Directing self-managed super funds to property becoming more common, experts say

For many people, superannuation is simply something that happens. We know we have to pay our 9 per cent contributions – and we know why – and most of us do so with little fanfare, via our employers.

But considering the superannuation industry in Australia holds $2 trillion on behalf of its members, it's surprising how little consideration is given to where our money is actually going.

According to chartered accountant Brett Hetherington, more than half of that $2 trillion is held in industry and retail-based superannuation funds, and invested into bonds, cash, shares or commercial property.

Experts say property can be a lucrative direction for an SMSF to take. Photo: Peter Riches

The remainder sits in self-managed super funds, where funds can be held in cash, term deposits, shares, and – more increasingly – residential property.

"The benefit of a self-managed superannuation fund (SMSF) is that it can invest in direct property," says Mr Hetherington.

"Better news is that several years ago the government allowed SMSFs to be able to borrow money allowing more people to access the ability to buy direct property in their superannuation."

Putting money into your super scheme will tie it up for years to come, but the long-term benefits are worth it. Photo: Michel O'Sullivan

Mr Hetherington says investing in property is becoming a more common choice for the sophisticated investor.

"They desire to satisfy the 'kick' test where they can view their superannuation asset, rather than receive quarterly reports from a superannuation fund of which they have no idea where money is invested or the ability to control."

Accountancy Online director Kane Munro agrees that investing in property via SMSFs has increased in popularity over the past decade.

A sound investment earlier in life can leave you sitting pretty when it's time to rely on super.

"The main reason for this was the change of rules in 2007 to allow for borrowing inside of superannuation as this has put property within reach of most SMSFs," says Mr Munro.

"Property seems to be a very comfortable asset type for most Australians, so it is an easy investment for most superannuation fund members to understand."

While that may be ordinarily true, taking the plunge via SMSFs is unknown territory for most.

Those who invest in property via an SMSF need to ensure they are clear on what they're doing, experts say. Photo: Rob Homer

But, according to Mr Hetherington, it's not as out of reach as it may seem. Banks, in most cases, lend up to 70 per cent of the value of a property.

"You should have enough funds to comfortably cover the costs of setting up a SMSF and the bare trust, a 30 per cent-plus deposit, legal fees and stamp duty and then have some cash left over.

"Continued contributions from your employer or business should provide future growth and cash flow to pay loan repayments, property expenses, life insurance and ongoing costs to administer your SMSF."

As well as the ability to control your investments, investing in property via SMSFs also allows you to move from the non-retirement phase (accumulation) to the retirement phase (pension) without triggering capital gains tax or stamp duty.

"Under current legislation, in the pension phase a SMSF will not pay tax on earnings or capital gains," says Mr Hetherington.

"A SMSF can also assist in estate planning issues, to a business the fund might invest in commercial property from which the business pays rent to, and it is an effective tool in providing the best form of asset protection including claims from a liquidator."

There are potential pitfalls though and the trustee – you – needs to be aware of their responsibilities.

“Superannuation and property is a tricky area if you don’t know what you are doing, with some pretty heavy penalties if you get it wrong, so make sure you find a good accountant or professional adviser who knows what they are doing,” says Mr Munro.

“You can’t take the self out of self-managed superannuation fund, ultimately the choices you make will impact on you, so make sure you do your own research before jumping in.”