

## SIPP SYNDICATE 18 - Fulham SW6

### 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 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 this 18th pension syndicate. This is with the SIPP provider Pointon York.

### 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 clients' personal pensions at a time when 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 an 8 year old building in an affluent location in Fulham, South West London.
- The Syndicate is open to both Non Protected Rights and Protected Rights benefits.

## 227-233 Munster Road, Fulham, London SW6



## 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 Pointon York, 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 several options available in respect of finance, and are looking to secure favourable rates on either a fixed or variable basis.

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.

**PROPERTY  
SHOULD  
FORM PART  
OF EVERY  
WELL  
BALANCED  
PORTFOLIO**

## The Property

The property is centrally situated in the affluent London district of Fulham, in a high density residential neighbourhood.

The syndicate is purchasing the ground floor shop and basement on a 999 year lease.

Budgens Stores Ltd have a 25 year lease on the whole of the ground floor and basement, taken out in 2003.

The annual rent is £102,500 per annum, subject to five yearly upward only rent reviews. The lease is full repairing and insuring. There are no break options within the lease over the entire period, therefore, there are 18 years minimum remaining.

The upper floors are residential flats, owned by a non connected party (the current owner).

The property comprises an attractive, corner building of brick construction, the completion of which we are told took place in 2002 ( it is therefore just 8 years old and we are informed by the current owners, extremely low maintenance ). However the residential properties opposite are relatively low grade.

Pension funds are unable by law to own freeholds where residential property exists. Therefore the freehold will be owned by our connected company Herstone Ltd. We do this to protect your investment, when other non connected parties are involved. The ground rent for the shop is £350 per year.

The property is let to Budgens Stores Ltd, who have subsequently become Musgrave Retail Partners GB. The property in turn has been sub-let to The Fulham Grocery Company Ltd. Musgrave Retail Partners GB have a reported turnover of £701.5m and a net worth of £128.4m, but made a loss of £13 million in 2008 while restructuring following the merger with Londis.

## SYNDICATE 18 FULHAM

The objective is to form a syndicate whose members can transfer in £990,004 of pension funds. The syndicate will then borrow up to £926,894. Plus a short term loan of £297,418 to cover VAT on the purchase. This VAT will be reclaimed and the short term loan repaid within four months.

The property's acquisition price has been agreed at £1,699,530 subject to valuation, and the current rent is £102,500 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 kept the borrowing to a reasonable figure of 54% of the purchase price. 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 £191,689 into the property, comprising pension fund of £99,000 and borrowing of £92,689 will acquire 10.00% of the property, with a starting net asset value of circa £79,000. Rental income will be £10,250 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 12.68 year's time. This assumes 2% per annum 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 pension, within HMRC limits, or retained.**

	Cost	VAT	Total	To be Received
Purchase Price	1,699,530	297,418	1,996,948	
Stamp Duty	79,878		79,878	
Land Registry	800		800	
Disbursements	900	158	1,058	
Purchasers Legal Cost	9,500	1,663	11,163	
Mortgage Arrangement Fee	10,800		10,800	
Agents fees	25,275	4,423	29,698	
Deposit Float Account	8,500		8,500	
Lewis Purchase Fee	33,700	5,898	39,598	
PY SIPP Fees	2,000	350	2,350	
CAP circa	30,000		30,000	
Valuation circa	3,000	525	3,525	
<b>Totals</b>	<b>1,903,883</b>	<b>310,435</b>	<b>2,214,318</b>	
Mortgage				<b>926,896</b>
VAT Bridge				<b>297,418</b>
Investment				<b>990,004</b>

## POTENTIAL RETURNS

Once the mortgage is cleared, the net asset value, based upon the purchase price, will be £170,000 for the member committing £99,000 pension funds to the syndicate; Once the mortgage has been repaid, the member will then be entitled to rent of circa £10,250 per annum representing 10.35% income to your SIPP from your initial investment. However if rents rise by 2% per annum the value will be an estimated £ 204,000 and the annual rent £ 12,400.

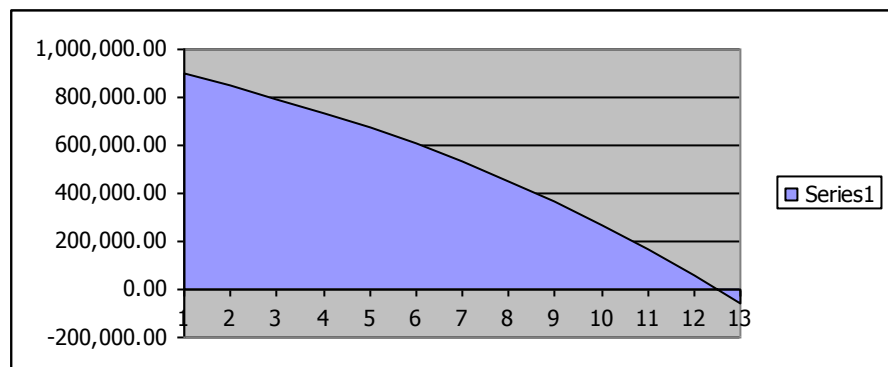
The net investment for a higher rate taxpayer would have been only £59,400.

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

The mortgage term is an estimated 12.68 years on a capital and repayment basis. Additionally, an interest rate cap may be put into place to provide interest rate protection.

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 on page



## 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 section Risk Factors 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 is my share known?

A. Annual valuations will be carried out by the SIPP Trustee. A property fund is established and divided into members' shares.

## Associated Costs

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

To start your account:-

Initial commitment fee to Lewis	£100.00 +VAT
Pointon York 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.

Thereafter Pointon York levy an annual charge in advance of £589.00 plus VAT; Lewis & Co's fee is 0.50% p.a. of your share of the property value and this is paid from the syndicate.

Please note that Lewis' underwrite the purchase costs so that in the event of the syndicate not proceeding your only loss is the £100 initial commitment fee.

## 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 five 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 recognize 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 progressive organisation in a growth retail sector that shows no sign of slowing.**
- **There is a potential for the company to be taken over by one of the large operators.**
- **The building is very recently built, situated in the affluent and popular London Borough of Hammersmith and Fulham, where property prices are generally higher than the provinces.**
- **The style of operation (mini supermarket) is very popular in London, where young professionals tend not to do weekly shops and main supermarkets are few and far between.**
- **There are 18 years remaining on the full repairing and insuring lease, without any tenant break options.**
- **The property is of traditional style in an established location.**

**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

<b>INFLATION</b>	<p><b>High inflation</b> means higher rent rises in line with general pricing.</p> <p><b>Low inflation</b> means rent rises will remain lower which impacts on the</p>
<b>INTEREST RATES</b>	If borrowing applies to the property investment higher interest rates can reduce returns.
<b>VACANCY RISK</b>	<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>
<b>LOCALITY</b>	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.
<b>RENT</b>	Although the rent reviews are on an upward only basis there is no guarantee that the rent will increase at the reviews.
<b>PROPERTY VALUE</b>	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.
<b>DRAWING BENEFITS</b>	<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>