

Achieving commercial balance



Nigel Bennett discusses transferring a commercial property from one SIPP to another

When someone invests in commercial property (or land), they usually do so for the long term, hoping to benefit from an increase in capital value together with annual rental income. Unlike direct investment, investing via a pension scheme involves a third party, the pension provider. It is therefore vital that you choose a provider which specialises in property transactions and is able to meet your requirements in both the short term, when purchasing the property, and the long term in administrating the property.

Things can change and a firm which was once a specialist in these transactions may have switched its focus, leaving customers in a non-core product, with increasing charges and poor support. As a result, we are often asked to accept transfers of commercial property and land from other pension schemes.

What is involved in these transactions?

In simple terms, the client will ask to transfer from one provider to another. While this may appear a simple request, unlike the transfer of cash from one pension provider to another, property involves an in-specie transfer of the property and perhaps other assets, including cash. The benefit of an in-specie transfer is that ownership can pass from one pension scheme to another without requiring the assets to be sold.

However, before this process can start, the new scheme trustees will need to agree to the transfer and, in the case of property, will wish to perform due diligence to assess whether the asset is acceptable to them. This can appear odd to clients, as the property will already have been deemed to be acceptable to the current pension scheme trustees. However, each provider will have their own criteria.

As with any property transaction, the transfer will generate the need for legal work and associated fees. The receiving scheme may also require a surveyor's valuation report, although this can often be dealt with by providing a copy of the most recent report accompanied by a side letter confirming the current value.

As these transactions are often fuelled by poor administration, it is vital that the receiving scheme knows exactly what the property is and must be careful before accepting something which would turn out to be problematic for the new provider. Completion of a Property & Land Questionnaire assists us in understanding exactly what the proposal is and whether we are likely to be able to accept the transfer.

Is it worth moving?

From a financial point of view, this will depend very much on the specific scenario, taking into account both one-off costs and on-going

costs. Hopefully this will result in an overall cost saving, if not immediately then within a relatively short timescale.

Bear in mind there could be hidden costs, which may be a factor in assessing whether it is worthwhile transferring. For example, the transferring scheme may charge a transfer out fee.

In most cases, the most expensive one-off costs will be for the legal work, bearing in mind there will be two sides to the transaction: the transferring scheme and the receiving scheme. We permit customers to choose their own solicitors and have negotiated bespoke terms for acting for one of our receiving schemes with our optional panel solicitors, which can help make the transaction smoother and more cost effective.

Fortunately, there should not usually be any Stamp Duty costs, provided the beneficiaries remain unchanged, although the solicitor will confirm this. From a service perspective, it is always difficult to compare, but our award-winning team focuses on high quality service and aims to make the transfer process as easy as possible. Once the transaction has completed, a named person will look after the on-going property administration.

Where do I start?

One of the first steps is to ask whether the type of property would be acceptable to us.

A copy of the most recent surveyor's report would be useful for us to see at an early stage, and in some cases you may find it easier to ask the client to complete a Property & Land Questionnaire so that we can take a more detailed initial view before the new SIPP has been established.

You should also quantify the costs being levied by the existing provider, and where this is complicated by an opaque charging structure, it may be worth asking for details of all costs and charges paid by the SIPP over each of the past three years. The existing provider should also be able to provide details of the costs of moving away from them and their requirements.

We are happy to discuss any possible transfers to us, using the contact details on our website www.investaccpensions.co.uk.

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