Property Purchase through SIPP

Property values
Property yields and capital growth are not guaranteed and the value of property could fall as well as rise so that you might not get back the amount originally invested. Past property market values are not a guide to future property value trends.

Interest Rates
If borrowing applies to the property investment higher interest rates can reduce returns. Fixed or capped rates on the associated borrowing can mitigate this risk.

Vacancy risk
If vacant the owner may be required to pay the business rates on a property. Additionally if the tenant fails or the lease expires (or a break option exercised) the mortgage will have to be maintained whilst the property is vacant.

Locality
A locations general economic profile may change if, for instance, an out-of-town development draws businesses away; rental increases would become harder to apply which would affect income growth. Conversely, a nearby new major development makes an area more attractive opening the potential for rental income increases.

Purchase falling through
Similar to buying a house, the purchase could fall through; any pre-contract costs would have to be met proportionately by partners.

Drawing benefits
On drawing benefits, for example taking the Pension Commencement Lump Sum, from a SIPP linked to property, in some circumstances the property may need to be revalued and a charge for this will be met proportionately by partners.

Whilst the risk of property investment is perceived to be lower than investment in stocks and shares it must be remembered that it is a single illiquid holding and it may take time to convert your investment to available funds should you require too draw on the property itself. Your ability to draw on your share of the property is entirely dependent upon finding a purchaser for your share of a partnership, if applicable, or upon the sale of the property.