

SIPPS

Interest grows in property schemes

Investor demand prompts providers to design permissible plans, writes Robert Budden

Providers of self-invested personal pensions (Sipps) are constructing a wide range of schemes for investors to hold property in their pensions to satisfy continued strong demand for this asset class.

Some Sipp providers are marketing hotel room investments in France. Others are devising syndicate schemes, enabling teams of investors to hold residential property directly within their pension funds.

At the end of 2005, Gordon Brown stunned the pensions industry with a U-turn announcement that direct investment in residential property would not be deemed a permissible investment for Sipps.

The last-minute change forced some investors who had secured flats in off-plan developments for their pensions to ditch their investment and kiss goodbye to their deposits.

But pent-up investor demand for property within Sipps still appears to be strong. One scheme being marketed by FreedomSipp allows Sipp investors to buy rooms in French hotels. FreedomSipp says it has had "two or three" Sipp investors purchase rooms in the Hotel des Deux Domaines which is being developed in the French ski resort of La Plagne.

All rooms have now been sold and prices started at just over €240,000. The scheme promised a "guaranteed" rental yield of 5 per cent for the first six years.

While some Sipp providers are erring on the side of caution and avoiding hotel investments, particularly overseas, FreedomSipp is confident its schemes fall well within the rules.

"The big hoo-haa is 'is it residential property?' We had to make sure it wasn't," says John Fox, director of the FreedomSipp.

Hotels are permitted investments in Sipps as they are deemed commercial

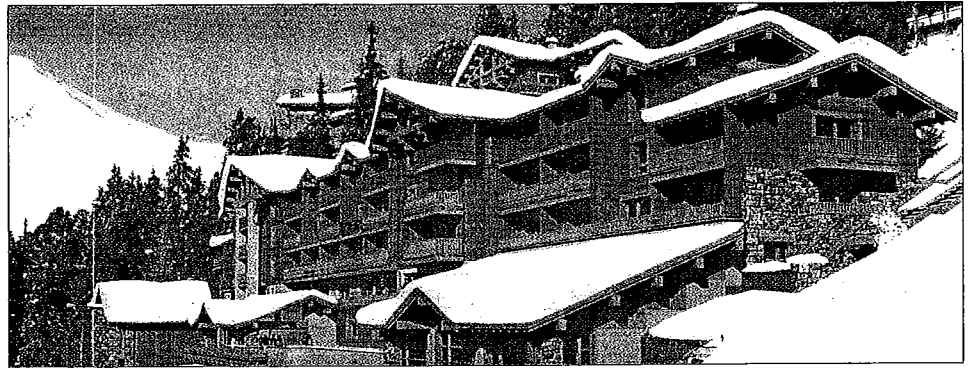
property. But there is some confusion with the growing number of "aparthotel" investments, particularly as some of these schemes offer investors the right to stay at the hotel.

Fox says that for hotel rooms to qualify for Sipps, they must have shared facilities such as a restaurant and a hotel reception. If the room has a self-contained kitchen, HM Revenue & Customs is likely to view it as residential property and therefore disbar it as a potential Sipp investment. Fox says in one case it went to see a development but ruled it out when it emerged that the properties each had a garage. Under the FreedomSipp scheme, investors are also barred from staying at the hotel in which they have invested.

But there are still legitimate ways that Sipp investors can gain access to residential property. Provided they form a syndicate with at least 10 other investors, direct investment in residential property via a Sipp is permissible. One company offering investors this opportunity is PropertyBourse which sets up limited partnerships investing in residential property. It is marketing a scheme investing in buy-to-let properties in London's Docklands as well as a scheme investing in Polish properties rented out to professional tenants. The minimum investment in any one scheme is £12,500.

Mike Morrison, pensions strategy manager at Winterthur Life, a Sipp provider, says he is also seeing growing interest from lawyers and other professionals using their Sipps to purchase their business premises. Pension rule changes introduced last year mean such "connected party" transactions are now permissible.

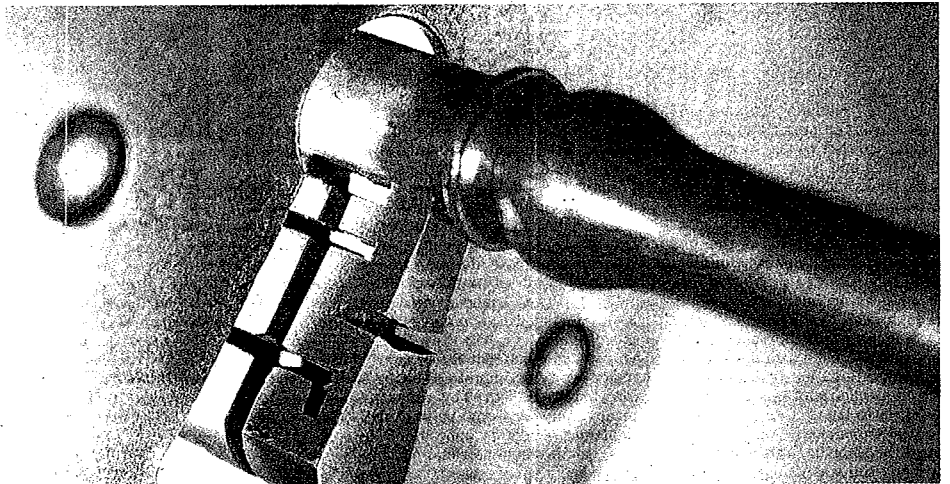
"This is becoming more and more common," says Morrison. "For some companies, the proceeds [for such property sales] could be just what is needed to take the company forward."



Snow hope: The Hotel des Deux Domaines, which is still being built, offers a 'guaranteed' rental yield of 5 per cent

Artist's impression

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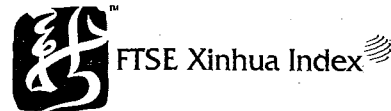


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