Bricks and Mortar in your superfund

Rents to rise by 21.3% over next 3 years [BIS Shrapnel]
One in three Australians to acquire property over next 2 years [Mortgage Choice survey]

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Borrowing in Super

The Government now allows self managed superfunds to borrow to invest in residential, commercial or industrial property. This is a major breakthrough for investors as it gives them the chance to leverage into property and apply the rents and their contributions to paying off the loan.

Who can do this?

The rules apply to anyone with a self managed superfund that has enough assets to fund a deposit on a property.

Who can have a self managed superfund?

Any person either alone or with their spouse can establish a self managed superfund. A self managed superfund can even be established with friends and family provided there is less than 5 members.

Who controls the superfund and property?

You. Unlike the majority of ways your superannuation is currently invested you control and select your investments.

Is property better than shares?

Historically property has been a more stable investment than shares. Property doesn't suffer the volatility that shares suffer. Many people who borrowed to invest in shares lost all their wealth in the recent stockmarket crash. The same can't be said about property.

Why through super?

Superannuation receives favourable tax incentives. Whilst in accumulation phase income is taxed at 15% and capital gains at 10%. If the fund is in pension phase then no tax is payable.

Can I use the property?

If it is a residential property then it has to be let to an arm's length third party whilst it is owned by the superfund.

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Compare the Pair

	Bob (aged 40)	Sue (aged 40)
Salary	$80,000 (indexed until retirement)	$80,000 (indexed until retirement)
Super contribution	9% to employer default fund	9% to a self managed superannuation fund
Amount of contribution	$7,200 pa indexed	$7,200 pa indexed
Investment choice	Balanced Managed Funds as per the employers default fund. This represents over 80% of Australians in the workforce.	Gearing into residential real estate through her self managed superannuation fund.
Superannuation fund balance at 40 years of age	$150,000	$150,000
Value of fund at 60 years of age	**$885,188*** * Figure doesn't include Global Financial Crisis	**$2,070,722**
Value of fund at 65 years of age	**$1,277,520*** * Figure doesn't include Global Financial Crisis	**$3,300,059**
Lifestyle at 60 years of age	Approx $1,460 per week.	Approx $3,425 per week.
Lifestyle at 65 years of age	Approx $2,110 per week.	Approx $5,458 per week.

Assumptions & Predictions

Managed Funds

1. Balanced Managed Funds returns based on the Russell ASX Investment Performance Report annual return for Balanced Managed Funds 10 Years to 31 December 2007. Annualised return calculated before the Global Financial Crisis.
2. Fees and charges associated with an Industry Fund assumed to be 1.0%.
3. Income tax and contributions tax of 15%.
4. Inflation rate of 2.9% pa.

Residential Property

1. Residential Real Estate growth based on Sydney top 500 suburbs average annual change in median price by RP Data Limited.
2. Rental returns of 4.5% of property value. (Note: Average rental of Sydney top 500 suburbs was 5% based on RP Data Limited).
3. Cost of purchasing property (i.e. stamp duty, legal fees, etc) assumed to be 5% of purchase price.
4. Cost of holding property (i.e. rates, land tax, repairs) assumed to be 1.0% of value of property.
5. Cost of running self managed superannuation fund assumed to be 1.0% of value of property.
6. Sue acquires a property for $350,000 with a loan of $250,000 (i.e. 71% Loan to Value Ratio (LVR)).
7. Interest assumed to be 8% throughout period.
8. Income tax and contributions tax of 15%.
9. Inflation rate of 2.9% pa.

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