

**INVESTING IN PRIME COMMERCIAL PROPERTY  
THROUGH TAX-TRANSPARENT SYNDICATION**

**RATCLIFFES**  
**April 2007**

## **Introduction**

Established in **1970**, Ratcliffes are an independent partnership of Commercial Property Consultant Surveyors, specialising in the creation, management and value enhancement of prime commercial property investment portfolios.

Our Clients come to us through recommendation, as we do not undertake corporate advertising. They comprise a range of Private Individuals, Property Investment Companies, Pension Schemes, Friendly Societies, Charitable Trusts, Overseas Investors and Off-shore Funds.

Property Portfolios under our management range in size from **£1 million** to in excess of **£50 million**.

Our Bankers are HSBC, our Solicitors are Druces & Attlee, and our Accountants are Arram Berlyn Gardner – all of whom have acted for the Practice since its foundation over thirty seven years ago.

## **History and Market Background**

The smaller investor has traditionally found it difficult to directly invest in the asset class of prime commercial property, either because his funds were insufficient to acquire the asset, or, if sufficient, might expose him entirely to one property.

In **1990** in response to the unprecedented buying opportunities then available in the weakest property investment market of the Post-War period, Ratcliffes began to explore the possibilities of property investment purchase through tax-transparent syndication.

## **Research and Development**

With the advice and assistance of Druces & Attlee, the 200 year old City of London Solicitors, with whom we have worked closely for many years, an ownership structure was devised to provide protection for our Investors, flexibility in purchase negotiations for the Agents and Solicitors, and security for the Lender, where mortgage finance is arranged.

## Legal Structure

Properties acquired are held in newly established property nominee companies, formed for us by Druces & Attlee, who serve as Nominee Directors. These companies enter into a Deed of Trust to hold the property on trust for the syndicate of participating Investors, each of whom owns a defined share of the property. After the sale of the property the Companies are struck off to ensure that no residual liabilities arise thereafter.

## Financing

Where appropriate, to enhance the capital growth performance of the purchased property and increase the tax efficiency of the investment structure, a mortgage is arranged with one of the leading Lenders.

All mortgages entered into are on a **non-recourse** basis. The Lender is comfortable with this provided that the Tenant covenant is strong and the rental stream reliable. At the very worst the Investor's loss could be no greater than his initial investment and an entire loss is a remote possibility where the asset comprises a prime property let to a first class Tenant. A further safeguard for our Investors is usually built into the structure by the **fixing** of the mortgage interest rate for the envisaged period of ownership of the property – a two, three or five year term, dependent upon the strategy.

## Costs

Established at the outset in **1990** our costs remain unchanged.

The advising Professionals – the Surveyors, Solicitors and Accountants – charge **only** their normal professional fees. There are **no** extra fees charged for the establishment of the individual syndications or their administration, these costs being entirely absorbed within the standard fee structure. This provides excellent value for our Investors as there are **none** of the front end deductions, annual asset value fees, early exit penalties, or profit-sharing fees on disposal, charged by most of the more recently established syndicate managers.

Ratcliffes charge a **1.25%** fee upon the purchase price of the property, a **0.5%** fee upon the mortgage finance arranged, a **5%** management fee on the gross rents collected (within which loan administration and VAT returns are dealt with, if applicable), and a **1.5%** fee upon the sale price achieved.

Interim share valuations are provided when required at a fee of **£250** plus VAT per individual holding.

## Investment Criteria

The properties acquired must meet our strict criteria – prime location, well arranged flexible accommodation, strong Lease terms, and good Tenant covenant, whilst providing a high enough rental stream to fully service mortgage finance where introduced into the investment circa **75%** of cost/value. Furthermore, we rarely acquire ‘dry’ investments but seek investments with an additional performance factor, such as an early rent review, adjoining development proposals, or an ‘off-the-market’ purchase.

Typically we arrange syndicates on properties at a cost ranging between **£1million** and **£25 million**, with shares from **£50,000** to **£350,000**. Half shares are sometimes available.

Participating Investors can be **private individuals, companies, overseas investors, off-shore funds, charities or pension schemes.**

## Investment Strategy

Extraordinary annual compound returns, in excess of **92%**, were achieved in our early syndicated investments, where properties acquired in the early **1990’s**, when the property market cycle was at an historically low point, were sold out in the recovered market of Spring **1994**.

However, these exceptional returns were achieved against an economic background of high interest rates and higher levels of inflation. If the U.K.’s current benign economic circumstances continue for the foreseeable future, providing a stable period of low inflation and reasonable interest rates, the property investment selected will not need to perform to comparable levels to still comfortably out-perform most other **low** risk areas of investment.

With our current acquisitions we are taking a longer view, acquiring investment properties with the intention of a three to five year hold, rather than the two to three year view taken with our first purchases.

Although prime property can produce stunning returns, it is the most **illiquid** of the investment disciplines. Investors should ideally participate with monies which are unlikely to require being returned at short notice. The maximum gain will usually be achieved when the Syndicate, with the advice of the Managers, can choose the time for disposal without pressure as to whether it does or not.

## Income

Many of our syndicates are designed to achieve maximum capital gain by the leverage of the property within its assured income stream, but in response to the current low interest rate climate, we also increasingly acquire properties to provide income.

Cash syndicates are arranged without mortgage finance. Typically these are secured on good quality properties, yielding around **5%** or so from the rental income, which is distributed quarterly. These have proved very attractive to our Private Clients, particularly those who are retired and for whom income is important. Pension Fund Clients receive the rental income **free of tax**, unlike share dividend income, which is subject to a **20%** tax deduction. We look to select well in the hope of also achieving a reasonable capital gain upon ultimate disposal.

## **Taxation**

Pension Schemes receive both income and capital gains **tax free**. Generally we arrange mortgages to wash out income and maximise the capital gain. For private investors this also can be very effective; for example, a **£50,000** share taken jointly by a husband and wife in a syndicate that returned a **60%** profit would mean that if the Capital Gains Exemption Allowance (currently **£9,200**) was available to each of them, more than half the profit received would be **free of tax**. This allowance is also available to children, enabling a private investor to split a share further for greater tax efficiency. For overseas or off-shore investors the Capital Gain is also presently **free of tax**.

## **Financial Services and Markets Acts**

The nominee company is the legal owner of the property and holds it on trust for sale for the syndicate members as beneficial tenants in common. The syndicate members have day-to-day control over all the arrangements affecting a property – the professional advisers have no independent discretion. Therefore the syndication is neither an “investment” nor a “collective investment scheme” within the meaning of the Financial Services Acts. As such neither the Financial Services Compensation Scheme nor the Ombudsman Scheme created pursuant to that Act would be available to syndicate members in respect of any claims or otherwise in relation to these arrangements.

The Trust Deed, which regulates how each property is held, requires the nominee company to ensure that the Managing Agents obtain the consent or instruction of all the syndicate members before taking any action in relation to the property. Furthermore, the syndicate members can require the nominee company to transfer the property into the names of some or all of the syndicate members, the director and secretary of the nominee company taking no part in the day-to-day running of the property, or in the decisions that have to be made by the syndicate members.

These arrangements **must** take effect both in form and in substance and although decisions are not required with any great frequency, a syndicate member must be prepared to take part in them when necessary, in co-operation with other members.

If the syndicate members do not exercise day-to-day control, it is possible that the scheme as a whole could be taxed under the unauthorized unit trust regime, which might lead to a double taxation of capital gains. However, in the case of all completed syndications (100 plus) to date the Inland Revenue have not asked that the nominee company or the arrangements should be separately taxed. Accordingly, syndicate members have been taxed, where not otherwise exempt, only on their share of the net income and of the capital gain.

## Money Laundering Regulations

These regulations require us to confirm the identity of new Clients and satisfy ourselves as to their probity. Should you wish to participate in our property investment syndicates, when returning the Registration Form attached hereto, please enclose copies of your current Passport and a Utility Bill/Driving Licence showing proof of address, together with the name and address of a fiscal referee, such as your Accountant, Solicitor, or Pension Administrator. If you wish to co-invest with your spouse a copy of their Passport will also be required.

## Liquidity

Should an Investor wish to realise his investment prior to the maturity of the investment strategy for the property, Ratcliffes, as the Syndicate Managers, will offer the share at the required price to the other syndicate members in the first instance, and thereafter if necessary to investors outside that particular syndicate.

As our income syndications run for several years, from time to time investors do wish to sell and an active trading market has developed within these ventures. When shares become available they are invariably taken up rapidly, usually by existing investors within that syndicate, who welcome the opportunity to increase their holding in a syndication which is nearer to maturity and resale than at the time of their original investment. The transfer can usually be completed within **two weeks** – thus giving a liquidity which is comparable to the equity market and far greater than is normally possible in the direct property investment market.

## Syndicate Investment Returns

With its inherent low risk status prime commercial property investment returns should be between two and three times Money Market Rates, dependent upon whether interest rates are low or high in the cycle. With a current Base Rate at **5.25%**, Three Month LIBOR around **7%**, and Commercial Mortgage Rates circa **6.5%**, appropriate returns would presently be circa **12%** per annum compound, although Ratcliffes strive to do better than the industry average.

Since **1990** some **195** properties have been purchased within Ratcliffes' syndicated investment structures. Our audited returns over the sixteen year period from our first syndicate resale in **September 1991** to **December 2006**, confirm that **130** properties in **103** syndicates have been sold, with **all** Syndicates returning profits to date. Over an average ownership period of **3.59 years** our Investors have received an averaged return on their invested capital of almost **93%** and an averaged annual compound return in excess of **26.8%**.

**85** properties held in **63** syndicates were acquired in geared syndicates, where mortgage finance enhanced the performance. With an average ownership period of **3.75** years, returns averaged almost **106%** on capital employed, and an averaged annual compound return in excess of **31%**.

Many of our Investors prefer our cash syndications which, with no borrowings, have a lower risk profile and provide a reliable income stream. For Investors now in drawdown from their Pension Funds these syndicates provide an ideal structure. We have sold **45** such properties held in **40** syndicates after an average ownership period of **3.35 years**, achieving an average return on cash invested of **72.37%** and an averaged annual compound return of just over **20%**.

Our investment strategies are designed to minimise risk, with the purchase of prime and near prime properties, the consequence of which has been that, as yet, we have avoided a loss-making syndicate.

We currently manage some **63** syndicated investment properties in **50** syndicates with a total value in excess of **£140 million** on behalf of some **250** investors, some **40%** of whom invest through their Personal Pension Schemes.

Further suitable properties are actively being pursued to create additional investment opportunities. To receive particulars of our property investment syndications, please complete and return the attached Registration Form, providing a referee, together with copies of your Passport and a Utility Bill/Driving Licence, showing proof of address, in the enclosed reply-paid envelope.

Ratcliffes  
55 South Audley Street  
Grosvenor Square  
London W1K 2QH

Dear Sirs,

**Prime Commercial Property Investment Syndicates**

Thank you for the details of the commercial property investment syndications you arrange.

This is of interest and I would like to receive particulars of available investment opportunities. My preferred individual investment would be circa \***£50,000, £100,000 or £250,000 plus**, in \***geared/cash/both** syndications.

In compliance with current Money Laundering Regulation Requirements I enclose copies of my current Passport and a Utility Bill/Driving Licence showing proof of address. A fiscal reference can be obtained from my \***Solicitors, Accountants, or Pension Administrators**, whose contact details are as follows:-

Company .....	Contact .....
Address .....	Tel .....
.....	Fax .....
.....	E-mail .....

Please forward details of your syndication investment opportunities to:

Name (in full) .....	Tel (Home).....
Address .....	Tel (Business).....
.....	Fax .....
.....	E-mail .....

Preferred Correspondence Address (if not as above)

.....	Tel .....
.....	Fax .....
.....	E-mail .....

Yours faithfully,

..... (Signed)

\* delete where applicable