

PROPERTY ACQUISITION & MANAGEMENT WITH THE SUFFOLK LIFE MASTERSIPP

At Suffolk Life, we aim to provide you with a service that is second to none. Our experienced and dedicated property team specialise in the professional handling of any acquisition and the ongoing management of the property, to help you get the best out of your investment.



SUFFOLKLIFE
THE INTELLIGENT APPROACH

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This guide is designed to provide some technical information and guidance regarding the mechanics of purchasing and maintaining a property within a SIPP. It includes information on what is and isn't an acceptable property, and guidance on borrowing and joint ownership. It also tells you how we manage property and what the options are available at crystallisation.

INTRODUCTION

We have specialised in property acquisition and management since our inception, and the ability to combine protected rights (PR) with ordinary pension benefits (OPBs) to purchase a commercial property is one of the most exciting features of the MasterSIPP. By its nature property acquisition and management can be a complicated process (but not as much as you might think). If you are getting ready to purchase a property within your SIPP, cannot find what you are looking for here and require some technical guidance then our property team will be glad to help you in any way they can.

In addition all the forms required to purchase a property via a Suffolk Life SIPP or Suffolk Life MasterSIPP can be found on at www.suffolklife.co.uk/gettingstarted.

THE BASICS

A property can be freehold, leasehold or commonhold – the latter is treated the same as leasehold. If leasehold we will need to examine the lease to make sure it is acceptable and for this reason it is highly recommended that you give us early details so that we can take a reasoned view of the proposed investment.

The property should be in the UK and commercial.

Commercial property includes:

- » Hotels and motels
- » Nursing homes
- » Public houses
- » Land whether developed land, farmland or forestry
- » Ground rents, can be purchased provided the underlying property is not residential

We are likely to refuse foreign property but we will review a proposal upon request.

WHAT IS PROPERTY

When we invest in property we are only prepared to invest in the bricks and mortar. Therefore investments cannot include items such as fittings, desks, computers etc. Likewise goodwill and stock cannot be part of the purchase. If the proposed purchase includes items such as this, the transaction must be fairly split between the various elements with the SIPP joining in the contract to purchase the property asset only.

Another example of this could be agricultural land. In this instance it would be expected that the land would be leased to a tenant who would manage and farm the woodland, paying the SIPP a market rent for doing so. In this respect the rights to the crop are owned by the tenant.

All properties are purchased and owned by Suffolk Life Annuities Limited or its nominee.

FEES

Our up to date fee schedule can be download from our website www.suffolklife.co.uk/detailedcosts. Property related fees are paid directly from the SIPP. The main fees relating to a property acquisition can be summarised as follows.

Acquisition

Fees are based principally on the time spent in connection with the actual acquisition. The fee will vary from property to property but typically a property involving an acquisition with a mortgage and a lease will incur time costs in the region of £1,500 to £1,700. If a property is purchased by more than one SIPP plan, then this fee will be shared pro rata between the plans according to their ownership. Currently there will be no VAT charged on these fees.

Management

On an ongoing basis there is property management which again is based principally on time spent. A typical annual fee would be in the region of £600. If a property is purchased by more than one plan, then this fee will be shared

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pro rata between the plans according to their ownership. What this fee covers is details further on the in guide. Currently there will be no VAT charged on these fees.

Annual

For each plan used in a property purchase, there is an annual charge £100 (plus VAT if the plan is in the ordinary pension benefits MasterSIPP). If the property itself is VAT elected, there is an extra annual charge of £150.

OTHER FEES & TAXES

There are various other costs and taxes that an investor can expect when acquiring a property, and these can be summarised as follows:

Valuation & Lenders fees

You or your adviser needs to negotiate fees direct with the lender and the valuer as they will vary from case to case. Fees are usually assessed by reference to the size of the loan and/or value of the property.

Solicitor's fees

There will be legal fees chargeable by the solicitor acting for us. As in most cases we will be instructing your preferred the solicitor, we expect you or your adviser to negotiate fees direct with the solicitor concerned.

Stamp duty land tax (SDLT)

On the purchase of commercial property with a SIPP SDLT is payable just as in the case of any other purchaser. The tax is payable based on the value of the property at the following current rates:

Property value	Percentage
Up to £150,000	nil
£150,001 - £250,000	1%
£250,001 - £500,000	3%
£500,001 and above	4%

Land Registry fees

Properties need to be registered at the Land Registry following acquisition. The current Land Registry standard fees, based on the value of the property, are set out below:

Value or amount	Fee (£)
0 - 50,000	40
50,001 - 80,000	60
80,001 - 100,000	100
100,001 - 200,000	150
200,001 - 500,000	220

500,001 - 1,000,000	420
1,000,001 and over	700

VAT

VAT elected properties require VAT to be paid on the purchase price - this is a complex area. If a property is VAT elected, the normal rules apply and there are no special exemptions for SIPPs. It is also worth noting that if VAT is actually paid, it gets added on to the purchase price of the property and SDLT is calculated on the combined amount. This is particularly detrimental if the addition of VAT increases the value of the property above a SDLT threshold.

DEAL BREAKERS

We do not have a predetermined policy as to what is acceptable. There are a number of factors which could result in a transaction not proceeding. Some of these are specific pension law prohibitions. Others are common sense where neither we nor you, the underlying investor, would want to buy the asset.

PROPERTY LIABILITIES

These can arise from provisions in the title deeds or items that the solicitor acting on the purchase discovers by making the usual pre-contract searches and enquiries.

One liability which is of primary concern to SIPP administrators is environmental liability. Under environmental law, if a property is legally contaminated, the enforcing authority can serve a notice requiring the contamination to be removed. The basic principle is that the polluter is the person liable but if the polluter cannot be found or if for example he is dead or insolvent, the enforcing authority can turn to other people and at the back of the queue is the owner.

Therefore in an extreme case, the SIPP could have a liability to make good contamination which exceeds the value of the assets for that particular investor. As a result, pension administrators are extremely careful to check environmental liabilities before they sign up to buy a property. Naturally you, as the ultimate investor, will not want a property that is polluted.

CONNECTED PERSONS.

Although previously prohibited, transactions with connected persons are now permitted. However the transaction must be at the full market value.

ADJOINING PROPERTY

If the client or a connected person owns property and want to buy a property that immediately adjoins it using their SIPP, we need to be satisfied that the purchase of the new property by the SIPP will not have a material effect on the value of the other personally owned land. This is to ensure

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that the SIPP is not used in any way that boosts or benefits the value of personal assets. Cases need to be considered on their individual merits, and we will need valuation advice which will indicate to us whether we can go ahead.

BORROWING

A SIPP is permitted to borrow money to acquire a commercial property asset. The borrowing should be from a conventional High Street source but we are quite happy to deal with the lender of your preference. The terms of the loan will vary from case to case but as a guide interest probably between 1.25% and 2.5% over base should be expected. The rate will depend upon a variety of factors, particularly the degree of risk to the lender.

You or your adviser must negotiate the terms of the loan. We do not give investment advice and will therefore not advise on the terms of any loan offer from a lender.

The amount permitted to borrow is restricted by HM Revenue & Customs to 50% of the net value of the assets in your fund less any existing borrowing. A fund valuation must be carried out prior to purchase, so that we know that the property borrowing will be permissible. We will organise the valuation as soon as it is indicated that the purchase will proceed. Bear in mind that if the proposed property is VAT elected and VAT has to be paid in addition to the purchase price, the VAT can only be borrowed if it is within the 50% limit.

Borrowing by pension funds should be non recourse as far as the pension scheme member is concerned. This means there should be no personal liability for the loan. Indeed, personal guarantees in respect of SIPP borrowing are not allowable anyway.

The ability to borrow does not cease when benefits are being paid from the SIPP.

It is also possible to borrow money for the purpose of developing land owned by a SIPP. Such borrowing will be subject to exactly the same rules as for purchase. Improvements to a property owned by a SIPP should generally be paid for through the SIPP and will usually result in an increase in rent to the underlying tenant.

We will normally insist on the appointment of a main contractor to carry out development work. We will also usually insist on a fixed price contract and for the transaction to be properly supervised as it proceeds.

JOINT OWNERSHIP

Joint ownership by SIPP investors

There is no limit to the number of investors with SIPPs at Suffolk Life who may pool their funds together, although there may be practical or commercial reasons why they

would not wish for any grouping to be too large. Like all joint ownerships, there are then issues to be considered. What happens for example if one of the joint investors dies or simply wants to realise the investment.

The solution is to get joint investors to sign a co-ownership agreement. This will provide that in the final analysis, Suffolk Life may sell the property and convert it back to cash for the benefit of all

the investors. But before that happens, remaining co-owners are given rights of pre-emption at market value so that if they

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wish they can prevent the property being sold provided they buy out the share of the deceased or outgoing owner. Alternatively, they can bring in other investors with SIPPs at Suffolk Life to buy the share of the outgoing owner.

We have no requirement that ownership percentages in the asset are equal. Furthermore joint investors can borrow different amounts towards the purchase price of their share in the property. So long as investors do not borrow more than 50% of the net value of their SIPPs, then unequal borrowings are permissible.

Remember, however, that we buy the property and become the borrower, so the underlying individual borrowings by joint investors are irrelevant to the lender.

It means that a joint owner with no borrowings is potentially greater at risk than a joint owner who is highly geared as the lender has resort to the whole asset in the event of default. On the other side of the coin, however, the joint owner with no borrowings will have the full amount of his share of the rent apportioned to his account. The co-ownership agreement should contain suitable indemnities to cover this potential issue.

Joint ownership with a third party

We are sometimes asked if we can purchase a property jointly with a third party, including the SIPP investor, not using a SIPP with Suffolk Life. The answer is yes and our joint purchase by way of nominee paper sets out the structure involved.

MANAGEMENT

Upon acquisition the property needs to be managed and this section tells you what is involved.

Our responsibilities to the client

We will:

- » Invoice rent
- » Collect rent (other than by legal action)
- » Insure the property

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- » Where appropriate, obtain reimbursement of the cost of insurance from the tenant
- » Account for VAT and deal with all VAT records when appropriate
- » Arrange for the repayment of any loans charged on the property

Not covered are:

Any costs incurred in taking action to recover rent

- » Legal advice in connection with any other tenancy issues or relating to the property itself
- » Physical inspections
- » Anything not referred to in our responsibilities

The investor must accept ultimate responsibility for getting the best out of the property pension investment by diarising rent reviews, termination dates, break dates and the like. As a backup, we will use reasonable endeavours to keep the important dates under review and wherever possible send reminders about action that is needed. The investor should also periodically keep an eye on the property and report its condition to us.

CRYSTALLISATION

You should be aware that when a benefit crystallisation event occurs we will require a valuation of the property from a qualified valuer. The cost of the valuation will be met by the SIPP.

When drawing from a SIPP, provided there is adequate liquidity to meet any lump sum or income payments, it is not a requirement to dispose of any commercial property that may already be an asset of the SIPP.

Indeed, a crystallised SIPP can acquire new commercial property and can borrow towards the acquisition in the same way as an uncrystallised SIPP.

Please bear in mind that property can be an illiquid asset. When planning to sell to convert the asset to cash in order to purchase an annuity, or indeed for any other reason, it is important to plan ahead and be prepared for a delay.

Upon death of the investor we may need to liquidate the property asset, though in some cases it may be possible to transfer the property *in specie* to the nominated beneficiary. Please contact us should you require further information on this point.

INSURANCE

The property must be properly insured. We have arranged a block buildings insurance policy for all of the properties we purchase for our pension schemes. The current policy is with Royal & Sun Alliance. The policy covers the risks

normally covered by a buildings policy and we have taken the decision to purchase terrorism insurance cover in respect of all eligible properties.

At the back of the property form there is an insurance cover application section which needs to be completed and sent to us in every case. If any additional cover is to be included it must be specified on the application form. There may of course be an additional fee as a result.

By insuring all properties together individual premium rates become competitive.

All premiums will be paid from the SIPP by us and then, where possible, recovered from any occupational tenant as insurance rent.

The rebuilding cost of the property (where applicable) will be as advised by the valuer. This sum will be increased annually in line with a suitable index (usually an index prepared by RICS) unless a different sum is advised to us in writing. VAT on rebuilding costs will be included in the cover provided.

The insurance cover provides for up to three years loss of rent cover. This means the SIPP will continue to receive a sum equal to the passing rent payable by any occupational tenant in the event of damage to or destruction of the property by an insured peril. This of course on the assumption that the tenant is entitled to withhold payment in the event of such damage or destruction, as should normally be the case.

Insurance covers the building only and therefore tenant's improvements will not automatically be covered nor will fittings, trade equipment, stock and other tenant's items. Trade interruption cover must also be separately obtained. If a quotation for these risks is required we can arrange for our insurance brokers to contact directly.

In addition, restricted cover may be applicable where property is unoccupied and there will be an increase in the excess payable annually after six months of unoccupancy. If property is unoccupied or it becomes unoccupied, you must let us know in writing without delay. The insurer's current requirements for unoccupied buildings can be found in our Property insurance notes.

If we purchase a property where insurance is arranged by a third party it will not always be possible for us to be shown as a joint insured. This will commonly arise where we purchase a long leasehold interest and insurance is effected by the landlord in his name under the leasehold arrangements. In this event a note of our interest in the insurance will be noted on the landlord's policy. Please note however that such an arrangement does not cover us as

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property owner against public liability risks. Therefore in such a case it will be necessary for us to effect separate public liability insurance cover in respect of that individual property. These extra costs will be recovered from the tenant if the lease permits.

By insuring all properties together individual premium rates become competitive. But more importantly administration is made more straightforward and the risk of properties not being insured for one reason or another is minimised. In the event of commission being rebated by our brokers to us in respect of the insurance arrangements this commission rebate will be retained by us towards administration costs.

For full notes on insurance can be obtained on request.

HOW TO BUY

Once a property suitable for acquisition has been found, please ensure your client completes the property form including the insurance cover section and return the form to us. This form is available at www.suffolklife.co.uk/gettingstarted.

We will then check the information on the form and any additional information you have given to ascertain that the property is a suitable pension fund investment. We will check the finances and advise if further moneys and/or borrowings are required before the purchase can proceed.

Having done that we will then instruct your preferred lawyer to proceed with the acquisition and write to the lender (if any) from whom funds are to be borrowed.

There will be a number of people involved in the property acquisition namely you, your adviser, the seller, solicitors for both seller and

we will try always to be available to speak to you and do our best to answer clearly any queries that may arise

purchaser, us, any lender and/or valuer and sometimes others too. We will do our best to keep relevant parties advised of progress throughout the transaction. The solicitors acting in the purchase will also almost certainly be prepared to give updates from time to time as to progress.

Prior to undertaking a purchase, we will require not only sufficient cash to meet the purchase price and associated costs and disbursements, but also additional cash will need to be maintained in the fund to meet any ongoing liabilities that may arise. The level of this float will depend on the circumstances of the particular transaction, and please contact us should you require any further information.

Please remember, buying a property can be a complicated process. We will do our best throughout to keep things moving and to deal with any issues that arise on a practical basis and on their merits, but most of all we will try always to be available to speak to you and do our best to answer clearly any queries that may arise.