

BESPOKE<sub>n</sub> FINANCE

# Commercial Property Syndication

## It's The Future!



Commercial property investment would normally be beyond the reach of most people, but with syndicates offering to share both the costs and risks, more investors can benefit from high yields of 9% or more, with a minimum investment of just £20,000.

Investors can join 5 to 15 like-minded individuals in a syndicate to buy off plan office buildings, direct from the developer, at negotiated discounts of up to 20%. The syndicate uses gearing of 70% to purchase the property, before leasing to quality tenants, yielding 9% or more. Once tenanted, the building could be worth 25% more than when purchased. The syndicate retains it, repaying the mortgage over

12 years using the high yield on purchase price. Once the mortgage is cleared syndicate members continue collecting the rent as income.

For most people, using property to supplement their retirement earnings entails buying a property, then relying on capital growth creating a lump sum upon sale later in life. Whilst this strategy can certainly work if buying in a location enjoying considerable price increases over the next few years, it pays to consider the role of rental yield as the primary income source.

Investing in property that will repay its own mortgage from its rental income over time, for example 10 to 15 years,

can really enhance a regular retirement income, without the property ever being sold. High-income properties can include student property, particularly new build student apartments and some overseas holiday property. Commercial buildings particularly, offer excellent potential for generating income with minimal effort!

MMG wholly embraces the concept of syndication and the level of interest from clients so far, indicates this is a widely shared view.

Readers wanting to invest in, or learn more about, Commercial Property Syndication should please call MMG's specialist consultant, Saika Arain on 0161 406 1806 or email [sa@mmg-uk.com](mailto:sa@mmg-uk.com)

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**STOP PRESS... STOP PRESS... STOP PRESS... STOP PRESS... STOP PRESS... STOP PRESS... STOP PRESS...**

Ever dream of property purchase transactions, where you, your clients or your purchasers, didn't have to physically pay 10% or even 5% deposit from exchange to

completion - no longer having to find, often serious money, pre-sale and then lose interest on it for up to a year prior to completion? Imagine if it was all as simple as just paying

a modest premium on exchange and nothing more till completion. The reality is here and now! Snap out of the dream and talk to MMG about Deposit Bonds.

# Welcome

Information is useless, unless you turn it to your advantage.

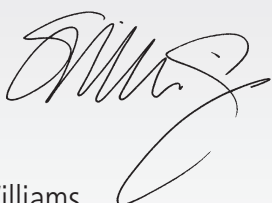
Welcome to the second edition of "BEoutSPOKE onFINANCE", MMG's quarterly newsletter.

The mortgage market's still an exciting place to make money through investment in property. Especially if you know what you're doing and have the right experts batting on your side.

Our team of experienced specialists constantly monitor the latest industry trends. Their aim is to enhance your experience by identifying opportunities we believe can achieve this. We call this 'Bespoke Finance'.

These pages will give a flavour of the highlights, insights and even some anecdotes, from probably one of the most vibrant contributors to the UK's economy.

Grab that cuppa and read on. It may be the most profitable thing you do today!



Stewart Williams,  
**Managing Director.**

## From Income Multipliers & Affordability to Equity Based Lending and beyond

House price growth and historically low rates mean today's borrower expects and needs to borrow, larger sums. However borrowing to buy a house based solely on salary could become a thing of the past. A study undertaken by the Centre for Economic and Business Research (CEBR) analysed the use of income multiples and examined how homeowners are likely to be affected by the use of affordability (reflecting income and expenditure) based lending criteria as more lenders move towards it.

The report considered a variety of household types, both single and dual incomes and those with and without children. Using average income and expenditure for each household type, it compared the maximum mortgage borrowing achievable under the income multiples and affordability methods.

Findings of the report suggest income multiples are a 'clumsy way' of assessing the level of mortgage payments people can afford. Couples with two incomes, both those with and without children, are likely to be the biggest beneficiaries of an affordability-based approach. Most types of household can potentially afford to put a higher proportion of income towards their mortgage payments than income multiples would give.

MMG have embraced this new and more pragmatic way of treating

borrowers' earnings. Stewart Williams explains; "Our clients are typically high net worth individuals with serious net disposable incomes. Rather than be restricted to the old 'three-times multiplier' we can secure more exciting levels of borrowing, appropriately reflecting their status." He added, "Realistically, someone earning £150,000 per annum has a greater net disposable income than does somebody on £25,000 per annum."

But the really hot ticket is Equity Based Funding! This is where lenders really do go into overdrive, as far as the high net worth market is concerned. In these cases, lenders regard how much equity is in the property to be mortgaged and its location as the risk analysis factor, not income verification of the prospective borrower. Consequently, for someone buying a £2m residence and putting down a deposit of 25% (£500,000), verification of any earnings is deemed unnecessary. "This approach is appropriate for our clients, where income can be derived from many sources, for example; directorships, dividends or trusts, where collation and proving of detail could take time," Stewart says.

"Ultimately, it's about employing whichever system best suits our clients' needs." Stewart summarises philosophically.

# What's HOT, Where's HOT and what's NOT

## Here Comes The Sun!

MMG confirm that summer is officially here and the feel-good factor is spreading across the country. The first few consecutive warm days of the year are usually enough to send us scurrying for sunglasses and persuade us to divest our winter coats.

According to Halifax's latest house price index, summer arrived early this year, with house prices up 2% in April and up a total of 4.4% for the first four months of the year. Helped by the strengthening economy and high (albeit softening) levels of employment, the continued low interest rate levels have enabled the strong finish to 2005, to continue into the first half of 2006.

Halifax's positive figures are borne out by MMG, reporting its best ever start to a year with over £250m in mortgage completions by the end of June!

This is in part due to MMG's high net worth clients having recently been able to take advantage of a very special mortgage deal at below 4%! "These exclusive and semi-exclusive opportunities occur with regularity and that's when our bespoke 'Mortgage Management System' comes into its own, by identifying which of our clients are eligible to benefit at that specific time." Explains Stewart. "Our consultants then make all necessary moves to ensure clients are switched seamlessly into the new deals, which naturally get fully subscribed very quickly." He adds.

This year's success also reflects renewed buoyancy in the buy-to-let market. Of course our larger investors have relentlessly continued growing their portfolios, using MMG's 'Portfolio Management Service'. Here we add value by enabling the freeing-up of equity within the portfolio, to facilitate a rolling programme of property acquisitions. This



service also identifies when the product, pertaining to a mortgage charged upon a property within the portfolio, is approaching expiry. Our consultants source the whole market to identify the very best terms for the client and seamlessly switch the mortgage onto the new terms. It's that simple but effective. "The message is clear, if you're thinking about investing further in the property market...make hay, the sun's shining!" Stewart beams.

## Interest Rate Commentary

As widely expected, the Bank of England kept interest rates at 4.50% for the eleventh month running, at the July meeting and so far appears to be in no hurry to change policy. A growing number of analysts still predict the next move to be upwards, rising to 4.75% or above, by mid 2007. As inflation is running above the Bank's 2% target rate and with the inflation outlook facing risks on both sides, a close eye will be needed on the data. Other economists have said that big upward revisions to economic growth over the last few years, could trigger concern that the economy is operating at close to full capacity and that inflationary pressures would pick up, without higher borrowing costs. The economy is showing mixed signals, as manufacturing output rises faster than expected; but with house prices falling again in June, this underlines that a broad-based consumer recovery cannot be taken for granted. Overall, it appears that there is no urgency to tighten policy.

Borrowing costs elsewhere have gone up. The European Central Bank raised interest rates again in June, to 2.75%, which was held steady in July; but analysts and markets remain on alert for further hikes in the Eurozone, with suggestions of rates rising to 3.25% by the year end. The US Federal Reserve increased rates for the 17th straight policy meeting in June, to 5.25%, its highest level since March 2001. Even the Bank of Japan looks set to lift interest rates for the first time in 6 years, as worry for central banks globally, turns to inflation again. The next watershed in the UK, could yet be a potential decision on the Euro, by way of a Referendum at some point in the future, whilst in the short term, a neutral stance is sought. In this market, short term products and flexibility are the key to the most effective arrangements, as they offer the most beneficial terms and value - unless security over a longer term is of paramount importance. What is becoming clearer, is that the next move will probably be up. Our view therefore, is that UK bank base rate will probably increase by a quarter basis point, to 4.75%, at some point in the next 12 months.

# Can we be of service?

## Scenario

An IFA contacted MMG recently. She has a client company that wished to purchase a commercial building, with planning permission. They intended to convert it into modern offices for their own use.

The IFA was arranging the transfer of an existing company pension scheme into two personal SIPPs in the directors' own names. Her clients then wanted to buy the building themselves, as individuals, but also in conjunction with their pensions.

As this was to be a post A-Day transaction, there was confusion concerning whether this arrangement would be possible and if so, how? The change in HMRC's rules would seem to imply that SIPP borrowings are limited to 50% of each fund value and everyone was of course keen to comply.

The purchase price was £1.2m plus costs and £300,000 was to be spent on upgrading, with an end value of C£1.6m. The deposit totalling £500,000 was to be derived from both pension funds, representing 100% (2x50%) of the values of both funds. A lease was to be established between the trading company and the directors for £125,000 per annum.

## Solution

MMG referred the quandary to several pensions experts, who confirmed that the structure was permissible, under the new HMRC pensions rules, providing that tax relief on the pensions' ownerships was restricted to 50% of the funds' values.

The purchase and refurbishment were funded to £1.1m in total at a margin of 1.10% over base; on interest only, until the refurbishment is completed, the trading company in situ and the new lease in place. There upon, conversion to a capital and interest basis, with rental covering the mortgage repayments.

## Top Tip!

As long as tax relief was only claimed to the relevant level, it would alternatively have been permissible for the pension funds to directly have ownership of the property, even though the borrowings exceed 50% of the funds' values initially.

Further contributions into the pension funds could be done via paper transactions through inter-specie transfers as opposed to monetary transactions, with fund values and consequently tax relief, increasing accordingly.

*Please note that MMG only give advice in respect of mortgages to pension funds and not on any aspect of pensions themselves.*

## Ask The Mortgage Guru

We feature readers' letters on this page. If you have a specific question that you feel might be of interest to other readers and have no objection to us reproducing here with the answer, please email it to the editor at [prl@mmg-uk.com](mailto:prl@mmg-uk.com).

We regret that we may not be able to reply to all individual questions.

**Q - I would like to buy an investment property and wonder how to approach the funding. You see I'm a higher rate taxpayer, but my wife is a non-taxpayer. Could my wife hold the property in her sole name, even though she has nominal personal earnings, in order for us to take advantage of her tax allowances?**

From AH – solicitor, Manchester

A - Yes it can be addressed in one of three ways. Firstly, in your wife's sole name. A minority of lenders will allow non-earning individuals to have a buy-to-let mortgage in their sole name. Secondly, with you as guarantor on the mortgage, leaving both mortgage and legal title in your wife's sole name, but essentially 'backed' by you. The third approach being that some lenders, in these instances, permit the mortgage to be in joint names with the legal title in one only. This allows you to be jointly and severally liable for the debt but not own any part of the asset! Going forward, 100% of all rental income and any capital gains are left solely in your wife's name, with eligibility to claim maximum relief, with taxation minimised given her circumstances.

## Top Tip!

The latter two of the above methods can be utilised for a principal private residence, where one spouse may have unlimited liability in business. Typically solicitors and accountants, other professional practices and even where a Lloyd's 'Name' is concerned! Personal assets are better being 'owned' by the other spouse in order to best ring fence them.

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