

## SIPP Syndicate 20 – Training Centre, Poundbury



### 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 selective commercial property can offer very attractive returns within pensions.

**We are pleased to recommend to you our 20th SIPP Syndicate, a new training centre for the British Red Cross in Poundbury, Dorchester.**

### 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.

- **The property is a newly built office/warehouse due for completion in 2 months. The property is due to be used by the British Red Cross as a training facility and has the benefit of internal ambulance parking.**
- **An agreement to lease is in place to the British Red Cross for 15 years, with a tenants break option at year 10 and drafted on full repairing and insuring terms.**

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

Tim Lewis

### How it works

A syndicate will be formed to establish a property fund. We do this by transferring part or all of your personal pension funds into a SIPP with Carey Pensions, who are the administrators and trustees. Alternatively a new pension contribution can be made in order to participate.

- 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. Through our borrowing power, we are able to secure extremely competitive rates, which may include private finance if beneficial.
- 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.
- You will be able to see your mortgage reduce via our website which will be updated with the latest balance every 3 months.

### The property

- The property is situated on a new business park in Prince Charles' inspired Poundbury development on the outskirts of the county town of Dorchester.
- The syndicate is buying the 125 year long leasehold building, together with 10 car parking spaces. The freehold is retained by The Duchy.
- The British Red Cross, a registered charity, have signed an agreement to lease and we expect to complete the purchase on the lease in January.
- **The annual rent is £45,359 per annum which equates to a gross yield of 7.62% on a purchase price of £595,000.**
- The lease is for 15 years with a tenants only break option at year 10. The lease is drafted on full repairing and insuring terms.
- The building is under construction and we will exchange contracts immediately, conditional upon completion of the building and the agreed lease with the British Red Cross.
- The building has been designed as offices/warehousing. The tenant is proposing to spend a significant amount of money on fitting the building out, so that it can become a training centre.
- The British Red Cross are a volunteer-led humanitarian organisation, that helps people in crisis around the world. A registered charity with income of £181 million in 2009. They are considered to be a very secure tenant.
- The final price and rent will be proportioned according to a final measurement of the building upon completion of the build.

### Syndicate 20 – Parkway Farm

The objective is to form a syndicate whose members can transfer in £373,240 of pension funds. The syndicate will then borrow up to £300,000, together with a VAT bridge for a 3 month period.

The property's acquisition price has been agreed at £595,000 subject to valuation, and the current rent is £45,359 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 at 50% fund value maximum. NatWest will provide the loan at a likely figure of 2.8% above the bank base rate (currently 0.5%), making the total initial interest rate 3.30% per annum. A syndicate member investing £67,324 into the property, comprising pension fund of £37,324 and borrowing of £30,000 will acquire 10.00% of the property, with a starting asset value of circa £59,500. Rental income will be £4,535 per annum for this individual. 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 8 year's time.

**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	595,000	119,000	714,000	
Stamp Duty	28,560		28,560	
Land Registry	800		800	
Disbursements	900	180	1,080	
Purchasers legal cost	7,000	1,400	8,400	
Mortgage arrangement fee	4,500		4,500	
Agents fees	8,925	1,785	10,710	
Deposit float account	4,405		4,405	
Lewis purchase fee	11,900	2,380	14,280	
Carey SIPP Fees	2,000	400	2,400	
CAP circa	7,500		7,500	
Valuation circa	1,750	306	2,056	
<b>Totals</b>	<b>673,240</b>	<b>125,451</b>	<b>798,691</b>	
Mortgage				<b>300,000</b>
Members funds required				<b>373,240</b>
Total				<b>673,240</b>
<b>VAT Bridge</b>				<b>125,451</b>
<b>Total</b>				<b>798,691</b>

This assumes VAT will be charged at 20% on completion and reclaimed after 3 months, at which point the VAT bridge will be repaid.

### Potential returns

From an initial investment of £37,324, upon mortgage repayment (after 8.25 years), the value will be £59,500. This member will then be entitled to rent of circa £4,535 per annum.

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. Conversely the value could fall. Our calculations assume the value remains static.

The mortgage term is 8.25 years on a capital and repayment basis. Additionally, an interest rate cap may be put into place to provide interest rate protection.

### The effect of tax relief

New pension contributions benefit from tax relief at your highest rate. This significantly enhances returns when compared with other traditional investments.

Gross investment	£37,324
Net investment (20% tax payer)	£29,859
Net investment (40% tax payer)	£22,394
Share of annual gross rent	£4,535
After 8.25 Years	
<b>Annual rent return for 20% taxpayer</b>	<b>15.18%</b>
<b>Annual rent return for 40% taxpayer</b>	<b>20.25%</b>

If you are a 50% tax payer (People earning over £150,000 per annum) you should refer to your advisor at Lewis' for estimated returns.

This assumes that Carey's annual fee (currently £478.00 + VAT per annum) is paid from your own investor resources. All other fees are taken into account on the above figures.

### Your questions

- Q.** How can I participate and become a member of Lewis' 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.
- 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 if this were not taken up your share will 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 valued?  
**A.** Annual valuations will be carried out by the SIPP Trustee. A property fund is established and divided into members' shares.

### 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 eight 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

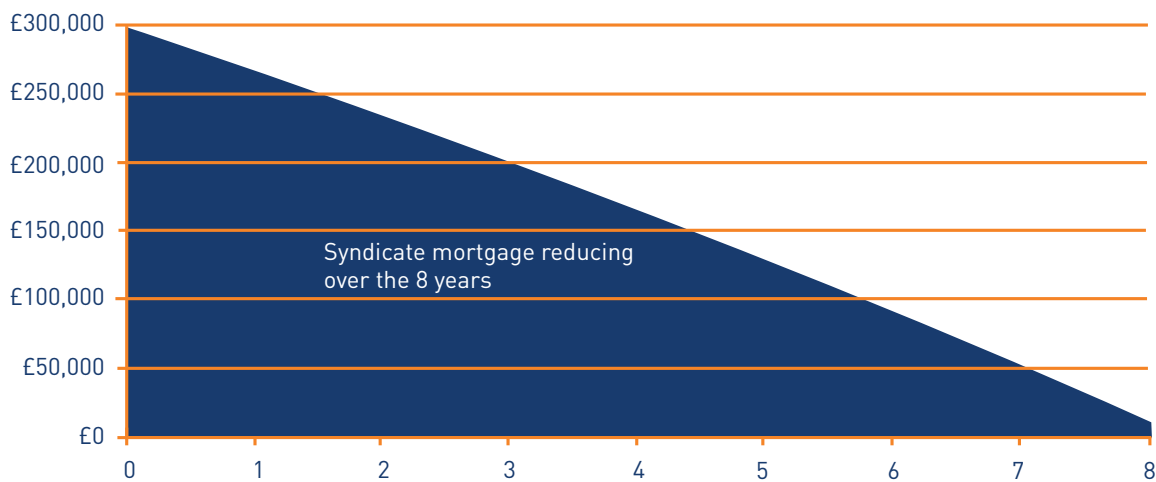
To open your SIPP account will mean having to meet certain costs, these fall into two main categories – establishing the SIPP and then setting up the property fund.

### To start your account:-

Initial commitment fee to Lewis	£100.00 + VAT
Carey initial one-off fee	0.36% + 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 Carey levy an annual charge in advance of £478.00 plus VAT; Lewis' fee is 0.50% per annum of your share of the property paid quarterly.



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 large charity organisation, considered to be very secure.
- The property has the advantage that its consent is unusual being part office and part warehousing.
- The property is located in an excellent location in Poundbury Dorchester, with part of Weymouth College as neighbours.
- The British Red Cross lease is at a competitive market rent, which leaves room for improvement at future reviews.
- The property will be of appropriate design for Poundbury.

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 growth of the capital value of the property.</p>
<b>Interest rates</b>	<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>
<b>Vacancy rates</b>	<p>If vacant the owner may be required to pay the business rates on a property, however, small office suites are likely to be exempt, but contributions to service charges may be necessary.</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>	<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>
<b>Rent</b>	<p>Although the rent reviews are on an upward only basis there is no guarantee that the rent will increase at the reviews.</p>
<b>Property value</b>	<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>
<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 liquid 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>

“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'.”