

DANGERS OF INVESTING IN STUDENT ACCOMMODATION

Do you like the sound of above average rental yields? What about a cash flow positive investment, even better, a low purchase price? Sounds great doesn't it. These are just some of the benefits often claimed of investing in student accommodation. But unfortunately in our experience this is usually where the good news stops.

Investing in student accommodation has its fair share of downsides that need to be carefully weighed up against the potential benefits before embarking on this route.

Higher costs

Student tenants often require additional security, living supplies (cutlery, etc.) and full furnishings. On top of this, the higher wear and tear of renting to students can mean more frequent furniture and household goods replacement and increased maintenance costs. Property management fees are also more expensive because of having to manage multiple individual tenants (in cases where many people share one property). In fact many property managers will not manage these properties.

Increased turnover and vacancies

Be prepared to accept an ongoing turnover of short term leases and potentially having the property vacant over the end of year holiday period when many overseas students go back home. Some tenants may continue to rent over this period, but tenant conflicts within the one property and homesickness are common problems that will see higher tenant turnover regardless.

Extra hassles

Multiple tenants in the one property means multiple leases which is enough hassle in itself. Furthermore, student tenants are notoriously late in paying rent so expect regular prodding of each tenant. Such tenants may also not look after the property as well as say a young couple or family, so maintenance and cleaning will be more of a problem. You will also need to investigate whether a normal insurance policy will be sufficient and some Councils may have various requirements for properties with multiple individual tenancies. You could also have difficulty in securing the right loan.

Poor capital growth and resale prospects

By far the worst downside is the strong possibility of minimal capital growth. Student accommodation is in most cases just about short term cash flow at the expense of longer term growth. It is a niche market that only appeals to a very small group of people. Therefore when it comes time to sell, you may find it very difficult. By already cutting out owner-occupiers from your potential pool of buyers you are limiting your market by about 70%, but that figure goes much higher when you eliminate all the regular investors who wouldn't touch student accommodation. This limits your resale value through reduced buyer competition and demand.

The particular student accommodations to avoid most of all are the purpose-built ones, many of which are sold off-the-plan by developers or marketed to investors as all-inclusive 'packages' where everything is looked after for you. Not only will you be paying through the nose but these properties often limit your control by restricting their future rental to only students. This is a recipe for disaster.

All in all, there are people on both sides of the fence when discussing whether buying into student accommodation is a good investment. While it does have some perks and may work out well for some investors, by and large this niche investment is a risky one that often doesn't pay off in the long term, particularly for those who invest in purpose-built student accommodation.