

SIPP Syndicate 21

Units 6 - 8 Kingsmead Business Park, Gillingham, Dorset SP8 5GJ



The property is situated on a new industrial site just outside Gillingham town centre, adjacent to a new large nursing home and recently built residential properties.

Introduction

Lewis' is fully independent, authorised and regulated by the Financial Services Authority for regulated activities.

Founded in 1987, we are proud to offer proactive and innovative advice to clients. We believe that commercial property should form part of any balanced pension portfolio and indeed forms part of our investment proposition. We are constantly looking for opportunities in the commercial property sector.

The problem of providing income from pension funds has led us to create a unique solution through commercial property.

We are in a risk averse, low growth economic environment and commercial property is arguably more attractive within Self Invested Personal Pensions (SIPPs) than ever.

We are pleased to recommend to you our 21st pension syndicate. This is with the SIPP provider Carey Pensions UK LLP.

Reasons why

- This SIPP investment is not directly affected by rises and falls in the stock market.
- Even though the rental income is required to repay the proposed mortgage, your net pension fund will increase in value as the loan is repaid, even if there is no increase in the property's capital value!
- Any increase in property value will further increase your returns.
- Through expert knowledge from our property consultant, we are able to source investment properties such as this, which are not on the open market.
- You are able to "see & touch" your investment.
- You and the other syndicate members have control over the pension investment.
- We believe that this type of investment is likely to prove beneficial to client's personal pensions at a time when the investment outlook generally is uncertain.
- Location is all important with property and we believe that this property benefits from a good location.
- One great attraction of commercial property is its scarcity value. Planning policies generally restrict supply, thus ensuring a healthy demand for existing premises.
- The property is a 3-year-old building in a new commercial location in Gillingham.
- The Syndicate is open to both Non Protected Rights and Protected Rights benefits.

“This is all achieved without growth in the price/value of the investment”

Tim Lewis

How it works

A syndicate will be formed to establish a property fund into which individual syndicate members will contribute. They do this by transferring part or all of their personal pension funds into a SIPP with Carey Pensions who are the administrators and trustees.

- Your money will be pooled with that of the other members to invest into the property fund.
- Your share of the property fund will be identified and valued on a pro rata basis.
- The property fund will make the proposed purchase with additional funds by means of a mortgage.
- We have secured finance on a variable rate of interest of 3.3% and a cap will provide a ceiling to the interest rate.
- One of the main attractions of owning a commercial property within a SIPP is that rental income and capital gains are currently free of tax.
- Your share of the property will be the precise proportion that your fund contributed to the total acquisition costs.

The property

- The Purchase price is £355,000.
- The property is situated on a new industrial site just outside Gillingham town centre, adjacent to a new large nursing home and recently built residential properties.
- The syndicate is buying 3 adjacent units, converted into one trade counter property, on a freehold basis. The fourth unit in the block is owned by a non connected party.
- Edmundson Electrical Ltd have 13 years remaining on a 15 year lease from 27 August 2008, on all three units, without any break options.
- The annual rent is £22,000 per annum , subject to 5 yearly upward only rent reviews. The lease is full repairing and insuring.
- The building has a vacant possession value higher than the investment price and the second phase of the estate is likely to more than justify the price.
- The vacant possession value is estimated to be £420,000.
- Edmundson Electrical Ltd appear financially secure, with a net worth of £131 million and a turnover of £865 million in 2009. Profits for the last financial year were £22 million. These figures are from the latest published accounts.
- The company was founded in 1801 and is now the leading distributor of electrical equipment to trade and industry in the UK. With 250 branches throughout the country this company is a very secure distributor.

“ Property should form part of every well balanced portfolio ”

SIPP Syndicate 21

Syndicate 21 - Gillingham

The objective is to form a syndicate whose members can transfer in £225,000 of pension funds. The syndicate will then borrow up to £180,000.

The property's acquisition price has been agreed at £355,000 subject to valuation, and the current rent is £22,000 per annum. The funding requirement is likely to be along the lines of the table shown below.

In order to pay down the mortgage, we have restricted the borrowing to a reasonable figure of 51% purchase price maximum. NatWest will provide the loan at a likely figure of 2.80% above the bank base rate (currently 0.5%), making the total initial interest rate 3.30% per annum. A syndicate member investing £40,500 into the property, comprising pension fund of £22,500 and borrowing of £18,000 will acquire 10.00% of the property, with a starting net asset value of circa £18,500. Rental income will be £2,200 for this individual. Assuming the mortgage has an average interest rate of 4.65% per annum and that all rental income (after our annual fee) is used for repayment of the mortgage, then it will expire in a little over 10 years time. This assumes 1.5% per annum compound rental increases at each rent review.

We are able to offer a small number of investors a share without a mortgage. These investors will receive their share of the rent into their SIPP and this can be paid out to them as a pension, within HMRC limits, or retained.

| | Cost | VAT | Total | To be received |
|--------------------------|----------------|--------------|----------------|----------------|
| Purchase Price | 355,000 | | 355,000 | |
| Stamp Duty | 10,650 | | 10,650 | |
| Land Registry | 800 | | 800 | |
| Disbursements | 900 | 157 | 1,057 | |
| Purchasers legal cost | 3,000 | 525 | 3,525 | |
| Mortgage arrangement fee | 2,160 | | 2,160 | |
| Agents fees | 5,325 | 931 | 6,256 | |
| Deposit float account | 9,095 | | 9,095 | |
| Lewis purchase fee | 7,100 | 1,243 | 8,343 | |
| Carey SIPP fees | 2,000 | 350 | 2,350 | |
| CAP circa | 5,000 | | 5,000 | |
| Valuation circa | 650 | 114 | 764 | |
| Totals | 401,680 | 3,320 | 405,000 | |
| Mortgage | | | 180,000 | |
| Investment | | | | 225,000 |

These figures assume that the property will be treated as a 'transfer of a going concern' for VAT purposes and therefore VAT does not need to be paid on the purchase price.

“ With a gross starting yield of 6.19% and a term certain on the lease of 13 years, this is a quality investment ”

Tim Lewis

Potential returns

Once the mortgage is cleared, the net asset value, based upon the purchase price, will be £36,500 for the member committing £22,500 pension funds to the syndicate; Once the mortgage has been repaid, the member will then be entitled to rent of circa £2,200 per annum representing 9.80% income to your SIPP from your initial investment. However if rents rise by 1.5% per annum the value will be an estimated £41,245 and the annual rent £2,400.

The net investment for a higher rate taxpayer would have been only £13,500. Based on the estimated annual rent of £2,400 this is an annual return of 17% on the net investment to a higher rate tax payer.

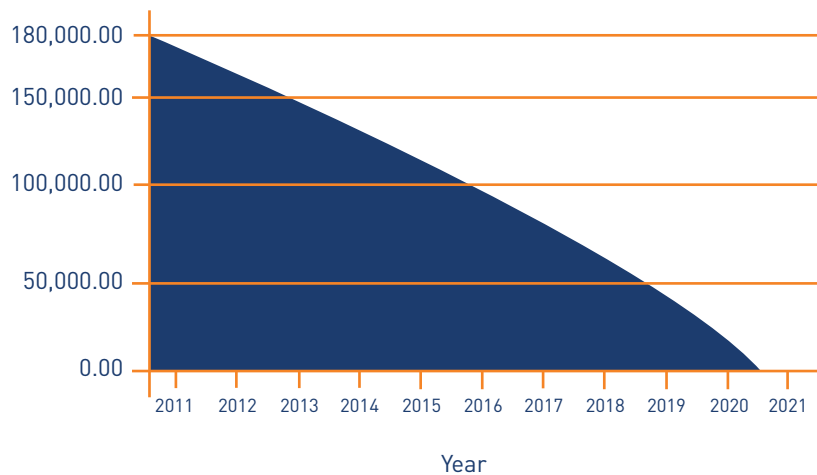
In addition to this, the property value may rise and the annual rent can increase faster, which will lead to additional returns for the syndicate members.

The mortgage term is an estimated 10 years on a capital and repayment basis. Additionally, an interest rate cap will be purchased.

Mortgage

The chart on the right shows the likely repayment of the mortgage assuming an interest rate of 4.65% during the term of the mortgage.

The starting interest rate is 3.3%.



Your questions

- Q.** How can I participate and become a member of Lewis & Co's SIPP Syndicate?
- A.** Contact us to arrange to see one of our advisers who will discuss the details with you in full. If you then wish to participate you will be asked to pay the commitment fee of £100.00 + VAT.
- Q.** What risks are involved?
- A.** See Risk Factors section on page 6
- Q.** Who will pay the acquisition fees?
- A.** These costs are split proportionally between all members.
- Q.** Am I free to take my pension, retire, and leave the syndicate at any time?
- A.** Yes, your share would be offered to other members of the syndicate, who could if they wish increase borrowings to help acquire it. If this were not taken up, your share would be offered to the marketplace. If no buyer could be found, the property would have to be sold and cash realised within two years of the request.
- Q.** How do i know the value of my share?
- A.** A property fund is established and divided into members' shares upon purchase. Thereafter annual property valuations are carried out and you will receive a valuation of your SIPP.

Associated costs

To open your SIPP account will mean having to meet certain costs, these fall into main categories - establishing the SIPP and then setting up the property fund.

To start your account:-

| | |
|---|---|
| Initial commitment fee to Lewis | £100.00 + VAT |
| Carey initial one-off fee | £2000 + VAT maximum (per syndicate) |
| Lewis Innovative Investment will charge | 2% of the purchase price once the property exchanges. |

All upfront fees will be deducted from the funds you transfer into the plan, apart from the initial commitment fee to Lewis Innovative Investment. All future fees will need to be paid from other funds held within the syndicate or personally.

Lewis & Co's annual syndicate fee is 0.5% per annum of your share of the property value and is paid from the syndicate account. Thereafter Carey levy their SIPP annual charge in advance of £478.00 plus VAT; Lewis & Co's fee is 0.50% p.a. of your share of the property value.

Liquidity issues

Commercial property is a long term holding. Generally, a prospective syndicate member should not bring funds into the syndicate that cannot be committed for at least ten years.

The reason for this is that until the mortgage is repaid, no income will flow into the member's SIPP account. Pension funds are long term investments and the lack of liquidity is not normally a major issue.

Alastair Warwick-Smith, Director, Goadsby says "we are very happy to assist Lewis Innovative Investment in these purchases as we notice the difficulty many private investors have in seeking to identify individual investments within their pension, and recognise a genuine need for these products from those looking to address a shortage of income in their retirement".

Summary

This syndicate is very much what we are looking for in a commercial property investment and the following reasons explain why:

- The tenant is a very strong and long established company.
- The lease is ideal for the syndicate to gear the property, with 13 years unexpired and no breaks.
- The building is very recently built, situated in a new, small business park. The second phase completes soon and should provide strong evidence for future value increase.
- The property is worth more without a tenant and there is, therefore, upside on the capital value.
- This property being part of the first phase can be seen from the main road.

I am, therefore, delighted to recommend this syndicate to you. It is particularly suitable to a geared pension, with the borrowing repaid from the rent over the years ahead.



Best wishes

Tim Lewis

Risk factors

| | |
|-------------------------|--|
| Inflation | <p>High inflation means higher rent rises in line with general pricing.</p> <p>Low inflation means rent rises will remain lower which impacts on the growth of the capital value of the property.</p> |
| Interest rates | <p>If borrowing applies to the property investment higher interest rates can reduce returns.</p> <p>Fixed or capped rates on the associated borrowing can mitigate this risk.</p> |
| Vacancy rates | <p>If vacant the owner may be required to pay the business rates on a property.</p> <p>Additionally if the tenant fails or the lease expires (or a break option exercised) the mortgage will have to be maintained whilst the property is vacant.</p> |
| Locality | <p>A location's general economic profile may change if, for instance, an out-of-town development draws businesses away; rental increases would become harder to apply which would affect income growth. Conversely, a nearby new major development makes an area more attractive opening the potential for rental income increases.</p> |
| Rent | <p>Although the rent reviews are on an upward only basis there is no guarantee that the rent will increase at the reviews.</p> |
| Property value | <p>Property yields and capital growth are not guaranteed and the value of property could fall as well as rise so that you might not get back the amount originally invested. Past property market values are not a guide to future property value trends.</p> |
| Drawing benefits | <p>On drawing benefits, for example taking the Pension Commencement Lump Sum, from a SIPP linked to property, in some circumstances the property may need to be revalued and a charge for this will be met proportionately by partners.</p> <p>Whilst the risk of property investment is perceived to be lower than investment in stocks and shares it must be remembered that it is a single illiquid holding and it may take time to convert your investment to available funds should you require to draw on the property itself. Your ability to draw on your share of the property is entirely dependent upon finding a purchaser for your share of a partnership, if applicable, or upon the sale of the property.</p> |
| Regulation | <p>Commercial Property purchase is not a regulated activity. Pensions are regulated by the Financial Services Authority.</p> |

“ Our unique proposition of 50% in commercial property syndicates and 50% in dividend paying stock market funds, makes for an excellent 'common sense approach to investing'. ”