

Property may not be best basis for pensions

Niall Brady

BUY-TO-LET investors pinning their hopes on property as a pension are risking a disastrous shortfall in retirement income, with many small-time investors looking at earnings as low as €10,000 a year in today's money when they stop working.

The warning by Martin Haugh, managing director of HLD Actuarial Consultants, comes as stockbrokers NCB report that rental growth would have to beat inflation by a considerable margin for years to come to justify the huge prices that investors are still paying for property.

Irish households are estimated to own €30bn to €33bn worth of investment property and, according to research by Gunne estate agents, more than three-quarters view the investment as their pension.

"To provide an income in retirement of €20,000 a year, you would need to recover over €600,000 from your buy-to-let property after repaying any loans, taxes and expenses," said Haugh. "This is a tall order when the typical property is a €250,000 two-bedroom flat with a 70% interest-only mortgage."

He said recent market weakness meant rents no longer covered mortgage payments. Many investors were "funding their own retirement without the tax advantages that pension schemes offer".

Meanwhile, NCB has warned buy-to-let investors that it would be a mistake to put up with today's miserable rental yields of 3.5% or less in the hope that property prices can continue to surge.

"The point is often made about residential property

Many investors are funding their own retirement but without tax advantages

that the lack of initial yield will be compensated for through capital appreciation in the future," it stated. "Sustained and consistent capital appreciation in excess of inflation can only be justified with sustained and consistent growth in net rental income in excess of inflation. The history of growth in Irish residential rents does not support this outcome."

