortgage regardless. Seriously consider if you can do this before you take the step of investing in property.
2. You'll need to own your own home already. If you don't, then it will be difficult to get a buy-to-let mortgage. This includes owning a home outright or having a mortgage for your existing property.
3. Your credit record must be good, and you'll need to prove you're not stretched on existing borrowings. For example, your existing mortgage, credit card debts or any other debts you have.
4. If you earn less than £25,000 a year you will struggle to find a lender to approve a buy-to-let mortgage
5. Lenders have an age limit for buy-to-let mortgages. It's generally either 70 or 75, and this is the age you need to be at the end of the mortgage term, not the start. For example, if you are 40 and you take out a 25 year buy-to-let mortgage, you will be 65 when it ends, which is within their limit.

How much can you borrow?

The most money that a lender will release in a buy-to-let mortgage is linked to the amount of rent your property can achieve. They generally
expect the rental income to be 30% higher than your mortgage payment.

Before you decide that you want to go ahead, it's a good idea to do some research. Find out how much rent similar properties in the area are making, and work out whether it's feasible to achieve the rent you need.

Should you get advice or not?

It's always a good idea to talk to a broker or investment company before you take out a buy-to-let mortgage, for expert advice on the best deal for you.

Price comparison websites are a good way to get basic details, however, these won't all give you the same information, and they're not property investment experts.

You can choose to take the advice of brokers or banks or decide on a mortgage based on your own research. This is called an execution only application, and is a riskier way to select a mortgage.

If you do get advice and later decide that the mortgage isn't suitable, then you have grounds for complaint. If you don't take professional advice, then you alone hold full responsibility for your buy-to-let mortgage.

Financial mis-selling

This is when you choose a mortgage based on advice that turns out to be unsuitable. It means the risks of the mortgage you chose weren't explained to you adequately.

An advisor must recommend an option that will work for you in a manner that is 'fair, clear and not misleading', according to the FCA.

If you aren't made aware of any risks, then you may be able to claim compensation. This also applies if your investment turns out to be riskier than you wanted - it doesn't just apply if you lose money.

However, you can't complain or expect compensation if an investment performs badly. Some are inherently riskier than others, and providing this was explained to you, it's your responsibility.

Some of the ways that you can be mis-sold a mortgage include:

- Failure to be informed about the commission that the advisor would get from the lender.
- If the end date of your mortgage is after your retirement date.
- Being advised to borrow without proving your income (self-certify).
- If you were advised to say that you earn more than you do so you could borrow more.
- Being told to switch lenders without being informed about the penalties and fees you would incur.
- If you have a fixed-rate mortgage with the advice to re-mortgage later on, and are then subject to penalties for leaving the fixed rate early.
- If you weren't informed about the risk involved.

If you are mis-sold, you can make a complaint to the Financial Ombudsman. To do so you need to collect and submit information before three years pass from the date you realised that you had been mis-sold the mortgage.

Converting your current property to buy-to-let

If you've decided that you'd like to move out of your main residence and rent it out, then it's much easier if you intend to buy another property.

Moving into rental accommodation may affect your chances of converting or getting a buy-to-let mortgage. This is due to fraud concerns by the lender. Some lenders will, however, so it's always worth shopping around.

Changing to buy-to-let and buying a new property

It's a common occurrence to choose to rent out your current property, while you are looking for another property to buy.

This practice is increasingly popular due to the low rates on savings. People are looking for tangible ways to save money, and putting it into property is likely to increase earnings while leaving it languishing in a savings account with low interest rates.

There are two ways to achieve this:

- Let-to-buy
  This is where you buy a new property using a new residential mortgage. This becomes your main mortgage and you rent out your old property by converting it to a buy-to-let. If enough equity is available, you can raise money on your first property to pay for the deposit on the new house.

  Not all lenders will approve this kind of deal, so you need to investigate who will and choose the best deal available. Lenders can feel that a buy-to-let property endangers their money, as it's not possible to guarantee there won't be a gap in tenancy. This would leave the borrower in the position of needing to pay for both mortgages. They'd also consider this an even higher risk if it's first time landlords who haven't rented a property before.

- Consent-to-let
  If you're happy with the mortgage you have, then asking the current lender for permission to rent your property out could be the way to go. They don't have to agree, and they may not, but it's worth asking. If they refuse, then you'll have to re-mortgage on to a buy-to-let loan.

  If you get a consent-to-let, then the property you're renting out is technically still on a residential mortgage. This might affect getting a new mortgage for another house, as there is generally a limit as to how many residential mortgages you can have. Some will allow two or more if you can prove that you can pay.

Section 6

Investing in Commercial Property

Investing in commercial property is never without risk. As it provides financial security over the long term in many cases, it can be a good way to invest your money.

This asset class hasn't always been straightforward. However, in 2008, during the financial crisis, prices fell by an almost unbelievable 44% overnight. Since then, the commercial property market has largely recovered and become, once again, an attractive investment opportunity.

From 2013 to 2015, investment returns from this asset class were over 10% on average. Portfolio diversification is one of the reasons behind this increase in commercial property investment.

Portfolios that contain commercial property are likely to be less volatile, as the returns are unconnected from those made from bonds and equities.

What are your options with commercial property?

As with residential property investment, you have several options:

- **Direct investment**
  This means buying the whole or a share of a property. This is generally not considered the best way for a private investor to buy into commercial property, as it leaves you shouldering all the risk.
- **Direct commercial property funds**
  Investing in a collective investment scheme (for example, a unit trust, investment trust or Open Ended Investment Company) is a more usual way to invest in commercial property. The investment goes directly into a commercial property portfolio that could include offices, warehouses and supermarkets. Small, private investors wouldn't otherwise be able to invest in these types of commercial property.
- **Indirect property funds**
  These are collective investment schemes that go into shares of property companies listed on the stock market. This means the property shares can move with the stock markets so these aren't as beneficial as direct investment.

How you earn money

Investment funds will pay you based on the growth in value and rental income. Or, if you buy shares in companies that own commercial property, they'll pay you based on the growth of the share value.

It's possible to invest a lump sum of as little as £500 into a property fund, or £50 per month.

Commercial property categories

There are three categories of commercial property to consider:

- RETAIL – including supermarkets, high street shops, warehouses and shopping centres.
- OFFICE – generally refers to purpose-built for businesses and, as such, include services such as high-speed internet, etc.
- INDUSTRIAL – non-retail warehouses and industrial estates.

Benefits and risks of investing in commercial property

Lease length

The lease length in the UK is longer than in Europe or the US. The typical length of an office lease in London, for example, is between 10 and 15 years. The average length of office leases across the UK is around eight years.[10]

Residential properties generally have leases of 6-12 months. This means that investing in commercial property offers more security as you benefit from a set level of income for a specific (and long) period of time.

Direct commercial property investment

The risk is spread across several different properties that are directly owned by the investment fund. If one property is empty, and therefore not earning rent, others within the fund will still be generating income.

You will benefit from an annual return from rent, and when you cash in the investment, you can hope to get the sum you initially invested plus the growth in value of all the properties within the fund.

- Benefits
  - Rental income can be secure when compared with other asset classes. This is due to the long lease lengths, and the fact that there is less risk of default than with residential properties.
  - Rental incomes will increase every year by at least the rate of inflation.
  - You don't have to deal with property management, as the fund manager has to do that. It's their responsibility to get tenants, negotiate lease lengths and invest in prime property.

- Risks
  - Commercial property markets are slow moving.
  - Buying or selling property can take months, and fast access to your investment in the fund is unlikely.
  - There is a little-known lock out clause that can stop property fund investors getting their money out under 'exceptional circumstances'. This caught a number of investors out during the financial crisis in 2007/8. The FCA rules that property funds are allowed to suspend trading for 28 days to sell properties and therefore raise enough cash to pay investors who want to reclaim their investment. They can repeat this 28 day stay of execution until they have enough money to pay out. This can last up to 12 months.

Indirect commercial property funds

Usually in the form of unit trusts and OEICs, these funds buy shares in property investment companies.

- Benefits
  - As these shares are listed on the stock exchange and traded daily, they don't have the liquidity problems mentioned above. Therefore, you can move funds in and out freely.
  - More than 80% of the property companies mentioned above are REITs and, as such, have more tax benefits than other listed property companies.
  - REITs don't have to pay corporation tax on their assets as long as 90% of the profits are aid out to shareholders.
- Risks
  - The volatility of investing on the stock market is always a risk.

Property investment trusts

These pool your money to buy property company shares and property.

The main difference between REITs and property investment trusts is that they're treated like any other company. That means tax on dividends is 7.5% for Basic Rate payers on anything over £5,000, for the tax year 2016-2017.

Many property investment trusts use different strategies to boost the money they can put into a property beyond your investment. An example of this is 'gearing', which allows these companies to borrow money to boost the investment. This is good news in a rising market as you can gain more, but it can also increase losses.

What should you be aware of?

If you're considering investing in commercial property, then you need to be aware of:

- Diversification.
- Volatility.
- Liquidity.

While property funds can be less subject to volatility than other assets, direct property funds are less fluid. This is because you are trying to sell an actual, physical property. It can be particularly difficult to sell during a market crash.

There can be times where there are fewer buyers than sellers. In these cases, fund managers can switch from 'offer' (highest) to 'mid' or 'bid' pricing (lower), which reduces the value of the fund by around 6%. At worst, the fund can be closed so that no purchases or redemptions can take place.

Investors in commercial property funds must ensure they take a diversified approach. Holding a portfolio with a good and varied spread of industrial, office and retail can mitigate many sector-specific risks.

The ideal number of properties a fund should hold is around 40. Any fewer then the investor could be taking a bigger risk due to potential tenancy issues.

Location and how the property will be managed is extremely important when it comes to investing in commercial property. Ensure you are well advised to minimise risk.

Section 7

Indirect Property Investments

If you know that you're ready to commit to a long-term investment, and you want to invest in the market without buying a property yourself, then indirect property investments can be your best bet.

What are the options?

There are three main types of indirect property investments:

- Land banking schemes.
- Shares in property companies.
- Real estate investment trusts (REITs).

Other ways that you can indirectly invest in property include:

- Property investment trusts.
- Property authorised investment funds.
- Property unit trusts and OEICs.
- Property funds.

Real Estate Investment Trusts (REITs)

These are property investment companies listed on the stock exchange. They own and manage property on behalf of shareholders.

They can invest in residential only, commercial only, or both. If you want to invest in a REIT you have to buy shares.

How do you make a return from investing in a REIT?

If you invest in a REIT and it does well, then you will receive a distribution of the profits.

The money you are paid from the tax-exempt part of the REIT is paid net of basic rate tax as it's treated as UK property income. Non-tax payers can therefore reclaim this and ISA investors receive gross payments.

Money paid from the non-exempt part is treated as the same as any UK dividend and is paid with a tax credit. As a REIT pays a smaller amount of corporation tax, you may get more profit as an investor. You can also hold shares in REITs in a tax-free ISA, which is a very efficient way to invest.

What are the risks of a REIT?

If you're unlucky, the value of your investment may go down, which means you could be in danger of getting back less than you paid in.

The FCA has no authority over REITs so you can't use the Financial Ombudsman Service if you have a problem. You also can't claim any compensation from the Financial Services Compensation scheme should the company go bust.

Listed Property Companies

Another option is to buy shares in a property investment company that is listed on the stock exchange. These companies generally develop, own or manage property on the shareholders' behalf.

How do you get a return on your investment?

To invest, you'd need to buy shares in the company. If it performs well, you'll earn a share of the profits (also known as a dividend).

If the share price goes up, you can also make money by selling your shares at this higher price.

In a similar way to investing in an REIT, you can hold shares in a tax-free ISA, boosting the efficiency of your investment.

This is also a good way to get into investing in specialist property, as some of these property companies have access to hard to invest in markets.

What are the risks of investing in a listed property company?

In the same way as investing in a REIT, there is the chance that the value of your investment may go down, and you may get out of the scheme less than you paid in.

The FCA has no authority over listed property companies so you can't use the Financial Ombudsman Service if you have a problem. You will not be able to claim any compensation from the Financial Services Compensation scheme should the company go bust.

Land Banking Investment Schemes

This is where you invest in a plot of land that has not yet been granted permission for development. The idea is that the value of the land will leap when planning permission is granted, leaving you to make a profit when selling to developers.

These schemes are high risk. They could even be scams, and even if they're not, the land may never be granted planning permission.

If you do want to choose this way of investing, you should contact the local council pertaining to the area and see if the land is on the way to being released for development.

If it is structured as a 'collective investment' then it must be registered with the FCA – you can search online to see if it is. Be aware that many land banking schemes are not registered and should be avoided.

How do you make a return?

Assuming the scheme is legitimate then you may well be able to sell the land for more than you paid, if the land increases in value. If it is released for development, then there is every chance this will happen.

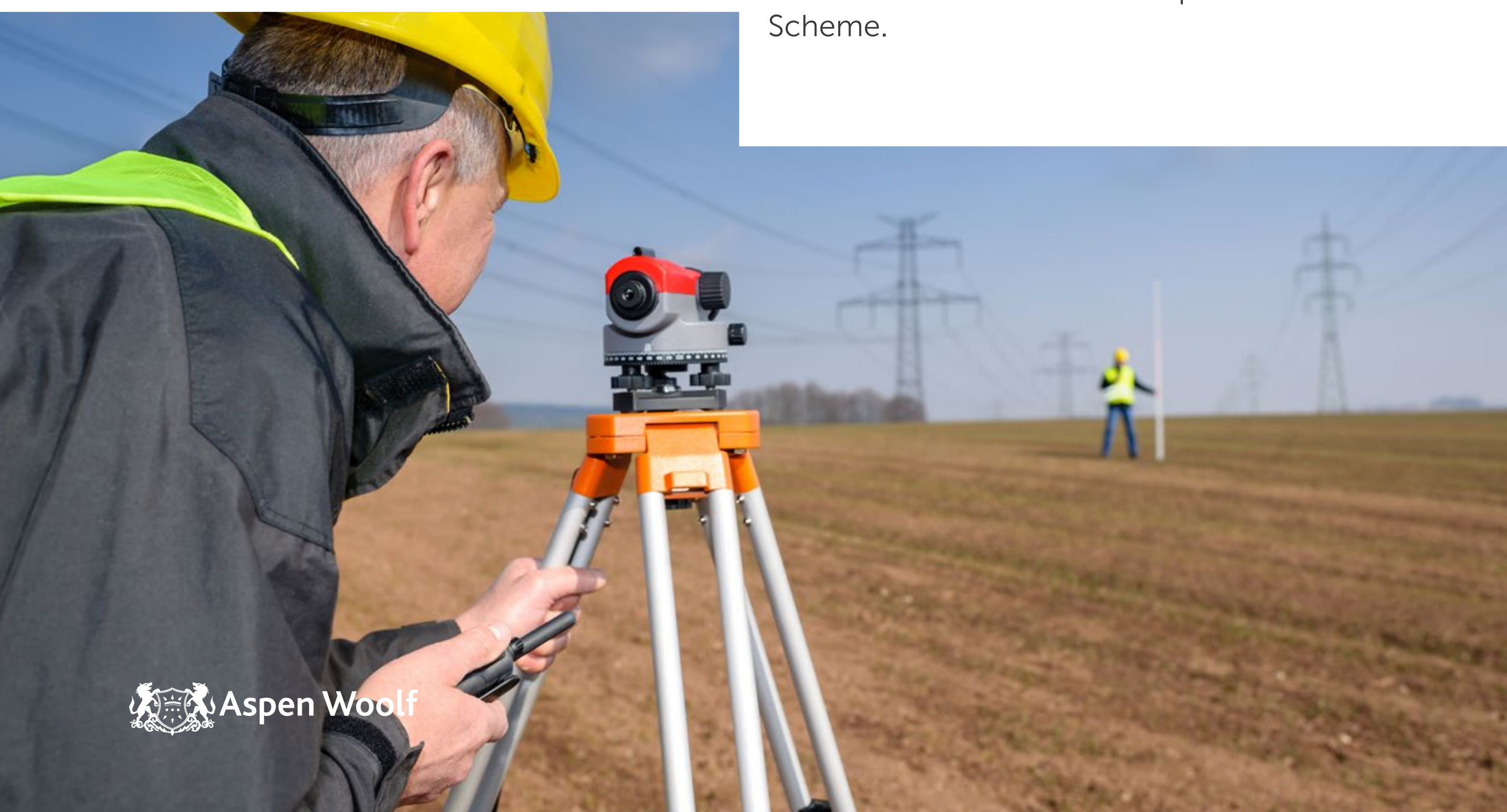
Like with other investments in property, you can hold your shares in a tax-free ISA.

What are the risks of investing in land banking schemes?

There's a much higher risk of fraud with this type of investment than others. You may be investing in land that can never be developed, regardless of what you're told by the seller.

This could be because it's either protected, or exposed to industrial pollution that makes it hazardous for residential development.

If you invest through a scheme that isn't authorised by the FCA, then you have no back up if things go wrong. You won't be able to go to the Financial Ombudsman or the Financial Services Compensation Scheme.



Section 8

Legal Investment Structures

Investment structures covers any investments held on a collective basis. There are various different structures that can be use when the investment asset is owned by several investors.

The legal structure is a tool to allow several people, companies or businesses to invest in the underlying asset. The type of structure used has implications for the investors, including tax payable, fees charged and what happens if the investment fails.

An example of this could be a hotel investment that is structured as a limited partnership, corporate bond, direct partial ownership or membership of a company limited by guarantee. Each of the structures listed will offer different returns, despite the asset remaining the same.

There are five main structures to think about: personal ownership, an investment company, pension scheme, Limited Liability Partnership (LLP) or a trading company.

When making your decision you also need to take into account that there are typically four types of tax to think about with each structure:

1. Stamp duty land tax (SDLT).
2. Capital gains tax (CGT).
3. Inheritance tax (IHT).
4. Taxation of rent (corporation or income tax).

Here's a quick summary of the five main structures:

- Personal or partnership ownership
  Partnerships, LLPs and sole traders all come under the same umbrella of rules. If property is owned in this way, it's considered good from a CGT point of view. This is because sales can be made with relatively low rates of CGT (18%), after the capital gains tax allowances for each partner are deducted.

  However, the downside is that tax on rental income will be at the individual investor's highest rate of tax (up to 45%). So, this structure is best for a short-term property ownership scheme aiming to make capital gain. It could also work for individuals who are taxed at basic rate and operating a small portfolio.

  When it comes to IHT, properties held like this are part of the individual's estate. If an estate exceeds the nil rate band (£325,000), the rest is subject to inheritance tax at 40%. That is unless no inheritance tax is liable until the death of the spouse.

- **Investment company**
  This is for a strategy of long-term retention of properties, where profits are used to buy more. The main goal is therefore to get the lowest income tax rates possible to leave more money in the business to buy more. This means a limited company structure is best, with 80% of profits being retained.

  There is a small market for selling companies with big property portfolios, rather than selling properties from within it. This would mean less SDLT for the buyer (at 1-2% for company shares rather than 7% for individual purchases of property).

  However, there is a downside to this type of investment. When an investment company owns a portfolio, problems can arise when individual properties are sold. The company would take the hit of 20% corporation tax on the sale itself. The shareholders would then get a dividend of the proceeds, which would incur up to 36.1% income tax for high earners. This puts the overall tax at around 50%.

  Although a company provides limited liability to the owners, this isn't as valuable as it could be. As the risk presented by property ownership is more modest than other trading assets, it means insurance policies for the usual commercial risks should be taken out.

  If there isn't a shareholder agreement, and where properties are owned by people who aren't connected with each other, the company ownership creates some responsibilities and rights automatically. This is down to the Companies Act and gives it a formality that will suit some people.

  Some lenders aren't prepared to give residential property mortgages to a company. Several banks have specialist departments who will go ahead.

- **Trading company**
  When shareholders work in a profession or trade, they can use the trade profits to buy a property within their existing company. This means they don't have to set up a property business separately and will avoid income tax.

  On retirement, the trade can be sold separately to the property, with only the corporation tax kicking in. The property is left in the company, which is now deemed an investment company. The shareholders can then take a retirement income from the business as tax free basic rates dividends up to £36,000 per annum.

- **Pension fund**
  This is a very tax efficient way to own property. However, these funds can only own commercial properties and are prohibited from investing in residential properties.

- **Unit Trust, including Exempt Property Unit Trust**
  This is where investors receive units that represent their investment into the fund. Therefore, the amount of capital and income they make is based on the number of units they hold. Authorised unit trusts are regulated by the Financial Services Compensation Scheme (FSCS). They are open ended and must provide some liquidity to investors. Unauthorised unit trusts are not covered by the FSCS and often have limited liability.

- **Open Ended Investment Company (OEIC)**
  Similar to unit trusts but they are set up like companies. Investors buy shares and the company then uses the money to invest. The return for the investor depends on how many shares they hold.

  Risk must be spread across multiple assets and investors have to be able to reasonably expect to redeem their shares in a decent span of time, for an OEIC to qualify under the FCA definition.

  They can be regulated or not and are often incorporated into tax exempt jurisdictions. This means investors only pay tax on the capital and income they receive.

- **Investment Trust**
  These are a type of collective investment set up as public limited companies. The shares are traded on a recognised market. While investment trusts invest in other company's shares, Real Estate Investment Trusts (REITs) invest in property only.

Section 9

Why Diversification Makes Sense

If you spread your money across different asset classes (a term used to describe different kinds of investments), then the risk of losing money is reduced.

This will give you what's known as a property portfolio, which helps to protect your overall investment.

What are the different asset classes?

These are the main asset classes, across which you can spread your investment. Property is one of the most important asset classes, but here are the others, so that you can understand the difference.

Asset class: PROPERTY

This covers everything from residential or commercial to buy-to-let, as well as investment in everything discussed so far, including property companies or funds.

The risks of this asset class include volatile prices (when compared with bonds), the potential for gains but also for losses. You can't necessarily access your money fast if you have invested directly.

Asset class: CASH

The simplest form of asset class, which most people utilise in some way, includes current accounts, savings accounts, savings bonds, premium bonds and other NS&I products, any cash you have at home and Cash ISAs.

The risks are low but your money loses value as time goes on, if inflation is higher than the interest rate you're being paid. Authorised UK banks and building societies use the Financial Services Compensation which means your cash is protected up to £85,000.11

Asset class: FIXED INTEREST SECURITIES

Also known as bonds, these are basically fixed period government loans to a company, such as government bonds, overseas bonds, local authority bonds and corporate bonds.

The risks are relatively low and if you hold the bond until it matures, then the returns are predictable, making it a safe bet. Traded prices can, of course, be volatile and if inflation is higher than the interest rate paid on the bond then your money's worth can be eroded.

Asset class: SHARES

These are stakes in a company, and are also called 'equities'. You can either hold shares directly or through an investment fund, which collects money from a group of people. These can be called a unit trust, a life fund or an OEIC (open-ended investment company).

Investing in one company is always high risk, so it's a better idea to invest in a fund as it provides more diversification. Risk levels will always depend on the type of shares in the fund.

Asset class: ALTERNATIVE INVESTMENTS

This includes investing in gold, antiques, wine and other investments that don't fall into the main asset classes. It's not possible to calculate the risk as it's an unpredictable asset. It depends on the quality of the asset and the market at the time of investment.

Why diversify?

Each asset class works differently. So, if stock prices fall, the price of property might rise. If you have a mix of different investments in different asset classes in your portfolio, then there is a higher chance that you will be protected. You are minimising the risk that all your asset classes will lose value at the same time.

Diversifying within each asset class

There are many ways to diversify between asset classes, but also within a single asset class.

For example, with property, you can spread your investments between residential, commercial and buy-to-let.

How keen are you to take a financial risk?

Before you make an investment plan, you should find out how important it is for you to avoid losses. If it is very important to minimise losses, then it's worth designing your portfolio accordingly.

Aspen Woolf

Section 10

Investing In Property Development

Research, research, research!

Taking the time to find the ideal property investment for your needs will pay off.

Here are some ways you can research the area of your potential property investment:

- **Talk to local estate** agents to find information on the area, house prices and rental prospects.
- **Research social demographics.** For example, the divorce rate is increasing, leaving many single householders looking for somewhere to live.
- **Supply and demand.** Over recent years, there has been a marked lack of housing supplied by government. This is likely to be the reason for house prices increasing.
- **Research the local economy.** You want to know whether the area is up and coming. You can ask the local authority planning department for information on how many new homes have been built in the area, and how many are projected. See if there is an increasing business sector growth in the area, as this is a good indication of an area worth investing in.
- **Think about what people want.** For example, affluent couples and young professionals without children generally like city centre apartments in stylish areas where they can spend their money. Families, on the other hand, gravitate towards successful neighbourhoods with good schools, transport links, parking and green space.

Thinking ahead

The basic tenet of investing in property and property development is to buy low and sell higher. So, you need to look at properties that can be feasibly resold for profit, whether you choose to rent in the meantime or not.

Here are some ways that could help you achieve a profit:

- **Cosmetic improvements** – a property that needs just minor improvements to increase value. Sometimes, relatively small decorative improvements without involving architects, planners or professionals, can boost the value.

- **Property conversion** – this sounds relatively simple in principle. Buy a house, convert it into flats and sell the individual apartments. However, it's a complex transaction that will require careful budgeting and planning. It could be a risky investment if you're thinking about investing all you have in a property conversion. If done successfully, then it's possible to get a decent return, but there are many costs along the way that this can't be guaranteed. It can be more profitable |to convert apartments back into a house. Either way, planning consent is needed.

- **Change of use** – the most important thing to be aware of if you're looking at a property that you want to fundamentally change the use of (for example, a pub into apartments), is that you shouldn't buy on the proviso that planning permission will 'probably' be granted later. Usually this isn't possible, as deals are completed when planning permission is granted – if a vendor will only consider selling on an unconditional basis, that is without guaranteeing planning permission, then the deal should be shelved or left to professionals.

- **Building regulations** – whatever type of property you're looking at, and regardless of the level of conversion you're planning, you need to fully understand building regulations.

Section 11

Investing in Off Plan Property

If you're nervous about investing, then it might seem too high risk to invest in a property that doesn't exist yet. But, many investors and buyers have benefited from taking the risk.

The whole idea is to buy at current prices at the planning stage, and when the development finishes, it will be worth more. In a robust market, it's possible to see profits of between 10-20% from a deposit of 20%.

When to buy

It's common for large investment companies or groups to be given a first look at 'units' that will become the properties, before the plans are made public. The units that are left are then usually offered to private investors. You'll be able to get all the information from the estate agent and should be able to view a show home or a prototype unit.

A 'show home' should show exactly how a typical property in the development will be when it's complete, and reflect what you will get for your investment once it's built. It's best to 'get in' early if possible as you're more likely to get a discount on the price.

Research carefully

You can conduct plenty of research online for new build home developments in the area you're interested in. You should be able to tell how popular it is by how quickly the units are selling.

It's vital that you work out feasible rental prices for the area before you commit as you need to know you can cover the mortgage on your investment. Or, if you're intending to sell it when the price increases, be aware of how many units are being sold to buyers who are planning to let them out. You need to assess the direct competition you will be facing, whether your investing in off plan property for renting or selling.

Here are some things to consider:

- **Where is it?** – The location is always key, particularly when it comes to assessing the likelihood of making money out of the property. Is it in an area that's generally being regenerated, for example? Is the infrastructure, such as schools, roads and shops already in place? Are there plenty of new build developments nearby? If so, think about it carefully. If the area is already saturated with similar properties it will make it harder for you to get a return on your investment.

- **What's the price?** Clearly you should search the surrounding area to see the kinds of prices houses are going for. However, as you're buying before it's been built and you won't be able to sell or rent for at least 12 months, be aware that the market can change a lot in that time. Sometimes the developer will offer a guarantee on the rental yield for the first couple of years, which could give you more security in the short term.
- Look at the property spec. Study the details, specifications and plans for the property. Make sure that it will suit the target market you are aiming for, whether that's tenants or buyers. It's best to visit the development in person if you can to assess the likely vistas from the property. If you rely on computer generated plans, you could miss something nearby that could put renters off, such as an unsightly power station or recycling facility.

How to buy off plan

Once you've found the development and location you're happy with and arranged your mortgage, loan or investment fund, you'll need to reserve the property and pay a fee (usually from £500 to around £1,000).

Arrange for a surveyor to value the property, as your lender will want this information. Complete all the legal paperwork and then exchange contracts. This is the time you pay the deposit (usually between 5-10%).

The importance of forecasting

When buying off-plan property, you must have an accurate idea of what the local property market is like. If you don't take the time to research the area you wish to invest in, then you will be opening yourself up to a lot of unnecessary risk.

If you can find out that growth is expected short term, then the chances are that buy the time the property is completed you'll already be looking at profit.

Advantages of investing in off plan property:

- **Breathing Space**
  One of the biggest advantages of investing in off plan property is that you have time to plan how to make your investment work best. Compare this to buying an existing property that needs to be either filled with tenants or marked up and sold immediately.
- **Control of the end result**
  Putting money into a property before it's been built means there's a nbigger chance you will have some input in the end result. You can make sure the décor and look is how you want it, and add extras if you want to. All of this can increase the value of the property for your purposes, whether you're looking to sell it on or rent it out.

- **Perfect positioning**
  As with all developments, new ones have prime areas. If you buy off plan then you'll be among the first to choose exactly where you want your property, rather than having to compete with lots of other people for an already established property.

  It's worth considering practical things like parking, schools, shops and local transport links. All of this will dictate the kinds of buyers or tenants that will be interested in your property.

Are there any disadvantages to off plan investment?

It may sound like it's an overwhelmingly positive choice for investors, but there are definite drawbacks to be aware of. It's not the easiest way for everyone as you will more than likely need a cash deposit.

Lots of banks are reluctant to lend money for off plan investment. It's not clear why financial institutions consider it riskier, but the fact remains it's difficult to get a mortgage or loan for this kind of investment. But, if you can find the cash for the deposit, buying off plan can be a favourable option.

Section 12

Tax in Depth

There are various tax implications to consider when you're looking at investing in property. Keep an eye out for new legislation as it changes relatively often. We've broken down all the tax information you'll need below.

Selling property

You might have to pay Capital Gains Tax (CGT) on any property you buy and sell.

If it's your home that you've lived in during the past three years, then you generally don't have to pay CGT, as you can claim Private Residence Relief on any profit you might make. However, if you have let your home out during the time you've owned it (either part or fully let), you might incur CGT.

If you are selling a property that you haven't lived in (this could be a holiday apartment, a rental property you have been making money on, or a property you bought for a family member), you can't claim Private Residence Relief and might have to pay CGT.

Buying property

You might have to pay Stamp Duty Land Tax when buying a property direct.

This will apply if the property you're buying is residential and it costs more than £125,000. For non-residential properties, the threshold rises to £150,000.

The more expensive the property is, the more you'll have to pay. From April 2016, an additional 3% is added to each band of Stamp Duty when you buy an extra home or a residential buy-to-let property.

Tax on rental income from direct property investment

With the first two, you can claim expenses back to reduce your income tax bill. With rent-a-room, you get a tax-free allowance.

Letting a residential property as an investment

If you are renting out either the whole of your property or part of it for someone to live in, then you will pay tax on the profit you make from this rent.

The profits are treated by HMRC as a normal part of your income, so tax is charged at normal rates. You need to calculate the profit you make exactly, including what you can deduct. These include Council Tax, letting agents' fees and buildings insurance. This will reduce the tax you pay.

If the property is furnished, you can also benefit from a renewals allowance or a wear and tear allowance (you can't claim for furnishing it initially).

Letting a holiday home as an investment

The property you rent as a furnished holiday let must meet certain conditions. It must be either in the European Economic Area (EEA) or in the UK and it can't be let out for more than 31 consecutive days.

It must be available as a holiday rental for at least 210 days of the year and let for at least 105 days.

You receive the same allowable expenses listed above.

Rent-a-room scheme

For those who choose to rent out rooms in their property to lodgers, there's a choice between treating it as residential property letting, or claiming Rent-a-Room tax relief. For the latter to be considered, it can't be a separate flat and the lodger must share common spaces, like the kitchen.

The benefits are that you don't have to pay tax on the first £7,500 of your income from rent. However, you can't deduct any expenses and if you make a loss, you can't deduct from your other taxable income.

For example, if you're the only owner of a house and you make £7,900 in rent, you won't pay income tax on the first £7,500. You will pay on the amount (£400) over the threshold, in the same way that Self-Assessment tax works.

Generally, if it's going to cost you more than approximately £4,000 to maintain the room that you're letting out, then it's probably more sensible to go with treating it as residential property letting.

Tax on indirect property investment

If you're investing through a fund, or buying shares in an investment scheme or company to deal with your property portfolio, then you may experience special tax arrangements.

Real Estate Investment Trusts (REITs)

A REIT is split into two different parts for tax purposes. There is the property letting business, which is ring fenced and therefore exempt from paying corporation tax. Then activities, such as property management services, that are not ring fenced.

In terms of dividends:

- **The payment you receive from the tax-exempt part are considered UK property income for the investor. These are paid net of basic tax rate. Non tax payers can reclaim this, and if the REIT is held in an ISA, investors receive the payments gross.**
- **The payments from the non-exempt element are paid with a tax credit, in the same way any other UK dividend is.**

Property Authorised Investment Funds (PAIFs)

These are similar to REITs and also have tax breaks which are passed on to the investor.

For property funds that are neither REITs and PAIFs, few will come with tax breaks. It's always wise to check with the FCA that they are legitimate to minimise your risk.

Section 13

Investing in Student Accommodation

An area well worth considering for investment is student housing.

There are always plenty of tenants looking for accommodation, and demand is showing no sign of slowing down too much in the future. In the school year of 2014/2015, the number of students in Higher Education in the UK reached 2,266,075.

Why invest in student accommodation?

Parents could save money by investing in a property for their children, rather than renting accommodation for 3-4 years (or more, depending on how far the studying goes) while they study. In a similar way, buying a house to accommodate a group of students could mean earning a decent rental income.

Investing in student houses or purpose-built student accommodation (PBSA) for those without student children, is also a good idea. Developers of PBSA are often keen to attract landlords by guaranteeing rental yields for an initial set period, as well as day-to-day help from a management team. This makes it a very tempting proposition if you're looking to invest in property, and haven't yet made up your mind what type of investment to make.

Investing in student houses

If you're buying a house for your own child, then they can take control of property management. If you're investing in a house for strangers to live in, then you might feel worried about renting to a group of teenagers who may have no experience of living away from home.

However, there are systems in place to make sure rent is collected, and you can insist on guarantors for each student. This is usually the parent, and can take away some of the risk. If you can afford to pay a deposit in cash up front, then that's a good way to start. However, if you'd rather not pay the deposit yourself, then you can be a gateway for your children to get a mortgage.

Mortgages with a guarantor

This is where a parent, or another family member, formally guarantees to pay the debt if their child doesn't make the payments on the loan. They will use their own home as collateral for this. Many lenders will expect the student to also earn an income. An example of this kind of mortgage is one that would be in the student's name only, with the parents acting as guarantors. The amount the student will be able to borrow will usually be dependent on how many rooms will be let out.

Joint mortgages

A different way to invest in their child's accommodation would be for parents taking out a joint mortgage. Since the instigation of the extra 3% stamp duty on second homes in April 2016, this has become less popular. Because of these tax complications, it could be better for the child to take out the mortgage with parents acting as guarantors.

The property would then be in the child's name and would be able to rent out rooms using the rent a room tax break. From 6 April 2016, this was £7,500. The income would then be tax free, however, this takes a lot of planning to achieve.

Joint ownership arrangements should always be put in writing and the best way would be for parents and children who buy a property together to own as tenants in common. This would mean that each own a share of the property and they can decide what to do with it in their will.

This would allow them to clearly show who owns the majority share, which needs to be considered when it comes to tax.

Five things to consider when buying a student house

- Location is extremely important. It needs to have good connections with the nearest town and amenities, as well as to the university. Agents will be able to advise which areas are the most popular and where houses go fastest.
- Remember that student accommodation is one of the only property types that doesn't have to be in the best area. It's much more important that the students can reach where the need to go. So, it can be on a busy road, or have less than stellar views, as long as the university is near and the rent is reasonable.
- The kind of student accommodation that rents out the fastest is usually three or four bedroom houses. One bathroom would do, but two would be better. If possible a separate toilet would go a long way. Outside space is nice, but don't worry about a garden or anything that needs too much maintenance.
- Newer property that is well equipped and modernised is always going to be easier to maintain. It's best to avoid period property that will need constant attention, as this will just use up your yield and make it difficult to avoid periods where you must cover the mortgage yourself.
- Bathrooms and kitchens should be basic and functional. Robust equipment that will last is more important than fancy gadgets. Flooring needs to be hard wearing and paintwork should be plain.

Purpose Built Student Accommodation (PBSA)

This sector is proving strong. In 2015, 74,500 beds were traded at a cost of £5.6 billion. This data comes from Savills' UK Student Housing research in May 2016. This sector offers good rental yields and can be a great investment.

However, if you want capital income at the end of your stint of ownership, it's a risky investment. PBSA has limited interested buyers if you decide to sell.

It's also not possible to take out a buy-to-let mortgage for PBSA. Instead you'd have to take out a commercial mortgage or pay with cash. PBSA won't increase in value at the same rate as other residential property and can be difficult to finance, so they're not for everyone.

Location

If you're not investing because of your own child, then it's wise to do plenty of research to find out where the best investment would be. Industry insiders such as the Higher Education Statistics Agency have a lot of information regarding the income of universities. Similarly, the Times HE publishes a financial health check on universities every year.

A key factor to consider is how strong the university is. Cities such as Brighton, London, Manchester and Oxford are generally safe bets, but lesser known universities can also offer a good investment with a strong possibility of high rental yields.

Rental yields in London

Many property developers concentrating on student accommodation have been priced out of the centre of the city. Developers are concentrating on the outer areas of London, including the outer Tube zones and areas such as Wembley and Stratford.

It's also important to understand that rental yields in London will be lower than they are in other areas, and in other lesser known universities. Rough figures show that central London will command rental yields of 4.5%. Other major university cities will be around 5.5%, and if you concentrate on second-tier universities in places like Norwich and Canterbury you could be hitting rental yields of 6.5%.

Student property fund investment

If you don't want to invest directly into the house yourself, it's worth looking at investment funds that are specific to the PBSA market.

There are companies in this sector that concentrate on student property, with the option for private investors to buy shares.

Some student property investment funds will concentrate mainly on marketing to overseas students to take up the units. This is because they are more likely to have the financial means to pay for high quality accommodation, plus the fact that they generally pay the rent up front for the entire academic year, making it a safe investment.

The opportunity to invest in a sector that gives high financial yields is attractive for many. It's a steady rental yield and the weakened sterling means that the UK could become even more attractive for overseas students.

But, student accommodation investment funds are generally considered high risk. They are unregulated and generally have high charges. In addition, they can suffer from poor liquidity, which means it could be difficult to get your money back when you want it.

The best cities to invest in PBSA

We know that this market is very resilient. Since 2015, for example, foreign investors have pretty much doubled their share of the market. It's certainly one of the safest investment areas we can recommend, but where's best outside of London?

We've had a look at the cities and towns around the country with the best investment opportunities for PBSA. These are our top five:

- PLYMOUTH – this city is located on the coast in the south west of the country. Several well regarded and successful Higher Education (HE) institutions are found there, including the University of Plymouth itself. This is ranked in the top 2% of universities worldwide, and has a student population of about 23,150 (figures for academic year 2016/2017).

  The University of Plymouth can only house about 12% of its student population, and has a chronic shortage of housing. While there's more than 23,000 students, there's only about 2,800 rooms available within the university itself.

  This is where brand new PBSA developments have come in. The lack of housing available is great news for potential property investors, as there is always going to be demand. You can expect potential yields of 8% per annum if you invest in PBSA in Plymouth.

- HUDDERSFIELD – there is a lot of investment going on in this Yorkshire county town right now, including the £74 million redevelopment of the Waterfront Campus belonging to Kirklees College.

  Kirklees is one of four highly regarded HE institutions in the town, which includes 2013's University of the Year, the University of Huddersfield. There's currently a student population of around 40,000 in the town but a definite lack of suitable housing. Many students find themselves having to travel at least four miles onto campus.

  All of which is why new PBSA developments are proving extremely popular in the town – with students and investors alike. The latter can expect rental yields of around 9% per annum.

- BRISTOL – a thriving city in many ways, Bristol is popular with young people. This is partly due to the two universities based in the city. The University of Bristol is often ranked in the top 10 institutions in the UK, while the larger University of West England posts excellent student results post-graduation.

  Between them, these two institutions mean there are at least 50,000 students in the city needing homes. Along with the fact that Bristol is becoming very popular as a property hotspot (it was named the best place to live in the UK by a Sunday Times poll this year), means the city is a great place to consider if you want to invest in PBSA developments.

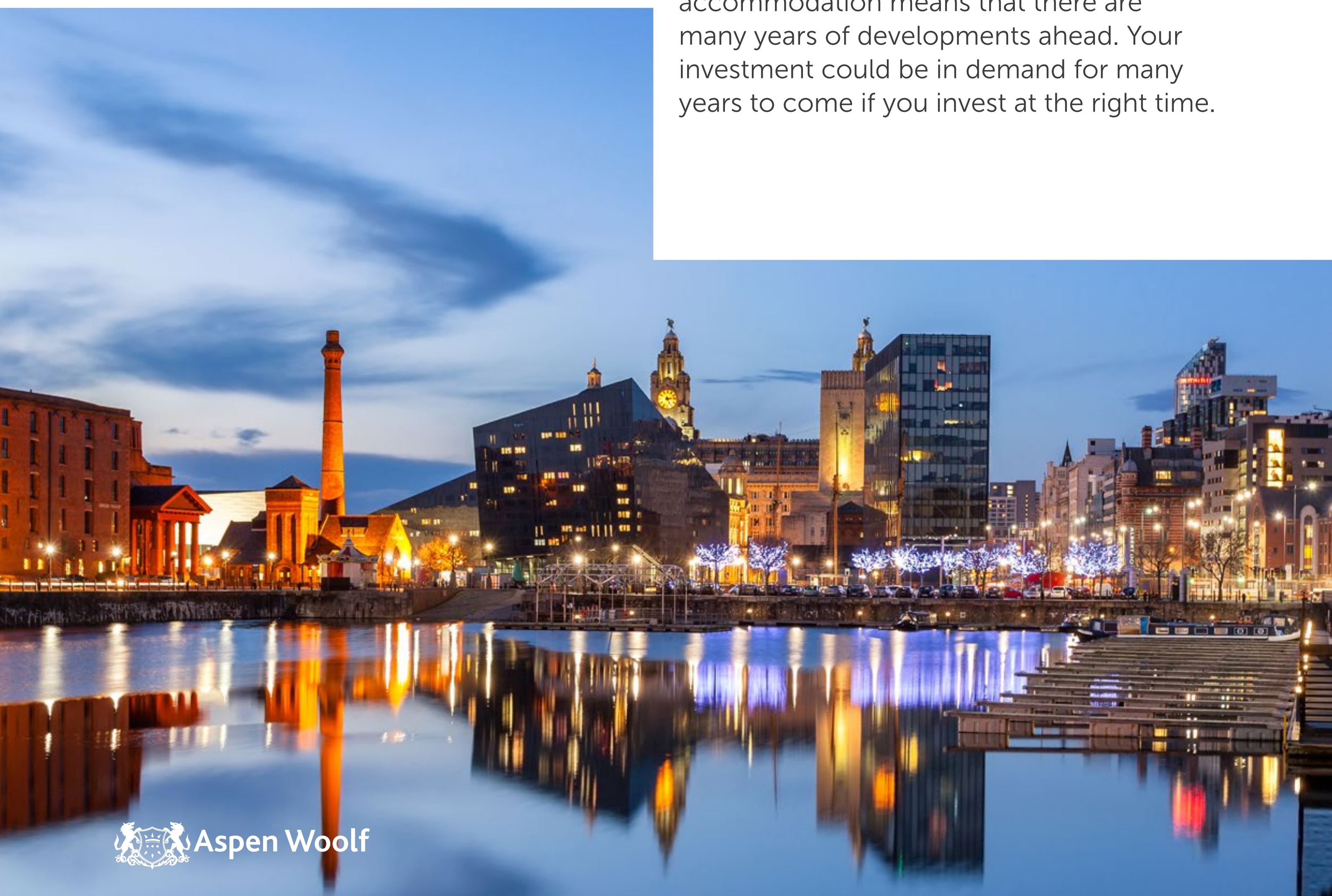
- LIVERPOOL – a huge amount of regeneration has boosted Liverpool's credentials as a popular place to live, work and study. The city is home to around 67,000 students attending various HE institutions, including the University of Liverpool, Liverpool John Moores, Liverpool Hope and the Liverpool Institute for Performing Arts.

  Over recent years, it seems that students are willing to pay for more upscale options when it comes to their housing. This is particularly true for overseas students, and developers have been answering this demand with lovely PBSA developments designed to cater for investors and students.

- LEEDS – this northern powerhouse is a very popular student city, with HE institutions such as the University of Leeds, Leeds Trinity University, Leeds College of Art and Leeds College of Music proving popular.

  There's around 70,000 students in the city, which has led to Leeds being a popular choice for PBSA investment. It's very much worth looking into the new developments that are coming up, and understanding the benefits they could offer. Demand from tenants and investors remains high, and it's not going to drop any time soon.

These areas all offer some of the most attractive returns for investors, with all producing rough rental yields of around 7-8% annually. The fact that these cities are chronically under-supplied for student accommodation means that there are many years of developments ahead. Your investment could be in demand for many years to come if you invest at the right time.



Section 14

Glossary

- **Buy-to-let** – A mortgage product specifically designed for the purchase of a property specifically to rent out.
- **Capital Gains Tax** – A tax levied on profit from the sale of property or an investment.
- **Capital Growth** – The increase in value of an asset or investment over time. It's one of the most fundamental investment objectives for investors.
- **Commercial Property** – Refers to buildings or land intended to generate a profit, either from capital gain or rental income.
- **Corporation Tax** – A tax levied on companies' profits.
- **Direct property investment** - Real estate investments, including commercial, industrial, retail, residential or any other property asset, held directly (direct ownership on the title
- **Freehold** – The outright ownership of land or property for an unlimited period and applies to the majority of houses.
- **Financial Conduct Authority (FCA)** – The regulator of the financial services industry in the United Kingdom.
- **Financial Ombudsman** – Established in 2000, and given statutory powers in 2001 by the Financial Services and Markets Act 2000, to help settle disputes between consumers and UK-based businesses providing financial services, such as banks, building societies, insurance companies, investment firms and financial advisers
- **Fixed Rate Mortgage** – A mortgage with a fixed interest rate for the entire term of the loan. The benefit of a fixed-rate mortgage is that the homeowner will not have to contend with varying loan payment amounts that fluctuate with interest rate movements.
- **HMRC** – HM Revenue and Customs is a UK government department responsible for tax collecting, paying some forms of state support and administering other regulations.
- **Housing Health & Safety Rating System (HHSRS)** – A risk-based evaluation tool to help local authorities identify and protect against potential risks and hazards to health and safety from any deficiencies identified in dwelling.
- **Income Tax** – Tax levied directly on personal income.

- Inheritance Tax – A tax levied on property and money acquired by gift or inheritance.
- Interest Rates – The proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.
- Investment Asset Classes – A group of securities that exhibits similar characteristics, behaves similarly in the marketplace and is subject to the same laws and regulations.
- Investment Banker – Someone who works in a financial institution that is in the business primarily of raising capital for companies, governments and other entities.
- Investment Broker – People who bring together buyers and sellers of investments. They have to be licensed to act on behalf of buyers and sellers of stock.
- Investment Funds – A supply of capital belonging to numerous investors used to collectively purchase securities while each investor retains ownership and control of his own shares.
- Land Building Transaction Tax (LBTT) – A Scotland only tax applied to residential and commercial land and buildings transactions (including commercial purchases and commercial leases) where a chargeable interest is acquired.
- Leasehold – A temporary right to occupy land or property. The person who owns the freehold interest in a property may grant a lease on it to another person.
- Let-to-buy – A mortgage product available to customers which offers an alternative to the Buy-To-Let option. It works by allowing you to borrow money to buy a new home to move into, while your existing residence is let out to tenants.
- Mortgage Broker – A person or company that arranges mortgages between borrowers and lenders.
- Off-plan property – A property before a structure has been constructed upon it. Pre-constructions are usually marketed to real estate developers and to early adopters as developments so that the purchaser can secure much better finance terms from their lenders.
- Offshore Property Companies – Offshore describes foreign banks, corporations, investments and deposits. A company may legitimately move offshore for the purpose of tax avoidance or to enjoy relaxed regulations.
- Portfolio diversification – Investing in different asset classes to reduce overall investment risk and to avoid damaging a portfolio's performance by the poor performance of a single asset class.
- Property Authorised Investment Funds (PAIF) – A tax-efficient vehicle that allows funds to pay gross dividends from property rental income with no corporation tax deducted.
- Property Unit Trust – An unincorporated mutual fund structure that allows funds to hold assets and provide profits that go straight to individual unit owners instead of reinvesting them back into the fund.

- **Real Estate Investment Funds** – Real estate funds and Real Estate Investment Trusts (REITs) are used when diversifying a long-term investment portfolio. A real estate fund is a type of mutual fund that primarily focuses on investing in securities offered by public real estate companies.
- **Rental Yields** – The rate of income return over the cost associated with an investment property, typically expressed as a percentage.
- **Residential Property** – A building that is used or suitable for use as a dwelling, or is in the process of being constructed or adapted for use as a dwelling; land that forms part of a garden or grounds of a building suitable for use as a dwelling.
- **Share Portfolio** – A grouping of financial assets such as stocks, bonds and cash equivalents, as well as their funds counterparts, including mutual, exchange-traded and closed funds.
- **Stamp Duty Land Tax (SDLT)** – SDLT has applied since 1 December 2003 when it replaced stamp duty on UK land and buildings. It's charged in bands which increase as the value of the property increases.

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Notes

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