

A PLACE OF THEIR OWN

Buying an apartment in the UK for university-bound children can make a lot of sense for overseas parents.

BACK IN THE days when UK property prices were surging upwards, it made good sense for parents to buy a property for children studying at British universities. It wasn't just cheaper than renting — canny parents could earn a decent return even during the three short years of a normal undergraduate course.

Cherie Blair, wife of the former British prime minister Tony Blair, infamously exploited this trend back in 2002 when she paid £262,500 each for two new-build apartments in Bristol, where their son Euan was studying. It later came to light that Peter Foster, a convicted fraudster, had helped to buy the properties, causing something of a scandal at the time. More interesting, perhaps, is how the properties fared as investments.

One of the flats went on the market in the summer of 2008 for £285,000 and is reported to have sold for just under the asking price, representing a fairly meagre appreciation of less than 1.4% a year. But, as parents are increasingly realising these days, capital gains are not the only reason to buy. Euan did not move into either of the Blairs' Bristol properties in the end, and they were reportedly both let out for £1,200 a month — clearly, these were not student bedsits, but luxury apartments in a brand new development.

Estate agents in the UK say they have noticed an upsurge in parents buying property for their kids during their studies, even as the capital gains have withered, thanks to the slumping secondary market and new legislation.

FALLING PRICES

Two factors are making it more attractive than ever: collapsing property prices at the lower end of the market, combined with continued rises in rents, particularly in university towns where student numbers continue to grow. That means buyers can save on the rent their kids will pay while making good yields from letting out any additional rooms.

An increase on capital gains tax on flats to 28% has hurt

investment returns, but property advisers suggest that buying in the child's name can significantly offset the costs of an investment in UK property. As long as they have little or no income, their first £10,100 will be exempt from capital gains tax and they will pay no more than 18% on the remaining profits.

WHERE?

The Blairs' fancy Bristol properties were once the favoured type of investment among wealthy parents, thanks to the rapid appreciation at the luxury end of the market before 2007, but they are no longer the type of investments that streetwise parents are looking at. According to Savills, an estate agent, the cheapest university towns for flats are Leicester, Lancaster and Loughborough, while Durham, Birmingham and Nottingham have the cheapest terraced houses. And these are the places where the best yields are available.

Cities such as Bristol, Oxford and Cambridge tend to be the most expensive areas for buying, though the average rents in such cities can still mean that buying is a better option than renting. Indeed, the most expensive one-bedroom flat ever sold in Cambridge changed hands earlier this year when a Malaysian couple spent £305,000 on a flat for one of their children.

WEAK POUND

Of course, the weakness of the pound has made the UK an even more attractive destination for Asian parents, both in terms of the cost of education and the affordability of housing. Such is the demand, says Knight Frank, a British property firm, that Asians are now buyers of close to half of all investment properties in central London.

More specifically, Knight Frank is upbeat on the prospects for the student sector. It says in a recent report into the market that today's grim economic climate is encouraging more people to study, which means more demand for rental accommodation.

Overall, applications rose 10% in the last academic year, but it's the proportion of foreign students that makes the strongest case for student property yields. Many of the new students are from China. Britain's university admissions body has reported a 27% increase in applications from China this year, compared to an average 16.6% increase for all foreign students. Such students tend to be far more likely to live in private accommodation rather than staying in halls of residence.

RENT

The growth in student numbers has not always been so strong, but rents have nevertheless appreciated steadily. Britain's student population is 2.4 million people for the current year and has grown at an average rate of 2.5% since 1996. But student rents have been on the rise for the past six years at an average rate of 5% a year, according to Knight Frank, which compares very favourably to the 0.6% returns from the commercial property sector.

"As an asset class, the student accommodation sector is maturing and becoming recognised as an important element of the wider property investment market," writes Knight Frank in its report. "Since mid-2009, there has been increased demand

for secure income-producing assets and demonstrable yield compression."

Indeed, the sector has become so attractive that several big developers are starting to take their profits from existing projects so they can take advantage of today's lower property prices and increase their yields. Unite, one of the biggest developers of purpose-built student accommodation, recently sold a property in Bristol for £21.5 million at a yield of 6.07%.

Direct let yields might yet have further to go. "[We predict] future growth in values, with opportunities for well-located en suite cluster schemes in London and top university cities," says Knight Frank. "Given the lack of product in the development pipeline, especially in the capital, there remain excellent prospects for resilient financial returns."

The biggest sticking point in such an investment might be the ability of your children to be effective landlords on your behalf — and some parents warn that it is not a responsibility all kids cope well with. If that is a concern, it can be easier to contract with a local firm to manage the property. But it can also be a good learning experience for kids who are being groomed to take over the family business.

