

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

RATCLIFFES
September 2018

Introduction

Established in **1970**, Ratcliffes is an independent partnership of Chartered 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 LLP, and our Accountants are Arram Berlyn Gardner – all of whom have acted for the Firm since its foundation over **48 years ago**.

History and Market Background

Smaller investors have traditionally found it difficult to directly invest in the asset class of prime commercial property, either because their funds were insufficient to acquire the asset, or, if sufficient, might expose them 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 LLP, our long established (1767) 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 security for the Lender, where mortgage finance is arranged.

Performance

Since **1990** some **255** properties have been purchased in Ratcliffes' syndicated investment structures to a total value circa one-third of a billion pounds. Our audited returns from our first syndicate resales from **March 1991** to **September 2018**, confirm that to date **194** properties in **163** syndicates have been sold, **91%** of which returned profits to that date. With an average ownership period of **4.36 years**, our Investors have received an averaged return on their invested capital of **66.77%**, with an averaged annual compound return circa **20.24%**, over the **27 year period**, significantly out-performing the commercial property index, Investment Property Databank (IPD), and the FTSE All Share Index, which respectively report averaged annual returns for that time span of **8.32%** and **9.65%**.

112 properties held in **85** syndicates were acquired in geared syndicates, where mortgage finance enhanced the performance. Over an averaged ownership period of **4.92 years**, returns averaged **77.67%** on capital employed, with an averaged annual compound return of **22.65%**.

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 are an attractive structure. We have resold **82** such properties held in **78** syndicates, after an average ownership period of **3.75 years**, achieving an averaged return on cash invested of **54.89%**, and an averaged annual compound return of **17.62%**.

Legal Structure

Properties acquired are held in newly established property nominee companies, formed for us by Druces. 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 rare occurrence 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.

However, commercial mortgage facilities are presently difficult to secure on sensible terms and within the required timescale to match a property purchase. Therefore, all the syndicated investment properties acquired since our return to the market in **2012** have been bought for cash.

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.

However, the burdensome Anti-Money Laundering Regulations Directive of June 2017 and the General Data Protection Regulations Act of May 2018, have significantly increased our reporting liabilities to HMRC, our Solicitors and our Bankers, on all transactions. As a consequence, we are no longer able to absorb these costs within our long established lean fee structure, and therefore now charge a fee at **£250** plus VAT for each share or part share taken within our syndicate ventures to cover these additional costs.

Investment Criteria

The properties acquired must meet our strict criteria – prime location, well arranged and 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. Furthermore, we rarely acquire 'dry' investments, but seek properties with an additional performance factor, such as an early rent review, adjoining development proposals, an 'off-the-market' purchase, or with development potential.

Typically we arrange syndicates on properties at a cost ranging between **£500,000** and **£10 million**, with shares from **£50,000** to **£250,000**. 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, of over **92%**, were achieved in our early syndicated investments, on properties acquired in the early **1990's**, when the property market cycle was at an historically low point, and sold in the recovered investment market of Spring **1994**.

However, these exceptional returns were achieved against an economic background of high interest rates and higher levels of inflation. The U.K.'s subsequent benign economic circumstances until **mid-2007** provided a stable period of low inflation and reasonable interest rates, allowing well selected property investments to comfortably out-perform most other **low** risk areas of investment.

In the current challenging market conditions 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 many of our earlier 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

Some 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, and the lack of commercial mortgage monies on reasonable terms, we increasingly acquire properties to provide income as cash purchases.

Cash syndicates are arranged without mortgage finance. Typically these are secured on good quality properties, presently yielding around **6%** 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 can be very effective; for

example, a **£50,000** share taken jointly by a husband and wife in a syndicate that returned a **40%** profit would mean that if the Capital Gains Exemption Allowance (currently **£11,700**) was available to each of them, the profit received would be **free of tax**. This allowance is also available to children, enabling a private investor to hold a “family” share for even greater tax efficiency. For overseas or off-shore investors a 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 Syndicate Managers 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, and with unanimity of purpose. Therefore, all Investors must unite in agreement for a recommended course of action to be implemented by the Syndicate Managers.

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, circa **160** 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 **certified** 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 **certified** copy of their current 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 can 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 in the income syndicates 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. In normal market conditions, the transfer can usually be completed within **two weeks** – thus giving liquidity which is far greater than in the direct property market.

Syndicate Investment Returns

With its inherent low risk status, we believe that 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 of **0.5%** and three month LIBOR around **1%**, Commercial Mortgage Rates circa **3.5%** and minimal inflation, appropriate returns would presently be circa **5/6%** per annum compound, although Ratcliffes strive to do better than the industry average.

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Our investment strategies are designed to minimise risk, with the purchase of prime and near prime properties. Further suitable properties are actively being pursued to create additional investment opportunities.

We currently manage some **75** syndicated investment properties held in **66** syndicates, with a total rent roll circa **£5 million** and a total value circa **£85 million**, on behalf of some **250** registered investors, around **40%** of whom invest through their pension schemes.

To receive particulars of our property investment syndications, please [Click here](#) to complete and return our registration form, providing a fiscal referee, together with copies of your Passport and a Utility Bill/Driving Licence, showing proof of address. Should you wish to co-invest with your spouse or partner please include a copy of their passport.

Should you have any queries with regard to the information provided here on our website, please contact either [Anthony Ratcliffe](#) or [Malcolm Brown](#), on 020 7629 4036.

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Important Notices

The value of these investments can fall as well as rise and some or all of an investor's money may be lost. Potential Investors should consult with their own independent financial advisor to assess whether this type of investment is suitable for them and must be aware that they may have no right to seek compensation from the Financial Services Compensation Scheme.

General Data Protection Regulation

In accordance with the provisions of this legislation, we confirm that the personal data you provide to us will be retained for compliance with the Anti-Money Laundering Regulations and will be shared with no other parties, without your consent. Should you request that we erase your personal data, please be aware that this would breach the AMLR Directive, and we would be unable to therefore offer you further syndicate investment opportunities.

We confirm your personal data will be processed lawfully, fairly and in a transparent manner; has been collected for the specific and legitimate purpose of commercial property investment; is adequate, relevant and limited to what is necessary in accordance with AMLR requirements; is to the best of our knowledge accurate; and where required will be updated and retained for only as long as is necessary. Finally it will be processed in an appropriate manner to provide security and accountability.

