A property pension plan is not always as safe as houses

By **Harvey Jones**

THE mantra "my property is my pension" has always sounded more like an excuse than a plan of action and never more so than today, as house prices tumble and more homeowners approach retirement with unpaid mortgage debt.

One in four named investing in property as the safest way to build a retirement fund, according to a 2020 Office for National Statistics survey, but their views may have changed as today's mortgage crunch threatens a full-blown house-price crash.

While it is possible to turn your home into cash in retirement, either by downsizing or releasing equity, it cannot be relied upon.

And it should never be used as an excuse to stop building other sources of retirement savings.

RISE AND FALL

The idea that a property could become a substitute for a pension arose at the start of the millennium, after the dot.com crash in March 2000 destroyed share prices.

Over the next three years the FTSE 100 lost half its value, crashing from a peak of 6,930 on December 31, 1999, to 3,287 on March 12, 2003.

This ruined investor confidence and many sought solace in house prices.

Nationwide figures show the average property value rose from £114,368 in 1994 to £295,548 in 2007, just before the credit crunch.

Homeowners enjoyed a tremendous accumulation of wealth in that time and although prices fell after the financial crisis, they steadily recovered after the Bank of England slashed interest rates to 0.5 per cent in March 2009.

Buy-to-let helped underpin the property dream, with two million becoming landlords to generate rental income from tenants and capital growth as prices looked like they might rise in perpetuity.

Now it looks like the dream is over.

ILLIQUID

House prices fell 4.6 per cent in the year to August, Halifax figures show, cutting the value of the average home by £14,691 to £279,569. That's the fastest drop since 2009, with further falls expected in the months ahead.

Buy-to-let landlords are fleeing in droves to escape a tax crackdown aimed at driving out rogue operators and levelling the playing field with first-time buyers.

Suddenly, using your property as a cash machine in retirement looks a lot less attractive.

There have always been risks to relying on property for retirement, said Megan Jenkins, partner at wealth manager Saltus.

The first is that if most of your wealth is concentrated in your home, you will have no financial back-up if house prices crash.

Second, property is a highly "illiquid" asset, which means it can take time to turn into ready cash, as many vendors are finding today.

They may have to accept a much lower sale price than just a year or two ago, in what is now a buyer's market.

Those planning to downsize to a smaller property will end up with even less money after deducting estate agency and removals charges, plus stamp duty on their new home.

RELEASE

Downsizing is another idea that works better in theory than practice, Jenkins said: "Older people have a huge emotional attachment to their home, and are reluctant to leave."

Those still keen to downsize must prepare in plenty of time. "The house buying and selling process can be long, particularly in a slow market."

Demand for equity release, which involves unlocking the capital in your home and turning it into cash, has jumped as pensioners struggle in the cost-of-living crisis, according to research by later-life specialist Senior Capital. Its managing partner Rudy Khaitan calls equity release a "vital lifeline to fund retirement".

Figures from the Equity Release Council show that new customers took a £94,266 lump sum from their home between April and June.

> **'Demand for equity release has jumped as pensioners struggle in the cost-of-living crisis'**

This type of money can transform retirements but it has fallen sharply from £132,331 last year, as sliding house prices reduce equity and rising interest rates drive up the cost of taking out a lifetime mortgage.

Equity release may be a handy last resort but it is complex and may cut inheritances, which requires family discussions.

DIVERSIFY

Sadly, many have no choice but to rely on their property in retirement, because they could not afford to build enough pension or Isa savings.

One in five have either reduced or stopped contributing to their workplace pensions due to the cost-of-living crisis, according to new research from M&G Wealth.

Its pension specialist Kirsty Anderson said reducing pension contributions might seem like a quick fix but could backfire in the longer run: "Pensions are one of the most efficient and lucrative forms of saving and even taking a short break could have a significant impact in later life."

While property wealth does give pensioners choices, it pays to have a plan B, Jenkins said: "Otherwise you may have to sell at an inopportune time, or be unable to sell at all."

As ever with investing, the maxim applies: never put all your eggs in one basket. Your property is your home, not your pension. Confusing the two can be costly.

Yes you can...

... live the life you want, eat the food you love and lose weight with this exclusive Slimming World group offer for Daily Express readers.

Yes you can...

- ... Lose weight without ever going hungry
Fill up on everyday favourites like pasta, potatoes, fruit, lean meat and veggie choices, with no need to weigh or measure. It's about cutting calories without counting calories.
- ... Take control and become an expert in yourself
As experts in the psychology of weight loss, Slimming World will help you make lasting changes and introduce healthy habits in a way that's personalised and sustainable.
- ... Find a friendly, welcoming and super-supportive group
Research shows that you're more likely to lose weight as part of a community than if you go it alone. In Slimming World groups you'll find a safe and supportive space where your weight is always kept confidential.
- ... Build up active habits, at your own pace
Whether you're already active, or looking for support t Slimming World's phy programme meets yo are right now. Plus, ex member workout vid part of your member
- ... Fit all this arou your lifestyle
Get 24/7 access to Sl World's members-onl website, with 1,800 d recipes, mindset-rese inspirational success

Joi Worl

Claim now and you can reach your dre

Slimming World Membershi

With this exclusive offer to join Slimming World for pay no joining fee, saving £5/€9* until Saturday 23r 2023 (dates inclusive).

Please complete the voucher and give it to your Slimmin Consultant at your first group.

*Standard membership fee is £5/€9 and weekly group fee is £5.95/€10. All prices shown are re prices. At participating groups. See slimmingworld.co.uk for more information.

Your name: ....

Your address: ....

Email: ....

Telephone number: .... Date: ...

To the Consultant:

Your name: ....

Consultant code: ....

Group code: ....

Please sign to confirm that the member has joined:

....

Please use XPRESSWEIGH CODE: **REACH2023**

Visit slimmingworld.co.uk/reach-terms for T&Cs

PRINTED AND DISTRIBUTED BY PRESSREADER