

Finding a safe home for your money

Bricks and mortar have long been considered a viable option for those looking to invest their earnings. In fact, discussions by Wesleyan Medical Sickness with 80 hospital doctors from across the UK found nearly half would choose to invest in property as part of their retirement planning.

Leading up to the peak in house prices in August 2007, some people made huge gains by investing in property. But the latest Royal Institution of Chartered Surveyors survey shows sales and prices in the property market are generally flat and interest from would-be buyers is declining, with the exception of London, which the Royal Institution of Chartered Surveyors notes is very different from the rest of the UK, as it is currently recording price rises.

With this uncertainty in the market, whether you are looking for somewhere to live yourself or investing in a buy to let property, there are a number of things to consider.

First, getting the right mortgage is crucial as it will impact on long-term financial planning. There are a variety of options available, with two of the most common being variable rate and fixed rate mortgages. A variable rate mortgage is linked to the rise and fall of the Bank of England base rate, while a fixed rate mortgage provides a set level for a designated period of time.

The type of mortgage you choose will be a personal decision and will vary depending on a buyer's individual circumstances. For some, a fixed rate mortgage will help them budget better. Others, with the ability to absorb increases and cope with varied payments, may decide they would be better off with a variable rate that usually fluctuates with the base rate but is generally cheaper than the fixed rate option.

The base rate has been at 0.5% for the past 2 years, but there is now speculation it may rise in coming months, as inflation pressures start to affect the Bank

of England Monetary Policy Committee discussions.

Predicting what the Monetary Policy Committee will do next is never easy. For everyone who says they should increase the base rate to combat the threat of rising inflation, there are others who say they should keep it low to boost economic recovery. Nevertheless, there is a feeling they will have to increase rates before the end of the year.

Anyone buying property also needs to look at how much they can put down as a deposit. At the peak of the housing mar-

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ket in 2007, some providers were offering mortgages as high as 125% of the value of the property. Since the banking crisis and the lack of liquidity in the wholesale lending market, most mortgage providers are looking for at least a 15–20% deposit, rising to 25% for buy to let deals.

House prices are largely dependent on the economy at large. The Joseph Rowntree Foundation has predicted there will be a shortage of more than 1 million homes in England alone by 2022, which will have an upward pressure on prices as demand outstrips supply. In the short term, as budget cuts begin to bite and people are concerned about their employment prospects and income, they may decide to stay out of the housing market, leading to stagnation or even a fall in prices.

Of course, whether you decide to enter the property market or move up the property ladder is largely dependent on what factors are specific to you. If you are looking to buy a property that you can live in for at least 5 years and are in a position to afford the mortgage, then the chances are that any short-term losses will be replaced by long-term gains if its value gradually increases.

Similarly, if you are considering buying a property to rent out you will be buoyed by forecasts from Capital Economics that the proportion of households living in

rented accommodation will increase to 17% by 2015. This means that while the value of the property itself may not rise in the short term, there could still be rental income generated by tenants.

Spread your risk

If you have a large lump sum to invest and are considering creating a buy to let portfolio, you could consider the option of using this cash to put deposits on different types of properties, even in different parts of the country. Having more than one property will help minimize exposure to risk as, if one property is vacant, the rent generated from the others will help cover it. And as the economy recovers across the country, there will be long-term returns if the properties' values increase.

They may also generate returns in terms of long-term asset appreciation as the economy recovers across the country.

Buy to let investors can also benefit from certain tax advantages. Income derived from rental properties is considered by the tax man in the same way as a salary, and is therefore often taxed at 22%, 40% or even 50%. However, landlords can deduct costs from the taxable portion of their rental income. These costs can include the interest portion of their buy-to-let mortgage repayments as well as any maintenance costs that are spent on the property.

Making sure you are protected

Should you decide to invest in property, it is a good idea to protect your income so you are still able to meet your mortgage payments if you fall ill and are unable to work for long periods of time. An income protection plan will pay you a regular tax-free income at, typically, 50% of your pre-incapacity earnings.

Finding the best mortgage deal to suit your needs is not an easy job and it is vital to do as much research as you can. You might want to speak to a qualified financial adviser, who can compare the whole of the mortgage market, to ensure you find a deal that works best for you. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

Wesleyan Medical Sickness provides specialist financial advice for doctors
Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk