"Letting" students add to your portfolio

Where there's a university, there's an opportunity.

During a three-year university career, the bank of mum and dad can fork out an average £13,500 on rent for their child. At the moment, with property prices falling and student populations at an all-time high, investing in a house at university for your child could be an alternative.

As property investments go, student lets can be one of the less risky options. This is mainly because there is high demand for student accommodation across the UK. There's a traditional shortage of student flats as many landlords are unwilling to rent to students. However, in reality, students are some of the best tenants you can get.

Their parents act as guarantors, they are willing to sign up to leases for the entire year and they are willing to pay a fair price for a good property in a good area.

There is also little chance of demand drying up. As long as the university continues to exist, so will the annual influx of students to the area, thus making it easier to fill rooms. The recession is keeping students at university longer and forcing graduates to return in order to get new skills and brush up on old ones.

When choosing a location, the key is research. University accommodation services will be able to tell you whether or not there is demand for accommodation, the average rent charged in the area and what requirements you need to fulfil to feature on their accommodation lists. Some student lets are only nine months, leaving the property vacant for the summer. However, choosing an area of high demand, such as Bristol, Nottingham or London, will bring in not only higher rental incomes, but also guarantee longer rental periods.

The buy-to-let mortgage deals that do exist now offer low rates but the fees can be significant, as much as 3.5 per cent of the amount borrowed. You will also be expected to put down at least 25 per cent of the purchase price as a deposit.

There is also considerable emphasis on the amount of rental income you can make on the property. Lenders will want to see that the income of the property will cover the mortgage properly. They usually require the rent to cover 130 per cent of the mortgage. So for a £600-per-month mortgage they will want the monthly rental income to be at least £780.

If you are buying a property for your child to live in, as well as to rent to other students, tax-wise it makes more sense to give your child the finances to buy it, rather than purchasing it yourself, as once the property becomes the principal private residence of the occupant, all the rules change; you do not have to pay capital gains on a property which is your principal private residence. This means that if your child's name is on the deeds you can side-step any capital gains tax for the entirety of their university career, provided they live in the property. Also, as the owner of the property, your child can take advantage of the tax relief given by the "Rent a Room" scheme. This allows a tax-free rental income of £4,250 per year if you rent a room in your principal private residence and share communal spaces such as the kitchen and living room. Giving your child the finances to buy a property is also a good way to soften the blow of inheritance tax. As long as the gift is given at least seven years before your death it will not be considered part of the inheritance package, so it is an effective way of spreading out your estate. If researched carefully, both benefits and costs with tax exemption make buying to let to students a potentially lucrative option.

To discuss your financial requirements or to obtain further information, please contact us.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Levels and bases of, and reliefs from, taxation are subject to change. Buy to Let mortgages are not regulated by the Financial Services Authority if your child occupies less than 40 percent.