

EU SIPP



# PROPERTY INVESTMENT GUIDE



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# London & Colonial EU SIPP

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## Property Investment Guide

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## 1. Introduction

This Guide relates to the acquisition of residential property in the UK as a buy-to-let investment. It may be possible to purchase property abroad but such proposals will need to be considered on a case by case basis

## 2. What are the advantages?

You can invest the value of your EU SIPP in residential property and any increase in the capital value is free of Gibraltar tax.

The rental income accumulates free of Gibraltar tax and is not regarded as a contribution.

However, tax may be deducted at source on the rent from property held in the UK. Any tax withheld may not be able to be reclaimed. Please take professional advice from a suitably qualified person on this matter.

## 3. Key points to bear in mind

### 3.1 Financial viability

There will be ongoing costs in relation to the property investment which will be paid from your EU SIPP.

In addition to the costs outlined in section 13 you also need to consider whether there is sufficient cash available in your EU SIPP to cover the following possible eventualities, especially if there is scheme borrowing to service.

You will also need to consider your pension income needs and whether there will be sufficient cash available for this.

#### 3.1.1 Rental Voids

The property may be unoccupied between tenancies and there may also be defaults when a tenant fails to pay the rent due under the tenancy agreement.



Rent insurance is normally available from your chosen property manager. The exact extent of the cover available will differ from one policy to another. If you do not take out rent insurance you must ensure that there is sufficient cash in your EU SIPP to meet at least the next 3 years mortgage payments and known expenses. If you take out rent insurance this will reduce our requirement to the equivalent of one year's mortgage payments and known expenses.

### 3.1.2 Legal costs

Costs could be incurred if disputes arise or if a tenant fails to comply with the terms of their agreement.

### 3.1.3 Liquidity

If there is not enough money in your EU SIPP to meet the purchase price - plus costs and a sufficient balance to cover contingencies - then either:

- you can pay in more contributions and/or
- you can transfer money into your EU SIPP from another pension scheme, and/or.
- you may be able to use Scheme Borrowing - for further details see section 9.2

- it is possible for two or more EU SIPP investors to pool their funds to share in a purchase.

You may instruct us to sell the property at any time to address any ongoing liquidity issues as required.

### 3.2 Timescales

It is possible for a purchase to be completed in a few weeks but more realistically it could take up to 2 months or more, especially if unforeseen complexities arise. If scheme borrowing is involved this often increases the timescales.

You must not make any commitment to particular timescales when agreeing terms with the seller.

If you have a preferred timescale to meet please let us know as soon as possible. We will do our best to accommodate your requirements but we cannot guarantee to meet any particular target date because the transaction is dependant upon other parties whose timescales are not within our control.

## 4. General Information

### 4.1 Connected transactions

There is no objection in principle to the EU SIPP purchasing a property from or selling a property to you or a connected person. A connected person includes you, close members of your family and any business with which you are associated.

All transactions must be carried out on open market terms.

Residential properties are not permitted to be rented to you (or occupied by you) or an individual connected with you.

A company connected with the you may rent the property but in this case no more than 50% of the net value of your EU SIPP may be used to purchase the property.

### 4.2 VAT

Residential properties are not normally registered for VAT. However, if there are any VAT implications you will need to take independent advice on how to proceed.

London & Colonial can provide general information but cannot itself advise you on particular cases or deal with VAT accounting and returns. Please nominate an accountant or other suitable person to be appointed by London & Colonial to deal with VAT accounting on its behalf if this is necessary.

If an election for VAT is to be made it is important that action is taken before completion of the purchase.

### 4.3 Contamination Risk

If a property is discovered to be contaminated and no other person is found to take responsibility, the present owner may be required to arrange for the contamination to be removed at its own expense.



Some properties may carry special risks because of known or possible contamination. Such risks may be suspected because of the past or present use or the location of a property.

If the survey/valuation report indicates there is any reason to suggest that there is a potential risk of contamination then the property will be considered for acceptance only after a special environmental report has been carried out.

This will be commissioned by London & Colonial with the cost to be borne by your EU SIPP (or you may pay for this separately). Costs for a "Stage 1" report may typically be in the region of £1,000 to £1,500 (+VAT) and if a "Stage 2" report is necessary this may cost another £1,000 upwards depending upon the extent of the investigations needed.

London & Colonial will not purchase a property which in its opinion is subject to any significant risk from contamination.

## 5. Property criteria

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5.1 Buy to Let properties will normally be acceptable if:

- they are freehold (but not "flying freehold") or leasehold;
- they pose no significant risk to London & Colonial as trustee.

5.2 Properties will not be acceptable if:

- they contravene the "connected party" rules as described in section 4.1;
- they would be expected to involve London & Colonial in any expense that would not be covered by your EU SIPP;
- the monthly rental income is less than 125% of the monthly mortgage payment (if any) – based on the lender's standard variable rate;
- there is, or has been, evidence of contamination or other risks that could involve any liability now or in the future to London & Colonial as owner of the property.

## 6. Tenant criteria

The property must be let on a single assured shorthold tenancy for a maximum term of 12 months or possibly to a company on a corporate let

Multiple tenancies where each tenant signs a separate agreement are not accepted

Properties let on a multi-tenanted basis are acceptable, provided that no more than 5 persons are allowed to occupy and they must all be party to the agreement.

## 7. We do not accept

- Tenants claiming housing benefit, rent rebate or rent allowance
- Asylum Seekers
- People benefiting from Diplomatic Immunity
- Holiday lets
- Properties subject to Houses in Multiple Occupation licensing

## 8. Please note especially

London & Colonial reserves the right to refuse to purchase any property at our sole discretion, particularly if we foresee significant management or resale difficulties, environmental exposure or where there are particularly onerous covenants.

London & Colonial further reserves the right to refuse to purchase any property if it would not comply with Gibraltar Income Tax Office requirements or if in our opinion it would involve any unacceptable risk to London & Colonial.

London & Colonial also reserves the right to sell a property even without your consent if anything is discovered which in our opinion would involve us in an unacceptable risk or if it is necessary to comply with Gibraltar Income Tax Office requirements.

London & Colonial will not purchase properties at auction or in similar competitive bidding situations unless special arrangements are pre-agreed.



## 9. Who is involved in the Property transaction?

### 9.1 Ownership

The property will become an asset of the Trust under which the EU SIPP has been established and legal title to the property will be held by London & Colonial as Trustee or by one of its nominee companies that it uses for that purpose.

### 9.2 Solicitor

London & Colonial will appoint a solicitor to act on its behalf. You may choose the firm you wish us to appoint for this purpose subject to their being acceptable to us.

There are particular requirements the solicitor must address on London & Colonial's behalf during the transaction. We will provide them with full instructions and ask them to confirm their willingness to act for us and to provide us with an estimate of their fees.

It is important for you to note that the advice we request from the solicitor will be only in connection with London & Colonial's prospective ownership of the Property. You must obtain separately whatever advice you need in order to assess the merits of the investment.

### 9.3 Lender

If scheme borrowing will be needed it is for you to choose a lender and obtain an offer in principle. Please send the offer letter to us with your completed Property Application form or as soon as possible thereafter.

Because London & Colonial holds your EU SIPP assets as Trustee this means that the loan would be made to London & Colonial or one of its nominees.

The EU SIPP does not impose any borrowing limits and therefore the amount the Trustee could borrow is limited only by the amount a lender would be prepared to lend.

In addition to the liquidity requirements detailed in section 3.1 we recommend that you consider the possibility of an increase in the payments required by the lender if interest rates rise. If this should happen and there were then insufficient rental income then the lender might force a sale of the property.

This risk would be reduced if at the outset you allowed a greater margin between the amount of the rent and the amount of the loan service or if there were other assets in the EU SIPP that could be drawn on to meet any future shortfall.

The lender may have its own criteria for the type of property and the type of tenant they it accept. The lender will also appoint a solicitor to act on its behalf.

What about security for the loan?

It is normal that the lender would take a charge against the property as security for the loan. It is permissible for the security to be registered against any asset held in your EU SIPP or owned by you personally.

However, London & Colonial will not itself guarantee the loan and will not agree to any loan terms that would allow the lender to sue London & Colonial or to make claims against any of our assets apart from the specified assets of your EU SIPP.

#### 9.4 Valuer/surveyor

An inspection and a report on the value and condition of the property will be required by London & Colonial and also by the lender if there is to be scheme borrowing. You may have requirements for information yourself in order to assess the merits of the property as an investment in your EU SIPP.

It is essential that London & Colonial obtains a report addressed to it or its nominee. This is because the surveyor would otherwise have no liability to London & Colonial for whatever is said in the report.



In order for each party to be able to rely on the report, each must give its own instructions covering their respective requirements and obtain a report addressed to themselves.

We will instruct a report from a person chosen by you provided that the firm or individual is independent of you and appropriately qualified.

The Lender may restrict the choice of valuer to one from a panel approved by them.

What type of report is required?

The report we instruct will include:

- A description of the general condition of the property and details of any repairs (including an indication of approximate cost) that may be required immediately or in the near future
- An opinion of the open market value and the open market rental value
- A reinstatement value for insurance purposes

- An opinion as to whether any further investigations are necessary to establish the extent of any potential contamination.
- any aspects that may potentially involve us in expenditure or other liabilities.

You may wish to inform the firm or individual that instructions may be received from more than one person. This may enable the surveyor/ valuer to include all the various requirements in one inspection in order to keep costs to a minimum.

What if I have already obtained a valuation?

If a valuation has been carried out already, it will be helpful for us to have a copy to accompany your application but we will still require a report addressed to ourselves, as will the lender.

Provided that the firm undertaking the report is acceptable to us it may be possible for them to produce a report to us based upon the work already done, at little or no extra cost.

However, if our requirements differ from those already investigated an additional charge may be raised by the surveyor/valuer. We will let you know if there is to be any further cost.

### 9.5 Managing Agent

London & Colonial will appoint a Managing Agent to look after the property – the duties that this firm must undertake are detailed below.

Who can carry out the management duties?

You may choose who you wish us to appoint to carry out this function provided that the firm or individual chosen is independent and is appropriately qualified. However, you or anyone connected with you may not perform this function.

What duties will the Managing Agent perform?

Property managers of buy-to-let property will normally offer a range of services and associated charges to meet the needs of their client, the landlord.

London & Colonial will require the chosen firm to undertake a “fully managed” service including:

- Finding tenants.
- Dealing with the tenancy agreement.
- Handling tenant’s deposit.
- Rent collection.
- Dealing with repairs and maintenance issues (the cost of which may either be deducted from the rent or paid by your EU SIPP).



- Ensure that the various terms of the tenancy agreement are observed by both the tenant and London & Colonial as landlord.
- Monitor the use of the property to ensure compliance with current planning consents and fire and other relevant regulations.
- Deal with any notices served on London & Colonial as landlord by local authority or other bodies or by the freeholder if we acquire a leasehold title. Any notices served on the tenant will be their responsibility.
- Liaise with the landlord on new tenancies.

How much does property management cost?

This is for you to negotiate directly with your chosen firm.

## 9.6 Insurer

Do I need to arrange Insurance?

London & Colonial will insure all properties under a special "block policy" that covers all appropriate risks on competitive terms. This cover is put in place with effect from the date of exchange of contracts. The insurance premium will be paid from your EU SIPP.

## 9.7 Advice

We are not authorised to give you financial, taxation or investment advice and it is up to you to obtain this advice separately.

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## 10. How do I apply for a property investment?

When you have chosen a property you must complete a Property Investment form. Please answer all the questions and give as much information as possible. Delays may arise if we have to ask for more details.

Please enclose a copy of your loan offer if you have one and a copy of any valuation that has been carried out already

We will acknowledge receipt of your completed Property Investment form and instigate our initial vetting process.

## 11. What happens next?

Unless you instruct us to the contrary, we will normally instruct both the solicitor and the surveyor/valuer immediately. However, if you prefer to wait for the survey/valuation report, or for the loan offer, before we issue instructions, please indicate this on your application form.

This would avoid the risk of unnecessary costs being incurred in the event that the survey/valuation report reveals something that makes the property unacceptable to you or us or that you are unable to obtain the required borrowing for some reason.

We will obtain an initial indication of the legal costs and keep you informed of the amount of the legal costs to date.

We keep you updated on the progress of the transaction and let you know if anything arises that might influence your decision whether or not to proceed with the purchase.



The solicitor will carry out an investigation into title and liaise as necessary with the seller's solicitor. They will prepare a report on title which will be addressed to London & Colonial and sent to us.

If there is to be scheme borrowing then the solicitor will also liaise as necessary with the lender and the lender's solicitor.

The solicitor will prepare the various documents that need signing. They will then deal with the exchange of contracts and completion. If scheme borrowing is involved, then exchange and completion will be simultaneous unless the lender guarantees funds for completion. The money required for the exchange and completion will be transmitted by us upon request from the solicitor.

## 12. Points to note about the purchase process

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No action will normally be taken to implement any of the purchase procedures if there is not enough money in your EU SIPP to complete the purchase and pay all the estimated costs. In addition we will need to be satisfied that there are sufficient cash reserves held in the EU SIPP to meet the ongoing charges with a contingency available (see section 3.1) to cover possible rental voids and expenses which may arise. We shall, if scheme borrowing is involved, take account of any loan facility that has been formally offered.

We will not exchange contracts unless the whole sum required to complete is available in the EU SIPP and/or has been confirmed.

If for any reason the purchase should abort before completion, your EU SIPP will still be liable for all costs incurred up to the time when the purchase procedure is halted. This applies whether you decide not to proceed with the investment or whether something comes to light that means the investment is unacceptable to London & Colonial.

## 13. Costs

### 13.1 Purchase costs include

1. Survey and valuation fees - as negotiated by you, subject to London & Colonial's requirements as outlined in section 9.4
2. Legal fees – as negotiated by you, subject to London & Colonial's requirements for legal advice as outlined in section 9.2
3. Lender's fees - detailed in their offer letter
4. Stamp Duty - as currently published
5. Insurance - London & Colonial obtains competitive rates for comprehensive cover under a block policy
6. EU SIPP property purchase fee – quoted on application
7. EU SIPP mortgage administration fee (if applicable) – quoted on application

If a purchase has special features or is particularly complex or protracted we reserve the right to make an additional charge. London & Colonial charges are not subject to VAT but other third party fees may have the addition of VAT or its jurisdictional equivalent.

### 13.2 Ongoing costs

Once the property has been purchased there will be ongoing "servicing" costs which could typically include the following:

1. Managing Agent fees - as negotiated by you, subject to London & Colonial's requirements outlined in section 9.5
2. Insurance renewal premiums
3. VAT accounting fees (if applicable) - as negotiated by you, subject to London & Colonial's requirements
4. EU SIPP annual property fees – quoted on application



We reserve the right to make an additional charge to that previously quoted if additional work is caused by changes in regulations or the requirements of any external authorities or if exceptional work should arise in a particular case.

If there should be insufficient funds in your EU SIPP or additional money is not forthcoming for any reason London & Colonial may have to instruct the property to be sold.

Please note that this Guide does not form part of the terms and conditions of the EU SIPP and does not contain any legally binding obligations.

## 14. Data Protection

All personal data is processed and stored in accordance with the Data Protection regulations currently in force.

L&C (Administration Services 2) Limited is resident in Gibraltar and is registered as Data Controllers with the Gibraltar Data Protection Commissioner.

## 15. Call recording

Telephone calls to or from us may be recorded for training, monitoring and fact verification purposes.

## 16. How to contact us

International administration office:

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38 – 42 Perrymount Road  
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West Sussex  
RH16 3DN

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