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‘Bank of Mum and Dad’: the perils of helping children buy a home

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What are the factors (and dangers) for parents to consider before they contribute towards a property for their offspring



“There’s usually a bit of a grapple,” admits Sophie Rogerson. The buying agent, who runs London-based property finder RFR, is describing the tensions that often surface when parents buy property for their children.

While parents tend to favour “safe” areas familiar from their own property journeys — in London, think Chelsea and westwards — their offspring “feel comfortable looking at areas such as Camberwell and its surrounds [in south-east London] that to their parents feel undesirable,” she says. “One of the parents took her jewellery off before she went to Brixton.”

This grapple, with or without the removal of adornments, is becoming increasingly familiar in the UK as more parents realise they will need to help out if their children are ever to buy a home of their own. Since the financial crisis first-time buyers have faced tighter mortgage lending

rules and rising prices. The problem is particularly acute in London where current property values are 49.2 per cent higher than their pre-crisis peak, according to market analysts Hometrack.

Average age of first time buyers with sub-50% mortgages



*Age of first time buyers with sub-50% LTV mortgages
Source: Countrywide Mortgages

FT

“Our research shows that [first-time buyers] borrowing with a loan-to-value ratio of up to 50 per cent [implying a large deposit] are getting younger, which suggests that these first-time buyers are at least getting help from parents,” says Fionnuala Earley, residential research director at Hamptons International. How, then, to buy the right thing, in the right place and in the right way — without precipitating family ructions?

“One client ended up going to court after his daughter banned him from the £2m home he had bought her”

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“It’s surprisingly easy to get wrong,” says Mark Parkinson, of property finders Middleton Advisors. He says the number of parents buying a property for children of school age, and then renting it out until the child needs it, has increased during the past three years. Budgets typically range from £700,000 to £1.5m. “We’re telling people to avoid soulless glass boxes in large developments because we believe that prices are going to soften,” he says, citing Nine Elms in Battersea as a London neighbourhood oversupplied with new-

build apartments. “That market is only going one way — they may be a good buy in a year’s time.”

Another factor, says Edinburgh property finder Barbara Armstrong, is a home’s broader appeal: “Consider multiple ‘end-uses’ — something that might be useful for holiday lets, business rentals or owner occupation.”

A common preference is for two-bedroom homes, which provide the child with company and rental income from a flatmate. A split-level, period flat with two bedrooms, two bathrooms, an open-plan entertaining space and proximity to the Tube in Fulham is on the market with Aspire for £875,000.

“We like Fulham at the moment because it’s surprisingly good value. It was trading [above £1,000 per sq ft], now we’re buying at about £800,” says Parkinson, noting the cooling of the capital’s prime property market.

Some parents seek less staid environments, says Rogerson. “They want their children to feel like they’re experiencing real life.” Enter Brixton, where KFH is asking £595,000 for a two-bedroom flat half a mile from the Tube and the buzz of the area’s bars and restaurants.

Those with several children might consider separate properties in different areas, rather than a single, larger home, suggests Jamie Hope of Knightsbridge estate agency Maskells. “There’s [the sense of] not keeping all your eggs in one basket,” he says. “And it might make sense in order to reduce stamp duty payments.” For example, the stamp duty on three £500,000 flats, including the second-home surcharge, would be almost £50,000 less than that on a £1.5m house.

Parents should be prepared for things to go wrong. Some children may not be mature enough to handle such an expensive asset sensibly, and there have been instances where parents unexpectedly fall on hard times, resulting in the sale of the roof over their children’s head, says RFR’s Richard Rogerson.

Another buying agent, who declined to be named, recalls a client who ended up heading for the courts after his daughter banned him from the £2m home he had bought in her name. In such cases, the structure of the purchase is crucial. While gifting a child the cash to buy a home is the simplest way, says Alex Ruffel, partner at wealth advisory specialists Berkeley Law, setting up a trust or a co-ownership arrangement offers parents greater control.

Control over the asset would likely appeal to any parent considering buying the third-floor, lateral apartment on Belgravia’s Eaton Square, for which Maskells is asking £3.9m. With two bedrooms and two bathrooms it offers flatmate potential, but would also be suitable as an investment for young children, with Hope predicting more than a 300 per cent price rise over the next 10 to 15 years.

Yet given that prices in London are going down in many areas, Richard Rogerson says that capital preservation is most parents’ main concern, at least in the short to medium term. “I don’t think there will be much capital growth in the next few years. Parents should accept that the value could go up or down, but at least the children are on the [housing] ladder.”

Buying guide

- Portered blocks can offer security and parental peace of mind — but beware hefty service

charges

- Gifting a child the cash for a home is the most straightforward approach to a purchase, but it denies parents control over the property and investment
- Choose a home with a solid trading history

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Illustration by James Fryer

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