Investment property in SMSF

A quick guide on the differences between **SMSF property investment** and regular property investment.

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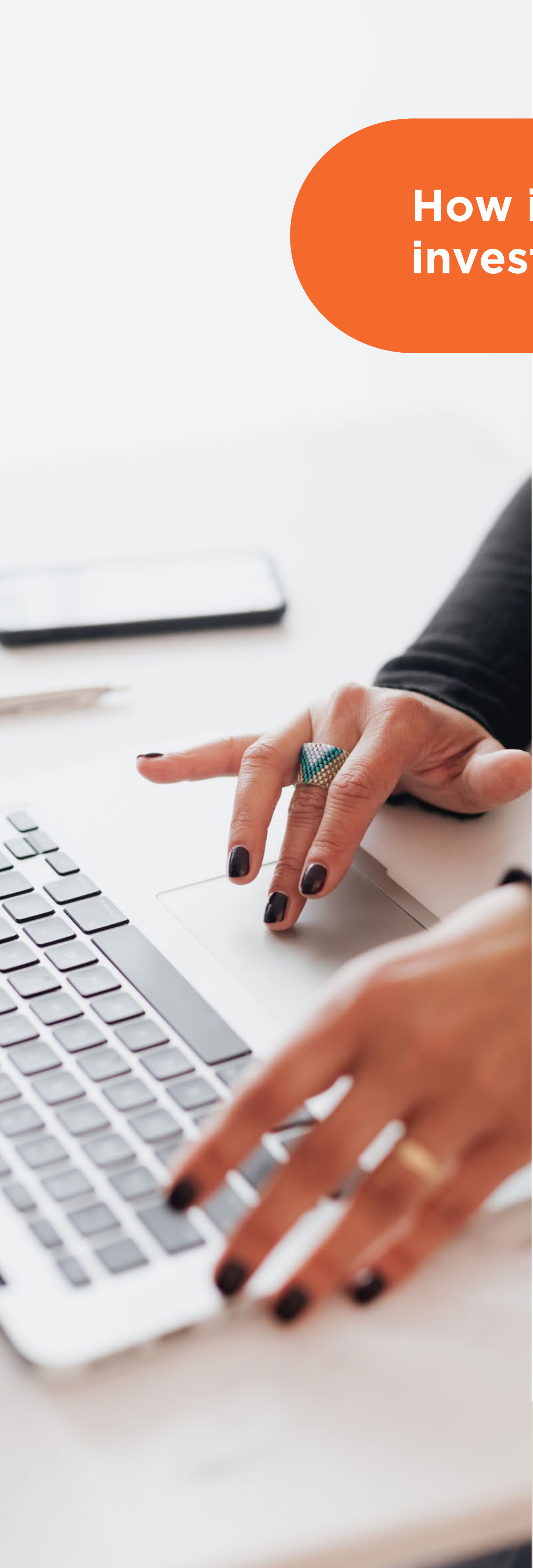


How is SMSF property investment different?

A lot of Australians buy investment properties outside their superannuation, so it's only logical why you might be tempted to do the same thing through an SMSF.

SMSF property investment is not something to be entered into lightly, because there are risks involved, and it might impact your fund's liquidity and diversification.

Also, even if you're an experienced property investor, you might not realise that SMSF property investment has three big differences from the regular kind, which are outlined in this guide.

01.

Securing finance is trickier

There are many, many lenders that offer regular home loans, but only a small number that offer SMSF loans.

Those that do tend limit borrowers to lower loan-to-value ratios (you'll generally need a deposit of at least 20%) and charge higher interest rates.

Also, lenders generally won't establish a loan until you've found the property. So, to protect yourself, you might want to negotiate a longer finance approval period (at least 21 days) with the vendor.

Borrowing takes place under a different structure

Regular home loans are ‘full recourse’ – so if you default on the mortgage, and the lender can’t recoup its money by seizing and selling your property, the lender can go after any other assets you might own.

SMSF loans, however, are ‘limited recourse’ – so if you default, the lender can target only the property secured against the mortgage; it can’t go after any other assets you own in your SMSF or outside superannuation.

03.

Ownership occurs under a different structure

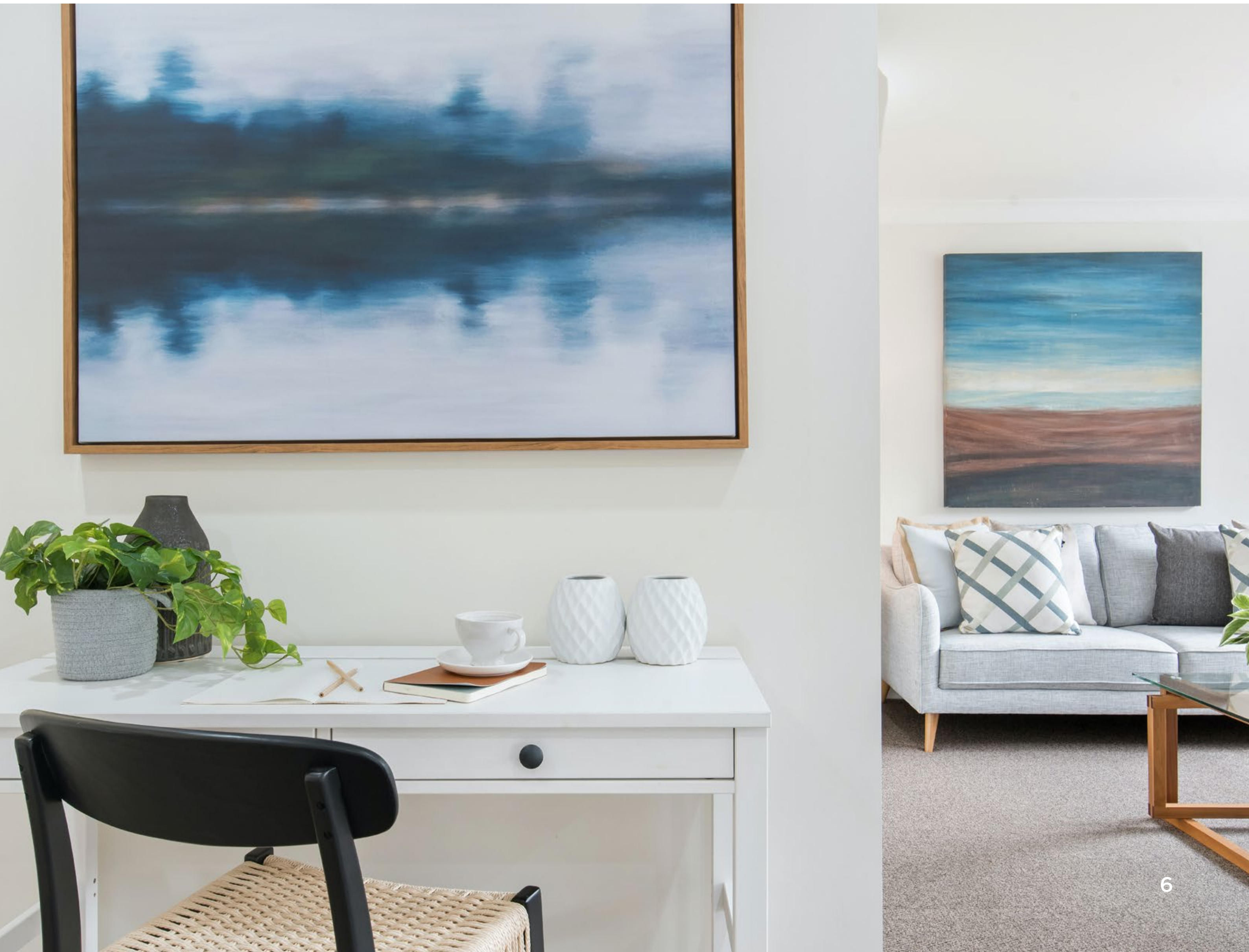
When you buy a property through an SMSF, it's technically not owned by your SMSF – it's owned by a bare trust.

This bare trust is allowed to have only one asset – the property. That's why, if you default on the mortgage, the lender can't go after any other assets – because the bare trust is the owner of the property (not you or your SMSF), and the bare trust's only asset is the property.

Proceed with caution

SMSF property investment can be risky and complicated, and you might expose yourself to financial penalties if you proceed incorrectly.

So it's generally a good idea to get advice from an SMSF professional and finance broker before buying a property through an SMSF.



Speak to an expert

Want to buy an SMSF investment property? Mortgage Advice Bureau can help.

To discuss your options, call us or leave your details and we'll be in touch.

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