

## Nova Partnership 23 – Winchester City Centre

### Introduction

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

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 investments 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 than ever.

**This is our first jointly owned syndicate where you are able to own part of the property, whether your investment is from your own funds, or from a pension fund.**



### The property

The main features of this property are as follows:-

- The purchase price has been agreed at £2.8 million.
- There are four retail units fully let.
- There are two floors of offices fully let.
- This is a prominent corner city centre site, located between the prime retail pitch and the restaurant quarter.
- The total size of the unit is circa 14,700 square foot.
- The total rental income is currently £238,000.
- The current gross yield is 8.50% per annum.
- There are 19 car parking spaces, including basement parking.
- The property is looking tired, however it is largely superficial.
- We are inviting minimum investments of £20,000.

### The Investment

The property being acquired by this syndicate is freehold with on site car parking and located adjacent to the prime pitch of the City of Winchester.

This is suitable for people looking to achieve:-

- Income now
- OR
- Capital growth, with a future income

**After costs, the income class of holding will pay a monthly in advance rate of 6.53% per annum, before tax. After costs, the growth class of holding will pay a monthly income of 10.27% per annum from 6 years time. If your holding is through a pension fund this income will be paid into your pension bank account.**

### How it works

The property will be purchased with investment monies and will be held on a joint ownership basis. Additionally a mortgage will be obtained for no more than £1.15 million and the lender will have a first charge on the property. Lewis as sipp coordinator will pull together each aspect of the purchase so that an investors exact share will be determined by the amount of investment together with their share of the mortgage.

A share is available to those investors that wish to receive an income from day one and their share of the rent will be paid on a monthly basis. The three different ownership methods are:-

1. Membership of a SIPP syndicate through Carey trustees.
2. Membership of an Aqua LLP partnership.
3. Membership through a SSAS pension investment.

Your Lewis adviser will assist you in deciding which is the most suitable for you.

### Reasons Why

- This investment is not directly affected by rises and falls in the stock market.
- 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 investment.
- We believe that this type of investment is likely to prove beneficial to you at a time when investment outlook generally is uncertain.
- Location is all important with property and we believe that this property benefits from a very good location.
- The property is on a very large corner site, consisting of four retail units, two floors of offices and basement parking.
- Leases are in place to an attractive mix of tenants.

### Pros

- An excellent city centre location.
- A very large property with lots of upside potential
- Attractive offices, with good open plan layout and extensive parking.
- Strong income yield.
- Potential to add a floor, possibly two penthouse flats or further offices, subject to planning.
- Future improved leases will enhance the value.
- Winchester traditionally benefits from a strong demand for offices and modern open plan properties are in relatively short supply.
- We would expect better than average rental/capital growth when the market returns, due to the property’s prominent location in the highly desirable City of Winchester.

### Cons

- Due to the tired appearance, a float is to be put aside for new windows, concrete work and possibly a new boiler. Some of this will be repaid by the tenants.
- The office tenant only requires the second floor and has put the first floor on the market to sublet.
- There are various lease lengths and therefore the property will require some management.
- Income and projected income may be reduced if there are prolonged periods of vacant units.

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### Syndicate 23 – Winchester

The objective is to form a syndicate whose members can transfer in £2,115,000 of funds. The syndicate will then borrow up to £1,150,000.

**The property's acquisition price has been agreed at £2,800,000 subject to valuation, and the current rent is £238,000 per annum. The funding requirement is likely to be along the lines of the table shown below.**

In order to pay down the mortgage relatively quickly, we have kept the borrowing to only 41.07% of the purchase price. NatWest will provide the loan at a likely figure of 2.85% above the LIBOR rate (currently 0.52%), making the total initial interest rate 3.37% per annum.

A syndicate member investing £163,250 into the property, comprising investment of £109,016 and borrowing of £54,234 will acquire 5.00% of the property, with a starting asset value of circa £85,766. Rental income will be £11,900 for this individual before fees, £11,200 after fees. Assuming the mortgage has an average interest rate of 4.8% per annum and that all rental income is used for repayment of the mortgage, then it will expire in just over 6 year's time. This assumes that the interest rates are 1.43% higher than they are at present!

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

	Cost	VAT	Total	To be received
Purchase Price	2,800,000		2,800,000	
Stamp Duty	112,000		112,000	
Land Registry	1,000		1,000	
Disbursements	3,000	600	3,600	
Purchasers legal cost	19,500	3,900	23,400	
Mortgage arrangement fee	17,250		17,250	
Agents fees	42,000	8,400	50,400	
Deposit float account	150,130		150,130	
Lewis purchase fee	56,000	11,200	67,200	
Arrangement fees	4,350	870	5,220	
CAP circa	30,000		30,000	
Valuation circa	4,000	800	4,800	
<b>Total</b>	<b>3,239,230</b>	<b>25,770</b>	<b>3,265,000</b>	
Mortgage				<b>1,150,000</b>
Members funds required				<b>2,115,000</b>
<b>Total</b>				<b>3,265,000</b>

The VAT will be reclaimed at the first VAT quarter.

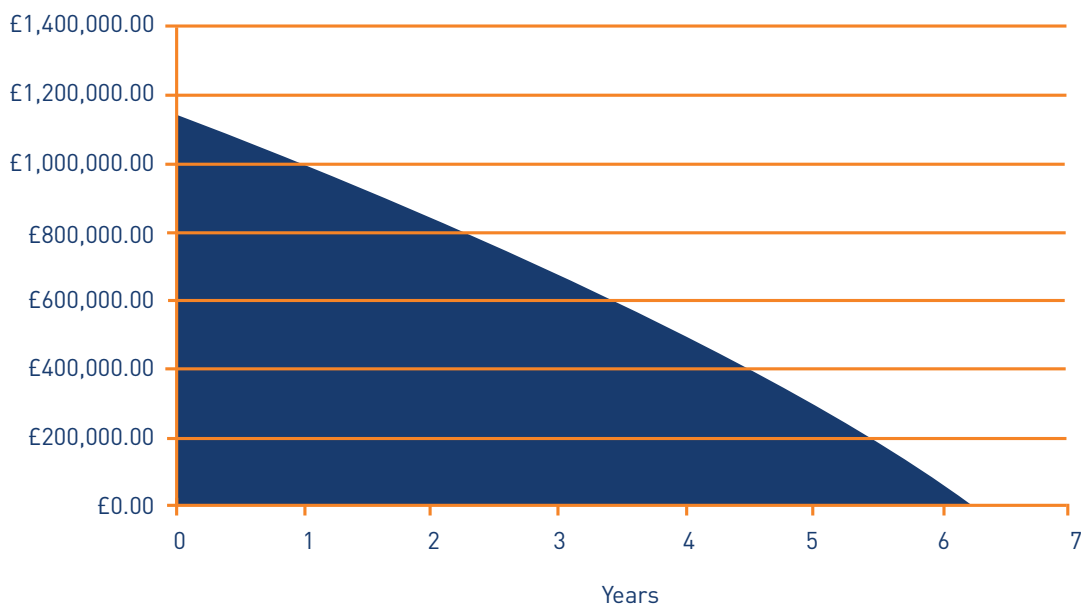
### Potential returns

Once the mortgage is cleared, the net asset value, based upon the purchase price, will be £140,000 for the member committing £109,016 pension funds to the syndicate. Once the mortgage has been repaid, the member will then be entitled to a rent of circa £11,200 per annum representing 10.27% income per annum from your initial investment, after costs.

The net investment for a higher rate taxpayer under a sipp or ssas pension would have been only £65,410, representing 17.12% income per annum from your original net investment.

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

The chart below shows the likely repayment of the mortgage assuming an interest rate of 4.65% throughout the term of the mortgage. The starting interest rate is 3.37%.



### Your questions

- Q.** How can I participate and become a member of Lewis' syndicate?  
**A.** Contact us to arrange to see one of our advisers who will discuss the details with you in full.
- Q.** Who will pay the acquisition fees?  
**A.** These costs are split proportionately between all members.
- Q.** Am I free to 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 these were not taken up, your share would be offered to the market place. If no buyer could be found, the property would have to be sold and cash realised within two years of the request.

### 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 six 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.

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### Associated costs

SIPP pension syndicate: Your usual SIPP fees will apply.  
Aqua LLP: Annual accounts will be paid from your share of the rent.  
SSAS pension: Your usual ssas fees will apply.

### Lewis fees

2% upon purchase.  
0.5% per annum of the property value.

### The tenants

1. Toni and Guy Ltd	£41,000 pa	10 years to 24 June 2016
2. Movers and Shapers Ltd	£20,000 pa	6 years to 1 August 2014
3. Coral Racing Ltd	£35,000 pa	15 years to 6 April 2024
4. GDSS UK Ltd	£28,000 pa	10 years to 24 June 2017
5. Teleca Ltd (1st and 2nd floor offices)	£114,000 pa	10 years to 25 March 2017, but with a break 25.03.2013
<b>Total</b>	<b>£238,000 pa</b>	

### Comments:-

1. Toni and Guy known nationally and internationally reported a turnover of £13.9m in the year to August 2009 and a pretax profit of £4.2m, with a net worth of £2.2m.
2. Movers and Shapers was established in 2007 and operates 7 retail outlets in the uk, providing fitness classes in the high street.
3. Coral Racing Ltd is part of Gala Coral Racing Group. Coral Racing Ltd reported a turnover of £623m to August 2009 and a pretax loss of £2.9 million. This loss was largely due to a group reconstruction. The net asset worth is £125m.
4. GDSS UK Ltd operates the unit as a restaurant and is of no great significance. However there is a strong demand from other potential tenants for this type of unit.
5. Teleca supplies software to mobile phone companies throughout the world. Teleca Ltd is a wholly owned subsidiary of Teleca AB which is on the Nordic Stock Exchange and operates in 11 countries. Teleca Ltd, the UK company has a turnover of £4.9m to December 2009 and a pretax loss of £204k. This company is supported by its international holding company.

Teleca Ltd have indicated that they wish to sublet the first floor and simply remain on the second floor.

### Summary

This joint ownership syndicate is very much what we are looking for in a commercial property investment, for the following reasons:-

- The location in the heart of the city centre of Winchester is fantastic.
- Offices and shops are in high demand in Winchester, with best office rents achieved at the £20 per square foot level.
- There is strong potential to increase the value of the investment.
- When a more normal market resumes for commercial property, we anticipate a good uplift on this property.
- A gross yield of 8.5% per annum is excellent, particularly when compared to bank deposit and bond returns.

I am therefore delighted to recommend this syndicate to you, whether you have pension or personal monies and whether you want income now, or at a future date.



Best wishes  
Tim Lewis

## Nova Partnership LLP

### Taxation

The following information is based on existing law and practice and may be subject to changes from time to time.

### Income Tax

**Members** will be subject to UK income tax on their annual share of the partnership profit, after allowable deductions. Repayment of mortgage capital is not an allowable expense, under the Capital Growth Option.

Partners will be provided with an annual statement of their share of income and expenses. Partners will be responsible for declaring their income on their Self-Assessment Income Tax Returns and for the payment of any tax due to the Inland Revenue. Partners who personally borrow money to invest in the partnership may not be entitled to income tax relief on that interest.

### Capital Allowances

We will investigate whether these apply and if so they could significantly reduce members' taxable profits in the early years.

### Personal Tax Issues

Each partner should seek personal tax advice from their own tax advisers. Lewis Innovative Investment are not taxation experts. Any information provided is in good faith and based upon our current understanding of Her Majesty's Revenue and Customs (HMRC) current practice.

Taxation rates and rules change and HMRC interpretation of those rules change without notice. If you are in any doubt as to your tax position you should consult your own professional tax adviser. Lewis will not be liable for any financial loss caused as a result of incorrect tax information/advice provided.

### Capital Gains Tax

Capital gains arising from the sale of the property will be proportional to each partner's share in the property. This may give rise to liability to capital gains tax.

We believe that at present this investment will not qualify for taper relief at the rate applicable to business assets. The relief will also be subject to the length of time the asset is held. A change of tenant may result in taper relief.

Partners will be responsible for declaring their capital gains on their Self-Assessment Tax Returns and for the payment of any tax due.

## SIPP Syndicate 23 Pension

No income tax is charged on the rent. No capital gains tax applies on the sale.

## SSAS Pension

No income tax is charged on the rent. No capital gains tax applies on the sale.

### Risk Factors

This investment is not regulated by the Financial Services Authority and disputes are unlikely to be within the jurisdiction of the Financial Ombudsman Service. This investment is therefore only suitable for experienced and informed investors.

### Inflation

This will influence the prospects for future rent rises as the amount tenants might expect rent to increase will reflect prices generally. Low inflation will generally suppress the ability to increase rents over time, which in turn limits growth of the capital value of the property as an investment. However, because this lease is RPI linked, inflation changes are well mitigated.

### Interest Rates

This has a big influence. An investor will compare yields on property to the return available on cash.

If interest rates rise, returns on cash become better and the income from a property investment bearing a fixed rental income from a property investment will look less attractive. Where an investment is supported by borrowing, interest rate changes have even more effect as the cost of borrowing will rise as the value of the property falls, and borrowing costs falling will normally be associated with an increase in the value of the investment.

### VAT

The property is elected for VAT. The Limited Liability Partnership will be registered for VAT, but the purchase price should be on the basis that it is a 'transfer of a going concern'.

The VAT on most fees can be reclaimed by the Limited Partnership.

### Borrowings

Amounts owing to any bank and related expenses will rank ahead of partners' entitlement for both equity and loans.

### Locality

Over time the general economic profile of a location may change. A good example of this is the negative effect on many provincial town

centres caused by the dash for out-of-town development during the late-eighties to mid-nineties. Conversely a major development nearby can improve a location. Principally it is the desirability of a particular location for prospective tenants' businesses. Whilst a tenant may be locked into a particular lease, if this is in a deteriorating location the ability to increase rents at review will be diminished as will the prospect of finding new tenants or purchasers at the end of term.

### Planning

One great attraction of commercial property is its scarcity value; planning policies generally restrict supply, thus ensuring a healthy demand for existing premises. Where local planning authorities adopt more liberal policies increased supply can dilute demand.

It is for the above reasons that first class advice is needed on selecting suitable investment opportunities.

### Liquidity Issues

All property investments including this partnership have liquidity issues and the partnership deed deals with liquidity. The reality is that if a partner wants their money from the Partnership, then either the other partners have to buy them out (possibly through an increased mortgage) or a new individual buys out the leaving partner, or the property is sold and the partnership gains distributed.

### Property Risk

The value of the property may fall or rise. Past property market values are not a guide to future property values. The purchase could fall through in which case the costs incurred would need to be met by the limited partners.

### Credit Risk

Once let, the promise to pay the rent, keep the property in good repair and insure it is only as good as the tenants ability to pay. If the tenant cannot pay then the owner may be left with no income and the expense of finding new tenants or having to sell the premises with vacant possession.