

For customers

Property or investment bonds?

Investing in residential property has become increasingly popular over the last few years. But is it right for you?

As a property owner, you probably consider your home or buy-to-let property to be your main investment. However, with so many different kinds of investment available, it's worth looking at alternatives, as there might be one that would suit you better. To get you started, we've put together this comparison between residential property and investment bonds.

Residential property	Investment bonds
Budgeting costs	
<p>Buy-to-let and main residence</p> <ul style="list-style-type: none"> Property can be expensive to buy. Mortgage rates can vary if you don't have a fixed rate, so your planned budget may change. Your property is at risk if you can't make the payments as agreed with your lender. Fees can be charged to set up and exit mortgages. There are ongoing costs to pay, such as insurance and maintenance. <p>Buy-to-let</p> <ul style="list-style-type: none"> You'll generally have to pay capital gains tax if you sell your property. Any rental income you receive is subject to income tax. You may be charged more for a buy-to-let mortgage. If you use a property agent you might be charged a fee. 	<ul style="list-style-type: none"> You know exactly how much money you're laying out. You could take out a regular contribution or a one-off lump sum investment bond. One-off lump sum investment bonds have relatively low minimum investment amounts. Some are from as little as £5,000. With one-off lump sum investment bonds, you can normally add further ad hoc amounts to them. The minimum amount for this is generally lower and in the region of £500. With regular contribution investment bonds, you can change the contribution amount (minimum amounts apply) or even stop and restart contributions altogether if you need to. With bonds, you're only taxed if a chargeable event happens. Some of the funds you invest in through a bond may have an additional annual management charge (AMC). Reducing or stopping contributions on a regular contribution investment bond can have an adverse affect on your investment.
Income	
<p>Main residence</p> <ul style="list-style-type: none"> If your property asset is your home, you'll need to sell it, subject to finding the right buyer and getting the right price, to free up some money for income and use some of the equity to buy a new home. Alternatively, you could only receive part of its value if you're releasing equity. <p>Buy-to-let</p> <ul style="list-style-type: none"> You can rent it out and use the income to raise some capital. You can sell it whenever you want – subject to finding the right buyer and getting the right price. 	<ul style="list-style-type: none"> You can take regular withdrawals from a bond as an income. You can withdraw 5% a year, tax deferred, and you don't even need to report it on your tax return. Some new investment products can even guarantee your income amount.

Residential property	Investment bonds
Accessing your money	
<ul style="list-style-type: none"> You can sell your property or release some equity at any time. Selling your property might take a while, so you might not be able to access your money as quickly as you'd like. 	<ul style="list-style-type: none"> Investment bonds are considered to be medium- to long-term investments. Most bonds will allow you to take one-off or regular withdrawals. In the early years of your bond, you can generally get access to a certain percentage of your investment without being charged a penalty, although there may be charges if you cash in the full amount. Taking withdrawals from your bond will reduce its value.
Investment risk	
<ul style="list-style-type: none"> As with other types of investment, the value of property can fall as well as rise. By investing in only one type of investment, you're not spreading your risk. If property prices fall, so will the value of your investment. 	<ul style="list-style-type: none"> As with all types of investments, its value can fall as well as rise. You can spread your risk by investing in different types of investments. If markets fall, you can change the funds you're invested in with the right advice from your financial adviser. With some bonds you can even 'drip-feed' the money from a cash fund into the funds of your choice. This option could be ideal in volatile markets. There are new bonds in the market that offer guarantees on the amount of money you get back – providing extra security for you.
Family focus	
<ul style="list-style-type: none"> You could inherit a property and use the equity from that to your advantage. On your death you can pass your property on to your estate for your beneficiaries. Any property passed on could be subject to inheritance tax (IHT). 	<ul style="list-style-type: none"> You can set your bond up so that it continues after you die. This is called setting it up on multiple lives assured. If you're the last person covered under your bond, it will generally pay out a death benefit. Some bonds in the market actually guarantee the amount of money that will be paid out on death to the last person covered. If you're concerned about IHT liability after you die, you can put your bond into trust to eliminate or reduce IHT.

As you can see, residential property and investment bonds are two completely different ways of investing, and both have their advantages and disadvantages. If you're in any doubt about whether you have the right investment for your circumstances, or if you haven't yet decided what type of investment to go for, we recommend you speak to your financial adviser.

Speak to your financial adviser today about making the right investment for you.