

## Property funds lure pension investors

Pension companies have been cashing in on the growing appetite to put buy-to-let into pensions with the launch of several residential property funds in recent weeks. From April 6 next year – A-Days – investors can purchase buy-to-lets and holiday homes with their personal pensions for the first time. Standard Life, the insurer, recently indicated that more than £1 billion had been invested in its personal pension over the past nine months, driven by the forthcoming A-Day changes. Investment firms have seized the opportunity to launch residential-property funds that are already eligible for pensions. If you invest in a fund, rather than purchasing a property directly, you do not have to wait until A-Day.

Otherwise the benefits are the same: you in effect get a 40% discount on your investment because the government boosts every 60p pension contribution to £1, assuming you are a higher rate taxpayer. Income and capital gains are also tax free within the pension fund.

Abbey, the bank, and Cluttons, the property consultant, are among the firms that have rushed out the schemes. But advisors say there is no reason to hurry into purchase now rather than wait until after A-Day.

Pension experts also warn that the government may not finalise the A-Day rules until next year, so it could be dangerous to take the plunge now in case things change.

At present the revenue says you can purchase an actual off-plan property yourself, rather than a fund, with your pension now, provided its not completed or fit for occupation before A-Day.

The average price of a new build flat or maisonette slipped 1.2% in 2004 because of a glut of supply, while all other types of property rose in value by an average of nearly 12%, according to Land Registry figures.

New properties may also generate lower rents than second hand or prior homes, which is bad news if you are intending to draw on the income when you retire. While there are tentative signs that the housing market is picking up, few commentators are predicting runaway growth.

The royal Institution of Chartered Surveyors said last week that homebuyer enquiries in August rose at the fastest pace since early 2004, fuelled by last months interest rate cut. Sales are up 7.5% since February.

However, most experts are convinced that prices will remain subdued. The Council of Mortgage Lenders, for example has predicted that there will be no growth between January this year and December 2007.

You should also watch out for high fees on property funds that are designed for Sipp's. The city living fund charges 1% a year, which is reasonable, but the annual fee comes out of your income at the time when yields on city-centre flats – which show the income as proportion of the price – are just 5.5%. Borrowing costs also come out of the rent, so you may be left with no income.

Advisers suggest the cost of running that funds will be high. Investors may be asked to pay charges as much as 2.5% to 3% a year by some schemes, meaning they will need a total return of at least 10% to make investing worthwhile at a time when the housing market boom is over.

*The above advice is given in good faith. Individual circumstances differ, no action should be taken without regard to these personal circumstances. Accordingly, please consult your professional adviser. If you wish to talk to one of our partners or tax consultants, please do so. The first hour is free and without obligation.*