

The  
**key** to the door  
SIPPclub

Everything you need to know about property and pensions



# THE PROPERTY OWNERSHIP POTENTIAL OF YOUR PENSION

People often underestimate the value of their pension fund and it can be quite a revelation to discover that property ownership really can be a reality using your retirement savings. Many individuals will have accumulated pension pots from previous and current employment and it is relatively straightforward to transfer these to a Self-Invested Personal Pension (SIPP) or a Small Self-Administered Pension Scheme (SSAS) to use the accumulated funds to buy or invest in property. The rules also allow your pension scheme to obtain a mortgage of up to 50% of the pension scheme value which makes the opportunity to own property even more of a reality.

Open our **Key to the Door** to discover everything you need to know about property and pensions and how together they can work efficiently and effectively to unlock the potential for property ownership.



John Dowding, Technical Director Morgan Lloyd

**SIPPclub** in conjunction with **MORGAN LLOYD**



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# COMMERCIAL PROPERTY OWNERSHIP IN YOUR BUSINESS



If you are a business owner with a company that owns its own trading premises, then this property can be sold to your pension scheme. Your company can then benefit from a valuable cash injection into the business.

Alternatively, if you are a business owner that does not own the property that you trade from, you may not realise that you may have the means to acquire the premises by using your pension fund.

Imagine the advantages of being the property owner rather than the tenant. No longer bound by uncertainty of lease renewal and landlord constraints. You could enjoy complete freedom and security of property ownership with all the rent going to your own pension fund instead of to a landlord.

In both instances you continue trading from your premises and pay rent direct to your own pension scheme. Not only that, but your property has complete security as it will generally be protected from any future creditors.

## How to:

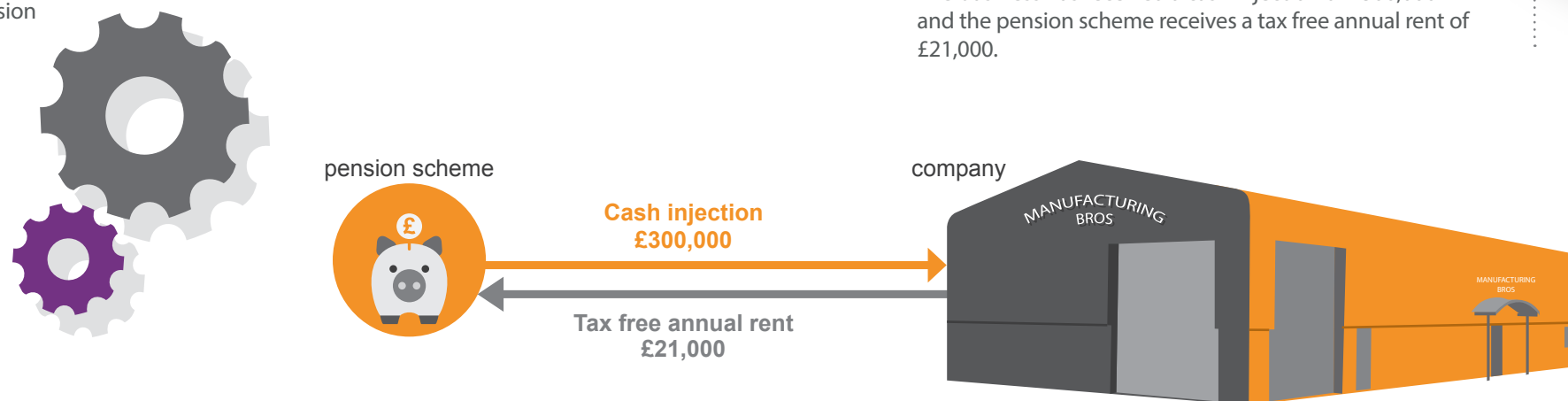
You will need to set up a SSAS or a SIPP (a relatively simple process) and transfer in your existing pension benefits. Either of these can then be used to fund the property purchase. Alternatively, if your business owns the property, ownership can also be transferred into the pension scheme as an in specie pension contribution (this is a fancy name for a pension contribution that is an asset rather than cash). This not only increases the value of your pension fund, but also allows generous corporation tax relief for the business.

## EXAMPLE 1

Geoff and his brother Steve have a business which manufactures machinery parts. The business owns the factory and the premises have recently been valued at £300,000. The brothers' pension schemes have a value of £180,000 each. These are put together into a joint SIPP or SSAS and the pension scheme buys the property from the business with the remaining pension fund invested.

The company now pays the pension scheme a market rent of £21,000pa for the use of the factory.

The business has received a cash injection of £300,000 and the pension scheme receives a tax free annual rent of £21,000.





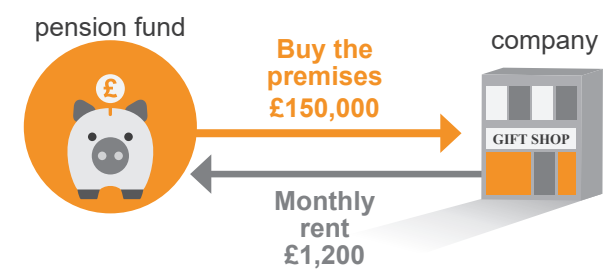
# COMMERCIAL PROPERTY OWNERSHIP IN YOUR BUSINESS



## EXAMPLE 2

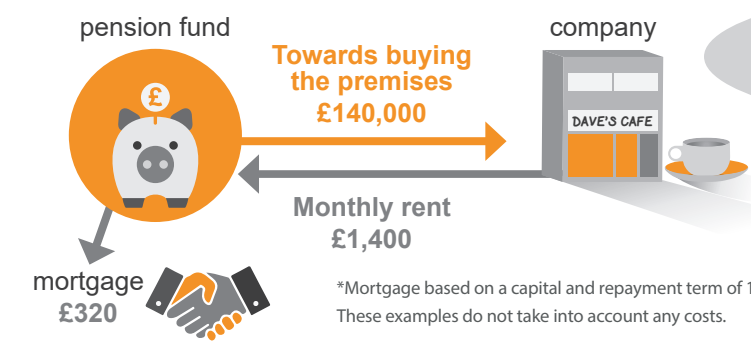
Carly runs a successful gift shop in the High Street. She currently pays rent of £1,200 per month to her landlord. The landlord, who is an investor, decides to sell the premises for £150,000.

Carly discovers that the value of her pension fund is £150,000 and decides to use this money to buy the premises after transferring her existing personal pension into a SIPP. Her business continues to pay £1,200 per month for the rent, but this is now being paid straight into her own pension fund.



## EXAMPLE 3

Across the road, Dave's café has also come up for sale for £180,000. He realises the advantage of owning the property in his pension fund and particularly likes the idea of paying the monthly rent of £1,400 straight to his own pension, rather than to a landlord. Unfortunately, Dave's pension fund is only worth £140,000. However, his adviser tells him that by transferring his pension savings into a SIPP or SSAS, his fund can be used to obtain a mortgage to meet the shortfall. A mortgage of £40,000 is arranged and the pension fund buys the property for £180,000. The pension now receives monthly rent of £1,400 and pays £320 for the mortgage\*

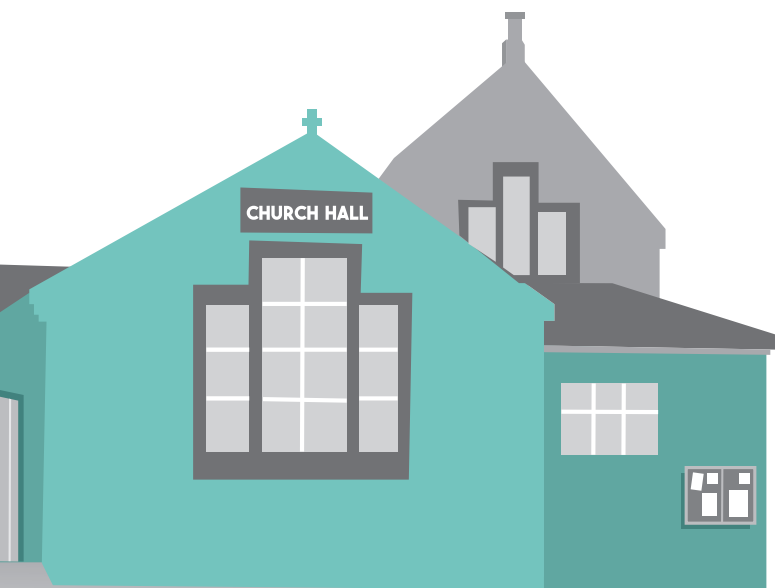


\*Mortgage based on a capital and repayment term of 15 years at a fixed rate of 5%pa. These examples do not take into account any costs.





## TURNING A PROPERTY DEVELOPER DREAM INTO REALITY



The rise of television gems such as *Homes under the Hammer* and *Grand Designs* has truly whet the appetite of would-be property developers. Buying a dilapidated old building or piece of land and turning it into a palatial home holds a certain thrill, not least because of the considerable gains that can be made.

Whilst it is not possible for a pension fund to own residential property, there is nothing to stop it developing either land or non-domestic property into a home. The only stipulation is that the property must be sold before it is awarded a habitation certificate from the local authority (the formal piece of paper that makes it a residential property). The property can be sold to the pension scheme member personally or to any third party.

### How to:

Many old commercial buildings, for example pubs and churches that have closed or industrial units that have been vacated, can often be in a prime location ripe for residential development. Your pension fund can buy most forms of non-residential property and can usually pay for all development costs.

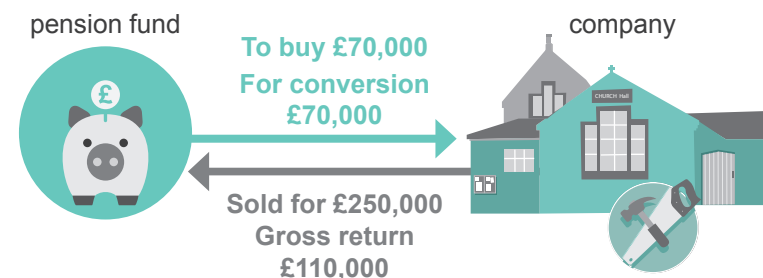
## EXAMPLE

Being a bit of a handyman, Alex has long held an interest in property development. When his local church hall came up for sale for £70,000 he immediately recognised that there may be some development potential to convert the hall to a residential home. Initial enquiries with the local authority suggested that a change of use and a planning application would be successful, particularly bearing in mind that the hall was in a residential area.

Alex turned to his pension fund to buy the church hall and was delighted when the local authority approved his planning application. His pension fund also paid for the cost of the conversion, which came to another £70,000. As the pension fund cannot hold residential

property, it is important that the house is sold before the council provide a certificate of habitation. A sale price of £250,000 has been negotiated with a local resident which results in the pension scheme making a gross return of £110,000. Remember that as there is no capital gains tax payable in a pension scheme, the whole of this profit is tax free.

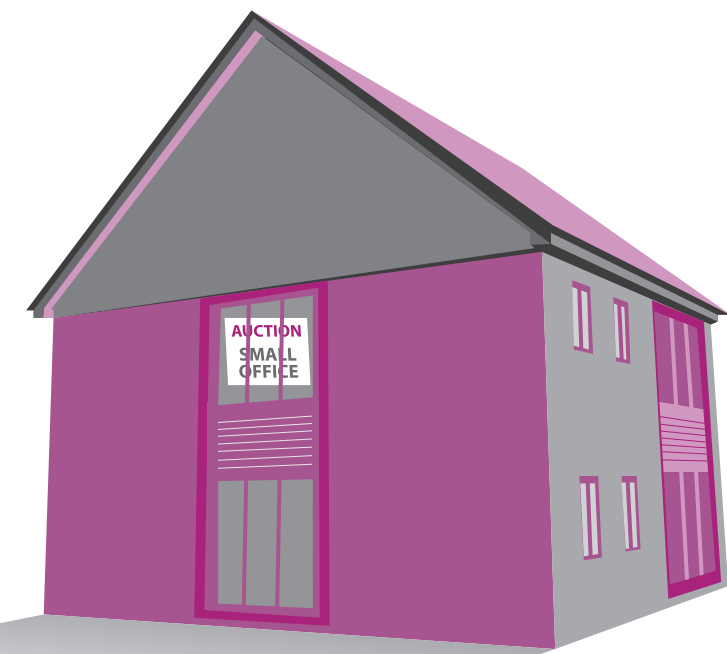
This presents some really interesting opportunities for both amateur and professional property developers, particularly as the pension fund can also pay for development costs.







## SOLD! TO YOUR PENSION FUND



Back to Homes under the Hammer – who can ignore the sense of excitement when bidding for a property? Lots of bargains can be obtained at auctions and there are loads of auction houses around the country to choose from. It can be a really exciting prospect if you have an interest in developing or investing in commercial property to discover that your pension fund could unlock this opportunity.

It is of course necessary to ensure that your pension fund has sufficient funds in place as a successful bid does result in a legal commitment to buy.

### How to:

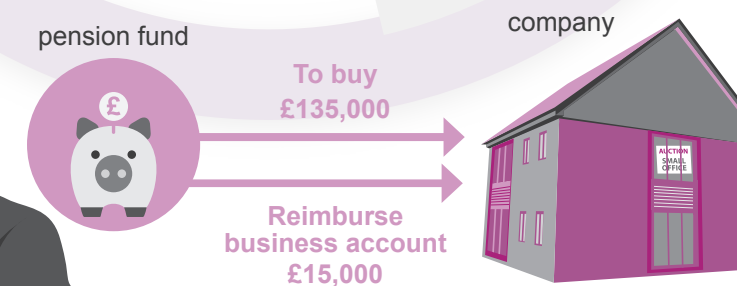
Most auctions provide full details of their properties online. Therefore you can browse various sites and get full details of any properties that are of interest. The online information will include a full legal pack and this can be shared with your pension provider to ensure that the property is suitable. You can then simply go along to the auction and make sure you raise your paddle at the right time!

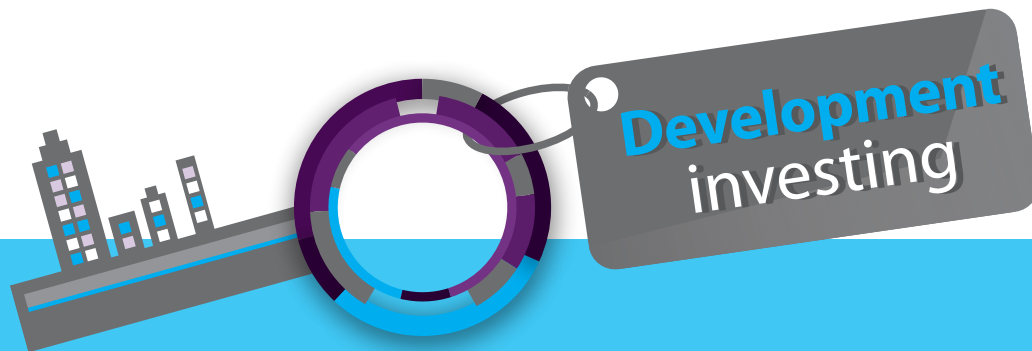
Following a successful bid, it is normally necessary to pay an immediate 10% deposit, which your pension scheme can reimburse and it can then arrange full property completion and payment of the balance within the auctioneer's required timescale.

## EXAMPLE

Having browsed an auction site online, Jenny came across a local office building that would make ideal premises for her small bookkeeping business. She was aware that her Self-Invested Personal Pension could buy commercial property and alerted the pension provider to the opportunity. The auction's website includes a link to a legal pack which provides comprehensive details of the property; after referral to their conveyancing solicitors, the pension provider confirmed that the property was suitable.

Jenny attended the auction and her bid of £150,000 successfully secured the property; Jenny had to pay the £15,000 deposit immediately and she used her business account to settle the payment. The following day she informed her pension provider who reimbursed the deposit and instructed their solicitors to complete the purchase. On completion six weeks later, her business starts to trade from the property and at the same time a lease is set up so that all rental payments are made to Jenny's SIPP.





## JOIN THE LENDING CROWD



Being able to invest in property through collective funds, typically unit trust and investment trusts, has always been a useful way to diversify pension fund investment. This is where some of your pension fund is invested by an insurance company or platform provider, in a fund that invests in hundreds of different properties. There is a growing trend to operate a similar model but on a much smaller scale.

For example, a number of pension scheme investors pool some of their funds to invest in land and property development. The investors then take a back seat and leave the development and construction to the professionals. When the property is completed, it is either rented out or sold and the investors enjoy a share of the profits paid into their pension funds.

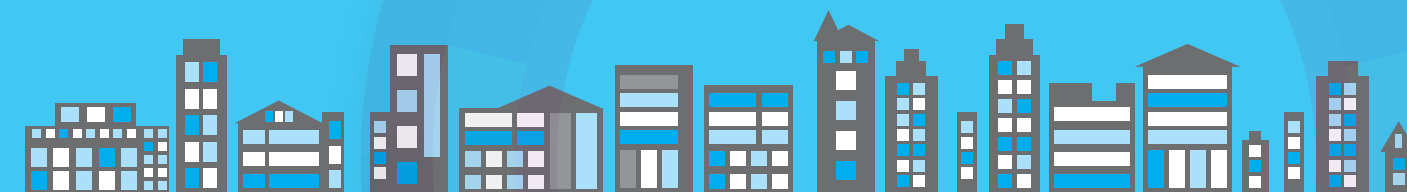
A similar model allows pension funds to pool money to lend to professional property developers. The loans are secured on the property and will often command relatively higher rates of interest. This is mainly operated through the peer-to-peer lending platforms.

Both of these property options carry a level of risk but this is reflected in the higher returns that can be achieved.

### How to:

There are a number of property crowdfunding and peer-to-peer websites which provide opportunities to invest some of your pension funds. A good place to start is the (P2P) page on the Morgan Lloyd website ([www.morgan-lloyd.co.uk/peer-to-peer/](http://www.morgan-lloyd.co.uk/peer-to-peer/)) which shows a number of platforms that have all undergone rigorous due diligence.

You can then simply register with one of these platforms and your designated pension fund can be used to invest in the particular project of your choice.



### EXAMPLE (crowdfunding):

Paul likes the idea of owning bricks and mortar but doesn't want the responsibility of property management. The idea of owning part of a property and letting others develop and run it, seems the perfect solution. He finds a crowdfunding platform and a property project that appeals to him and lets his pension provider know how much he wishes to invest. The provider sets up an account with the platform and transfers the funds across in accordance with Paul's instructions.

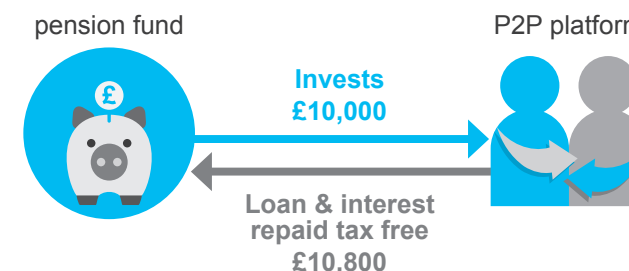
The pension fund now owns a share in the project that is developing the target property. After 12 months the property has been fully developed and is successfully sold off. The funds are then distributed to the investors including Paul's pension fund.



### EXAMPLE (Peer-to-Peer lending):

Sophie has come across the growing interest in peer-to-peer lending and particularly likes the attractive interest rates offered on loans that are secured on property. She finds a platform and identifies a borrower who requires £500,000 to develop a commercial property. Sophie chooses to invest a sum of £10,000 over 12 months and selects an interest rate of 8%pa. The loan to value is 60% so Sophie is happy that the security matches the risk that she is prepared to take.

She instructs her pension provider to open an account with the P2P platform and £10,000 is moved across. After 12 months the loan and interest totalling £10,800 is repaid back to the pension fund.





# THE GOLDEN NUGGET HIDING IN THE HILLS



Property speculating is defined as buying or holding property based on the belief that the capital value will increase.

There are not quite the same opportunities as the days of the early American prospectors but, nevertheless, buying land with development potential can still be a viable method of achieving investment growth. In view of the housing shortages and potential relaxation of planning rules, land speculation can be seen as a real opportunity.

## How to:

Nationwide property websites, for example [rightmove.co.uk](http://rightmove.co.uk), highlight plots of land or properties such as old barns, community buildings, follies or even small castles, that are available for sale. Many will not have planning permission for any development, but that is not to say that permission won't be granted in the future.

There are thousands of examples of people with an eye for a great opportunity turning a once redundant building into a dream home. Is it time to consider transforming that hillside derelict property with the stunning views?

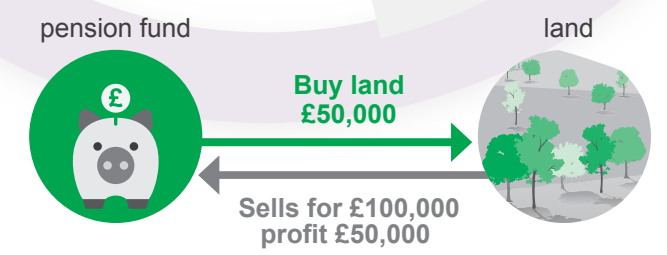


Once a property has been identified you can instruct your SIPP or SSAS provider to complete the purchase and it can be held in your pension fund until an opportunity arises that will increase its capital value.

## EXAMPLE:

Phil understands that lack of housing supply will likely result in some previously protected areas of land being earmarked for potential development. He notices a five-acre plot of land on the outskirts of his home town has come on the market for £50,000. In order to accommodate the increase in the town's population Phil speculates that this land may receive planning permission for the construction of a number of houses. He approaches his SIPP provider who arranges for the land to be purchased by his SIPP.

A couple of years later a development company has received preliminary planning permission from the local authority and has approached Phil to negotiate a purchase of the land. As the planning permission is likely to be granted, the value of the land has increased significantly. Phil decides to sell the land to the developer for an agreed price of £100,000 and the SIPP enjoys a healthy profit of £50,000.







## ESCAPE TO THE COUNTRY



Ever wanted to own a wood for camping or a field to graze your horse? You may be interested to know that your pension fund can buy some amenity land.

Ok, it is not as straightforward as simply buying the land and pitching your tent. Pension scheme rules state that you cannot personally benefit from the enjoyment of the land, which sounds like it defeats the object of buying the land in the first place.

Before you bin your dream of an exclusive camp site or timeless grazing for your animals, you can enjoy your own peaceful haven if you pay your pension fund an appropriate rent for doing so.

### How to:

Again, nationwide property sites provide many examples of fields, woods and meadows for sale. Whilst these are unlikely to yield significant returns, they can be enjoyed for their therapeutic and restorative benefits. However, it needs to be understood that in order to utilise your land it is essential that an open market rent is paid to your pension fund.



## EXAMPLE

Daisy has always wanted to own a horse, but due to the lack of local stabling she has not been able to realise this childhood dream. Recently she has noticed that a local two-acre field has come onto the market for £20,000 and has asked her pension provider if this is something that she can buy with her SIPP.

The SIPP provider has confirmed that this is an acceptable investment and Daisy proceeds to buy the field using funds in her pension scheme. Daisy then sets up a lease agreement between herself and the SIPP in order to ensure that she pays an open market rent for the use of the field. She personally funds the construction of a stable block and at last fulfils her dream of owning a horse.





## WHAT IF I DON'T HAVE ENOUGH MONEY IN MY POT?

Fresh from discovering that you can buy or invest in property using your pension, you have identified the perfect premises only to establish that your pension doesn't have enough 'cash' to buy that property outright.

You will be pleased to hear that it is possible for your pension to borrow money.

As you would expect with pension rules, there are, of course, restrictions here, arguably the main one being that your pension can borrow a maximum of 50% of the gross value within your pot.

If you currently have, say, a pension worth £200,000, in principle you could borrow up to £100,000 and therefore buy a property worth £300,000.

Given that most lenders will usually want to lend less than 100% of the value of the property - 70% being a yardstick - the fact that you are borrowing a maximum of 50% of the value of your pension is likely to cover this without problem.

Lenders will, of course, also look at serviceability of the loan. Assuming that your trading company is renting the premises from your pension, the rent that your business pays to your pension will need to cover the loan repayments and the other overheads costs of the property. These will vary depending on the terms of the lease put in place, but could include items such as utilities, insurance and maintenance costs.

In very general terms, based on you paying a market rent and borrowing 50% or less of the property value at a reasonable interest rate, there should be sufficient rental income to ensure that you can repay the borrowing within 15 years, with adequate 'slack' to make lenders comfortable.

To summarise, the legislation and regulation allowing pensions to borrow up to 50% of the value of the pot, normally means that such a proposition gives acceptable security and serviceability cover to lenders.

We always recommend that you take professional advice before making a major financial undertaking of this magnitude.



## THE TAX BENEFITS OF PROPERTY IN YOUR PENSION



All growth on the property is free of capital gains tax



All rental income is free of income tax

### Bonus for business owners:

- ✓ The property is secure and protected from any future creditors
- ✓ The rent paid by your business to your pension scheme is treated as a business expense
- ✓ The business benefits from a valuable cash injection
- ✓ If the property is paid as in specie pension contribution, corporation tax relief will apply





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