



## Untapped Sipp's offer clients a way in to property

By William Robins | 08:00:00 | 18 March 2010

### **With scant bank loans savvy advisers have a great opportunity to tap Sipp's and SSASs to help clients fund investments in property syndicates.**

Advisers are failing to see the investment opportunities for the £1 trillion sitting in Sipp's in the UK, and are not explaining to clients how their pension pot can be used to fund their companies and invest in property.

According to Steven Harper, managing director of Cheltenham-based Fountain Independent and the MySipp pension scheme, advisers are unaware of the full potential of Sipp and SSAS property investment.

Through Fountain, Harper has helped several businesses to use their Sipp to secure funding or invest directly in the business using the pension cash.

According to Harper there is approximately £1 trillion in Sipp's and over £3 trillion in personal pension plans which could be considered for investment, but few IFAs can explain to business-owner clients how Sipp funds could help their companies at a time when banks are unwilling to lend.

### **Lack of expertise**

'Advisers should know all the self-investment options for Sipp and SSAS and be able to explain them,' he said.

'However, it is our experience that only the very best pensions specialists can comfortably and efficiently handle the conversation and advice about such things as self-investment into commercial property and unquoted share purchase.'

He added: 'Advisers do not generally have a practical experience of dealing with things and the impact is such that they are not comfortable to discuss them because the client may then ask them to do it.'

### **Freeing up funds for business loans**

Most recently Harper helped a client who needed short-term finance for his business but could not secure lending from the bank.

Fountain set up a SSAS which loaned 50% of the client's pension funds to the business, to be repaid over five years with interest paid to the pension fund.

Another client owned a business but not the property it was run from. When the bank would not lend him the money to buy the property, Harper combined the client's pension funds with those of two employees to purchase the property for £300,000. The syndicate then let the property to the business for a commercial rent.

York-based adviser Mark Pepper has invested his client Sipp funds into property

syndicates which have loaned money to several commercial building projects, including a £6 million loan towards the renovation of a luxury hotel in Whitby called Raithwaite Hall.

His advisory business, Grosvenor Financial Consultants, already had experience of putting together company loans, but Pepper still consulted with commercial, banking and construction lawyers and experts in credit, surveying and architecture.

'In the case of Raithwaite Hall we sat down with the lender's and the construction firm's lawyers who took me apart to make sure I was absolutely clear on what I was doing and all parties were happy I could deliver because we had considered every downside,' said Pepper.

'It worries me that people could come to advisers with, say, £100,000 in Sipp funds and get me to lend it to some unknown builder. I don't want to see people's pension funds fall into the wrong hands. With my first big project I didn't see change out of £100,000 in legal costs.'

The loss of liquidity is as much of a concern as loss of capital if the investor is at or near retirement according to Francis Klonowski of Leeds-based Klonowski & Co.

### **The need for due diligence**

'I had a client who had taken early retirement benefits but had found a new business venture...the biggest risk is that in most cases the pension fund would have just one asset and if that becomes illiquid then there is no income to draw on, so you would have to start selling any other assets you owned to provide your income,' he said.

Harper admits there are significant risks involved and urged advisers to do wide-ranging due diligence and make sure the client is aware of the financial risks.

'Self-investment into a property has all the property-related costs and risks, and it is not a liquid asset that can just be sold like a share or a unit in a unit trust,' he said.

'This is also compounded when this is a property bought by the member of a Sipp for his own business to be run from because if his business fails he has linked his retirement income to his business as well.'

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