

Using property to build your investments

Buying property remains a popular way for doctors to build up their investments.

According to research by Wesleyan Assurance Society, a quarter of doctors have an investment property as well as their main home, and 23% keep the majority of their investments in bricks and mortar.

Buying any property, whether it is to live in or use as an investment, is a big financial commitment and there are a number of things to consider.

Choosing a mortgage

There are a variety of mortgages available and the size of the loan, the deposit you have saved, your income and other personal circumstances will all play a part in which one you choose.

Two of the most common types of mortgage are:

Fixed rate

These have a set level of interest for a designated period of time. Many first time buyers prefer this type of mortgage as it helps them to budget more effectively.

Variable rate

Borrowers who are able to adjust their budgets to cope with changeable payments may decide they would be better off with this type of mortgage, which falls into two main categories: trackers and standard variable rate. Tracker mortgage interest rates typically move up and down in line with the Bank of England base rate, whereas with standard variable rates, each lender sets its own rate of interest.

Despite the base rate being at the historic low of 0.5% since March 2009, many big mortgage providers increased their standard variable rate in May 2012. According to research by Woolwich, this meant that more than a million borrowers saw an average increase in interest rates of 0.5%.

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Those looking to use a property as an investment and rent it out may choose a buy-to-let mortgage. These work like a standard mortgage, but lenders take into account your income, as well as potential rental income, when deciding how much they will lend you.

How to repay

Once you have decided on the kind of mortgage you want, you need to consider how you will repay it. Two of the main ways are repayment or interest-only mortgages.

A repayment mortgage means that over the length of the mortgage you will eventually pay off the full amount borrowed plus interest. An interest-only mortgage is where you only pay off the interest accrued every month. The payments will be lower, but at the end of the mortgage term you will still owe the amount you originally borrowed, and lenders will insist you have means to pay this off.

Buy-to-let mortgages are normally interest only, and usually the cash generated from the sale of the property is used to repay part or all of the outstanding amount.

Prospects for the housing market

Wesleyan's research showed 43% of doctors are saving to buy a property, so clearly there are still a lot of people wanting to get on and climb the property ladder, despite house prices stagnating, and in some cases going down, during the economic downturn.

According to the Halifax House Price Index, in the 10 years from 2001 to 2011 the average house price in the UK increased from £92 256 to £162 322, a rise of 75%. If it had gone up in line with inflation, it would be worth £125 194, so it is clear that, historically, property has been a good investment, although past performance is no indication of what will happen in the future.

If you are considering buying a property to rent out, you may be encouraged by surveys which have shown that rents rose by 5.2% last year. There are also

predictions that rental demand is expected to continue to outstrip supply over the next 5 years, which would maintain this trend.

Spread the risk

If you have a large lump sum to invest and are considering building up a buy-to-let portfolio, you might want to consider using the cash to put deposits on a number of different properties.

Having more than one property to rent will help minimize your exposure to risk, so if one property is vacant, rent generated from the others may help cover it. If the economy recovers, there could be long-term returns if property values increase.

There are also some tax advantages for buy-to-let investors. HM Revenue & Customs regards any income that comes from rental properties as the same as a salary, so it will often be taxed at 20%, 40% or even 50%. However, landlords are able to deduct costs from the taxable portions of their rental income. These can include the interest on their buy-to-let mortgage repayments, as well as any maintenance or repairs to the property.

It is also important to protect your own income so that you are still able to keep up mortgage repayments if you fall ill or 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.

Conclusions

For those looking for a long-term investment, property could still be a good option.

Whether you are buying a home or building up a property portfolio, finding the right mortgage is crucial and with so many providers and deals available, it can be a time-consuming process. Talk to a financial adviser who can search the whole of market to find a mortgage that is best suited to your needs. **BJHM**

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