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Investor interest in bricks and mortar is building

Real estate agents have a strong market in DIY super funds, writes **Mark Lawson.**

Now that the lending rules for property investment by self-managed superannuation funds have been cleared up, investors burnt by the crash are looking at real estate.

But it depends on the sector: some properties are very attractive to SMSFs, while others receive very few inquiries.

Matthew Meynell, Colliers International director of investment services, says close to half of all inquiries for properties in Sydney's fringe metropolitan markets such as Surry Hills, Drummoyne and Gladesville are from investors.

He says properties worth between $1 million and $5 million with several tenants seem to be of special interest to such funds. This may be a property with one or two retail outlets on the ground level and one or two flats on the top, preferably with different lease periods. That way the SMSF and its principals are not left without an income stream if one of the tenants stops paying rent.

In contrast, otherwise good investments such as a child-care centre in Five Dock in Sydney, with a tenant on a nine-year lease with an option for a further five, will not attract any interest from the DIY superannuation market.

He says that any property with a single tenant who leaves will usually require some work, perhaps a complete fit out, before another tenant moves in.

"We feel that fundamentals such as strong demand for leasing in suburban neighbourhood shopping strips like Oxford Street in Paddington, and freehold buildings in locations such as Bondi Junction and Pyrmont where potential purchases have the security of capital growth, will only continue to fuel this sector of the market," Meynell says.

SMSFs usually do not look beyond $5 million but it is possible for several funds to syndicate for properties of $6 million and more.

But whatever investment strategies they use, more SMSFs are looking for the safety of bricks and mortar after being burnt in the market, he says.

As reported in the *AFR*, real estate agents in some markets are saying that almost half their inquiries are from DIY super investors, and those funds account for one sale in 10.

This activity, in turn, is the result of legislative changes earlier this year which removed grey areas from laws enacted in 2007 that permitted super funds to borrow against property, provided the loans were non-recourse. If a non-recourse loan was in default, the lender could only take action against the property and not the fund itself.

Holding a property in a DIY fund has considerable tax advantages, as the fund pays just 15 per cent tax on net rental income and there is no capital gains tax when the property is sold.

One Brisbane agent who has yet to see the DIY buying surge, but fully expects it to occur, is Adam Gray, director of PRD Nationwide in Newfarm in Brisbane.

Gray says there is still some confusion about the rules as, for example, advisers may tell you that DIY funds can buy properties off the plan, but then a lender will say that it will only lend to funds for properties which have been built.

Lenders say they will advance 72 per cent of a property's value if the buyer is a DIY fund, so with a fund putting up perhaps $200,000 the price could be $300,000 to $600,000, which buys a Brisbane inner-city town house.

Although DIY funds do not yet represent a large part of his market, Gray expects them to become increasingly important.

Whatever the sector, SMSFs are investing in property more often, and a newsletter from the Super-Guardian group says trustees must take more care with valuations.

"With property being such a popular investment and quite often a large proportion of the total investments of an SMSF, it follows that there are extra responsibilities for SMSF trustees who chose to hold either residential or commercial property in their fund," it says.

An independent property valuation is the most accurate method, although it can be costly.