Home or away?

As an alternative to NHS pensions, a significant number of dentists are choosing to invest in property. But should you still buy in the UK? Thomas Dickson explains.

Dentists in the UK have traditionally relied on the NHS pension scheme and personal pensions to provide for their retirement. However, with the number of dentists leaving the NHS or reducing their NHS commitment, this will have an inevitable knock-on effect on their future pension income.

A significant number of our clients are choosing to invest in property as an alternative. This article will shed some light on whether you should still buy in the UK.

Property investment trends

The housing market is certainly rising at the moment, with the latest Financial Times’ House Price Index, showing that house prices rose by 0.7 per cent in June and by nine per cent over the past 12 months.

This is despite the fact that the Bank of England has announced five interest rate rises in the last year, with the last decision to order another quarterly increase in base rates, to 5.75 per cent—the highest level since February 2001.

We have an aging, growing population, with more people living alone and it’s predicted that an average 233,000 new households every year will be formed over the next 20 years. These figures illustrate that the demand for housing is going to continue over the long term and if house building can’t keep up, the laws of supply and demand dictate that the prices will continue to rise.

Many property commentators agree that the market is likely to slow as the year goes on, not least because of negative income growth and the likelihood of continuous increases in interest rates. However, out of 14 organisations including Lombard Street Research, BBC, Right Move and the Council of Mortgage Lenders, who make predictions on the UK housing market, everyone has predicted a positive increase for 2007.

Of course analysts don’t always get it right, but the strength in numbers could lead one to conclude that house price inflation will continue and that investing in property is likely to be a good investment over the long term.

Finding investment property

Once you’ve decided you need to invest, you need to find out as much as you can about property prices and their likely profitability. You’re looking for two main ingredients. Firstly, the yield, or profitability. You’re looking for two main ingredients. Secondly, the profit or capital gain you can make every year out of the rental income, and secondly, the profit or capital gain when you can sell or re-mortgage.

Speak to your local Estate Agents, get on all their mailing lists, study the free property papers, go to local auctions and drive around your local area, so you get a real idea of what’s available and how much you should be paying.

Once you’ve made a decision to purchase and you’ve worked out that you can afford to take the risks, don’t overanalyse it. A client of mine buying in London for the first time had a huge complicated spreadsheet showing the price per square foot and all other of intricate details. This amount of analysis can paralyse the decision-making process and a gut feel about a property or an area you know personally can be better than anything Excel can work out for you.

Another, lesser known means to locate suitable investment is to go to local auctions and drive around your local area, so you get a real idea of what’s available and how much you should be paying.