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Why it's preferable to put money into art rather than banks, P8

Interest in real estate investments is growing, P10

# Alternative investments

Turn to page 5 of this guide and you will see an image of the infamous Edvard Munch painting, The Scream, being auctioned at Sotheby's in May 2012. One of four versions of the painting created by Munch, it is the only one that is privately owned. It sold for more than £80m.

Art as an investment is becoming increasingly popular. As too are investments in antiques, race horses, venture capital funds, real estate, jewellery, forests and other such alternative asset classes.

The increasing interest is, in the main, the result of economic uncertainty and investors' desire to look beyond traditional vehicles. It could also be said that there is a growing appreciation of the value – and satisfaction – of turning passions into profit.

Alternative investment strategies can be risky. They often involve putting faith into fledging companies, the need for a horse to cross a finish line first or being left at the mercy of the weather as those investing in vineyards are. However, they can also offer the opportunity to diversify, generate returns and invest in items of personal interest. What better than buying a painting to enjoy while also benefiting (one hopes) from the increasing value? ●

This supplement, and other policy reports, can be downloaded from the NS website at newstatesman.com/supplements

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*Articles express the views of the writer and are not intended to be advice. The writer may or may not have an interest in all or any of the investments mentioned.*

COVER: SHUTTERSTOCK/DESIGN BY LAUREN MESSERBY

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# Spreading your assets

by Dave Coker

Alternative investments can offer individuals somewhere other than banks to place their hard earned cash

For everyone paying attention, the Cypriot financial crisis was scary: bankers teetering on the brink of insolvency once again asked government for a bailout and got it – but with strings attached. This time the depositors, without consultation or agreement, would be involved. A "bail in", the EU banking regulators called it. In other words, individuals with savings above the insured limit would lose some of their cash in return for shares in the rescued bank. They also got the smug self-assured feeling one presumably gets when helping to rescue a financial institution.

Worse, what once seemed to be an adventurous experiment has now been adopted as standard operating procedure, with the EU announcing new rules requiring banks to bail in existing depositors before public funds would be tapped.

So could it happen here? Yes. The Cooperative Bank recently engaged in a bail in and the Bank of England has announced wider plans to tap depositors should a UK financial institution get itself into trouble. That's enough for many people and, while keeping the Financial Services Compensation Fund (FSCF) in mind, rising numbers are looking at moving their money out of banks and into other assets.

What kind of assets are people considering? There are, of course, the "traditional" investments, shares and bonds. On the whole shares generally offer relatively high growth over long periods of time. But the growth isn't steady – there are ups and downs over the long haul. Indeed, there lies the rub: what happens if the investor needs to access funding and has to sell their shares at a time when they are (temporarily) worth less – perhaps much less – than when they were first invested? It is not terribly reassuring. Also there is the idea of "concentration risk". Many people already have more than enough exposure to equities, either via a stocks and shares ISA, or pension. So shares aren't always the best home for an individual's money.

> Rising numbers are looking at moving money out of banks and into other assets

Bonds offer a little more security in the sense that regular cash flow is received, but again there are risks. First, interest rates are at record lows; in fact so low that after inflation is considered money invested in bonds may actually decrease in value. This is called a negative real rate of return, and since people don't invest to lose money this can be a concern. Second, interest rates and bond prices move inversely, so record low interest rates means record high bond prices; it is rarely if ever a good idea to buy at the top of the market, so this suggest now isn't the best time to purchase bonds.

With these traditional investment vehicles seemingly off limits where else can people look? Alternative investments are attracting a lot of attention these days and many high net worth individuals are putting money into this sector.

Simply put, an alternative investment is any asset class other than shares or bonds, such as racehorses, classic cars, wine, art, real estate and private equity.

Let's take a look at art. In the early 1980s I owned and operated two moderately successful art galleries in New York's East Village. Often folks, enamored with a piece (or the artist whom they met at the show's alcohol infused opening) would inevitably ask about a particular piece's investment potential. I was always careful to counsel prospective buyers to consider esthetics first and foremost. In other words, purchase art not as an investment but rather as something nice to put on the wall. Any increase in future value would of course be a plus, but keep in mind very, very few artists are commercially successful. This uncertainty about future value reduces an investment in art to something more akin to a lottery ticket – hardly what investors have in mind when seeking a home for their money. But what about the

UK Student Accommodation offering fixed returns of 10% available now from £55,000

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Thermal Spa & Hotel Resort

# A great alternative to make your money work better for you

## MBi Consulting (UK) Ltd talk us through the reasons behind getting involved in the alternative Commercial property market instead of risky alternative non asset based investments.

People dream of making money from investments but with the unpredictability of stocks and shares, many have started looking at alternative markets. Acquisition of alternative commercial assets such as student accommodation, Luxury Hotels and more recently care homes have come in favour with many international buyers.

Generally speaking, the rate of return is higher through the alternative market than more traditional routes, in some cases this can be provided at a fixed rate of return for a pre-determined period. Not only does this provide the security of a tangible asset but also the confidence of knowing that you will receive set returns during your ownership period.

There are opportunities to acquire both off-plan and existing projects, each of which provide different benefits.

With off-plan projects, you will be able to purchase for a below market value (BMV) rate. Using the example of an off-plan hotel, the valuation will increase throughout the build stage, on completion, and once amenities have been completed. This further increases once open and operational, as the occupancy rates increase this then supports valuations by enhancing the operational performance of the facility. As our developers are keen to get projects out of the ground, developer-funding options with 0% interest are not uncommon to assist with purchases. The loan/mortgage repayments are then serviced by the annual return of your asset and thus allowing individuals to leverage themselves without any further exposure. It is also worth thoroughly investigating any feasibility studies and valuations, which should be provided by your selling agents. When receiving these, it is expected that they would be from a reputable, independent third party and contain thorough reports into the project, the industry, its locality, and other local factors such as competition and operational sustainability.

Although completed projects can be more expensive, they do offer a more immediate and secure route of income, as such projects would be able to provide actual day one operational returns, giving investors a full transparent view of how the project has already been operating and how feasible the rate of return is.

### What to look for in the alternative market

Off-Plan or Completed? – Depending on what you are looking for in a project will change your opinion on this. As previously stated, there are advantages to both.

Credibility - Check through all the parties involved in the development and operation of the projects and take a look into their backgrounds to see how successful they have been in the past.

Fixed return rates & period – Find out as much as you can about the returns suggested in the marketing material, see if they are fixed or projections based on feasibility studies. A fixed return would show the developer's commitment to the project and also many are now supporting further to assist with your exist strategy and agreeing to buyback at enhanced % above your purchase price.

Through working with international property developers, MBi have been able to ensure that our projects tick all of the relevant boxes. We ensure that our projects provide a fixed rate of return for a set period and all completed developments provide full operational figures and any off-plan projects come complete with in depth feasibility studies and valuations from reputable sources.

We have used our knowledge to construct our own projects within the market that are sustainable in difficult economic times and provide individuals with opportunities to make their money work for them.

Whether you're just thinking about diversifying your portfolio within the alternative investment market or are a well-informed sophisticated investor, MBi Consulting (UK) Ltd can provide a selection of comprehensive projects that may well be of interest. For information on some of the best products in the market contact MBi today for a free consultation on +44 (0)1422 835 179 or email info@mbiconsultingltd.com.

For more information on MBi Consulting (UK) Ltd and the work they do please visit
**www.mbiconsultingltd.com**

This is one of four versions of Edvard Munch's The Scream and the only one that is privately owned. The masterpiece sold at Sotheby's in 2012 for more than $119m

GETTY IMAGES

purchase of an established master, someone whose art is undeniably valuable? Unfortunately, unless one were to deal with established galleries or auctions houses the risk of being defrauded is unacceptably high. To counter this risk when investing in art investors should identify a niche and develop specialist knowledge. In other words, become an expert about an artist, the particular genre and period and know what you are buying.

Wine as an investment is another scheme you hear a lot of from time to time and what's not to like? After all, a fine wine improves with age and presumably so does its value. There are two ways in which wine can be purchased as an investment. The first, which is explored in more detail on page eight, is to invest directly in the chateaux or cases of highly sought after vintage that are carefully stored in government regulated bonded warehouses. The second, is to purchase a smaller number of cases that are stored by the individual, possibly in the home where, if things don't work out as intended, the investment can always be consumed.

Unfortunately the latter approach is fraught with risk. First, for wine to be considered investment potential, it cannot be stored on or under the kitchen counter; connoisseurs of the grape insist upon proper physical storage with precise control over both temperature and humidity. Additionally, it must be stored horizontally so the cork is kept wet. If the cork dries out then air might enter the bottle and mix with wine. Over time this will turn what were once valuable investments into cheap vinegar. Fraud is another a key consideration: what if decades after wine was purchased an "investment" it was discovered to be rebottled kitchen wine and was worthless? So again, specialist knowledge is important.

Property is another category to consider (see page ten for more on this asset class). While the property sector post-crash is much reviled it still offers opportunities. For example, rents are at record highs in London and look to rise further offering a margin of safety. Meanwhile, in the north of England gross yields are approaching 15 per cent in some cities. Even better, in many cities property prices are still at record lows – the property bubble that is London hasn't impacted prices up north and record low prices can be attractive.

Obtaining a rental guarantee means that unless there is a major disaster in the building investors don't need to worry about further costs, while net cash flow generated from the rent can be predicted (subject to another financial downturn or property crash of course).

In an era of sub-par financial market performance and underfunded pension plans then alternative asset classes could make a viable option, particularly for those investors who are looking for an alternative to banks as a home for their cash, and are seeking diversification and return-enhancing potential. However, investment returns for rarities and collectibles are never guaranteed, while small-time investors may find themselves shut out of some alternative investments altogether. As with all investments, be aware of the risks and take professional advice.

*Dave Coker is a lecturer at the London School of Business and Finance*

# Prime Central London: Top of the Class

## London's allure is global but at today's prices how can investors include it in a balanced portfolio? LCP's funds provide a smart solution

By Naomi Heaton

The outlook for alternative investments looks bright. Global jitters continue to drive investors to blue-chip tangible assets with a low correlation to conventional choices. Prime Central London (PCL) residential property is emerging as the preferred asset class, with 20% of HNW portfolios now allocated to real estate investments.

Located in the Royal Borough of Kensington and Chelsea and the City of Westminster, PCL is only 6 square miles around Hyde Park with under 200,000 households. Home to some of the world's most desirable real estate, average prices now exceed £1.5m.

Factors affecting the UK housing market – employment, inflation, economic confidence, all at a low ebb – do not impact PCL property, a global asset class more aligned to international than domestic drivers. Its continued rise in values contrasts with the UK where average prices are 6 times lower - and 10% down from their 2008 high.

PCL also stands apart from the rest of Inner London, where 75,000 new units are in the development pipeline. Here a glut of commodity style flats and an insufficient private rented sector may lead to softening prices.

PCL, on the other hand, is a restricted high pressure market. Limited building space means developers struggle to bring new residential units to market, whilst existing owners hang onto what they have. Only 5,365 properties changed hands last year, just 15 a day. The market is too small to satisfy the needs of an increasingly wealthy global population, putting upward pressure on prices.

Whilst other alternative investments, such as art and wine, have powered forward these assets do not have the same longevity as PCL. Here, prices have doubled over the last 8 years and doubled in the 8 years before that, equating to average growth of 9% p.a. Despite the 46% rise in prices since the market's 2009 low, taking the long view, growth is consistent, predictable and significantly outperforms traditional investments. The FTSE 100 has only just pipped its credit-crunch high by 2%.

Home to some of the world's most desirable real estate, average prices now exceed £1.5m

Central London is the pinnacle of global desirability, an international hub, an educational hot spot and a financial centre. Whilst few investments measure up to the returns on offer, this asset class can be complex, competitive and time consuming. London Central Portfolio (LCP), an investment consultant and asset manager specialising in PCL residential, assists investors who see the profit opportunity but wish to outsource the task to experts.

> When it comes to PCL, the old adage 'there's nought as safe as houses' rings true.

By offering a joined up proposition including property sourcing and acquisition, renovation and rental services, LCP can optimise yields and growth potential. For investors wanting to be completely hands-off and benefit from diversification, LCP have launched 3 funds, built on a long and successful track record. Acquiring properties in the best postcodes and fitting out for executive style tenants, all the funds are targeting double digit returns. Responding to investor demand, LCP's third fund, Shariah compliant and eligible for SIPPs and ISAs, is providing a limited opportunity to subscribe to additional shares.

When it comes to PCL, the old adage 'there's nought as safe as houses' rings true. Not necessarily so for alternative investments. Snaafi Dancer, the racehorse bought for $10.2 million, never ran and was infertile. Art is not without its risks. After agreeing a record-breaking $139m for a Picasso, the seller poked a hole through it. And in the world of wine, the most expensive bottle of Chateau Margaux 1787 was knocked over by a waiter.

*For more information on LCP's property funds, visit www.londoncentralportfolio.com or contact +44 (0)207 723 1733*

# Liquid assets

by Samuel Cheung

Fine wine has become a viable investment option for more than just the wine enthusiast

More and more British investors are choosing to turn their backs on banks and traditional ways of saving and investing, instead opting for tangible assets that they can touch and feel such as art, gold and even diamonds. Fine wine is one such asset that is leading the way in terms of current returns and predicted future growth.

The laying down or cellaring of fine wine to drink once matured is an age-old tradition. Utilising this increased quality as the basis of an investment is of course nothing new, although it was only in the late 1970s and early 1980s that the formal and organised sale and resale of the best wines for profit became an established industry.

Over the last two decades the popularity of the Fine Wine Investment Market (FWIM) has been on the rise, particularly more recently in response to the volatility in the traditional equity markets and banking sectors. Globally, levels of investment have increased tenfold in as many years. This is mainly due to its tax efficient structure and low correlation to other traditional assets, all of which has helped to contribute to a high degree of stability.

With increasing amounts of buyers worldwide and with a permanently limited availability, prices over time are generally expected to rise. As Daniel Paterson, senior market analyst at BWC Management & Consulting, has identified, we have seen "staggering levels" of increased interest from the BRIC economies as well as in Europe and the United States. The Chinese, Russian, Indian and wealthy South American countries are also consolidating their positions as both consumers and investors. Meanwhile, Robert Beynat, chief executive of Vinexpo, an international wine and spirits exhibition, forecasts that: "between 2012 and 2016, wine consumption will grow by 145 million nine-litre cases worldwide, an increase of 5.31 per cent. Three markets in particular will drive this growth: the United States with an extra 40.5 million cases, China up 70.5 million cases and Russia with a further 17.4 million cases."

These views are already being reflected in the returns. For example, a £1,000 case bought in 2001 would now be worth a healthy £2,760 – a return of approximately 180 per cent – though most top grade fine wines can cost more than £5,000 a case these days.

Châteaux in prime positions are the Bordeaux First Growths, such as Château Lafite Rothschild, Mouton Rothschild, Latour, Margaux and Haut-Brion. There are also a few others with healthy contributions to the market, such as the Pétrus, Cheval Blanc, Ausone, Pavie and Angélus. These two handfuls are considered to be the Blue Chip wines due to the reputation, quality, history and track record they have achieved over a considerable period of time.

Most merchants and brokers advise that fine wine should always be stored in government regulated bonded warehouses, which means the wine retains its provenance and a purchase is VAT and duty-free. These specialist storage facilities will have the correct temperature and environment for the wines to mature properly. The wines can then be sold on – achieving what is largely a capital gains tax-free return, according to HMRC's Wasting Assets: Wine and Spirit tax treatment.

A good fine wine investment should offer an affordable entry point (something that will vary from investor to investor); a sustainable growth catering to various aspects of the trade, including retail, consumption and auction (something all investors or collectors should want – and a flexible and relatively straight forward optimised exit strategy. Doing so one can expect to exceed the averages and in certain cases extrapolate far beyond them.

Unlike the drinking of fine wine, you do not need to be a connoisseur to benefit from the market, but if you know what you should be looking for, the chances are, the better your appreciation will be because of it.

*Samuel Cheung is a senior broker at BWC Management & Consulting*

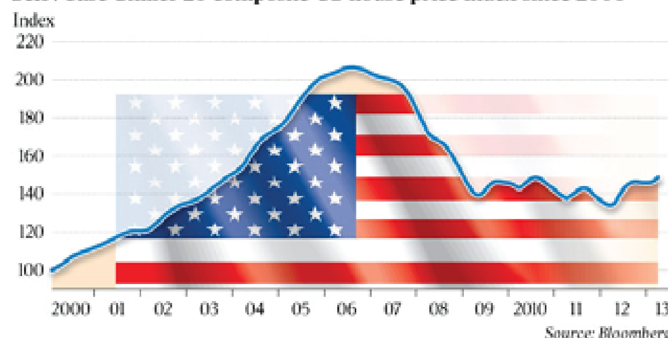
| Wines | Purchased from BWC | Unit Price | *2013 Market Price | % increase | Period of Growth |
|---|---|---|---|---|---|
| Mouton-Rothschild 1996 | 2010 | £2,900 | £4,104 | 42% | 3 Years |
| Lafite-Rothschild 2008 | 2009 | £3,980 | £6,996 | 76% | 4 Years |
| Lafite-Rothschild 2000 | 2008 | £12,300 | £16,452 | 34% | 5 Years |
| Lafite-Rothschild 1998 | 2007 | £3,184 | £7,788 | 145% | 6 Years |
| Mouton-Rothschild 1996 | 2006 | £1,584 | £4,104 | 159% | 7 Years |
| Mouton-Rothschild 2003 | 2006 | £1,568 | £3,960 | 153% | 7 Years |
| Lafite-Rothschild 2005 | 2006 | £4,700 | £8,928 | 90% | 7 Years |
| Ausone 2003 | 2005 | £4,140 | £11,340 | 174% | 8 Years |
| Lafite-Rothschild 2003 | 2005 | £2,600 | £9,276 | 257% | 8 Years |
| Latour 2003 | 2005 | £3,500 | £8,376 | 139% | 8 Years |
| Haut-Brion 2000 | 2004 | £2,800 | £6,648 | 137% | 9 Years |
| Latour 2000 | 2004 | £3,352 | £9,996 | 198% | 9 Years |
| Carruades de Lafite 2003 | 2004 | £337 | £2,688 | 698% | 9 Years |
| Lafite-Rothschild 1996 | 2003 | £2,680 | £10,464 | 290% | 10 Years |
| Latour 1996 | 2003 | £2,244 | £7,020 | 213% | 10 Years |
| Cheval Blanc 2000 | 2003 | £3,520 | £7,584 | 115% | 10 Years |
| Lafite-Rothschild 2000 | 2003 | £3,176 | £16,452 | 418% | 10 Years |
| Margaux 2000 | 2003 | £3,184 | £8,940 | 181% | 10 Years |
| Lafite-Rothschild 2001 | 2003 | £990 | £6,672 | 574% | 10 Years |
| Lafite-Rothschild 2002 | 2003 | £800 | £6,576 | 722% | 10 Years |
| Latour 2002 | 2003 | £920 | £4,296 | 367% | 10 Years |
| Margaux 2002 | 2003 | £800 | £3,312 | 314% | 10 Years |

# US Property: Boom, Bust and Recovery

Figures last month showed that the price of a residential home in the US rose by 12.2% on average from a year ago- a rate of growth not seen since early 2006. But what is causing this rise and, more importantly, is it sustainable from an investor's point of view?

The first thing to remember is that the mortgage crisis hit the American market harder than any other. From 2006-2012 home prices plummeted due to the flooding of the market with repossessed homes and the unavailability of mortgage credit. So, although recent gains appear to be reaching bubble territory, prices are rising from the deepest of troughs and are still more than 20% off peak levels (figures from the Case-Shiller Housing Index).

Prices are being supported by improving economic figures, which are increasing the confidence of both buyers and mortgage lenders. The other key driver is low inventory. Constructors who took a battering from 2007-2012 are now playing catch-up as demand for new homes vastly outstrips supply. Low inventory levels looks set to put upwards pressure on house prices for the foreseeable future.




## It Will Rise From The Ashes…

Some of the areas that suffered the most 6 years ago are now poised for particularly strong periods of growth. Michigan is perhaps the best example. Its capital, Detroit, has long been the stereotype of urban decay and after the financial crisis had the lowest average house price of any large metro in the US. However, tides are changing. In 2011 and 2012 Michigan reported two years of house price gains of between 5-10%, making it one of the best performing markets in the US. More exciting from an investment perspective is that property prices still remain 33.3% from their 2005 peaks. There is a lot of upside here, especially considering the local economy's capacity to surpass its 2005 levels.

Michigan is witnessing the rejuvenation of its core manufacturing industries as well as a diversification into other areas of commerce. The automotive industry is underpinning the US recovery, and Detroit, as its centre, is seeing the benefits. Ford, Chrysler and General Motors recently reported a combined increase in market share for the first time in 20 years, as their sales rose in June by 13%, 8% and 6%, respectively. Carmakers are also ramping up their investment in technology, with General Motors set to quadruple the size of its software development department. This is because 2014 model-year vehicles will be equipped with a platform for hosting an array of apps- like those available for smartphones. This means new jobs for highly skilled people in the auto industry and the transferable benefit of local expertise for aspiring tech start-ups.

## Right Market; Right Time

At Real Time Investments we believe there is great potential for the continued growth of Michigan's residential property market.

We provide turnkey property investments; houses that are tenanted and cash flowing from day one. Our clients can expect annual net yields of approximately 14% from each property they own.

We deliver this by acquiring, refurbishing and managing houses in Michigan. Our objective is for investors to receive consistently high returns from tangible assets- something that is not achieved by many in today's markets.

Investment in a rising housing market with a simultaneous element of income presents a rare opportunity.

If you would like further information about our company or investment proposal, please get in touch by email or telephone:

e **james@realtimeinvest.com**
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w **www.realtimeinvest.com/portfolio**

# Building opportunities

by Simon Hardwick and Sarah Goss

Real estate has been out of favour for the past five years but there are signs of it recovering its popularity

Real estate makes headlines. Ever since the banking crisis first unfolded in 2007 we have seen frequent warnings of impending doom and bubbles set to burst. Perhaps justifiably so when according to the Bank of England's statistics the average value of commercial property declined by more than 45 per cent from peak (being 2007) to trough (being 2010). Yet recent indicators suggest real estate has turned a corner, and for the first time in five years, optimism has returned.

*The Emerging Trends in Real Estate* reports – produced annually by PwC in association with the Urban Land Institute – represent a key indicator of sentiment across the globe. Based on interviews with hundreds of the most senior property professionals, the reports conclude that, despite continuing concerns about the macroeconomic environment, there is increasing confidence among those with access to capital about prospects for their own businesses.

Capital flows into real estate are forecast to reach $500bn by year end. Increased investment has been recorded by Real Capital Analytics in Europe and the US during that time – rising by $15bn on the same quarter last year. Many investors remain focused on prime assets and cities such as London and New York where competition remains fierce. Opportunities are defined by the "Three Rs": refocusing, renovating and repositioning assets.

Property can be broadly divided into two categories, namely residential – land which is or able to be developed for homes, and commercial land, which is or is able to be, developed for businesses, such as industrial units, offices, shopping centres and farmland. Commercial property can also include multi-let residential buildings held by a single investor such as student accommodation.

Residential real estate investments are in recovery

SHUTTERSTOCK/CHRIS HARVEY

For most people, indirect investment schemes, such as purchasing shares in a publicly quoted property company, acquiring units in a property fund and contributing to a pension plan with property in its portfolio, are the only way to get a foothold in commercial property.

Aside from an income stream, real estate should offer a number of other benefits to investors, such as protection from inflation: as inflation goes up over time so comparatively speaking should rental income and thereby asset value. It also offers portfolio diversification. This has clear benefits: poor performance in one investment can be offset by better performance in another. The investor can effectively spread their risk. Then there is the ultimate reward – capital gains on the asset value.

However, as with every silver lining there is a cloud. Any investment which offers a reward involves varying degrees of risk and real estate is no different. Bank finance remains limited while many of those investors who already hold prime assets are not looking to sell, preferring instead to draw income, benefit from low interest rates on existing finance arrangements, and sit tight in the hope of capital gain. Together these factors present quite a challenge for would-be investors looking to access stock.

There is also lack of liquidity in real estate. Not only can it take time to sell or buy an asset, there are also significant transaction costs involved including professional fees and Stamp Duty Land Tax. Meanwhile, in a financial downturn, a landlord may also face a shortage of tenants resulting in vacant premises with no income but ongoing costs including rates, management and upkeep.

Overall, the picture is one of increasing optimism. The recovery in commercial and residential real estate is seemingly under way and investors are adapting. Having survived the crisis they have increased confidence that they have the right strategies in place to adapt to the "new normal". As with any asset class, it is all about having the expertise to select the right investment and to manage it effectively.

*Simon Hardwick is a partner and Sarah Goss is a solicitor in Real Estate at PwC Legal LLP*

# MAKE AN EDUCATED INVESTMENT IN STUDENT PROPERTY

During the past decade, there has been a considerable rise in the number of students in the UK – particularly international students – which has caused a shortage of suitable accommodation, with universities unable to keep up with the demand.

As a result, the development of new student properties has fallen to the responsibility of the private sector.

The strengthening market and high rental yields have attracted many investors who are using student property as an alternative investment to traditional savings methods and pension plans.

This trend has been recognised by investment professionals, resulting in student property emerging as the best performing asset class in the UK property sector in 2012.

Traditionally, investors in student property have favoured Houses in Multiple Occupation (HMOs) as they can generate multiple rents. However, time-consuming and costly maintenance obligations mean many are now searching for better options.

Alongside this, many students – especially those from overseas – are now expecting much higher quality accommodation and are no longer content with single rooms and shared facilities.

In response to this demand, self-contained, purpose-built luxury student apartments are now gaining momentum in the sector. These fully-managed schemes offer landlords better rental returns and less hassle, while students benefit from living in studios specifically designed to meet their needs.

Vita Student is becoming known as one of the best providers of these schemes and it currently has five developments in the UK including projects in Liverpool, Manchester and Bristol. The strategy of the business is to target Russell Group university cities where there is a high demand for student beds and a large proportion of international students who are looking for premium accommodation.

This approach has proved to be successful as the company sold over 600 units in the North West in a matter of months.

One of the key reasons that these projects have proved so popular is because the high quality of the studios mean they are unlike anything else in the marketplace, with kitchenettes, flat screen TVs, free broadband and a first-class finish as standard. This results in an extremely high occupancy rate, protecting future rental returns and making them safe investments.

The brand's most recently launched project in Bristol city centre offers investors yields of 7% for five years which, compared to the UK buy-to-let average of 5.3%*, is a very attractive option.

Prices start at £75,950 and the units will be available to buy from 25th July. Several other cities in the UK are also currently being considered for development.

With confidence in the sector at an all time high and demand for quality student accommodation rising there has never been a better time to invest in premium student property.

**LSL Property Services April 2013 buy-to-let index*

## COUPLE CHOOSE LUXURY STUDENT PROPERTY FOR PENSION PLAN

A husband and wife team who have invested in property for 21 years believe UK student accommodation is a sound investment and a better option than a pension plan.

Luana Mattey and her husband Andrew have recently returned to the UK after living and working in South Africa for 30 years. They've previously invested in properties in South Africa and in Spain but see the UK student market as a significant growth area. The couple view property investment as a safer option than a pension plan and are confident their investments will enable them to live comfortably once they reach retirement age. Luana and Andrew purchased an off-plan apartment at Vita Student's Tinlings development in Liverpool with a £71,000 investment.

Commenting on the purchase, Mrs Mattey said: "We've invested in property for over 30 years and have experienced the highs and lows of owning bricks and mortar.
"We feel student accommodation presents a strong investment opportunity, particularly a development like Tinlings where the location and specification are 'spot on' making its occupancy an almost certainty. In addition, all the stress is taken out of the process by Vita Student as they find the tenants, manage the apartment and distribute rental earnings to us.
"As we've only just returned to the UK, we wanted a solid investment that was affordable and one that had the potential to offer us an income when we decide to retire. Vita Student fits the bill perfectly."

For more information visit www.vitastudent.com or call +44 (0) 161 709 7777

# Value added investments

by Tim Hames

Private equity and venture capital can generate high returns and lead to better, more sustainable businesses

The common perception of private equity and venture capital is that it is a new entrant on the investment landscape, a model which has emerged over the course of the last decade and which only recently established itself as a permanent feature. In fact private equity, under one guise or another, has been around since at least the 18th century, when entrepreneurs sought investment from wealthy individuals to fund their projects.

In the years immediately following the Second World War the British government institutionalised this approach through the creation of the Industrial and Commercial Finance Corporation (ICFC) to provide funding for small and medium-sized enterprises. Then, as now, business owners were unable to raise money from more traditional sources such as bank lending yet many were too small to float on the public markets.

The ICFC eventually went on to become 3i, one of Britain's most well-known private equity houses, and over the decades an industry emerged to become what we know it as today. Over the last five years, £33bn has been invested by venture capital and private equity (VC/PE) in more than 4,500 UK companies. In 2012 alone £5.7bn was invested in UK businesses, 90 per cent of which was directed to SMEs.

To use the most simple of definitions, VC/PE houses raise money from institutional investors such as pension funds and insurance companies and use this money to buy equity stakes in unquoted businesses with significant growth potential. While there are important differences – venture capital is concerned with new and growing enterprises; private equity with mature, established companies – they are united in their aim to create value in the business in which they invest.

One of the most important features of the VC/PE model is the corporate governance structure. Whereas publicly listed companies tend to have many shareholders, which can make it difficult for investors to effect change, VC/PE features a small number of shareholders and short reporting lines (a key factor in the industry's ability to cope with the changing market conditions) as well as an active ownership model which means the investors and the management team can focus on making improvements, minus the distractions of being a public company.

> The private equity model seeks to build better, more sustainable firms

Such an approach has many benefits. The most recent BVCA figures, produced by PwC, reported overall returns of 13.9 per cent as at the end of 2012, and an annual return of 15 per cent over the last ten years. Compare that to the returns delivered by pension funds (8.3 per cent) and the FTSE All-Share (8.8 per cent) and the difference is considerable.

These findings are supported by independent research. In 2012, for instance, Chris Higson of LBS and Rüdiger Stucke of Oxford University found that between 1980 and 2000 liquidated US private equity funds had outperformed the S&P 500 by in excess of 450 basis points per year.

Beyond returns, investors in private equity are placing an increasing emphasis on responsible investment. BVCA research in 2011 revealed that over 60 per cent of the VC/PE firms surveyed have environment, social and corporate governance (ESG) policies and/or principles in place, up from 24 per cent in 2009. Meanwhile, 64 per cent thought that active management of sustainability issues made a company more attractive to investors, and 54 per cent agreed that sustainability management would generate greater shareholder value over the long term. These findings were supported by a report carried out by Doughty Hanson and the World Wildlife Foundation, which showed the integration of ESG risks and opportunities into investment decisions and management of assets as key to stronger, more profitable companies.

The private equity model seeks to implement change, build better, more sustainable firms and generate high returns for its investors. While the industry has undergone significant changes since its origins, the emphasis on creating value remains unchanged.

*Tim Hames is director general at the British Private Equity & Venture Capital Association*

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# Entering the mainstream

by Susan Phillips

News that Enterprise Investment Schemes had been used by investors to avoid paying tax left many people with a sour taste in their mouth. But when used correctly they can offer much potential

Nearly 20 years old, the Enterprise Investment Scheme (EIS) has quietly contributed more than £10bn of private investment to Britain's entrepreneurial companies, more than double that of its "big brother", the Venture Capital Trust. Championed by the current government, the scheme has made many improvements over the last few years but is still much under-utilised in wealth management portfolios.

The tax benefits are, by comparison, superior and offer a range of breaks which should merit consideration for broadly spread investment portfolios. The 30 per cent initial income tax break is worth having, but necessary to gain the complete Capital Gains Tax (CGT) freedom. Little understood is that the latter applies until a chargeable event is triggered. This is not necessarily just the three year qualifying period but could shelter significant gains ad infinitum. If combined with CGT reinvestment relief, existing tax bills could be sheltered indefinitely and, further, with the inheritance tax exemption after two years could fall away on death and without IHT at the current 40 per cent.

By way of illustration (and, of course, subject to individual circumstances), one could defer a £100,000 gain, receive £30,000 rebate against income tax (net cost £70,000) and incur a theoretical 'two bagger' i.e. double the money (£200,000) and leave it to one's dependants completely free of tax as no IHT would be payable and the CGT liability would fall away on death. Or, one could enjoy tax free gains and squander at will (bearing in mind the CGT deferral would fall back into charge although that could be mitigated over a period of time).

Yes, EIS companies by their nature are risky – they are young and growing businesses but some are highly successful so, as ever, one should spread one's portfolio. However, the hidden gem in the EIS stable of tax breaks is loss relief. If an investment ends up being completely worthless, the loss can be offset against income tax or CGT. In the former case (assuming a 50 per cent tax payer), the net cost of the investment is offset at 50 per cent leaving a maximum exposure of 35p in the pound.

> EIS companies by their nature are risky – they are young and growing

The EIS has matured significantly over the last few years owing to successful lobbying by its trade body, the EIS Association and others. Not least among the recent changes is the ability to carry back the annual allowance of a generous £1m to the previous tax year (subject to unused relief) i.e. £2m per individual could be invested across two tax years and obtain EIS relief.

In addition, the market has been opened up to companies of a larger and more stable size and business model. That's not to say the innovation and technology present in smaller companies should be ignored. Somewhere out there are ground-breaking firms that will be stratospheric performers.

A key but subtle change is that whereas qualifying companies used to have to trade "wholly or mainly in the UK", they now need "permanent establishment" here. This has opened up the field for global competition – so long as they pay taxes in the UK. There are many misconceptions as to which companies qualify but the short answer is most, apart from finance (with exceptions), property and activities that derive other benefits such as transport or farming.

However, be warned. In the past, there have been cases where EIS schemes have been set up that mask investments that are not within the spirit of legislation or that have been artificially structured in such a way as purely to mitigate tax. During 2012, HMRC put in place "disqualifying arrangements" to prevent such measures being deployed. In general, these activities appear to have ceased but EISA would advocate measures such as looking behind the tax break at the actual activity of the investments.

As an alternative investment, EIS is becoming more mainstream. It has a place within the "friends and family" market, as well as with business angels at the smaller investment level, and it also has a baby sister – the Seed EIS or SEIS, which is designed for smaller, earlier-stage investments but carries a more advantageous 50 per cent income tax relief. In short, the EIS has grown up.

*Susan Phillips is director general at the EIS Association*

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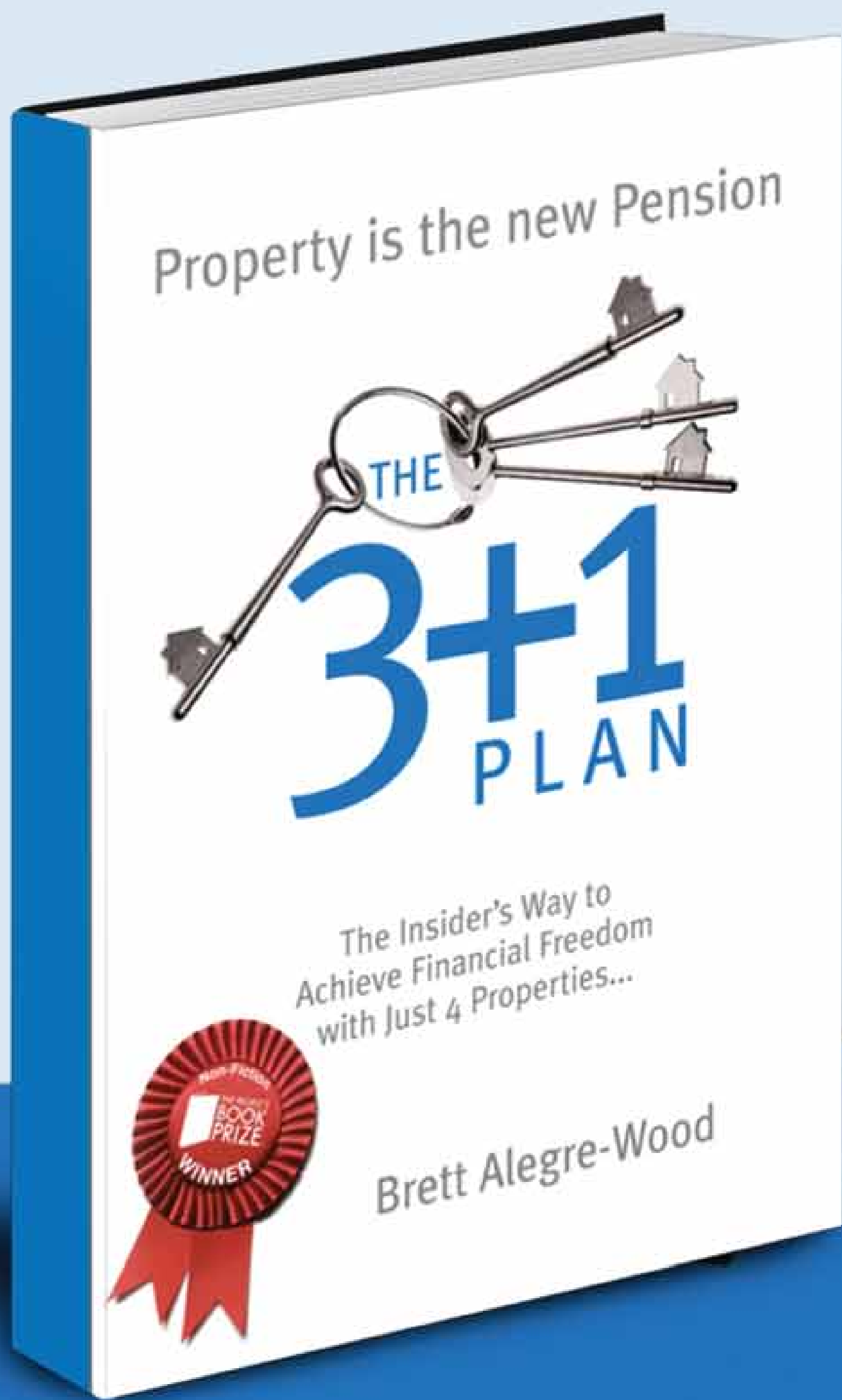

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