

# Buying property using a SMSF

We ask the experts if they'd buy an investment property using a self-managed super fund (SMSF).



**CATE BAKOS**  
CATE BAKOS PROPERTY

Of course I would! I have three in my SMSF. It's more a case of what properties I wouldn't buy using an SMSF. SMSF is a great vehicle and sometimes a great opportunity for investors to get into the property market, however there are some tough restrictions on SMSF property purchases, which can quash many an exciting investor plan.

Firstly, the use of any residential property must be 'arm's length'. This means that the investor, or their friends and family, can't live in the property while it's within the SMSF. Secondly, the property can't be improved with SMSF dollars. So for those savvy investors who like to value-add to boost their equity or renovate and flip, the SMSF property isn't the one to set their sights on. And finally, the set-up costs associated with this method are hefty, and considerably more than a standard personal entity purchase. A flip strategy would be costly and would most likely result in financial losses associated with the sales, stamp duty and marketing costs, let alone the SMSF administrative costs.



**OWEN DAVIS**  
DFG PROPERTY

Personally, yes I would. However I always advise people to consider what's right for their financial circumstances and investment goals. What works well for me might not work best for you, your neighbour or the next person. You should get some impartial advice from someone who can look at your situation and weigh up the various options, and give you some good, unbiased advice.

For me, the tax benefits of buying property through my SMSF are what appeals. I can achieve a much lower tax rate on income and growth earnings from the property while I'm working, and when I retire, that tax rate should drop even further. So while I'll say a cautious 'yes', not knowing your situation, I would confidently say that investing in property with your super is an option you should consider in your investment strategy. Have a good chat to your financial adviser.

“Investing in property with your super is an option you should consider in your investment strategy.”



**SIMON PRESSLEY**  
PROPERTYOLOGY

I would buy property in SMSF. I have done so, and I'm about to buy my fourth via SMSF. Like most Australians, I used to be apathetic towards superannuation. With super funds now being able to borrow money it's fantastic to see more people taking an active interest in superannuation.

“I have done so, and I'm about to buy my fourth via SMSF.”

My wife and I are building a property portfolio within our SMSF as well as outside of the superannuation environment. My core business is to study property markets and to help people, including trustees of SMSFs, to invest in locations all over Australia. I practice what I preach. The locations for our four SMSF properties are diversified across three states and each have different economic drivers. Our latest purchase is for \$320,000 – 80 per cent is bank finance, so our SMSF only needs \$80,000 for the deposit and acquisition costs, which has come from accumulated superannuation contributions.



**DR ASTI MARDIASMO**  
PRDNATIONWIDE

Personally, investment is all about balancing benefits and risks, hence purchasing property through SMSFs wouldn't be my first choice. It can be tax-effective, as concessional tax on rental income is available. As you can pool resources with up to four other members, your purchasing power also increases. With SMSF you increase real property risks, valuation risk, occupancy risk and diversification risks. There are severe penalties if you fail to comply with tight legal restrictions and equity in one property is trapped until that property is sold. Furthermore the property can't be lived in or rented by yourself, family or friends, and can't be renovated while it still has a loan. The ins and outs of using SMSF to purchase properties is very complex, therefore, one would need to invest substantial time and acquire in-depth knowledge of investments, finances, and market activities to successfully manage a SMSF property investment.

“Purchasing property through SMSFs wouldn't be my first choice.”



**ERIK TYLER**  
RED BRICK ROAD

As part of my strategy I'll be adding investment properties to my SMSF at a later stage. At the moment I need liquidity in my portfolio. The tax benefits over the long-term, as part of a strategy centred around retirement, are way too appealing to not take advantage of.

Self-managed super and investing in property is all the rage. The government relaxed the super borrowing rules in 2007 to allow this kind of investment so you can now, relatively easily, use property in the tax effective super system to help fund your retirement goals. If you're happy with investment property as your major asset class, then this could be a great strategy for you to get long-term growth, rental income, and use super contributions to pay off the debt. Any borrowing should really be approached with caution and you must understand the maths if you're using borrowed funds, no different to doing it in your own name. The super fund needs to be able to support the debt by itself, through rent and your employer/salary sacrifice/personal contributions. The interest on the loan is tax deductible to the fund, but since the fund only pays tax at 15 per cent or less, this isn't a huge consideration.