

Leveraged property investment through super

INVESTMENTS THROUGH SELF MANAGED SUPERANNUATION FUNDS ARE OFTEN IN SMALL TO MEDIUM-SIZED COMMERCIAL PROPERTIES.



BY BELINDA SMITH

REAL ESTATE PROFESSIONALS COULD BENEFIT FROM A GREATER UNDERSTANDING OF HOW TO INVEST IN PROPERTY THROUGH A SELF MANAGED SUPER FUND.

With the recent falls in the share market, people are becoming more anxious about their superannuation and are seeking alternatives to investing in stocks and managed funds. People who establish Self Managed Superannuation Funds (SMSFs) are eager to be in charge of their own financial destiny. Many of these people are 'pro property' and have traditionally been frustrated that direct property investment through superannuation was limited to fully funded acquisitions that did not allow any leverage.

An SMSF loan is a viable option for funding a property purchase. As there can be up to four members contributing to one SMSF, the collective borrowing power of the members increases, so their investment purchases may not be restricted to lower priced properties. As a result, many smaller investors are now actively pursuing small and medium commercial property acquisitions.

Downstream compliance and taxation challenges are extremely likely if the loan or trust structures are incorrectly established, so it is imperative that a suitable structure be set in place before the property is purchased.

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Case study

Steven and Jane are in their mid 30's and have always had a desire to provide for their future income streams through property investment. They have already acquired four geared properties but are keen to keep investing in one per year until they reach their goals. Unfortunately they have just been hit with the double whammy of stagnant property prices, which has affected available equity, and lenders declining their loan applications based on servicing because of their existing negatively geared portfolio.

They are now faced with the prospect of two or more years without any acquisitions, which not only puts them behind on their goals, but they feel they are out of the market at a time when there are some 'great buys' to be had. Their adviser suggests that they look at their next acquisition through super. Steven and Jane

don't really understand how this can help as they are PAYG income earners and do not yet have an SMSF. In any event they have heard that gearing through super is quite low at around 70% and they normally like to be highly geared at 95% to 100%.

They are amazed to learn that, by rolling their existing super into an SMSF and utilising Superannuation Guarantee payments, rental income and concessional tax voluntary contributions, they can continue to build a property portfolio inside their SMSF. Over following years they acquire several more properties – inside and outside super – establishing both medium and long term income streams.

While an SMSF loan for property may be a great option for some investors, individual cases vary and professional independent advice should be sought before making any decision.

SMSF Loans Pty Ltd specialises in working with accountants, financial planners, property groups and real estate professionals to ensure that the needs of mutual clients are met in a compliant and professional manner. ♦

Disclaimer

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