

1300 485 243

Web: www.smsfloan.com.au

Email: info@smsfloan.com.au

Australian Credit Licence Number 389884



House & Land Packages via SMSF

Undoubtedly one of the most frustrating areas of leveraging into property via a SMSF has been in the area of House & Land 'packages'. While many Trustees and their Advisers may consider a new house the ideal investment for the SMSF, it is the land which is technically the 'asset'. The SIS Act (s67A) prohibits improvement of the asset. Therefore, the conventional approach of settling on the land and entering into a separate building contract is non-compliant. That is, the house and land must be sold as one 'package' and settled on as a 'single acquirable asset'.

The Dilemma

Most investors have become accustomed to new house and land packages being comprised of a land contract and a separate building contract. The reason for this is the economic reality that this approach has been used to deliver a less expensive 'package'.

Where a builder or developer is required to acquire the land and then absorb the cost of the building until after completion it increases their costs via stamp duty on land plus interest on the money used to purchase the land and undertake the construction and throughout the sales period (generally called "hold costs"). These costs, of course, are passed on in the price of the new dwelling.

To further complicate matters, most Lenders have absolutely no sympathy for this reality and will instruct their valuers to assess the property against the cost of a two part contract without 'hold costs' which leads to valuations coming in short and Lenders reducing loan amounts or declining the loan.

The Solution

SMSF Loans has been liaising with numerous house and land developers and builders, as well as Lenders, to arrive at a Win-Win outcome where the SMSF investor can 'assist' the developer to defray holding costs and thus purchase a House & Land package under a single contract without paying an increased purchase price.

Note: We are not Real Estate Agents nor are we involved in the promotion of any House & Land packages. We may receive a fee for service from developers for facilitating this specialised lending transaction.

Beware Pre-Approvals

There are many technical and compliance issues we have needed to address over the past couple of years while working on this solution. Not the least of them is ensuring that you will have a **full finance approval** before committing to the house and land contract.

Failure to do this could leave you in a very difficult financial and/or legal position if the Lender 'changes their mind' part way through or at settlement.

We are extremely concerned by the number of Lenders and Mortgage Brokers who use the term Pre-Approval when dealing with SMSF's. It is a misleading term at the best of times. If your Lender cannot guarantee that your loan will be honoured **unconditionally** for the **full duration** of the build time (usually around 26 weeks) you are taking a significant financial risk.

Note: Almost all Pre-Approvals have 'conditions'. None last 26 weeks.

General Advice Warning

We provide **General Advice** about SMSF lending products. We do not take into account your personal or financial circumstances, needs and objectives and will not provide a specific recommendation. You should seek independent advice from your accountant and/or financial planner in considering whether borrowing via your SMSF is appropriate to your circumstances, needs and objectives. You must undertake your own enquiries in determining if the structures involved in borrowing through a SMSF meet your requirements with regard to your legal position, investment strategies and taxation.