

# Strong demand



Nigel Bennett discusses the current position in the commercial property SIPP market

**Perhaps one of the surprising aspects of the pandemic has been the stronger than expected demand for commercial property and land investments through SIPPs. At InvestAcc, we have seen record levels of enquiries; solicitors and surveyors are also reporting a boom in these transactions.**

Although Government support over the past two years has protected most businesses, many properties remain empty or at reduced occupancy, particularly in sectors such as city centre offices, but this does not mean that rent is not being paid or that people will not return.

In some sectors, employers have moved to a hybrid model e.g. three days in the office and two days working remotely; it remains to be seen if this will be a temporary phenomenon or something more permanent. Hopefully, this should become more evident as 2022 progresses, reflecting a wider recovery of economic activity and working arrangements.

Demand for commercial property investments in SIPPs appears to be partly supported by favourable demographics, as more people choose to set up a business with the backing of record levels of pension savings. While we see investors of all types, our typical new SIPP customer is a business owner in their forties or fifties, transferring substantial existing pension funds topped up with contributions and/or a loan, within HMRC limits.

#### Tax and control

The potential tax benefits of holding property in a SIPP, such as tax relief on contributions, rent being an allowable business expense, no tax on growth in the value of the property or the income received, are well known, but control is often one of the most highly valued reasons why someone might use a SIPP, particularly when their own business is the tenant.

Customers investing in property or land tend to fit in one of the following categories:

- Someone buying commercial property for the first time, with their business as the tenant. Perhaps they have previously rented their business premises from a third party, and they now wish to move to different premises, or their landlord wishes to sell. This provides the opportunity to secure the premises for the business without it having to make a large capital outlay.

- Someone who owns commercial property personally or via their business, now wishing to hold it more tax efficiently. This may fit with a plan to release cash from the pension or to reduce debt.
- Someone who has already invested in property or land via another SIPP provider, who now wishes to move to a specialist firm which offers a better service at a reasonable cost.
- Professional property investors who have identified property or land with an attractive yield and/or development potential. In many cases, these investments are of a more speculative nature.

A financial adviser, often working alongside an accountant, is best placed to assess whether a SIPP would be beneficial, compared to other options available to them.

#### Cost considerations

Most costs would be incurred whether the customer buys the property through a SIPP, via their business or personally, but there are some additional costs associated with running the SIPP.

InvestAcc's Minerva SIPP fees are fixed, which in many cases makes the additional costs for property ownership via a pension scheme relatively small. For instance, a single member SIPP investing in a commercial property can be £750 +VAT per annum (with no set-up or purchase fees), and the cost will be even lower for groups of two or more investors, as property-related costs can be shared.

Beware though that there can also be hidden costs, for example where the tenant is a connected party, the property and rental value will need to be reassessed at certain times, such as for rent reviews and dealing with Benefit Crystallisation Events. To minimise the impact of this, it can be helpful to develop a long-term relationship with a local RICS qualified surveyor, who can easily provide the initial full valuation report, followed by simple side letters confirming up to date values when required, without the need to produce a full valuation report each time.

#### Trustee requirements

The primary objective of the SIPP trustees will be to ensure the investment does not trigger any unauthorised payment tax charges, and they will want to have a reliable tenant paying a market rate of rent, to avoid the pension scheme running out of cash. However, there will be other potential considerations, based on the experience and risk attitude of the particular firm.

To get things off to a good start we would encourage you to speak to one of our experts to discuss the proposed transaction and its funding, ruling out any potential obvious issues, while ensuring that the requirements are understood and expectations can be managed. We can also answer any questions you may have, helping to smooth the entire process.

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