

syndicated property purchase

One of the key advantages of Self-Invested Pensions is the ability to purchase commercial property. It is also possible for pension schemes to purchase property in conjunction with other parties. Often, those parties will be other pension schemes, but it is also possible to jointly own property with non-pension parties as well. Once purchased, the property will be owned in proportion to the level of initial investment made by each party.

Where to start

Typically, the purchase of any commercial property by a 'syndicate' will be driven by the participants (quite often all pension scheme members) who have identified the property they wish to acquire is either beyond an individual affordability, or where they will share an interest in holding the property.

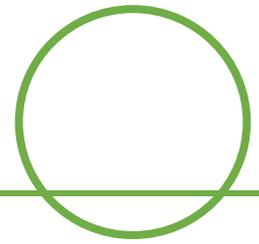
A common scenario will typically be a business related one, where the members of the syndicate are employed by the same business and require a property to house that business. Alternatively, the members of the syndicate may see the investment potential of a particular property and wish to use their pension funds to acquire it as an alternative to more traditional forms of investment.

While common, syndicates do not have to be formed entirely from pension scheme members, and thus other participants (such as a member personally, or a company) can share in the ownership of a property. This leads to further complications, however.

What types of property can be purchased

Care must be taken when considering who is involved in the syndicate. Registered pension schemes can only own an interest in commercial property, other than in very specific circumstances. Non-pension members of syndicates are not so restricted. This could create issues between syndicate members if the property in question did contain any residential elements to it. It is therefore important to ensure that any non-pension members of a syndicate understand the restrictions that are in place for registered pension schemes.

Broadly, holding an interest in residential property can attract significant tax charges for a pension scheme. Many types of property can still be acquired, ranging from offices, shops, factory units and so on, to land, forestry and more varied or unique acquisitions. Freehold and leasehold property can also be acquired.



How does the process work

The process of acquisition is the same for a syndicate as for an individual pension scheme purchase. A valuer is initially instructed to provide a report which can then be reviewed by all participants, and actions undertaken accordingly once that information is known.

The key difference with a syndicate lies around the ownership of the property. Each participant will own a share of the property determined by the amount that the participant contributes to the overall cost of the property, which includes all disbursements, fees and stamp duty. A separate bank account should be established to help manage the monetary flows associated with the property, such as rent and general expenditure.

The appointment of experienced solicitors is crucial in the process. They will undertake the usual property searches, provide reports and commentary, and ensure that the legal processes are correctly followed. They will also produce a syndicate agreement which will record the split of ownership and help govern the interaction between the parties. It is important, for example, to have clear agreement as to what happens if one participant wishes to sell, or if a participant were to retire or die whilst owning a share of the property.

Funding the property

The purchase, including all associated costs, fees and disbursements, will need to be funded by the syndicate. Each participant of the syndicate can contribute a differing amount; it is not required that the shares of the property be equally split. Each participant's share is determined by how much they contribute to this overall cost.

It is possible for the syndicate to borrow, but it must be remembered that any pension scheme participant can only borrow 50% of its net assets to assist with the purchase. This restriction does not apply to non-pension participants, but where there are differing proportions of borrowing to the overall proportion of ownership, it can make the accounting processes far more complex and time-consuming. Borrowing is normally undertaken on a commercial basis through a bank or building society, and the Lender needs to have the requisite experience of dealing with syndicated (or joint) purchases.

Property Management & Leases

Once the property is purchased, a fully commercial lease should be put in place. This lease will be prepared by the solicitors who act for the syndicate and should be a fully repairing and insuring lease. The terms are not set by legislation, and can be negotiated between the parties, provided they remain commercial. The syndicate agreement may nominate a certain individual, or participants, who will be responsible for the day-to-day management of the property and they should provide reports and updates to all participants at agreed intervals.

This note is for general guidance purposes only and is based on Odyssey Pensions' understanding of rules relating to pension schemes. It is vital that specific advice be sought prior to any transaction being undertaken and Odyssey Pensions does not accept any responsibility for transactions based on the content of this document.

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Odyssey Pensions Limited. Registration Number 11034559. FRN 796417.

Administration Office: 15 Penybont Road, Pencoed CF35 5PY

Registered & Head Office: Celtic House, Caxton Place, Pentwyn, Cardiff CF23 8HA