The Telegraph

Property v pensions – what's a better investment?

Investing: Property will almost certainly outperform a pension CREDIT: GETTY

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12 FEBRUARY 2018 • 9:30AM

The pros and cons of pensions and property investments are weighed up

James Davis, the founder of online letting agency Upad, has no pension fund. He does, however, have 20 buy-to-let properties – and he is confident they will see him through his retirement.

"Assuming that property prices continue to increase over the coming 20 years in the way they have in the past 20 years, a property of today's average value of £235,000 will be worth £1m by 2038," says Mr Davis.

"Even working on the worst-case scenario of not making any monthly profit, you'll still have realised a significant capital appreciation."

Davis points out that a pension investment over the same period would require at least a monthly contribution of £1,200 after an initial investment of more than £90,000 – and that's without any monthly income in the meantime. "For committed landlords with a long-term vision and carefully planned financial management, residential property remains a sound investment strategy," says Mr Davis.

Know your risk appetite

Many of us might rue not having accumulated a similar portfolio as we look back at the trajectory of property prices. But for Caroline Takla, founder of The Collection LLP, property and pension are two completely different entities. Each suits a different type of person, depending on their circumstances, strategy and appetite for risk.

"Property is an asset class. A pension is a tax wrapper. As an investor, you need to ask yourself how much disposable capital you have. A property purchase requires a considerable initial outlay, plus costs associated with renovations and management fees. For this reason alone, it isn't a viable option for many people.

“Pensions, on the other hand, allow you to save for retirement through achievable monthly payments over a much longer period of time,” says Ms Takla.

Future planning: save for retirement through achievable monthly payments CREDIT: GETTY

Pros and cons

Property will almost certainly outperform a pension in terms of returns – but recent changes in stamp duty and taxation on income mean investors need to be well-advised about their tax responsibilities and ways to mitigate costs. Taking out debt will multiply the return but increase the level of risk.

On the other hand, as Rob Bence, co-founder of The Property Hub, points out: “Property is something everyone understands. Ask them to explain their pension and they’ll struggle. House prices have risen over the years and those who have invested have reaped the rewards.”

Pensions, on the other hand, are a tax-efficient way of saving for retirement, with the Government offering tax relief on pensions. Or you may choose to invest in a Lifetime ISA, in which you can deposit up to £4,000 a year until you are 50, with the Government adding a 25pc bonus to your savings. But beware the fees that come with pensions. With the Lifetime ISA, there is a 25pc charge to withdraw cash if you are under 60.

“What’s more, pensions for most people won’t be enough. The average pot in the UK stands at £50,000. An annuity, if you retire at normal age, would pay you just over £200 a month,” says Bence.

With property, you can cash in at any time – though there may be capital gains tax to pay – and you have a monthly net rental income without having to wait until retirement age. Investors can also cash in regularly by releasing equity to support earnings during their working life. With a pension, you will need to wait till the requisite age to get hold of your funds.

Diversify, diversify, diversify

Of course, best-laid plans can be derailed by an unforeseen change in circumstances. “As someone who went through a divorce and gave his main asset away, which was going to be used as part of a retirement fund in the future, I can honestly say that in order for me to recoup the losses of this, I will be looking to invest in bricks and mortar. I believe it to be the best way to fund my plans for retirement,” says James Bailey, chief executive of Henry & James. “It will cover its own mortgage and though there are never any guarantees, the capital growth will outweigh any type of pension.”

As the recent Carillion and BHS pension crises have shown, there are no guarantees with a pension fund either. “Property is a tangible asset, which gives people comfort and security,” says Jake Russell, director at Russell Simpson. “Some high-profile private pensions have gone up in a puff of smoke due to bad investment, and workplace pensions have been wiped out by companies going out of business.”

The answer, as most IFAs would see it, is to put your eggs in multiple baskets. “Property is an excellent way to diversify for those who have doubts about the future of pensions – and rental income behaves much like an annuity, though with slightly more hassle,” says Ray Withers, CEO of Property Frontiers.

“But I would never recommend putting your entire retirement savings into one single property. Either combine it with a pension or spread your risk across a portfolio of locations and asset classes.”