

Property financial feasibility report

CASE STUDY

A business owner is looking to buy their own premises by consolidating two existing pension plans into a Sanlam OneSIPP

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Scenario

I run a well-established architecture practice and have decided that I'd like to buy business premises to provide a secure base from which we can expand. I've already found a suitable property, which will cost £190,000. However, I'm not sure what to do because I want to reinvest the profits from the practice back into my business.

I don't have enough personal cash to buy the property, but have built up a pension pot of £145,000 with two pension providers. After reviewing my circumstances, my financial adviser suggests I could consolidate my two pension plans into a Sanlam OneSIPP and use this to buy the commercial property.

Sanlam will buy the property and hold it as an asset in my OneSIPP. The property will then be leased to my business at a market rent, as determined by an independent qualified surveyor from the Royal Institution of Chartered Surveyors (RICS). My adviser has explained the various advantages and other important considerations that I should know about when holding commercial property in my SIPP.

Advantages

- The OneSIPP can borrow up to 50% of the net value of the fund, which in my case could be up to £72,500.
- My business will pay rent on the premises into the OneSIPP, which will accumulate free of tax.

- The rental income will be used to meet any mortgage repayments and other ongoing costs – any balance then adds value to my pension fund.
- The rent paid by my business is an allowable expense for relief from corporation tax.
- The property is not part of my estate for inheritance tax purposes and (if required) could potentially be passed down through the generations in a tax efficient wrapper.
- Where VAT is payable on the purchase price, Sanlam can make and recover the payment rather than the SIPP (the 'VAT option'), increasing my OneSIPP's purchasing power.
- The property is legally separate from my business. If my business fails, the property would be protected from creditors.
- The eventual disposal of the property will be free from capital gains tax.

Important issues to consider

- Most of my OneSIPP will be invested in commercial property, and therefore won't be well diversified.
- The value of the property could fall as well as rise, which will affect the value of my pension fund.
- Property is an illiquid asset and I'll need to consider an appropriate strategy as retirement approaches.
- There is an extra layer of costs involved in putting the property into my SIPP, in addition to the usual costs involved when buying property.
- As the property will not be part of my business, I cannot use it as security for a business loan.
- If my business is unable to pay the rent or meet the mortgage payments, the lender may force a sale of the property, which could be at an unfavourable time for property markets.
- If my business is unable to maintain rent payments, HMRC could view that an unauthorised investment has been made and a substantial tax charge would be incurred.
- If the property ever becomes vacant then my OneSIPP would have to meet the costs of liabilities, such as business rates and utilities.

The solution

My financial adviser approaches the property team at Sanlam to assess the viability of the proposal. The team prepares a free feasibility report, which provides an estimate of the costs associated with the transaction, including Sanlam's fees, my adviser's fees and third-party costs. My financial adviser completes the Commercial Property Enquiry Form and sends it to the property team. Sanlam reports back to my adviser within 48 hours, who incorporates it into his recommendations to me.

As well as giving a summary of the expected initial costs, the report provides an indication of how the purchase could be funded and the anticipated ongoing costs involved. In this instance, my OneSIPP needs a loan of £60,000 to purchase the property and the loan can be paid off over seven years.

The rental income more than covers the loan payments and any other annual charges that have been incurred, leaving an annual surplus each year. My adviser explains that this will build up a cash balance in my OneSIPP and discusses the feasibility report with me. After considering her adviser's recommendations, I have decided to proceed with the property purchase through the Sanlam OneSIPP.



**Financial Feasibility Report
for
Client Name
Case Study**

- ◆ This document should be presented to you by your financial adviser. They will explain the costs in more detail.
- ◆ Investing in commercial property should not be undertaken without knowledge and understanding of the potential implications and consequences. You should always consult a financial adviser before considering commercial property as an investment for your OneSIPP and/or Section 32.
- ◆ Please note that your financial adviser is not obliged to give you any advice or opinion as to the suitability of any specific commercial property that you may choose to invest in.
- ◆ Please note that Sanlam Investments and Pensions is only prepared to hold a property in shared ownership with a party who is either an investor, the spouse or civil partner of a scheme member, or a company where such person alone or with other directors controls the company or partners in a firm where such person is a partner in that firm.
- ◆ In issuing this report Sanlam Investments and Pensions is not giving any advice or opinion as to the suitability of this property to achieve your specific investment objectives.
- ◆ Please refer to the illustration for product charges. Any shown in this report are indicative only.
- ◆ This report provides an estimate of the property purchase costs involved based on the information provided. It is not exhaustive and we cannot be held liable for any loss you may incur by reliance on it.

Property financial feasibility report

Proposed purchase price **£190,000.00**
 VAT payable **No**
 Your financial adviser **Financial Adviser Ltd**

Summary

Initial funding

Your existing funds **£0.00**
 You pay **£0.00**
 Your employer pays **£0.00**
 Your anticipated transfer payment **£145,000.00**
 Proposed borrowing **£60,000.00**
 Total anticipated funds **£205,000.00**
 Less purchase price **-£190,000.00**
 Less charges/fees **-£12,115.00**
 Balance available **£2,885.00**
 Shortfall **£2,885.00**

Any shortfall could be funded as follows:

You or your employer pay an additional single contribution of **£0.00**
 Plus an additional loan of **£0.00**
 Less estimated additional costs **£0.00**
Total additional funding **£0.00**

Estimated loan repayments v estimated rental income

Loan Interest Rate %	Annual Rental Income	Annual Loan Repayment Amount	Annual Charges	Annual surplus funds after outgoings
4.10%	£15,200	£7,434.33	£2,019	£5,746
5.10%	£15,200	£7,808.05	£2,019	£5,373
6.10%	£15,200	£8,190.74	£2,019	£4,990

The estimated charges below are for use when requesting Key Features Illustrations. Please incorporate these into the relevant fields :

Notional Initial Charge **5.44%**
 Notional Annual Charge **0.64%**

You can obtain illustrations online or for further assistance please contact our Client Contact Team on 03330 155 600 or email clientservices@sanlam.co.uk

Property financial feasibility report

Initial charges/fees

Our charges	
Initial charge for setting up your policy	£607.00
Initial property purchase	£704.00
On completion of property purchase	£264.00
Grant of lease	£185.00
VAT registration charge	£0.00
VAT administration charge	£0.00
Shared Ownership Fee	£0.00
Loan arrangement fee	£212.00
Multiple Member Fee	£0.00
Sub total	£1,972.00
Your financial adviser's initial fee	£3,625.00
Sub total	£5,597.00
Costs/Fees levied by third parties	
Solicitor's fee (including lease work)	£2,050.00
Stamp Duty Land Tax (SDLT)	£800.00
Searches	£650.00
HM Land Registry Fee	£150.00
Companies House Registration Fee	£13.00
Bank Arrangement Fee	£1,200.00
Bank Security Fee	£875.00
Bank Transfer Fee	£30.00
Valuation Fee	£750.00
VAT Amount	£0.00
Miscellaneous Costs	£0.00
Miscellaneous Costs 2	£0.00
Miscellaneous Costs 3	£0.00
Miscellaneous Costs 4	£0.00
Miscellaneous Costs 5	£0.00
Total estimated charges/fees	£12,115.00

Please note:

VAT is not shown as this will normally be paid and recovered by us.

If the property is not subject to VAT, some of the above costs will be subject to VAT (eg solicitors fees and valuation fee) and will be paid from the fund.

Initial Charge for Illustration Purposes

5.44%

Ongoing charges/fees

Our charges	
Annual management charge	£504.00
Annual property charge	£700.00
Insurance administration	£0.00
Annual VAT charge	£0.00
Annual Loan Fee	£151.00
Annual Leasehold Fee	£0.00
Sub total	£1,355.00
Your financial adviser's ongoing fee	£664.43
Managing agent's fee	£0.00
Ongoing Miscellaneous Costs	£0.00
Total	£2,019.43

Proposed loan details

Proposed lender	Bank Plc
Mortgage rate	4.10%
Amount of loan	£60,000
Loan % of net fund value	43.70%
Term of loan (Years)	10

Annual Charge for Illustration Purposes

0.64%

Obtaining additional information

1. For full details on all our charges and how we take them, please refer to our Guide to Charges
2. For details on our commercial property purchase proposition please refer to our Guide to Commercial Property
3. For details on preferred lenders, please speak to our Property Team on 0117 975 2289

Your financial adviser will explain your options in more detail.

How to proceed with the application

To proceed with the property purchase application you will need to provide:

1. A completed Commercial Property Enquiry form and Application form
2. Details from the lender on the proposed loan
3. An open market valuation if available, should be addressed to Sanlam Life & Pensions UK Limited.
4. If you have not already done so, a OneSIPP or Section 32 application form.

Notes:

1. We will appoint a solicitor to act for us from our panel. All fees and charges shown (including those for solicitors and other third parties) are estimates only and may vary depending on the complexity of the transaction. Full details of all our fees and charges are shown in our Guide to Charges.
2. Our annual management charge is a percentage of your fund and will increase or decrease depending on the value of the fund.
3. Any ongoing fee payable to your financial adviser will be a percentage of your fund and will increase or decrease depending on the value of the fund.
4. SDLT is payable on the total purchase price of the property, including any VAT if applicable.
5. SDLT may also be due on the lease. This is payable by the tenant and not from the pension fund. If you are the tenant, the tenant's solicitor will confirm whether this is payable and how much this will be.
6. Where a property is VAT elected, VAT will be payable on the rent so the tenant will only be able to reclaim this if VAT registered. All invoices payable from the fund will be debited to the fund net of VAT where applicable.
7. If the property is not VAT elected, VAT will not be levied on the rent and all invoices payable from the fund will be debited to the fund including VAT where applicable.
8. The rental income must at least cover the cost of the loan repayments assuming a 2% increase in interest rates above the rate being quoted by the lender.
9. Where we have not been provided with details of the rental income we have estimated the level of income for the purposes of this report.
10. You should read our Guide to Commercial Property which outlines all our requirements.

The liability of Sanlam Life & Pensions UK Limited shall at all times be limited to the value of the personal fund in which the property is held as an asset.

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