



RICHARDS FINANCIAL

PROPERTY AND MY SMSF

Directly held property makes up approximately 19% of all SMSF assets, indicating that many SMSF trustees consider it's an important and significant part of a diversified portfolio. There are numerous strategies and ways for property to form part of an SMSF's investments and each must be carefully considered.

Investment strategy first!

Before any investment decision, it is imperative and a legal requirement that you as an SMSF trustee must consider your investment strategy. Your strategy should detail such things as how much exposure you would like to the property market, the form of exposure and how appropriate it is for your current circumstances. A well-diversified portfolio is essential to provide income for retirement and spread investment risk so that any single asset class, such as property, does not dominate your SMSF risk and returns.

Direct investment

A common form of property exposure is direct investment into a property. This can be in the form of either a residential property or commercial property. When purchasing a property with an SMSF's cash there are some important considerations that must be worked through including:

- Your asset allocation and diversification.
- Potential rental income and property expenses.
- How close you are to retirement and the need for liquid assets to pay pensions.

- Unless the property is a business real property (BRP) you or your related parties cannot use the property:

- If the property is BRP you may be able to work from the premises which is owned by your SMSF.
- You may also be able to utilise the small business CGT concessions and contribution limits.

Limited Recourse Borrowing Arrangements (LRBA)

SMSFs may also invest in property through an LRBA. These are complex borrowing structures which allows SMSF trustees to take out a loan from a third party lender. The SMSF trustee then uses these funds to purchase a property to be held on trust. The lender only has recourse to the property held in the trust –this is why the loan is “limited recourse”.

An LRBA should only be utilised when it is the right structure for your SMSF on the basis of SMSF Specialist advice. Some very important considerations in addition to the ones above include:

- Can your SMSF maintain the loan repayments over a long period of time considering asset returns, interest rates, liquidity, and contributions caps?
- Evaluating set-up costs and structures.
- Is your property valuation accurate?
- You cannot use borrowed money to improve the asset or change the nature of the property at any time.
- Do you meet the strict bank lending requirements?

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General Advice Warning: This communication has been prepared on a general advice basis only. The information has not been prepared to take into account your specific objectives, needs and financial situation. The information may not be appropriate to your individual needs and you should seek advice from your financial adviser before making any investment decisions.

- Typically, lenders require the SMSF to have a minimum of net assets of \$200,000 or more and for the loan to have a loan to value ratio below 70%.

Indirect investment

Another way to gain exposure to property for SMSFs is through indirect investment. This can include listed investment vehicles such as, listed investment companies and exchange traded. Managed investment trusts are also a common investment for SMSFs to gain exposure to property. Investing indirectly may suit your SMSF needs more than a purchase of a property because it is relatively simple and most likely will not require a large amount of capital. It also allows your SMSFs to get exposure to large value properties such as office blocks, shopping centres and industrial properties that would otherwise be out of reach. Investing in these products should be accompanied by SMSF Specialist advice.

How can we help?

SMSF Specialist advisors can help you understand how the different forms of property investment may or may not be relevant for your SMSF portfolio and the impacts it may have on you and your fund. Please feel free to give me a call to arrange a time to meet so that we can discuss your particular requirements, especially in regards to what property investment would be most appropriate for your SMSF.

For further information, visit the SMSF Association's Trustee Knowledge Centre (<http://trustees.smsfassociation.com/>) to keep up to date with different asset classes you can invest in within your SMSF, including property, and reach your financial goals.