

‘Eputs’ widen Sipp options

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Holding residential property as a pension investment is becoming easier, as more developers and investment managers offer exempt property unit trusts (Eputs) – little-known collective investment schemes that can buy into houses and flats, but still be held within self-invested personal pensions (Sipps).

Under the “A-Day” pension rules introduced in 2006, the list of eligible pension holdings was broadened to include property and alternative investments – but, in a late U-turn, the government decided to exclude direct investments in residential property.

Eputs, however, are deemed indirect collective investments, and therefore not subject to these rules – making them an option for Sipp holders looking to turn residential estates into pension investments.

“Government restrictions only apply to direct investments made in Sipps,” explains Clive Wolman, a barrister at 11 Stone Buildings in Lincoln’s Inn, who advises Eputs providers. “They do not prevent investors from investing in intermediate funds, which can then themselves invest in restricted assets, in accordance with HM Revenue & Customs rules.”

Although managers approved by the Financial Services Authority (FSA) must bear responsibility for running Eputs, the funds are treated as unregulated under UK law. So their dividends remain untaxed and their underlying assets are not subject to capital gains tax upon their sale.

Most Eputs tend to be launched either by an existing group of Sipp holders or by commercial property developers seeking pension money.

Last month, for example, Altyon Partners, a specialist property developer, sought £25m from pension investors for its first Eput. It plans to invest the bulk of its portfolio in properties in the UK that still look undervalued.

Simon Holley, Altyon’s chairman, says: “Opportunities in the prime central London market have disappeared fairly rapidly because values have jumped higher. But there’s still scope to make money in the secondary market and we can access some distressed situations through our contacts.”

Investors who sign on with Altyon are required to keep their money in the fund for five years. For pension investors, the minimum investment is £20,000 (it is £50,000 for others). There is an

annual management charge of 2 per cent and investors pay a 25 per cent performance fee each year if the investment returns exceed a 10 per cent hurdle rate. Gearing (borrowing) varies according to market conditions but the maximum level permitted is 60 per cent.

London investment manager Indogrec is also soliciting pension money through an Eput, but to develop a €47m (£39.7m) apartment block in Algeria. Similarly, German firm ArensJaüderberg hopes to fund an Indian sandalwood plantation in Western Australia using Eputs.

Alexander Zalocosta, senior partner with Indogrec, says his firm aims to offer a minimum compounded annual return of 10 per cent to investors. His fund carries a 2 per cent management fee and a 30 per cent performance charge if the 10 per cent target is met. "We've set up the fund with a view that we want to access Sipp money," Zalocosta says. "We've arranged the money in small tranches to make it manageable."

But Eputs are not without their drawbacks. Advisers emphasise that they tend to be costly and difficult to arrange.

HM Revenue & Customs rules allow holders of Sipp and small self-administered schemes (Ssas) to invest in Eputs, providing they certify themselves as sophisticated investors. But, in many cases, even savvy types need the help of an FSA-authorized intermediary. "An IFA usually stands between you and us," points out Ben Hobbes, managing partner with Consortium Investment Management, a firm that supervises both private and commercial deals.

The rules governing the arrangement of Eputs are complex, too. There are no limits placed on a scheme's size, but the commitment of at least ten Sipp investors is required as no one individual can own more than ten per cent of a fund. In addition, an Eput portfolio must consist of a minimum of three secondary properties, with none accounting for more than 40 per cent of the fund's value.

One-time set-up charges and management fees vary depending on the Eput's structure and size.

Consortium's Hobbes estimates that the average annual costs of running an Eput range from 0.2 per cent to 1 per cent of the value of a fund. Managers then tack on additional fees for purchasing properties.

More info: <http://www.ft.com/cms/s/2/0fc32da6-9678-11df-9caa-00144feab49a.html>

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