

CASE STUDY

CONNECTED TENANTS

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A mother purchases her son's business premises to provide an investment for herself and stability for her son.

The Challenges

Nadia's son Omar runs a small art gallery. He currently rents his premises, but isn't particularly happy with this arrangement. Omar feels as though he is wasting the money he spends on rent. He also has ambitious plans for new fittings to create a better layout for the gallery, but feels as though he could only justify this expenditure if he owned the property himself, with the long-term security this would provide. He hopes to be able to purchase his own premises in the future, but hasn't the funds to do so at the moment, having just bought his first home and having only limited pension savings.

The neighbouring property, which is actually a better fit for Omar's business, has just been put on the market for £300,000. Omar may consider renting the new property from its new owner, but this would still leave him with the same concerns about the long-term security of the property. On the other hand, he doesn't want to miss the opportunity to move the gallery into better premises.

Nadia would like to help her son achieve his goals for the gallery. She suggests to Omar that she could purchase the new property herself, and he could rent it until he is in a position to buy it from her. Nadia has a pension worth £400,000 which is mostly invested in equities, but limited savings outside of the pension.

Nadia has heard about property investments using a SIPP, but is unsure if it will be possible when her son will be the tenant. She and Omar approach Timothy, Nadia's financial adviser, for help.

The Actions

Timothy confirms that Nadia can purchase the property using her pension and lease it to Omar's business, as the rules allow for transactions between 'connected parties'. However, he explains that there will be more conditions than if Nadia was purchasing the property herself.

Timothy explains that Nadia's SIPP provider would be the legal owner of the property, and it must demonstrate to HMRC that it acts as any other commercial landlord would on the open market. As such, with connected party transactions, the provider must make sure that everything happens at market value.

This isn't a concern for Nadia when purchasing the premises to begin with, as she has no connection to the current owner. However, it will be important when drawing up the new lease for Omar's company. A valuer will need to confirm a market rate of rent for the premises; Nadia and Omar can't simply agree an amount between them.

Timothy also tells Nadia that if Omar fails to pay rent, her new SIPP provider would have to pursue Omar for the money; in order to ensure HMRC's rules are satisfied it wouldn't be able to allow any concessions without valuation advice. Nadia and Omar both accept this condition.

Timothy also wants to talk to Omar about his pension arrangements. Omar knows that he should be saving more, and Timothy confirms this. He also explains that Omar wouldn't have to wait until he could purchase the property from Nadia in its entirety; he could use his pension savings to purchase part of the property from her and they could hold it jointly between their two SIPPs.

The Results

Timothy arranges for Nadia to transfer her pension to a Curtis Banks Your Future SIPP, and she uses part of her fund to purchase the property. While Curtis Banks has a panel of professionals for customers to choose from, Nadia and Timothy are also able to use a solicitor and valuer of their choosing to complete the purchase. The valuer confirms the market rate of rent for Omar's company to pay.

Nadia is also reassured by having a succession plan for the property: Omar will increase his pension contributions immediately and plans to purchase at least part of the property from Nadia before she retires, leaving more cash available should she wish to withdraw it.

Important points to consider

The value of pension funds may fall as well as rise. Your money is tied up until you take your benefits. Benefits can generally be taken any time after age 55, although this is due to increase to 57 in 2028.

Contact details

If you'd like to speak to us about anything in this case study, please contact us on:

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We may record and monitor calls. Call charges will vary.

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