

Nova Partnership 24 – Winchester Job 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 portfolio and indeed forms part of our investment proposition.

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 second 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:-

- Citygate House in City Road is in the commercial heart of Winchester. Built in 1992 to a very high specification for the Government, it is a 'Job Centre Plus' of circa 21,700 sq ft over 4 floors.
- The purchase of the freehold for £4.4 million is subject to a lease with 5.5 years remaining to the Secretary of State (the Government) at an annual rent of £403,300.
- The purchase includes a house at the rear of the property which is let and produces an income of £13,800 per annum, therefore **the total income amounts to £417,100 per annum.**
- The lease has a full repairing and insuring obligation on the Government.
- Located a few minutes walk between the mainline railway station and the retailing centre of Winchester, this property is strategically located.
- The site is just under a third of an acre.

The Investment

We are inviting minimum investments of £30,000, although investors may invest larger sums in increments of £10,000.

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 **7.10% per annum**, before tax. After costs, the growth class of holding will pay a monthly income of **13.30% per annum** after 5.5 years time assuming that it is relet.

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 circa £1.5 million and the lender will have a first charge on the property.

Capital growth with a future income

Those investors looking to achieve capital growth with a future income stream will share part of the mortgage secured on the property. Therefore on day one they will own a greater share of the property, but will only receive income once their share of the mortgage is repaid by their share of the rent.

Income now

A share class 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 two different ownership methods are:-

1. Membership of a SIPP syndicate through Carey trustees.
2. Membership of an Aqua LLP partnership.

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 widely marketed.
- 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 one of the country’s most desirable cities.
- The property is on a very large site of 0.72 acres, consisting of ground and three upper floors, together with 17 parking spaces.
- The lease is to the Government.

Asset management opportunities for this property

1. To negotiate a reduced rent for an increased new lease term
2. If they do not wish to negotiate, we will be more clear about their long term intentions.
3. This will then allow us to consider a change of use or start early marketing of the offices.
4. The ability to change to residential units without planning permission may well apply as outlined in the budget.
5. We understand that Travelodge and Premier Inns both have a requirement for central Winchester.

Additional cautious management

1. A £100,000 deposit account from day one will be put aside towards costs at the end of the lease. This can be returned to investors in the future if deemed unnecessary.
2. Not all the rent is distributed allowing additional capital retention of circa £70,000 in total over the 5.5 year period. This will add to the deposit account.
3. Should the tenant leave at the end of the lease then expected dilapidations of circa £150,000 could be achieved from the tenant to pay for wear and tear.

Advantages

- An excellent city centre location with an undisputed tenant.
- A very large property with lots of upside potential
- Attractive, modern, well specified offices
- Strong income yield.
- 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 capital growth when the market returns, due to the property’s prominent location in the highly desirable City of Winchester.

Disadvantages

- Lease expires March 2017 and the tenant is under no obligation to renew.
- Public sector cuts could affect the likelihood of a renewal of the lease.
- Income may have to be reduced if the lease is not renewed or if the rent is reduced.
- Owners of empty offices are now required to pay business rates.
- Current evidence does not support the level of rent passing, but we anticipate that rents will have recovered by 2017.

Syndicate 24 – Winchester Job Centre

The objective is to form a syndicate whose members can transfer in £3,435,000 of funds. The syndicate will then borrow circa £1,500,000 by means of a bank loan from Natwest Bank.

The property's acquisition price has been agreed at £4,400,000 subject to valuation, and the current rent is £417,100 per annum. The funding requirement is likely to be along the lines of the table shown below.

Capital growth investors

In order to pay down the mortgage relatively quickly, we have kept the borrowing to only 34% of the purchase price. NatWest will provide the loan at a likely figure of 3.00% above the LIBOR rate, making the total initial interest rate circa 3.82% per annum.

A syndicate member investing £185,000 into the property, comprising investment of £110,000 and borrowing of £75,000 will acquire circa 3.75% of the property, with a starting equity value of circa £93,750. Rental income will be £15,600 for this individual before fees, £14,475 after fees. Assuming the mortgage has an average interest rate of 4.65% per annum and that all rental income is used for repayment of the mortgage, then it will expire in just over 5.5 year's, at the same time as the current lease expires. This assumes that the interest rates are 1.15% higher than they are at present!

Income investors

We are able to offer a number of investors a share without a mortgage. SIPP investors 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	£4,400,000		£4,400,000	
Stamp Duty	£176,000		£176,000	
Land Registry	£800		£800	
Disbursements	£900	£135	£1,035	
Purchasers legal cost	£25,000	£5,000	£30,000	
Bank arrangement fee	£26,250		£26,250	
Agents fees	£55,000	£11,000	£66,000	
Deposit float account	£100,000		£100,000	
Lewis purchase fee	£88,000	£17,600	£105,600	
CAP circa	£24,515		£24,515	
Valuation circa	£4,000	£800	£4,800	
Total	£4,900,465	£34,535	£4,935,000	
Mortgage				£1,500,000
Members funds required				£3,435,000
Total				£4,935,000

Note:

1. No VAT is shown on the purchase price as it should be treated as a 'transfer of a going concern'.
2. The Deposit Float Account is simply to provide liquidity in the partnership.
3. CAP is an interest rate cap paid for by Capital Growth members.

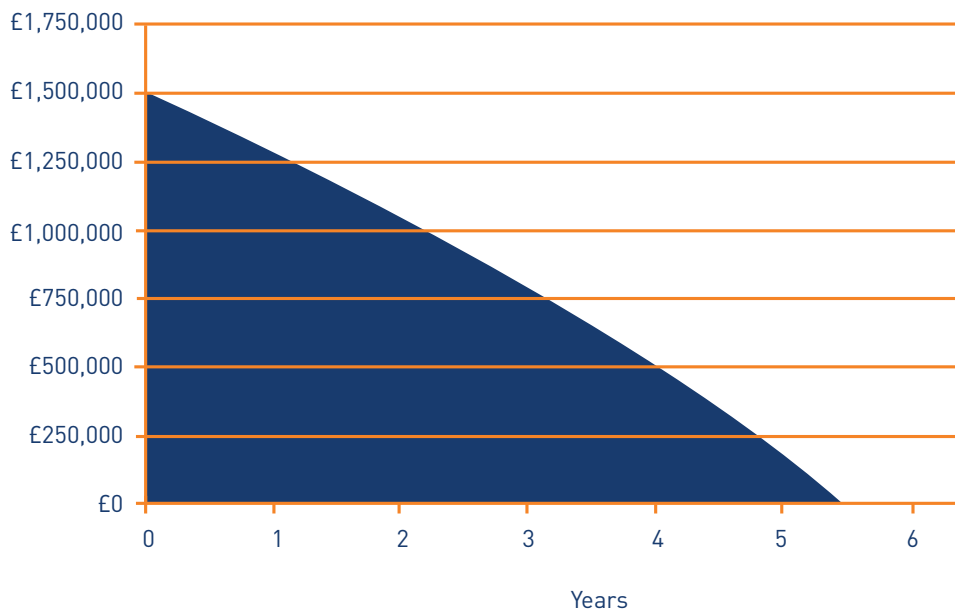
Capital growth investors

Once the mortgage is cleared, the net asset value, based upon the purchase price, will be £165,000 for the member committing £110,000 funds to the syndicate. Once the mortgage has been repaid, the member will then be entitled to a rent of circa £14,475 per annum representing 13.16% per annum from your initial investment, after costs.

The net investment for a higher rate (40%) taxpayer under a SIPP pension would have been only £66,000, representing 21.93% 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 likely to be 3.82%.



Potential returns for income investors

Over the long term your capital is likely to maintain its real value against inflation, however as you are receiving income continuously in the shape of your share of the rent, additional capital growth is only expected over the long term.

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. Please note that you may not get the value of your investment back, it will be based on market value at the time you wish to sell your share.

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.

Associated costs

SIPP pension syndicate: Your usual SIPP fees will apply.

Aqua LLP: Annual accounts will be paid from your share of the rent.

Lewis fees

2% upon purchase.

0.5% per annum of the property value.

Summary

Citygate House is very much what we are looking for in a commercial property investment, for the following reasons:-

- The property is in a prime location in one of the country's most sought after cathedral cities.
- There is strong potential to enhance the asset.
- When a more normal market resumes for commercial property, we anticipate that the office rents in Winchester will recover more quickly
- **A gross yield of 9.5% before costs, per annum is excellent, particularly when compared to bank deposit and bond returns.**
- In addition to being a Job Centre Plus, it is also the training centre for the other Job Centres in Hampshire.
- Property prices in Winchester significantly exceed the national average and this is increased by tight constraints on land supply.

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 24 pension

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

Risk factors

Commercial property 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.

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. At the end of the lease income may fall or stop altogether until relet.

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. This obviously does not apply to this tenant which is the Government.