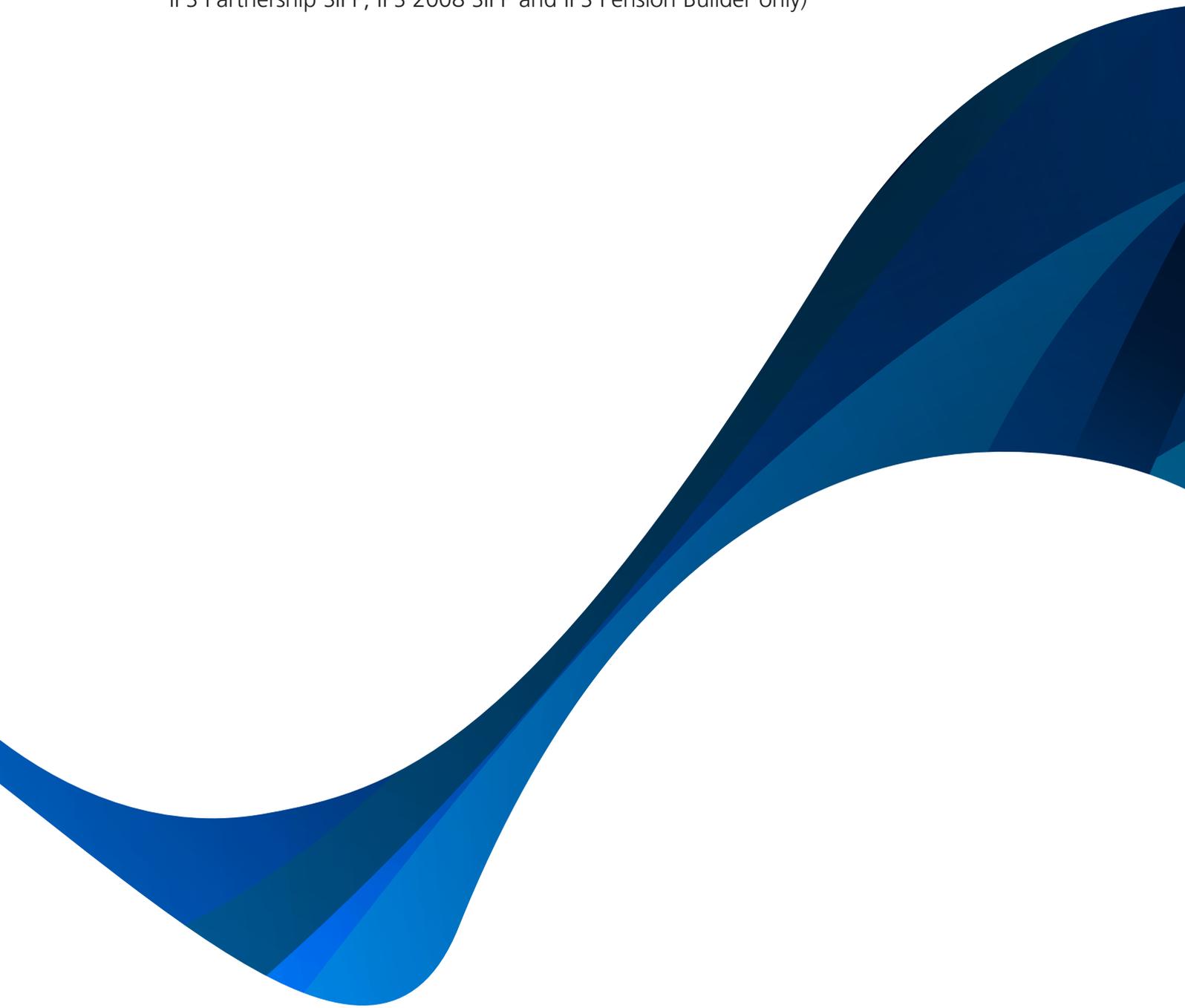
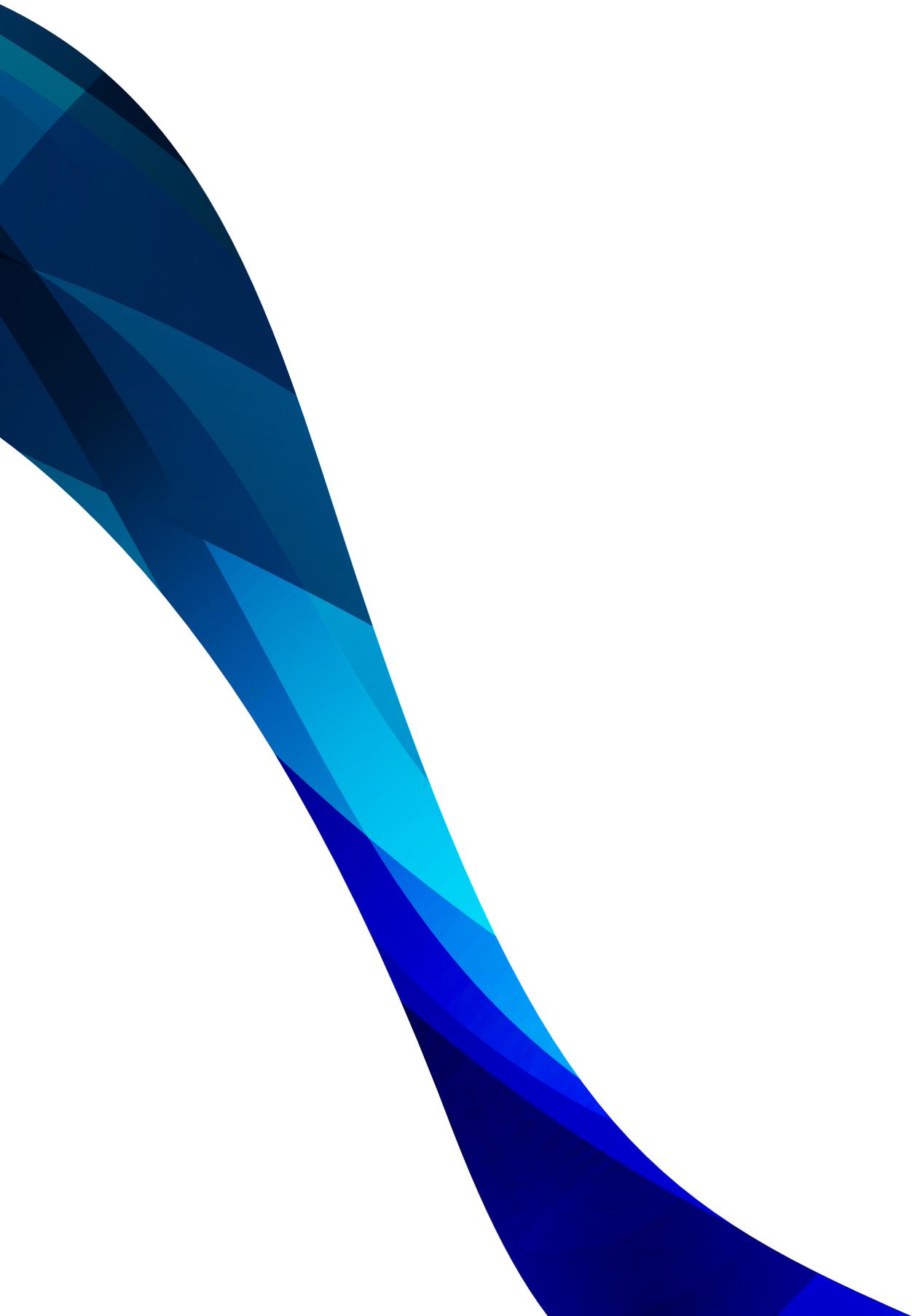


Commercial Property Purchase Guide

(For James Hay Partnership SIPP, Modular iSIPP, Family SIPP,
IPS Partnership SIPP, IPS 2008 SIPP and IPS Pension Builder only)





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This is an important document.

You should keep it safe for future reference.

Section 1

Commercial Property Purchase Guide Key Points

Property purchasing and leasing through a Self Invested Personal Pension (SIPP) is a complex transaction. This guide has been written to help you understand the processes involved. It is, however, only a guide. All property purchase proposals must satisfy all HM Revenue & Customs and other regulatory requirements, as well as James Hay Partnership's requirements. These may vary from time to time.

Please read this guide carefully. Answers to frequently asked questions can be found at the end of this guide.

If you have any further questions please call your Account Executive if you are a Financial Adviser, or our general helpline 0845 850 4455 if you do not have a Financial Adviser.

PLEASE NOTE: Throughout this document, the words 'we/us' refers to any of the Trustee Companies associated with James Hay Partnership and the word 'you' refers to the SIPP Member(s) and the word 'Valuer' means a person who is a qualified member of the Royal Institution of Chartered Surveyors or equivalent body, and the word SIPP will mean any of the relevant SIPP products offered by James Hay Partnership, as detailed on the front page of this document.

The term 'connected party' is used in this document. A connected party is defined in the Income and Corporation Taxes Act 1988 section 839. Connected parties are Members, close relatives, partners or any company associated with a Member or their family. This Guide covers any property purchase undertaken by companies within James Hay Partnership.

An outline

This section briefly outlines some of the main points that are explained in greater detail within this guide.

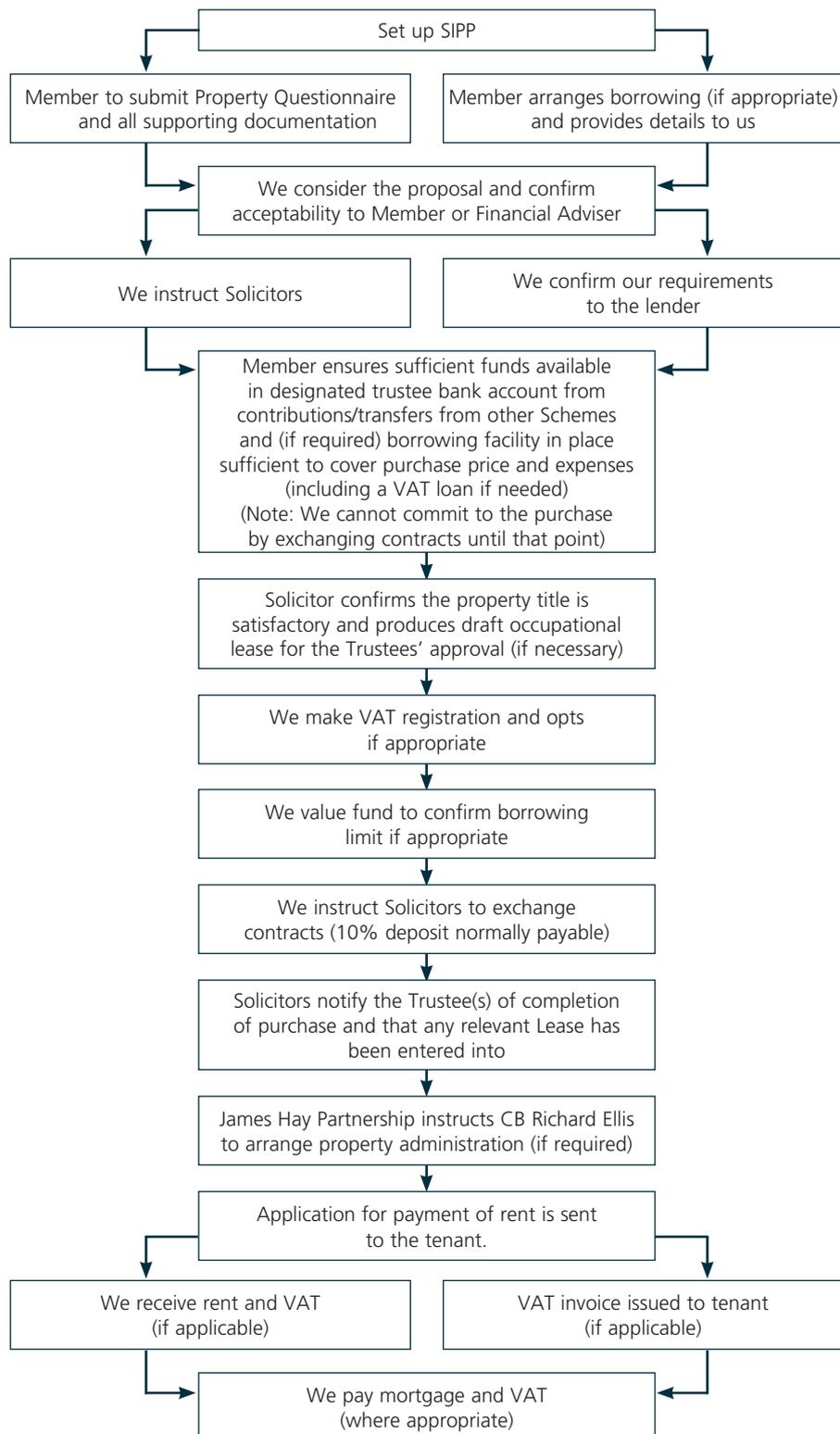
Key points

- The Commercial Property Questionnaire must be fully completed in order to provide us with the information we need to consider the proposal.
- A SIPP may be used to purchase a freehold or leasehold commercial property, including tenanted land.
- Residential property may not be acquired through a SIPP.
- A property may be acquired from a Member or a 'connected person', subject to our agreement. This is a change with effect from 6 April 2006.
- The purchase price must be within a margin plus or minus 10% of the market value of the property as confirmed by a qualified valuer. The valuation must be addressed to us and the fee is paid from your SIPP fund.
(Note: If the property is being purchased from a connected party the purchase price must be the market value of the property as confirmed by a qualified valuer).
- The property must not have any covenants or liabilities attached to it, of a kind which are unacceptable to us.
- You and/or your advisers must ensure that the purchase price of the property and all associated costs are available from permitted pension contributions, transfers or secured lending. This must be in place before we can exchange contracts. (If contributions exceed certain limits, there may be tax consequences. You should speak to your Financial Adviser about the implications of this).
- If mortgage finance is needed we must be satisfied that the rental income from the property is more than sufficient to meet the repayments and other costs of dealing with the property. The legislation requires that an amount no greater than 50% of the net value of your SIPP fund can be borrowed.
- The lender must agree that our liability under any loan or mortgage will be limited to the assets of the particular pension fund and to all our other procedural requirements.
- A property can be bought for the benefit of more than one SIPP. In that case, each SIPP will benefit in proportion to its financial contribution to the purchase.
- Ground rents may not be purchased through any of our products.
- We expect all properties to be tenanted on or before completion.
- A property may be bought subject to existing leases if they are on acceptable terms. A vacant property should be let from completion under a formal lease. All lettings must be on commercial terms approved by a qualified valuer. HMRC expects us to manage all properties on a commercial basis, including where the tenant is you, or connected to you. This may include the use of legal action or bailiffs to pursue rent. Failure to collect rent on a commercial basis from connected tenants could lead to an unauthorised benefit arising, resulting in scheme sanction charges and tax charges on you personally.
- You have a choice of two property management options.
- If VAT is payable on the purchase price and a loan is required due to insufficient funds, you must make arrangements for a VAT loan until the VAT is recovered from HM Revenue & Customs. A VAT loan will be included within the 50% borrowing limit. Even if VAT is not payable at completion,

there may be circumstances where the property can be made subject to VAT after completion. VAT is then payable on the rent. We deal with all VAT procedures relating to the property purchase, however we are not VAT experts and if required, you should seek appropriate advice.

- Environmental matters including the possible presence of asbestos are of considerable concern to us, as they may result in a reduction in the value of your investment property. There is also the potential for your pension fund and/or tenant to incur environmental liabilities in the event that the property is found to be contaminated or the cause of other environmental damage.
- The valuer is required to report on environmental matters when he prepares his valuation. We will require a "desk-top" environmental report on the property, which will be at your pension fund's expense, and we may be unable to proceed if the result is unsatisfactory.
- The SIPP pack contains questionnaires relating to environmental matters and certain building materials which may have been used and the valuer is requested to complete these at the time of his report. If the valuer is not able to complete these forms, then an appropriate Building Surveyor will need to be instructed. The information may also affect the insurability of the property.

Progressing the purchase – a summary



Section 2

Commercial Property Purchase Guide

Introduction

Purchase of a property within a SIPP is the most complex transaction for a SIPP to undertake. It is essential that the proposal fits within HM Revenue & Customs and other rules and regulations as well as our own requirements. The first step is to complete and return as soon as possible a Commercial Property Questionnaire, with a Valuation Report prepared in accordance with these notes, to allow us to assess the viability and acceptability of the purchase. Please ensure that if finance is needed from a lender to assist with the purchase you make them aware of the section of these notes relating to 'Arranging Finance'.

It is important that all the relevant sections of the Commercial Property Questionnaire are fully completed. If any additional information comes to light, please let us have it as quickly as possible.

Timescale

We cannot in any circumstances guarantee any timescale for completion as many aspects are out of our hands. Typically, in our experience, it takes 8-12 weeks from instruction of solicitors. It is essential that the SIPP is set up before the purchase commences. We will need your help to ensure that everything is in place in good time for the transaction to be successfully completed. Failure to provide the information we require may delay the purchase process and we cannot be responsible for the consequences of such delay nor if the vendor decides to sell to another buyer.

Ownership

We are a trustee of your SIPP and will therefore be a legal owner of the property. Where you are a co-trustee on your SIPP, we will be the legal owner of the property with you. Where we are the sole trustee of your SIPP, we will be the sole legal owner of the property. This form of investment imposes onerous responsibilities upon us. We therefore have to make sure certain requirements are met.

The legalities

You must not commit us to a date for exchange of Contracts or completion of the purchase because that may be unattainable for reasons beyond our control or yours. We will not instruct Solicitors or exchange Contracts unless our requirements at the appropriate stages have been fully satisfied and any financial obligations can be met either through the assets of your SIPP or through borrowing.

Auctions

The purchase of a property at auction may cause particular problems. Please refer to us before the auction. We should not be named as the buyer in any Contract without our agreement.

Fees

Please refer to the Charges Schedule for your SIPP for details of our charges.

Communication

Where more than one Member is investing, you will be asked to nominate one Member as the main point of contact. This Member will be responsible for ensuring all correspondence is passed to all Members.

What may be acquired in a SIPP?

Property must be commercial

HM Revenue & Customs imposes no restrictions on what type of property can be bought from 6 April 2006. However certain types of property (e.g. residential property) may lead to tax charges being applied to you and the scheme. We will not purchase such taxable property through the SIPP fund.

No moveable property or goodwill

We will not buy furniture, fittings or business goodwill, only the land and fabric of the building.

Agricultural land

Agricultural land is normally acceptable but please contact us for more information as to any special requirements in such cases.

Development land

We will not hold land intended for development land simply as a land bank, due to the risk that this would be deemed trading by HMRC.

Properties/land adjacent to properties/land that you or a connected party already owns

Please inform us if you or a connected party owns any land or property adjacent to that which you wish us to buy through the SIPP. If this is the case, we will require the valuer to confirm that they are physically and practically separate and that there is no marriage value.

Properties with special problems

Some properties may cause special problems both in terms of management and legal liability. For this reason, petrol filling stations and vehicle maintenance premises are not acceptable to us.

Right to refuse

We reserve the right to refuse to purchase any property at our sole discretion, particularly where we foresee significant management or resale difficulties, significant environmental exposure or where there are particularly onerous covenants.

Overseas property

HMRC permits the purchase of overseas property within a SIPP. Such purchases can be problematic and complicated as the process will need to conform to the legal requirements of the country in question, as well as HMRC and our requirements for SIPPs. Properties that would not be acceptable include timeshare type investments, holiday lets, hotel rooms etc. You will need to select a solicitor suitably qualified to deal with the transaction, and all legal documentation must be accompanied by an English translation. We are unable to offer a property management service or panel solicitors for overseas properties.

You will need to satisfy yourself as to all local tax implications for purchase of property overseas.

Our fees will be quoted on a case by case basis to reflect the additional risk and work involved in overseas transactions. As such, they will be considerably more than for a UK purchase.

Property tenure

The property should normally be freehold. Leasehold property may be purchased where the Lease is a long one (at least 50 years remaining) at a nominal ground rent (not more than £500 per annum) with no onerous covenants. Please supply a copy of the headlease for our review with the property questionnaire. If the ground rent exceeds £500 per year, we will require three years rent deposit from the tenant to be held in a separate account controlled by us, our solicitors or our managing agent as appropriate.

The same will apply to a service charge or onerous maintenance obligations for which we could be personally liable. These can apply to freehold or long leasehold properties. We will need full information about past and estimated charges and cash to be held against such liability, if it is substantial.

Property Development

Protecting ourselves

Development of commercial property within a SIPP can be undertaken but we must ensure our interests are fully protected. We reserve the right to refuse to agree to a development if this cannot be achieved. Other than for minor improvements a project manager (a qualified surveyor or architect) must be appointed. When works are proposed either as part of an acquisition transaction or to a property which is already held in your SIPP fund in order to improve it, please contact us before any contractors are engaged or works started. Improvements must be of a capital nature rather than for the benefit of an individual tenant's business. The latter may be carried out by the tenant as improvements under the terms of the lease.

Building and works contracts

Any development or works to be carried out to a property held within your SIPP must be financed by your SIPP fund. Where works or development are proposed please contact us with full details and we will supply our requirements. A contract must be entered into before work can commence. Our liability must be limited to the value of your SIPP fund under that contract.

Financing a development

You must ensure that sufficient money is available in your SIPP fund to cover the cost of a development. We cannot enter into any contract for development until that time. It is possible to borrow for this purpose. Refer to Rules on Borrowing on page 12.

It is possible to borrow additional funds from a commercial lender to finance works that add capital value. However please note, if considering borrowing for the purchase, the total borrowings must not exceed 50% of the net value of your SIPP fund.

Fees

If development of a property takes place within the SIPP an additional fee is charged to cover the cost of our administration of the development. This will be on the basis of time cost.

Limiting our liability

We must ensure that if we enter into any contract for works our liability to the developer is limited to the assets of your SIPP fund.

Residential development prohibited

Residential development cannot be carried out by a SIPP and the property must be sold before such development is commenced. The SIPP can, however, pay for the cost of obtaining planning permission.

Increased rent

The development must add appropriate capital and rental value to the property and must not just be for the convenience of the tenant. The increased rent will be as advised by a valuer and applied immediately once the development has been completed.

Who may a property be bought from/let to

Letting the property

Commercial property can be leased to an independent third party. It may also be leased to you, your business partnership or a company connected with you provided it is an arms length transaction on normal commercial terms at the full market rent under a formal lease. The lease will usually be on a full repairing and insuring basis. The rent is paid into the SIPP. Please bear in mind that we require a lease in place for all commercial property. Rent must be collected in accordance with the lease which may include the use of bailiffs or result in legal action being taken against the tenant. There will be no concession for any connected tenants.

Unauthorised payment

If the property is used by you or someone connected to you and rent is not paid on commercial terms an unauthorised benefit charge may be levied against you personally and against the SIPP.

Buying the property

Property can be purchased from an independent third party. Property can also be purchased from a Member or close relative, partner or any company associated with a Member or anyone else connected with a Member. In this case it must be purchased at the market value as certified by a Valuer.

Environmental and Risk Issues

Contamination, asbestos, legislation etc.

Environmental risk involves the potential to incur financial liabilities in the event that the property is found to be contaminated or the cause of other environmental damage. If there were a serious pollution problem, the cost of which could not be covered by the tenant or your SIPP fund, then we as trustee could be held legally responsible for the cost. We therefore need to be sure there are no potential problems at the time of purchase and will require an environmental report.

Landfill sites and sites which may have been subject to contamination in the past, e.g. gasworks, are not acceptable. Examples of properties which could be higher risk are paint shops, chemical works, dry cleaners, printers and certain manufacturing units.

We will not purchase or change use to operational garages/petrol filling stations or any property contaminated with Japanese Knotweed. If the Property is newly or recently built then we will require copies of all the environmental reports carried out by the developer and confirmation that we may rely on them. We will also need sight of the Professional Indemnity Insurance of the environmental consultants concerned. We will

not enter into a contract that requires us to give any environmental indemnity to anybody or any environmental acknowledgments.

Under changes in the law set out in the Control of Asbestos at Work Regulations 2006, which came into force on 14 November 2006, it is a legal requirement for every commercial property to be the subject of an Asbestos Register and Management Plan. Practical compliance with the Regulations will, in most cases, require an Asbestos Survey to be prepared by a suitably qualified person. We will not purchase a property without such a report and a Plan if necessary.

Responsibility for complying with the Regulations will generally fall on the person controlling the property. In a case where there is a single tenant, who is fully responsible for the property, the tenant will be primarily responsible for compliance. Where there is more than one tenant, the landlord may retain responsibility for common areas such as a communal hall or staircase.

Failure to comply with the Regulations is a criminal offence. In cases where the responsibility for compliance rests on the owner, your SIPP Fund will become liable to discharge the requirements of the Regulations and meet any associated costs and penalties.

We must point out that non-compliance with the Regulations may have a bearing on the acquisition price and/or on the saleability of the property.

In accordance with statutory provisions we cannot purchase a property without an Energy Performance Certificate (EPC) unless it is exempt.

Surveys/Valuations

Who will do this

The property must be inspected by a valuer who is a member of the Royal Institution of Chartered Surveyors (RICS) or equivalent body. The report should be produced in accordance with the relevant sections of the current RICS appraisal and valuation manual, as amended.

Ongoing valuations

Please note that the property will need to be revalued on a regular basis to ensure that the annual valuation of your SIPP fund is accurate. When you take benefits from your SIPP fund, regular valuations ensure that the calculation of your benefits is accurate. Valuations are required every five years, and every year when an income is being paid after the age of 75. If several SIPPs in different stages of drawdown own the property, valuations will be at the most frequent level. Valuers fees for revaluations will be payable by your SIPP fund. Valuations may be required at other times in order to comply with legislation.

What we require from the valuer's report

- A basic description and assessment of the condition of the property, including the construction of the roof/flooring as per the Valuers 'Red Book' instructions
- A recommendation as to whether a full structural survey/ environmental risk/contamination or asbestos survey is required. The report should specifically state whether such surveys are recommended or not and the Property Observation Checklist and Composite Panel Questionnaire included with this guide must be completed. All forms are also available on our website.

- Colour photographs and OS plan showing the extent of the property valued in addition to street and location maps
- The market value (there must not normally be more than a 10% difference between this and the proposed purchase price and no difference between these figures if the property is being purchased from a connected party)
- A reinstatement figure for insurance purposes
- A recommended current market rent (based on our standard lease terms). For these purposes the valuer will need to know how long you want the lease to run (it must normally be at least as long as the repayment period of any loan taken to assist with the purchase) and whether there will be any break clauses (allowing the lease to be terminated before the end of the term but not before the end of the loan period).
- The report must be less than six months old
- Environmental screening report.

Report addressed to us

The Valuer's Report must be addressed to the Trustee(s). We may accept a report that has been prepared for a prospective lender, but it must be re-addressed to the Trustee(s) as client and contain or be accompanied by an identification plan and all other information referred to above. You will need to arrange this.

No liability

We accept no liability in any circumstance for the condition or suitability of the property, or the financial strength of any tenant. These are matters for you to satisfy yourself upon before deciding to proceed.

Further investigations

We will only ask for a structural survey if the valuation indicates it is necessary or if there are unusual repairing obligations in the legal documentation. If one is not requested this in no way implies any acceptance of liability as to the structural condition of the property. You will be responsible for the costs of all reports, which will be paid by your SIPP fund, even if as a result of these we are unable to proceed with the purchase. We may also, where a potential issue is identified or arises subsequent to purchase, require a more extensive environmental report and for any recommended remedial action to be taken, at your SIPP fund's expense.

Instructing solicitors

We are not in a position to instruct Solicitors or progress any borrowing until we have received a fully completed and original signed Commercial Property Questionnaire, a satisfactory Valuation Report including the Property Observation Checklist and Composite Panel Questionnaire, and satisfactory responses to any environmental surveys deemed necessary by ourselves. If there is an existing lease in place, we would usually expect to see this before solicitors are instructed.

Arranging Finance

Finance must be in place

Before the purchase can proceed you must ensure that you have arranged the necessary finance to enable the purchase to be completed (including any short term overdraft required to cover any recoverable VAT payable on the purchase price if applicable).

Obtaining a mortgage

The borrowing must be provided by a commercial lender acceptable to us and the loan offer must be addressed to the Trustee(s). We will contact the lender to provide details of our requirements.

Rules on borrowing

Legislation restricts the amount your pension fund can borrow to purchase a property to a maximum of 50% of the net value of your SIPP fund at the time the loan is actually drawn down, and this includes if the loan is being taken out for development or refurbishment.

We will check the value of your fund prior to exchange to confirm whether the borrowing proposed is within the 50% limit. James Hay Partnership will take no responsibility for a change in fund value after that point. If the fund value changes after that point there may be tax implications if it transpires you have borrowed more than 50% of the net value of your SIPP fund.

No loans can be taken at any other time in respect of the property for any purpose even if your SIPP fund has not borrowed the maximum permitted. Where a share in the property is being bought out, however, a loan may be taken out for that purpose as long as this does not exceed overall 50% of the net value of your SIPP fund.

All borrowings for whatever purpose (including VAT) must not exceed 50% of the value of your SIPP fund. Before purchase, we will need to receive all pension money so that we can confirm the value of your SIPP fund, and therefore the amount which may be borrowed. Please note that we cannot take into account any other money held with any other providers.

We will not permit you to act as guarantor of any borrowing personally.

Rent must cover mortgage payments

Problems may arise if the rent is not sufficient to cover the mortgage payments. The rental income must be at least 110% of the mortgage repayment with a fixed rate loan. In the case of a variable rate loan the rental income must be at least 130% of the mortgage repayment. We cannot rely on you making further contributions each year to cover any shortfall although you can make early capital repayments from your SIPP fund if the lender allows and you are willing for any penalties to be paid by your SIPP fund.

Exchanging contracts

Contracts cannot be exchanged until we have accepted the mortgage offer and/or have sufficient money in your SIPP fund to cover the purchase price and all of our other requirements, as set out in this guide, have been met.

Unacceptable conditions

We insist on the mortgage offer limiting our liability to the value of your SIPP fund. A few lenders will not accept this and in such cases the borrowing cannot proceed. Some insist on onerous conditions which are unacceptable to us e.g. a floating charge over our assets or an assignment of the rent. In those cases, you will need to arrange borrowing from a different lender.

Financial arrangements – your responsibility

We do not arrange finance for the purchase of your property, and cannot provide bridging loans. It is essential that you have enough money from

contributions, transfers from other pension funds and/or loans to complete the purchase including all expenses such as legal and valuer's fees, stamp duty land tax, land registry fees, lender's mortgage arrangement fees, local search fees and our fees etc. We will also need to receive all pension money before we can confirm the value of your SIPP fund, and therefore the amount that may be borrowed. Please be aware that if contributions are made net, then it may take between 6 and 11 weeks to reclaim the basic rate tax on the contribution and this cannot be bridged by us or by outside finance.

Paying the mortgage

All mortgage payments, both capital and interest, must come from your SIPP fund and must not be paid by you direct to the lender.

Starting the mortgage payment

We need the equivalent of the first three months mortgage payments to be available in your SIPP fund following the purchase to avoid any possibility of a delay in receiving rental payment and to avoid unnecessary bank charges.

Existing properties used as security

In some cases an existing property held in your SIPP fund, which is not already subject to mortgage, may be used as additional security to finance a new property acquisition. This is subject always to the overall limit on borrowing of 50% of the value of the whole fund.

Instructing Solicitors

Which solicitors will be used?

We have a panel of solicitors situated across the UK who we will use to purchase the property. You are welcome to contact any of them and discuss the services they offer and their legal fees for your transaction.

If you wish us to use a solicitor other than one on the panel, additional charges will be incurred. Please see the relevant SIPP's Charges Schedule. The solicitor instructed must be able to prepare any lease documentation required as well as deal with the conveyancing on behalf of the Trustee(s).

Legal fees

If we agree to use a solicitor not on our panel, you will need to negotiate legal fees with them, obtain a written quotation and terms of engagement and provide us with a copy. All legal fees will be paid from your SIPP fund.

Keeping you informed

We will ask the solicitors to keep you and your Financial Adviser, if requested, informed of the progress of the transaction.

Legal advice on the lease

If the lease is being granted to you or your company, you should consult your own Solicitor as to its provisions. You cannot take advice on the terms of the lease as tenant from the same solicitors acting for us on the purchase of the property.

Lender instructing own solicitor

If a mortgage is being obtained and the lender instructs their own Solicitor, your SIPP fund will be responsible for all and any additional fees incurred as a result.

Ownership of Property

We will either be the Co-Trustee or the Sole Trustee

For the Modular iSIPP, we are the sole trustee and will purchase the property in our sole name. For the James Hay Partnership SIPP, Family SIPP, IPS Partnership SIPP, IPS 2008 SIPP and IPS Pension Builder, we and the Member(s) are co-trustees and so we will purchase the property with the Member(s) in joint names. In order to facilitate this, you will be obliged to sign a Property Management Resolution. We need to be completely satisfied as to the legal title to the property. We reserve the right to appoint alternative trustees if necessary. We will not share ownership with a party outside the control of the Member i.e. shared ownership can only be accepted with a party connected to you.

Ongoing Expenses

At all times, it is your responsibility to ensure sufficient liquid funds are held in the SIPP Property account to meet ongoing liabilities. These can include, but are not limited to, the mortgage, SIPP fees, and if the property becomes vacant, rates, insurance, maintenance, security, marketing costs etc. If there are costs due from the SIPP that cannot be met, the property is at risk and we may be forced to sell the property against your wishes. You will be the main point of contact for any creditors.

Leases

Lease required immediately

A formal lease must normally be entered into at the time of completion of the purchase unless there is an existing occupational lease. Please let us see a copy of any existing lease at the earliest opportunity. If development of the property is proposed, we will need a lease or agreement for lease that reflects the situation. Please refer to us for guidance. The Solicitors will prepare a lease (if needed), which will be supplied to the prospective tenant or his Legal Adviser as appropriate and will reflect the terms negotiated.

Lease Terms

The lease must be drafted on a commercial basis and will usually be on fully repairing and insuring terms, and must be at the market rent with upward only rent reviews. We will not normally accept a property where the market rent is less than £1,000 per annum. A Law Society Lease is not always acceptable, however, if you think this should apply, please contact us first.

Member as a tenant

If you or your company will be the tenant, you cannot decide to pay a rent below the full market level, for example just to cover the mortgage payment, or to pay an increased rent or to defer paying the rent. We are required by HM Revenue & Customs to ensure that all rent is collected and any covenants in the lease are enforced. In other words, we must treat you as we would any other tenant. We will therefore take legal action, which may include the use of bailiffs, to recover any rents owed under the terms of the lease.

Length of lease

The lease must be a minimum of three years, although it will need to be longer in cases where there is borrowing to assist the purchase. Your lender may also have other specific requirements.

Paying the rent

Rent must be paid on the due dates shown in the lease, usually by standing order. It is also essential that the mortgage payments are due a few days after the rent is paid. We cannot be responsible for any late payment or interest charges if rent is not received in good time or for charges made for matters outside our control.

Name on lease

Rents can only be accepted from the tenant named on the lease. For example, if your company occupies the property then your company, not you as an individual, must be named as the tenant. If the name on the lease is incorrect, the lease will need to be assigned and this will incur additional legal and valuer's fees which will be due from the Tenant.

Property Management

Our responsibilities

Once the purchase of a property has been completed, we have to make sure it is properly managed – we offer two options for property management, either a full management service via our managing agent, CB Richard Ellis or a self-management option whereby you are responsible.

Option 1:

Property Management Service

We contract out the ongoing administration of all properties to CB Richard Ellis (CBRE).

CBRE are responsible for ensuring the effective management of properties including rent collection, property inspections and general tenant enquiries. We will refer all matters relating to works on the property to them.

Valuations

CBRE will notify you when routine valuations of the property are due, normally every five years. The valuations do not necessarily indicate what the property would be worth if sold. The basis of valuation is as defined by the RICS. This valuation will also provide an up to date valuation for insurance purposes.

Alterations, refurbishments and developments

Any proposed alterations, refurbishments and developments on commercial property should be notified to CBRE for approval. They will advise us on the rental and other implications associated with the proposals. However, if there are proposals under consideration at the time of an intended purchase please supply full details to us rather than CBRE in the first instance.

Annual fees

We charge an annual property administration fee (payable from your SIPP fund) from which we cover the cost of CBRE's ongoing administration if you choose this option.

Additional charges

Other services provided by CBRE such as valuations, rent reviews and consideration of proposals for works at the property are charged separately by them and the details of their charges are obtainable from them. If you prefer to instruct another firm of Chartered Surveyors in connection with valuations or rent reviews, we would normally agree to this.

VAT invoices for rent

VAT invoices will only be issued in respect of VAT opted properties. Applications for payment (which are not VAT invoices) will be issued prior to the due date and a VAT invoice will only be raised once rent is received. This procedure is followed to ensure that we are not liable to account for VAT on rent that has not been received by us.

Option 2:

Self-Management by Members

For a reduced fee (see the Charges Schedule for your SIPP) you may choose to manage the property yourself. None of the services listed above would be provided by CBRE. You would therefore need to ensure all lease covenants are observed, and carry out the following:

- Rent collection, including other sums due under the terms of the lease, such as insurance
- Monthly VAT return
- Property inspections
- Helpdesk number for general tenant queries
- Collation of insurance information to ensure cover maintained
- Maintain record of valuation due dates
- Maintain record of forthcoming lease events, such as rent review, lease expiry etc

In addition you will need to submit to us a half yearly property return to provide information on the following

- Rent received
- Lease information & changes
- Condition of property and tenant house keeping
- Insurance information

Should the management of the property and provision of required information to us be insufficient or incomplete, then we reserve the right to appoint CBRE to commence management of the property at our discretion. In the event this occurs you will be charged the full management fee.

Insurance

We must insure

We must ensure the building is always insured. Accordingly, we regret we cannot agree to you arranging the insurance. Where we are asked to acquire a property for which a Superior Landlord or another party is contractually obliged to insure, we will consider whether we can accept this arrangement but even if we do, we may need to place additional insurance to ensure the full range of risks is covered. If there are any additional costs, which fall outside the tenant's obligation under any occupational lease, they will be charged to your SIPP fund. Insurance is arranged by our brokers, and is put in place to ensure that the property and the interests of us as owner and your investment are fully protected.

In the event that insurers repudiate a claim for any reason, we cannot accept any liability for the resultant loss to your pension scheme.

It is a requirement that the property is valued every 5 years to ensure adequate insurance cover is maintained.

Our block policy

We will arrange insurance (from the time that contracts are exchanged) under a block policy we have with a leading insurance company.

The premium will be taken initially from your SIPP fund, but, subject to the points above, this will be reclaimed from the tenant. Future premiums will normally be payable by the tenant once a lease has been entered into, although the liability remains with the SIPP in the first instance.

We may receive a commission payment, based on a percentage of all premiums paid and due in relation to the block policy. The amount received will (in whole or in part) be retained by us, and used to offset the costs incurred by us in administering the various properties.

Our insurers require information on the construction materials used in the property. Please therefore ensure the surveyor who is inspecting and valuing the property completes the Composite Panels Questionnaire.

Renewal

The policy will be renewed on 1st May each year, and therefore at purchase the proportion to that date will be due. If you have chosen to self-manage the property, you will be obliged to provide information for insurance renewal on your half yearly return.

Property purchase by more than one SIPP

How it works

It is quite common for one property to be purchased on behalf of several SIPPs. We need to establish a separate SIPP for each Member to which our normal charges apply. It is not necessary to have an existing business partnership for this to be effected. Charges for each additional Member apply.

Central property account

We maintain a bank account for SIPP properties. This account receives the rent, pays the mortgage, and holds surplus funds until we are instructed by the Members to distribute them to each SIPP which will be in proportion to their percentage shares in the property. Sufficient funds must be maintained by you to cover all liabilities due in respect of the property before the next rental receipt.

How the shares are calculated

It is essential for us to know at the start what each Member's share in the property is intended to be. This must reflect the sum each Member's SIPP fund puts towards the purchase of the property. It is not possible to make a gift of part of one SIPP fund's entitlement to another, nor for one SIPP fund to accept a disproportionate share of the mortgage liability in order to increase its share of the property. In the event that one SIPP fund has insufficient cash to meet a liability the relevant Member will normally need to make a further contribution. If at the time of purchase cash has to be used from one Member's fund to cover a shortfall in another's then that will be reflected in an

equivalent increase in that Member's share of the property. After the purchase has completed and the share in the property has been established, it is not possible for one Member to cover another Members shortfall in funds for liabilities that may arise. This would constitute a loan and borrowing is only permitted from a commercial lender.

Buying extra shares

It is possible for one SIPP fund to buy a part or the whole of another's share of the property later. A valuation will be required, which must be no more than 6 months old. You will need to contact us for details when required and there will be a fee for the administration and calculation involved.

Joint agreement

We strongly recommend that you enter into a legal agreement to cover such things as death, retirement, disputes and new Members acquiring an interest in the property. At these times the property would normally be revalued. We do not give advice on this type of agreement. You will need to take your own legal advice.

Transfer of property from another pension scheme

Transfer of a property from another pension plan can be quite complex. Typically, a property will be held by the Trustees of a Small Self Administered Scheme (SSAS) or another SIPP provider who want to transfer it to a SIPP with James Hay Partnership. In these cases the normal charges apply, as do all our usual requirements as set out in this guide. If there is existing borrowing we will require a new mortgage to be granted in our name. Our Property Managers cannot start collecting the rent until the legal transfer has been completed.

Transfer of a property as a contribution

We can accept the transfer of a property as a contribution of an asset. All our usual purchase requirements must be satisfied. The value of the property, as given by the independent valuer, will be the value of the contribution. You will need to satisfy yourself that you are able to contribute to the level of the value given.

Mortgage liability warning

We can only borrow up to 50% of the value of each SIPP fund. This means that individual SIPPs may have different shares of the mortgage. Most lenders will require that all Members SIPPs are held jointly and severally liable for the whole mortgage irrespective of the percentages owned by each SIPP. If one Member fails to hold sufficient funds for their proportion of any liabilities, the property could be at risk, even if you have funds.

Death or withdrawal of Member

In the event of death or withdrawal of a Member, the share owned by that Member's SIPP must be transferred to an existing Member's SIPP or a new Member's SIPP. If this is not possible the property must be sold. Further borrowing is permitted for any buy-out. Please remember that the normal borrowing limits apply and total borrowings for each SIPP fund must not exceed 50% of the net value of that fund.

Value Added Tax (VAT)

Opting to Tax

It is possible for us to arrange to opt to tax (bring the property into the tax environment) where appropriate.

For example on purchase of a freehold new commercial property where the purchase price is subject to VAT or where major works are proposed in order that VAT that has been paid out may be reclaimed (please note, it takes several weeks to reclaim VAT). If you have chosen to manage the property yourself, you will be the point of contact for VAT issues, including VAT inspections by HMRC.

Taking advice on VAT

We will arrange to opt on receiving your or your Financial Adviser's written instruction. You should consult your adviser as to whether it is appropriate to opt.

Tenants exempt from VAT

Occasionally it may not be possible to opt, in which case VAT will be irrecoverable. One example is where the purchase price of a property is £250,000 or more and the Member as tenant is wholly or partially exempt from paying VAT. You should seek professional advice if this situation is anticipated.

Transfer of going concern

If the property is currently subject to VAT, and we are able to opt, and there is already an ongoing tenancy in place then it may be possible to dispense with the payment of VAT on the purchase price, as the purchase can be treated as a 'transfer of going concern' (TOGC). We notify HM Revenue & Customs of this at the time we opt. In some circumstances, it is possible that HM Revenue & Customs will overrule this concession after completion. If this happens VAT becomes payable to the Seller on production of a valid VAT invoice and can be recovered on the next VAT return. As there will be a time delay in recovering the VAT it may be necessary for there to be sufficient money in the SIPP fund to pay the VAT to the Seller.

Short-term borrowing to cover VAT

Any VAT loan comes within the 50% borrowing limits, so the total of all borrowings must be no more than 50% of the value of your SIPP fund.

Fees

Who pays them?

The legal, valuer's, and all other relevant fees, together with all disbursements must be paid from your SIPP fund. If there are insufficient funds in your SIPP fund at the start of the transaction to cover expected fees, we will request a payment to cover these.

What are the charges?

Please refer to the Charges Schedule for your SIPP. This is in addition to the legal and other charges and disbursements incurred in the purchase of the property. If the particular circumstances of the transaction are likely to require a significantly greater than normal amount of time from us we reserve the right to re-negotiate the transaction charge.

Additional charges

A new lease at a later date, or a sale or transfer out from our Scheme of the property, normally counts as a further property transaction and we will charge for this under the schedule of Property Transaction Fees. For any work we have to do outside our normal responsibilities (e.g. involvement in litigation in connection with the property) we will charge an additional fee based on time cost. Any professional advice or assistance we may need in connection with managing your property will be charged to your SIPP fund.

Aborted Transactions

We examine each proposed purchase at every stage in the transaction to ensure it complies with all HM Revenue & Customs and our requirements, as set out in this guide. There may therefore be cases where a proposed purchase will be declined at a late stage. Please refer to the Charges Schedule for details of our cancellation fee, which will be charged irrespective of the reason the purchase has been cancelled or aborted.

Solicitor's charges

Unfortunately, it may not be possible to reach a final view on the acceptability of a property until the instructed solicitors have undertaken some of their work and costs have been incurred, which will be met from your SIPP fund. This applies even if the transaction is aborted because our legal requirements cannot be met.

Consequences

Even if the deal falls through, the SIPP remains in force and cannot be cancelled, nor can contributions be refunded.

Disclaimers

This guide may not be exhaustive, as we have found from experience that individual properties may sometimes have particular problems or involve additional costs that only become apparent after the legal work has commenced. The information provided in this guide may also be affected by changes in the relevant legislation. If you have any queries or would like any further information, please do not hesitate to contact us.

This guide is based on our interpretation of current legislation and should not be relied upon for detailed advice or as a statement of law. Whilst every effort has been made to ensure that the information is correct, we cannot accept any responsibility or liability for any omission or inaccuracy in the material provided in this document.

Please remember that current tax benefits may change in the future and you should seek advice from a Financial Adviser regarding the matters raised in this guide as to how they may affect you.

Remember that the value of your investments can fall as well as rise.

Further information

If you are a Financial Adviser, please contact your Account Executive. If you do not have an Account Executive, please call us on 0845 850 4455 or contact us by fax on 0845 850 4466.

Frequently Asked Questions

What is the difference between freehold and leasehold property?

Put simply, a freehold property is absolute ownership of the property. Leasehold is where the interest is a tenancy under a long lease, typically for 99 years or above. At the eventual end of the tenancy ownership goes back to the Landlord.

What do you mean by 'opt to tax'?

Commercial property is generally exempt from VAT. There are occasions where it is appropriate for a property to be standard rated and in order to achieve this, the property is opted to tax. Once the property is opted, VAT is charged on the rent.

Do I have to have an environmental report on the property?

Yes. We can arrange this for you if you wish. A screening report is undertaken initially on all properties which identifies, for example, previous uses of the property, areas of flood plain, areas of coal mining etc. More detailed reports may be required as a result of this initial screening. Costs are paid from your SIPP fund.

How do I calculate that the mortgage payments meet your requirements?

The annual market rent or existing rent divided by 1.1 will give the maximum annual repayment amount for a fixed rate loan OR divided by 1.3 for a variable rate loan.

Who completes the Composite Panels Questionnaire and Observation Checklist?

The valuer, who must be a RICS qualified surveyor.

Can the tenant or vendor use the same solicitor as James Hay Partnership?

No. There must be separate solicitors to avoid a conflict of interest.

Who organises the lending and valuation?

You do, with your preferred lender. We do not have a panel of lenders or valuers.

What works can the SIPP pay for?

Items that are typically payable by a landlord and are not the responsibility of a tenant. All proposed works must be referred to our property managers.

What are SSAS to SIPP in-specie transfer requirements?

Exactly the same as a normal SIPP property purchase. The process involves a full legal conveyance, and change in legal ownership from the co trustees of the SSAS to the trustee(s) of the SIPP.

Can the SIPP buy a property at auction?

Technically yes, but in practice there are difficulties due to timescales set by the auction houses and the legal obligations imposed on us by acceptance of the bid before our requirements can be met.

Notes

Notes

Important Information

Any taxation information contained in this guide is based on our interpretation of current legislation and HM Revenue & Customs practice. Please remember that current tax benefits may change in the future.

How to Contact Us

Call SIPP Enquiries on:

0845 850 4455 or fax us on 0845 850 4466

Lines are open 9am to 5pm Monday to Friday. To help us improve our service we may record or monitor calls.

Visit our website:

www.jameshay.co.uk

Email us:

sipp@jameshay.co.uk

Write to us at:

**James Hay Partnership
Dunn's House
St Paul's Road
Salisbury
SP2 7BF**



James Hay Partnership is able to provide literature in alternative formats. The formats available are: Large Print (as recommended by RNIB), Braille, Audio Tape and PC Disk. If you would like to receive this document in an alternative format please contact us on 0845 850 4455. For the hard of hearing and / or speech impaired, please use the Typetalk service via 18001 0845 850 4455

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