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Property Club *In our weekly column for buy-to-let landlords, **Zoe Dare Hall** asks whether location is crucial to commercial property*

Look outside the capital for a clever investment

Sarah Johnson, a 29-year-old analyst, works and rents in London. But for her first property purchase two years ago, she went further afield to Staffordshire. She has become a buy-to-let landlord before she has been an owner-occupier in her own home.

"I wanted to buy a property for an investment but wasn't able to afford anything in London – mainly because of the size of deposit required. So I bought a three-bedroom link-detached house in Burton-on-Trent in 2011 while renting in Bethnal Green," explains Johnson, who paid £135,000 for the 15-year-old property and rents it out for £595 a month.

"I know the area well [having grown up nearby] and I did a lot of research before buying. I know that while house prices aren't growing, there is a university, good town centre, good job market and hospital, which would mean the area would be full of potential renters," she adds.

She doesn't expect great capital growth, "so I needed to make sure the monthly rental income would cover all my costs – including a letting agent's management fee as I'm not near enough to manage the property myself – and prove a good source of income," says Johnson. She has just bought her own home in London, an off-plan flat at Oval Quarter in South London, so now has the start of a property portfolio.

Mohammed Al Radi, 24, finds himself in a similar situation. He works for an NGO in London and rents a two-bed flat with a friend in Canary Wharf, "but it is simply too expensive to invest here", he says. Instead, he has bought a flat with his sister for £62,950 in The Studio, a new development in Liverpool from student accommodation provider Vita Student.

"My family has been investing in property for years so I completely understand the potential revenue that can be made from it, if the investment is right," says Al Radi, who felt student accommodation would yield higher returns than other options (Vita offers an assured 9 per cent rental yield for two years). "Because it's a fully managed development, I won't need to worry about finding tenants or dealing with the demands landlords are usually faced with," he adds.

For London-based Generation Renters – who are most heavily concentrated in East London, particularly Canning Town, Stratford and Bethnal Green, according to new research by Rentonomy.com – looking beyond the capital is a way to get on the property ladder, even if it means becoming an accidental landlord before they've owned their own home.

When choosing where to invest, the town in which you grew up or went to university are obvious choices as you are likely to have local insight and contacts. In Oxford, among the tenants that Finders Keepers lettings agency deals with are student landlords, many of whom did degrees in Oxford and have decided to invest in the city – even if they now live in London. One new development in Jericho, with 27 flats ranging from £385,000 to £1.2 million, has seen £3.5 million worth of reservations from London-based investors. "Many people are willing to sacrifice a higher yield for a safer option. They feel reassured by a knowledge of the city's rental market – and capital appreciation in Oxford is excellent," says Finders Keepers' managing director Dan Channing.

GETTY

Dreaming spires: many Oxford graduates go on to make investments in the city's properties

David Thorne, senior manager at Leaders letting agents in Brighton and Hove, often deals with first-time landlords who live in London but invest on the south coast. "You need to decide what is more important to you – the monthly income or capital growth. In the south, yields are around 5-7 per cent, which is lower than in some areas of the north, but investors in the south are more protected by the high demand for rental property and increasing rents," says Thorne. "For the figures to be right, it is essential that the rental valuation is accurate, so never rely on the advice of the agent who is selling you the property. Always consult an independent specialist for an accurate rental valuation."

Given the ever-increasing pressure on housing supply in London, the continuing growth of Generation Rent who come to the capital for work and the subsequent rise in capital values and rents, far outpacing anywhere else in the country, investors may decide that any London property, however tiny or out on a limb, will be a better long-term investment than a larger, better located house for the same money in a regional city. But James Davis from Upad, an online lettings agent, believes all is far from lost for those who can't afford to buy in London. "There is a massive imbalance in London between the amount you need to buy a property and the returns you will receive. Most landlords we deal with want property as a pension fund, but they also want some income from it, too, which is driving people to look outside the capital."

Davis suggests towns such as Swansea, Hull or Liverpool, where most of the housing stock is houses rather than flats. He also recommends looking at the top three postcodes that register most inquiries from tenants, according to Upad's data, which are BS5 (St George in Bristol), BN1 (Brighton) and KT1 (Kingston upon Thames).

"It all comes down to looking at what you want to achieve," says Davis. "Many landlords are deciding that London is not cost effective for them. They have reached a T-junction where they need to look at other options – and out of London is often the answer."

Phil Spencer's tips for landlords

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GET OUT If you rent in London but can't afford to buy there, it's an excellent idea to look elsewhere to get on the property ladder. I'd be tempted to look where you come from.

GET A PLAN Steer away from modern flats in city centres, particularly in northern cities. And don't follow what all investors are doing, as you're likely to see an oversupply of similar properties. Target your tenant type – young graduates are consistent, reliable and will always exist – and make sure it fits in with what you can afford in your chosen location.

GET REAL A combination of factors – longer lifespans, high divorce rates, housing shortages – means there's only one way the London property market can go. So if the best way is to look elsewhere because you are priced out,

Direct Line Landlord Insurance

Investing in a property that is in a different town or city to where you live may make financial sense, but you need to ensure you minimise hassle while maximising income and returns.

Be clear about the type of property you want to buy, who you intend to let it to and that that type of tenant exists in your chosen location. Be realistic about what funds you will need to get it in a condition to let. Families, corporate tenants, students and professional couples will expect differing levels of accommodation and furnishings.

A newly-built flat should throw up fewer maintenance issues than a resale or, particularly, a period property. But you may pay more upfront for the privilege, with the developer adding in a new-build premium.

Long-distance landlords can also minimise problems by finding a reputable lettings agent to deal with managing the property and tenants. This will cost more than a basic tenant-finding service, but it is often worth the peace of mind if you are not in a position to pop round whenever there is a problem.

For information on how to maximise your returns, minimise costs and stay in control, visit Direct Line's Landlord Knowledge Centre at **directlineforbusiness.co.uk/knowledge-centre** or for Landlord Insurance call a landlord specialist on **0845 835 1491**.