

CASE STUDY

SPLITTING A FREEHOLD TITLE

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A client finds a way to purchase the commercial element of a property using her pension.

The Challenges

Bella is 51 and has just bought a new house in the countryside. The cottage has a large garden which leads out to a sizeable field and stable block. The previous owner kept horses, and told Bella that he also had an informal agreement in place with his neighbour Helen, who paid to keep her own horse on the field and use the stable.

Bella has no interest whatsoever in horses and doesn't have any use for the field or stables. However, the previous owner passed on Helen's details, as she has enquired about putting a more formal agreement in place with Bella so that she can continue to use the land.

Bella is intrigued by this idea. She wonders if it might be possible to put the field into a pension, so that her retirement savings can benefit from the rent that Helen would pay. She's heard about people holding property and land in their pensions but isn't really sure how it works.

The Actions

After a little research Bella discovers that pensions can only hold commercial property. With the details of the purchase still fresh in her mind, Bella knows that the field is simply included with her house and garden as part of the same title. Her research revealed that there are some concessions which may apply to properties that have commercial and residential elements, but Bella is reasonably confident that none of them would apply to her situation.

She decides to call her provider to see if there's anything that can be done. She speaks to Jasper, who says that Bella could explore the possibility of splitting the freehold. He confirms that Bella would need to speak to a solicitor and surveyor to investigate whether it's possible to separate the field so that it has its own title and formal permission for equestrian use. They would consider issues such as:

- Where the new boundaries would be drawn
- Whether there would be any access problems once the titles were split
- Whether the new title for the field and stables would be independently saleable in its own right.

Assuming there were no problems, the field and stables would then be classed as a purely commercial property and a pension could look to purchase it.

Bella confirms that the field is already clearly separated from her garden with a fence and hedgerow, so the boundaries shouldn't be a problem. She also doesn't think access should be a problem: the main entrance to the field and stable block can be reached from a small track owned by Bella, which her neighbour would use. Bella assumes that there is a market for land and stables and hopes a surveyor would confirm this too.

Jasper mentions that, assuming the field was given its own title and Bella used her SIPP to

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purchase it, the purchase price would have to be agreed at market value. He also makes sure that Bella knows that she would not be able to use or benefit from the new property herself going forwards without breaking HMRC's rules. For example, she couldn't agree with Helen to use spare stable space as storage, or decide to keep horses on the land herself if she changed her mind about them in the future.

The Results

Bella decides to appoint a solicitor to arrange for her field and stables to be separated into their own title. It turns out to be a relatively straight forward example of these types of transactions, and before too long Bella is able to use her SIPP to purchase the new title for the field and stables. She works with her SIPP provider, solicitor, and surveyor to create a lease agreement for Helen so that she is able to use the land. Bella's SIPP receives the rent paid by Helen free of tax, as it is classed as investment growth. Bella arranges for her provider to send the money from rent to her investment account each month for her discretionary fund manager to invest accordingly.

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.

This information is based on our understanding of current legislation, including (but not limited to) FCA, PRA and HMRC regulation. It does not constitute any form of advice.

Contact Details

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

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