



# A GUIDE TO PROPERTY PURCHASE

# INTRODUCTION

**The Pension Portfolio from Royal London can hold commercial property as an investment. This guide provides information about the processes for purchase, administration and sale of property.**

## **The basics**

The purchase, mortgage, administration and sale of commercial property by a pension fund is a complex area and we have appointed James Hay Partnership (JHP) to administer properties and manage the process on our behalf.

JHP have years of experience dealing with commercial property and have a dedicated team of specialists that deal purely with commercial properties. Any property that is purchased to hold within your plan must be bought solely as a pension investment, with a view to providing retirement benefits when required.

The processes for taking out a Pension Portfolio and applying to purchase a property can start simultaneously but your plan must be set up before the property purchase can be completed. This means that if the property purchase does not proceed for any reason, your plan will remain in force and cannot be cancelled, except within the initial 30 day cooling-off period.

## **Who owns the property?**

Any properties held within your plan are purchased by the Trustee, The Royal London Mutual Insurance Society Limited (RLMISL) and held in trust for you.<sup>1</sup>

RLMISL is the owner of the property and must be consulted prior to any development or refurbishment being carried out on property held within your plan.

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<sup>1</sup> The Royal London Mutual Insurance Society is the Trustee, but JHP will undertake the day-to-day responsibility for administering properties on behalf of the Trustee.

# ACCEPTABLE PROPERTIES

Most leasehold or freehold commercial properties and land for commercial purposes in the UK will be acceptable investments, however, each property purchase request will be considered individually and our consent must be given before any specific purchase can proceed.

Residential property and overseas commercial property will not be permitted.

Short-term leases (with less than 50 years to run after your chosen retirement date) are not normally acceptable. However, we will consider shorter term leases if it can be proven to be a valid investment proposition.

We will not agree to purchase a property unless an Asbestos survey has been carried out and an Asbestos Management Plan<sup>2</sup> has been put in place. All commercial property in the UK requires an Energy Performance Certificate<sup>3</sup>.

The certificate will be required for every commercial property that is constructed, sold or rented in England, Scotland, Wales and/or Northern Ireland.

There are a limited number of exceptions, e.g. places of worship.

For any proposed property purchase we will not instruct the solicitors unless the property has an Energy Performance Certificate, from the vendor.

We will also require risk assessments to be carried out to meet the requirements of current Fire Safety Legislation<sup>4</sup>. If we agree to purchase a property where any part is not leased to or controlled by the occupier, we will arrange for a risk assessment to be carried out within a reasonable period following the purchase and for a suitable person to be appointed to monitor compliance until the Trustee ceases to be the responsible person.

The table below gives examples of property that may be acceptable

Hotel*	Business Units
Motel*	Warehouses
Shops	Offices
Forestry/Agricultural Land	

\* There are likely to be significant tax charges if you live in these premises

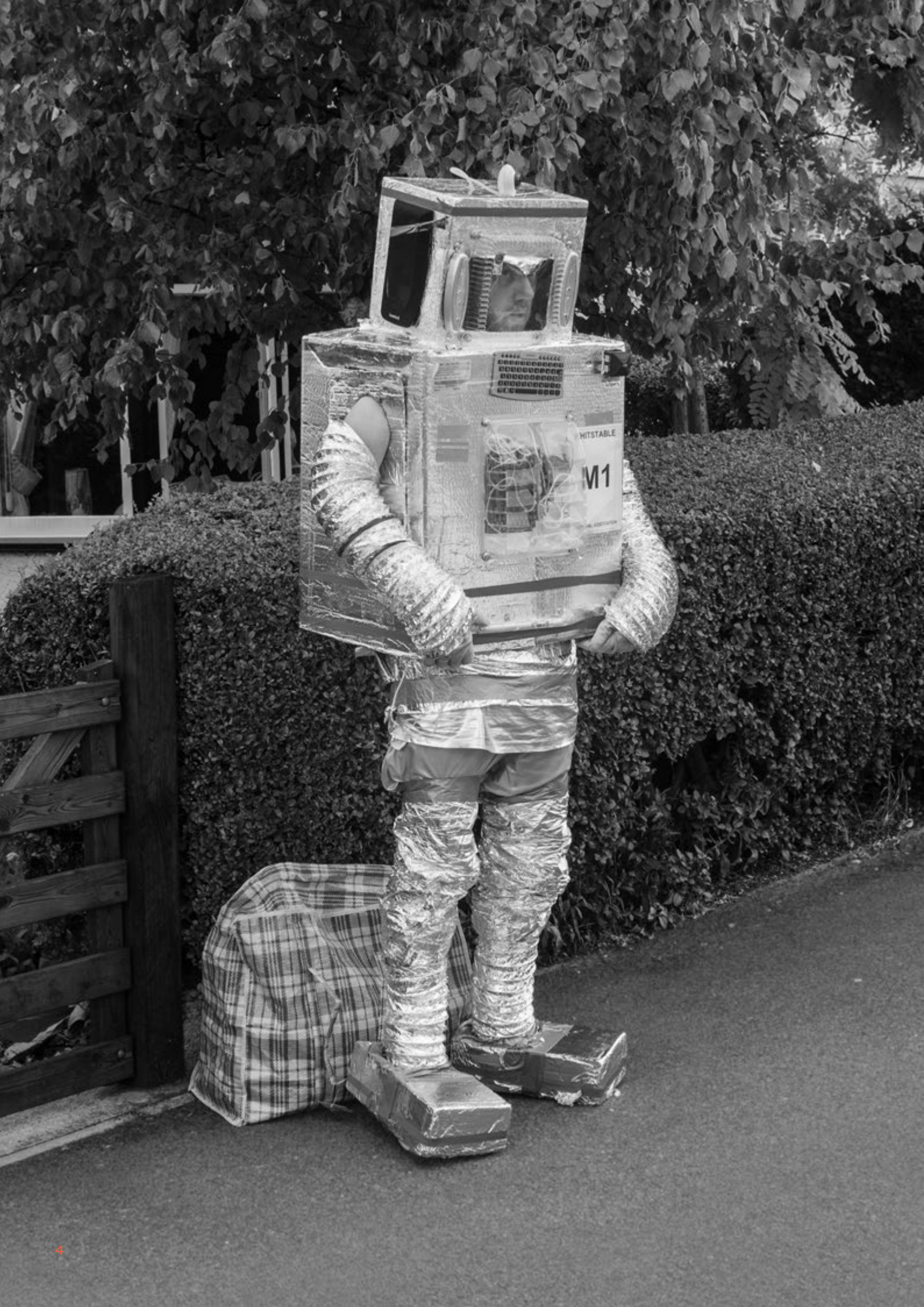
The purchase of a vacant property will be dependant upon having an agreed tenancy due to start on the date of completion.

We reserve the right to decline any property application.

<sup>2</sup> This is to ensure the dutyholder is complying with The Control of Asbestos Regulations 2006. The tenant is usually the dutyholder.

<sup>3</sup> The need for Energy Performance Certificates was introduced by the EU Energy Performance of Buildings Directive (EPBD) in 2006. The directive aims to improve energy efficiency and reduce carbon emissions. We won't accept a property that is below an E rating.

<sup>4</sup> The Regulatory Reform (Fire Safety) Order 2005 in England and Wales, the Fire (Scotland) Act 2005 in Scotland, and the Fire and Rescue Services (Northern Ireland) Order 2006.



# PROPERTY PURCHASE

## Application process

If you have any questions on property purchase in general or you would like to discuss the potential purchase (or transfer in) of a particular property, please contact us prior to completing an application form.

You can ask us to make a VAT election on a property as part of the purchase process. If you do this we will usually be able to recover the VAT payable on the purchase itself and on any subsequent outlays that are subject to VAT. Please note that there are some circumstances when VAT cannot be reclaimed and you should take specialist advice before making a decision on whether to make a VAT election or not. The advice you receive should be passed on to us, if appropriate.

If you already have a Pension Portfolio, the next step in purchasing a property is to complete the **Property Purchase/Transfer In Application Form**. This needs to be signed by you and all Pension Portfolio planholders that are to be party to the property purchase. Completed forms should be sent by your financial adviser to: **Royal London, Royal London House, Alderley Road, Wilmslow, Cheshire SK9 1PF**

Once we receive the fully completed application form we will give an “in principle” decision as soon as is possible on whether a property is likely to be acceptable.

If we agree to go ahead with the purchase of a property and for whatever reason it does not proceed we will recover any charges incurred to that point from your Pension Portfolio Bank Account.

You can apply to purchase a property at the same time as applying to take out a Pension Portfolio from Royal London. In this case, we need a completed **Pension Portfolio Application Form** and **Property Purchase/Transfer In Application Form**.

## Property bank account

A Pension Portfolio Property Bank Account will be set up for each property that is purchased. All the expenses, e.g. surveyor’s fees, and income, e.g. rent, from the property is taken out of or paid into this account. This bank account is separate to the Pension Portfolio Bank Account.

## Property co-ordinator

A property co-ordinator must be appointed for every property purchase to provide us with instructions about the property.

The property co-ordinator can be appointed by you (or jointly by you and other Pension Portfolio planholders in the case of a property held in respect of more than one planholder).

The property co-ordinator is nominated via the **Property Purchase/Transfer In Application Form**. You can nominate yourself as the property coordinator or you can select someone else, for example, your financial adviser.

Once a property has been purchased you can let us know if you wish to change the property co-ordinator.

### Joint purchases

You can pool your retirement fund together with that of other Pension Portfolio planholders to facilitate the purchase of a property. In this situation only a percentage of the expenses related to the property need to be met by the funds of each planholder.

Each investor will be entitled to a percentage of the benefit from the property. Each investor's share (percentage) of the property needs to be identified and JHP maintain these records on behalf of Royal London for all property transactions.

A Pension Portfolio Property Bank Account is set up and maintained for the property. This account will receive all the rent, pays the mortgage and

holds surplus funds until the property co-ordinator instructs that the funds are distributed to each investor's Pension Portfolio Bank Account.

Sufficient funds must be maintained in the property account to cover all liabilities due before the next rent is due (e.g. mortgage and VAT payments).

If, at any time, you or any other planholder wants to disinvest, the value of your/the other planholder's share is calculated and decreased in line with the cash that is removed. The opposite applies if further funds are invested into the property. A new Pension Portfolio planholder can buy a share in a property already held on behalf of other planholders.

The following example illustrates how the value of each planholder's investment is calculated. The investment values are shown to the nearest pound and the example assumes that no VAT is payable on the purchase.

Purchase costs include the charges we make for purchasing the property, solicitors fees, the cost of survey(s) and any specialist environmental report(s) and stamp duty, if applicable.

Annual costs include the charges we take for administering the property, rent reviews, refurbishment charges and other expenses that might be incurred throughout the year.

#### Initial purchase

Purchase price:	£100,000
Purchase costs:	£5,000
	<hr/>
	<b>£105,000</b>
Loan	£60,000
Planholder 1's initial investment	£27,000 (£45,000 x 60%)
Planholder 2's initial investment	£18,000 (£45,000 x 40%)
	<hr/>
	<b>£105,000</b>

After all the costs have been paid there is no cash left in the Pension Portfolio Property Bank Account.

### One year later

Some rent has been received (£1,200), repayments (£500) have slightly reduced the outstanding loan amount and the annual costs (£1,000) have been deducted:

$$\begin{aligned} \text{Value:} &= (\text{property value} + \text{property account balance} - \text{loan} - \text{annual costs}) \\ &= (£100,000 + £1,200 - £59,500 - £1,000) \\ &= \mathbf{£40,700} \end{aligned}$$

Planholder 1's investment is now worth	<b>£24,420</b> (40,700 x 60%)
Planholder 2's investment is now worth	<b>£16,280</b> (£40,700 x 40%)

### A few years later

The property has been revalued and is now worth £125,000 and the annual rent has increased to £5,560. The loan has now been paid off and the annual costs (this year these were £650) have been deducted.

$$\begin{aligned} \text{Value:} &= (\text{property value} + \text{property account balance} - \text{loan} - \text{annual costs}) \\ &= (£125,000 + £5,560 - £0 - £650) \\ &= \mathbf{£129,910} \end{aligned}$$

Planholder 1's investment is now worth	<b>£77,946</b> (£129,910 x 60%)
Planholder 2's investment is now worth	<b>£51,964</b> (£129,910 x 40%)

If you decide you want to sell a share in a particular property this needs to be paid from the Pension Portfolio Property Bank Account. To allow this to happen there are a number of options available to the remaining investor(s):

1. Use existing cash in the Pension Portfolio Property Bank Account, if there is a sufficient amount.

2. Make further contributions or transfers into the Core Investments part of their plan(s) with the intention of moving some money into their Self Investments arrangement to be deposited into the Pension Portfolio Property Bank Account(s).

3. Borrow more money, if permitted.

4. Find a new investor.

5. Use a combination of the options.

We reserve the right to decline any property and those that we do agree to purchase/accept as a transfer into the scheme, must be wholly owned by RLMISL.

# PARTIES INVOLVED

**There are normally a number of third parties involved in the property purchase transaction, including solicitors, surveyors and lenders.**

## Solicitors

We have a panel of preferred solicitors that are experienced in property purchase through pension schemes. These are listed in the table below.

We will appoint a solicitor from the panel to represent us in the property purchase, transfer or sale. The solicitor's fees will be agreed with you in advance of proceeding with the purchase, transfer or sale.

We must be satisfied that the property is not subject to any onerous covenants or restrictions that will affect the value of a property or that might cause problems with the legislative structure of the pension before we will proceed with the purchase. The solicitor will check all of this and produce a report.

The solicitor will also prepare a new lease or include information about existing leases in his report. If the solicitor's report identifies something that means the property is not acceptable to us, we will decline to purchase the property.

You must agree the solicitor's fees in advance of the property purchase proceeding and these will be met

from the Pension Portfolio Property Bank Account.

## Leases

We will normally use a standard fully insuring and repairing lease. This means the tenant is responsible for all repairs and costs in relation to the property (such as business rates and utilities). We may accept a lease where the term is less than the term of the loan, where the lender is satisfied with a letter of comfort regarding repayments. We also expect the lease to be finalised at the same time as the completion of the purchase.

All leases must be granted on normal commercial terms and the amount of rent payable must be in accordance with

Country	Company name	Address	Contact numbers
Scotland	Blackadders	5 Rutland Square, Edinburgh EH1 2AX	Tel: 0131 222 8000 Fax: 0131 222 8008
England & Wales	Trethowans	London Road Office Park, London Road Salisbury, Wiltshire SP1 3HP	Tel: 01722 412512 Fax: 01722 411300
	Coffin Mew	3rd Floor Cumberland House, 15-17 Cumberland Place, Southampton SO15 2BG	Tel: 023 8033 4661 Fax: 023 8033 0956
	Parker Bullen	8 Newbury Street, Andover, Hampshire SP10 1DW	Tel: 01264 400500 Fax: 01264 355957
Northern Ireland	Pinsent Masons	1 Lanyon Place, Belfast BT1 3LP	Tel: 028 9089 4800 Fax: 028 9089 4801



the commercial rate (supported by an independent professional valuation).

If there is an existing lease in place, the solicitor will provide information on this in his report and a comparison to our standard lease. If there is no significant difference between the leases then we will take over the existing one.

If there are significant differences then the solicitor will be responsible for advising us of the differences and how they affect our position as landlord. We will only accept minor variations to our standard lease.

### **Surveyors**

Before a property can be purchased a survey must be conducted to place a valuation on that property. You can nominate the surveyor to be used on the **Property Purchase/Transfer In Application Form**. Any surveyor nominated must be RICS<sup>5</sup> qualified. If you are a surveyor you can't carry out the survey yourself. If you are a connected person<sup>6</sup> the property must be purchased at the market value as certified by a qualified surveyor.

When the purchase involves a loan, the chosen lender will generally have a panel of surveyors from which they choose. We may not accept the lender's choice of surveyor.

If the survey contains information or advice that prevents us continuing right away (for example, environmental issues such as land contamination), we might need to request further information and will instigate further investigations.

If the survey valuation figure conflicts with either or both of the purchase and rental figures previously provided on the **Property Purchase/Transfer In Application Form** we will request justification for any significant discrepancies.

The surveyor's fees will be paid from the Pension Portfolio Property Bank Account and the costs will depend on which surveyor is chosen or appointed.

We reserve the right to decline any property.

### **Lenders**

You can borrow money to fund the purchase of property or land based on the value of your plan. The loan will be in the name of the Trustee (RLMISL). You are not personally party to any loan agreement(s).

The Trustee will be able to borrow up to 50% of the total value of your plan<sup>7</sup> (less any outstanding loans) on your behalf. A maximum loan limit of 75% loan to purchase price will also be imposed by the lender.

The loan must be arranged with a commercial lender and you can elect the lender on the **Property Purchase/Transfer In Application Form**. We reserve the right to decline the use of any particular lender that we think is unsuitable.

The loan must be arranged on a capital and interest repayment basis.

The rental income from the property must be at least 110% coverage for fixed rate loans and 130% cover for variable rate loans of the annual loan repayments.

<sup>5</sup> RICS – Royal Institution of Chartered Surveyors.

<sup>6</sup> A connected person is defined in section 839 of ICTA 1988. If you are unsure please contact your adviser before proceeding.

<sup>7</sup> Including the value of your Core Investments.



# PROPERTY ADMINISTRATION

Once the purchase of a property has been completed, JHP will take over the administration of that property. They carry out a number of services.

## Property bank account

JHP will monitor and reconcile your Pension Portfolio Property Bank Account, including VAT accounting (if elected). Overdrafts are not allowed on this account.

## Rent

If you hold a property within your plan, the property tenant (which could be you or your business/company) must pay rent based on normal commercial terms to your pension.

JHP's management company will issue rent demands to tenants and chase for any rent arrears. They will also receive and bank the rent and notify tenants of any rent reviews<sup>8</sup>.

## Loans

JHP will set up a standing order/direct debit from the Pension Portfolio Property Bank Account to make sure the loan repayments are made.

Loan repayments will only be made if there are sufficient funds in the Pension Portfolio Property Bank Account.

## Correspondence

JHP will deal with all the correspondence relating to the property and will seek direction from you or the property co-ordinator as appropriate.

## Property management

JHP has a management company who provide a full property management service.

All the costs relating to property management will be met from the Pension Portfolio Property Bank Account.

## Development, refurbishment and/or renovation

The costs of any property refurbishment must be met from the Pension Portfolio Property Bank Account if the development is deemed to be normal landlord works or confirmed by the valuer that they will enhance the property value.

If a tenant wants work done that does not qualify as landlord works then the tenant must pay for these. You can't pay for any modifications to the property outside your plan unless you are also the tenant and the works are deemed to be tenant's alterations.

The property purchase must be completed before any work is carried out.

Any proposal for development, refurbishment or renovation must be referred to Royal London for individual consideration before any work is carried out.

<sup>8</sup> JHP will appoint a solicitor to chase arrears where necessary.

# PROPERTY SALE

When a property is to be sold, we require written instructions, which must be signed by all of the Pension Portfolio planholders that are party to the property transaction.

Completed forms should be sent to us at the following address:

**Royal London, Royal London House,  
Alderley Road, Wilmslow, Cheshire  
SK9 1PF**

Once we have received the form, provided everything is in order, we will carry out the sale/transfer process on your behalf.

A valuer may also need to be appointed for a sale or transfer of a property.

The proceeds from the sale of any property will then be paid into your Pension Portfolio Bank Account. One of our panel solicitors will be appointed for the sale (or transfer) process.

The costs incurred in the sale will be met from the Pension Portfolio Property Bank Account.

# PROPERTY CHARGES

Due to the complexities of purchasing and managing properties, you will be subject to a number of charges/fees if you wish to invest in commercial property.

All property related charges/fees must be deducted from the Pension Portfolio Property Bank Account.

## Property acquisition/sale/mortgage

These charges are payable on property purchase and/or sale.

Charge	Amount
Initial charge (payable once parties are instructed)	£545
Completion charge	£395
Charge for new mortgage	£205

Stamp duty may also be payable on property purchase, depending on the value of the property. The current rates of stamp duty are shown in the table below. These may be subject to change in the future.

Property value*	Stamp Duty
£0 – £150,000	0% **
£150,001 – £250,000	2%
£250,001	5%

\* This includes any VAT. For example, a VAT elected property valued at £160,000 would have a VAT charge of £32,000 (20%), giving a total of £192,000. So, in this case 2% stamp duty would be applicable.

\*\* There may be stamp duty payable on the rent depending on the net present value (NPV). NPV is based on the total amount of rent over the life of the lease. You can find this on the HMRC website under Stamp Duty Land Tax.

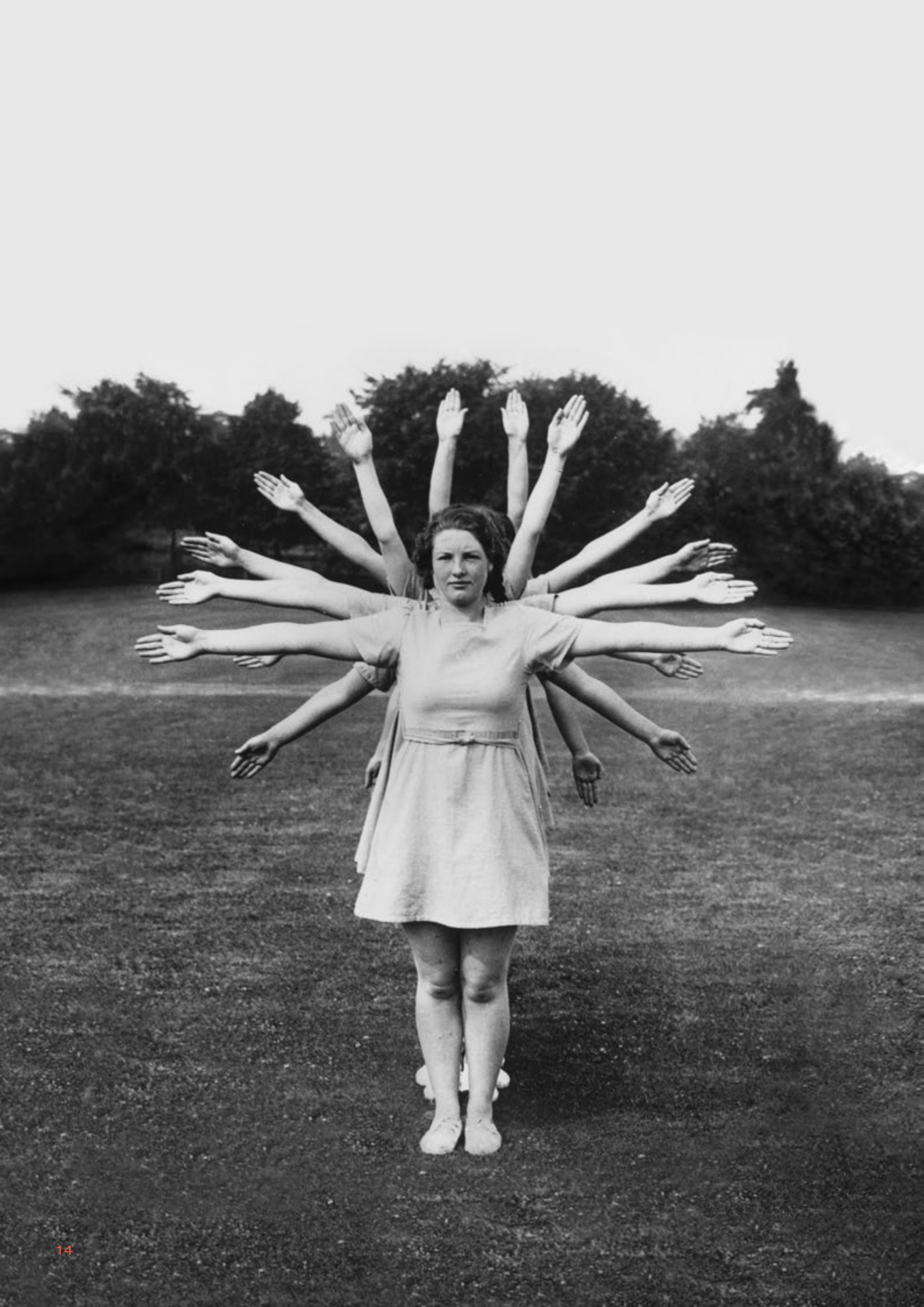
Valuation/survey fees and solicitor's fees will also be payable. These should be agreed with the surveyor/solicitor before proceeding with a property purchase/sale.

## Property administration

The following administration charges may also apply to each property held.

Charge	Amount
Annual administration charge	£775
If VAT registered (annual charge)	£170
If rent in arrears (charged per quarter)	£105
New lease or lease renewal	£415
Rent review (member)	£415 per review
Rent review (non-member)	£750 per review
Deed of variation	£750 per variation
Sale or transfer out	£750
Development or refurbishment	The higher of £1,325 or 0.5% of final contract
Additional services	£145 per hour
Assignment	£750
Sublet (whole or part)	£750
License to alter/change of use	£750

The charges increase each year in line with Average Weekly Earnings based on the change during the 12 months to October each year.



# OTHER RELEVANT INFORMATION

You do not need to arrange insurance yourself, as we will insure all properties under one block insurance policy.

We require that the properties are valued at least once every three years. The costs incurred in valuing the property are met from the Pension Portfolio Property Bank Account.

Additional valuations might be required when there is:

- a benefit calculation
- a rent review
- new borrowing
- a new investor joins or an existing investor leaves the property
- a change of occupancy
- the lease has expired or needs to be reviewed.

An “In Specie” transfer to the Pension Portfolio is permitted. This involves the transfer of a property from one pension scheme to another. Rather than the property being sold and then re-bought, ownership of the property is passed from one scheme to another through a transfer of title. The property must still be an acceptable investment and we reserve the right to refuse to accept any proposed property as a transfer “in specie”.

Royal London and JHP are not responsible for the level of service provided by other parties involved in any property purchase, for example, solicitors. Any third parties involved will be liable for the service they provide and should have their own complaints procedures and compensation arrangements.

Due to the number of parties involved and the process that needs to be followed, both the purchase and sale of property can take a significant period of time. You should take this into consideration before deciding to invest directly in property.

## Contact details

If you ever need to get in touch with us about an existing property or want to find out more about how to add a property to your Pension Portfolio contact us by the following methods:



### Address

Royal London  
Royal London House  
Alderley Road  
Cheshire  
Wilmslow  
SK9 1PF



### Phone

0345 600 7477  
8am - 6pm Monday to Friday



### Email

SIPP@royallondon.com



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