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Charlotte Koch hopes to retire at 50 with properties in capital-growth areas such as Liverpool, Manchester and Nottingham

IS PROPERTY STILL BETTER THAN PENSIONS?

Can putting your money into bricks and mortar still pay for an enjoyable retirement? Carol Lewis investigates

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In 2016 Andy Haldane, the outgoing chief economist of the Bank of England, caused controversy when he said that property was a better investment for retirement than a pension. "As long as we continue not to build anything like as many houses in this country as we need . . . we will see what we've had for the better part of a generation, which is house prices relentlessly heading north," he said.

Five years later and Haldane has declared the housing market to be "on fire", with the latest figures from the Halifax showing that the average price of a home has grown by almost 9 per cent (£21,000) in the past year. So, do Haldane's words still hold true? Is property still a better investment for retirement than a pension?

If like me you have looked at your meagre pension predictions and read the recent reports that the chancellor is keen to curb state pension rises, then you are probably prepared to give anything a go to bolster your funds in later life.

"There's a place for both buy-to-let property and a more traditional pension," says Myron Jobson, a personal finance campaigner at Interactive Investor. "Each can deliver high growth, decent returns and income over the long term to help bolster your spending power at retirement, but it is important not to put all your eggs in one basket."

CAPITAL GROWTH

The simplest way to capitalise on rising property values is to invest in a property fund, but there's no fun in that for people who want actually to own bricks and mortar. Being a landlord isn't akin to holding a winning lottery ticket, though; there are a lot of pros and cons to be considered.

Since 2016 a variety of financial and regulatory measures have been introduced that make being a landlord less lucrative than it once was. The result is that nearly a million landlords are expected to review their portfolios over the next two years, with those planning to sell properties outnumbering those planning to buy more, according to a survey by Nottingham Building Society.

"In the past you could have a flutter and see where it went. Now you need to think about whether to buy in a limited company or personally, you need to consider the tax situation, plus the mortgage criteria are more stringent. On balance I would say go for it, but do lots of research first and go into it with your eyes open," says Richard Blanco, a landlord with 13 rental properties and the London representative for the National Residential Landlords Association.

Denise Wells, the head of mortgage operations at Nottingham Building Society, says: "It remains the case that there are potentially strong returns to be earned in the buy-to-let market and we continue to see landlords buying rental properties."

DO THE MATHS

Property can still work as an investment if you are prepared to put in the work and build up a portfolio of carefully selected properties. The tax regime for buy-to-let property has become less generous, though. A couple of months before Haldane made his original comments, George Osborne, the chancellor at the time, introduced a 3 per cent stamp duty surcharge on additional properties.

It was the first in a series of financial and regulatory measures that would curb the appeal of property as an investment. Aside from the extra stamp duty, landlords used to be able to offset mortgage interest payments against rental income, but this has been phased out since April last year. The government has replaced it with a 20 per cent tax credit, which isn't as beneficial for higher-rate and additional-rate taxpayers, who effectively received 40 per cent and 45 per cent tax relief on mortgage payments under the old rules. All income must also be declared and taxed. What is more, mooted changes to capital gains tax to bring it in line with income tax could hit landlords hard when they come to sell property.

"There is a stark difference in the tax treatment of a buy-to-let property and a pension — with pensions winning by a country mile," Jobson explains. "Tax relief is paid on pension contributions at the highest rate of income tax you pay. In addition, investments in your pension are sheltered from income and capital gains tax, and there is an option of taking up to 25 per cent of your pension as a tax-free lump sum once you reach retirement age."

Jobson adds: "Property is expensive to maintain, can be difficult to sell and you could suffer periods where you receive no income if it's unoccupied.

BUILDING A PORTFOLIO

Blanco, a radio journalist who describes himself as "mid-career", believes there are still benefits. "I started a few years ago when the tax regime was more favourable, but you can still get a reasonable cash flow. I could stop work now and live off my portfolio, I'm just not ready to retire yet." He advises that those who are still keen to go into buy-to- let weigh up capital growth (the amount the property will rise in value) and cash flow (rental income versus expenditure).

"When you buy you need to research those areas that you believe will go up in value. Then take a leap of faith. I have bought in areas of east London which are a bit edgy in the belief they will gain in value over the long term. I look for a rental yield of about 6 per cent and would never go below 4.5 per cent."

Blanco's other tips include: "Buying as part of a limited company gives you tax advantages, but it can mean you can't get access to such good mortgage rates. I also avoid new-build properties — people get attracted by the shiny newness but they are overpriced and fall in value immediately, there are stupid management fees and there is very limited ability to add value by doing them up or extending," he says.

He also avoids leasehold. He says: "Managing agents just squeeze as much money out of leaseholders as they can and you are always going to have to pay service charges and ask permission to extend or whatever."

New landlords also have to decide whether they would like to manage the property themselves or pay someone else to do it. Blanco, who lives within 30 minutes of his properties, prefers the former and spends up to two days a week on maintenance and management.

"This week one has needed a new washing machine, another has had radiators repaired and another has needed new taps," he says.

He also reminds would-be investors that houses are homes, not just an asset class. "Remember, housing other people is a big responsibility that as a landlord you need to take seriously," he says.

CASE STUDIES

Charlotte Koch, 36, has bought six buy-to-let properties in the past 18 months and is in the process of buying another three. The HR professional, from east London, is spending between £100,000 and £180,000 each on flats and houses "in really good condition in growth areas such as Manchester, Liverpool and Nottingham". Koch's rental yields average between 6 and 7 per cent net and she is buying them within a limited company
I've been on a bit of a mission. It all came about after we [she and partner Alex] thought, 'Wouldn't it be nice if we could retire at 50 with enough money to have an enjoyable life.' We read a Rob Dix book, Property Investment for Beginners, and that helped us come up with a long-term strategy.

"I have been focused on capital growth areas in the north and Midlands, and we are trying to stretch our cash as far as it will go. I am saving the rental income and every five years we will remortgage and access more equity to reinvest. At the end of the 15 years we will then need to decide what to sell to pay off debt and what to keep for rental income. I have built myself a very, very detailed spreadsheet with all the costs, letting agency fees, ground rent etc, plus assumptions on void periods and maintenance costs.

"My advice to others is to find a really good mortgage broker with experience in buy-to-let, a good solicitor and a managing agent. Also sign up with a sourcing agency.

"The first couple of properties I bought on the open market, I spent so much time on Rightmove and talking to estate agents and putting in offers and looking at property.

"Then a friend recommended a sourcing agent, Sequre, and that has enabled us to get better details and quicker. I also use Property Hub Invest, which has some great calculators on income, yields and capital growth.

"We want to earn about 80 per cent of what we earn now in retirement, which is why we have given ourselves 15 years to build this. I have a workplace pension, but I am more confident in property as an investment strategy."

Joe Booth, 41, is in the process of buying his fourth rental property, a two-bedroom terraced house in Nottingham for £130,000

Letting started out as a convenience and a way to supplement my self-employed income, but now I am becoming more strategic and looking at it as a way to fund my retirement. I do have a pension, but I haven't put anything into it for a few years now — I know I ought to."

The recruitment consultant has three properties in Nottingham, where he lives, and one in London. Having built up his portfolio in an ad hoc fashion — he let out his first home in Nottingham when he moved to London in 2018, then rented his three-bedroom flat in Kensal Green in northwest London when he moved back to Nottingham — he is now buying his first property as part of a limited company. His strategy? To build a portfolio of up to eight properties within the company to provide an income during retirement.

"Funding to buy new properties is usually a combination of equity release from another property, plus income from my recruitment business," he says. "I think once I have five or six properties it will gain momentum, taking equity from one to fund another. If I carry on at this rate, I think in 10-15 years there should be enough to draw an income I could live off.

"I would say it's not worth it if you only plan to have one property, but if you plan over the long-term to have several then it is still worth it," Booth says. "In the long-term bricks and mortar is still a good investment." He says he achieves an average of about 7 per cent net rental yield.

There are pitfalls, though: "I manage the properties in Nottingham and there is an administration burden with the paperwork for things like selective licences and compliance checks. Also, two years ago I had to go through the full eviction process when a tenant didn't pay rent for six months. I probably lost about £2,500 in rent and another £500 in legal costs and bailiffs, which is a lot on a house that you're renting out for £500 a month. That's unusual, but you have to be aware that things can go wrong."

When Jerry, 65, and Julia Smith*, 64, moved from Kent to Somerset they used the equity they released to buy two, two-bedroom, buy-to-let flats in Exeter for £150,000 each
With the difference in house prices we were able to buy a couple of flats. We didn't want to put money in the bank as that's hopeless [with low interest rates] and we didn't have much of a pension — like a lot of people we lost money in the [global financial] crash," Jerry says.

"[Buy to let] is not something you do to make a killing. At my stage in life you just need to put something away so that it will retain its value and be reasonably safe. The capital yield hasn't been huge, they're worth maybe £178-£180,000 today. We do get an income but it's not huge, about 40 per cent [of the rent of £825 a month] is profit, the rest goes on the mortgage, management fees, maintenance etc. You can't just invest in buy-to-let and walk away, even if you have a managing agent."

"I think we might buy another one in the next year or two. To make this work you need a minimum of three. One to pay for the mortgage, one to pay for the costs and one that makes the profit. Then we can start making a proper living."

"Finally, I would say that our tenants are our guests and we treat them well, and they treat the property as their home. The whole thing is about trust between landlord and tenant. The point is for my life and their life to be as easy as possible. This is their home, that's important."

**** Names have been changed***