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SMART MONEY

# Value your properties

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DIY SUPER

The most talked about investment class at the moment for do-it-yourself superannuation is property – a survey of DIY funds by advisers Partners Group suggests it accounts for 20 per cent of an average fund's assets, compared to 13 per cent in 2008.

The annual audit and annual return period for DIY funds is coming up so property owners need to pay attention to how their investments are valued.

Because property investing often represents quite a large proportion of the total investments of a fund, DIY trustees who choose to hold either residential or commercial property have extra responsibilities, Olivia Long, of DIY super administrator SuperGuardian, says.

One of these responsibilities is the need for the property to be recorded at an appropriate value in the year-end financial accounts. Long says the appropriate value of a property is its market value.

While it is easy with investments like shares that are listed on the stockmarket to come up with a value at any time, until a property is sold the value must be an estimate. Specialist DIY super auditor Belinda Aisbett of Super Sphere says there are various ways to value a property.

The Australian Taxation Office offers guidelines on valuation that suggest that while it prefers funds to put a market value on all their investments each year, with assets like property it will accept an estimate by fund trustees so long as it is reasonable and objective.

Aisbett says when a trustee offers her an estimate she wants to know its basis. Usually it is a written appraisal by a real estate agent. A more serious valuation is an independent assessment by a qualified property valuer.

Long says an independent property valuation is the most accurate, followed by a valuation from a real estate agent.

Other sources include the capital-improved valuation based on council rates. While council rates can provide a foundation for a valuation, Long says this can vary significantly by tens of thousands of dollars from what is actually received in a property sale. If council rates are to be used to determine a value, a suitable method is to compare the rates at the time of purchase against what was actually paid for the property and extrapolate it out using the current council rate value.

Aisbett says she is not a big fan of this method because it depends on the valuation policy of the council as to whether that is reasonable or not. It also depends on when the council last valued the property.

Some trustees put the property into the financial accounts at cost, Aisbett says, and this is possible because revaluing investments is actually not a legislated requirement unless fund members start a pension or a member is leaving the fund. For a fund in the accumulation phase, she says, you can leave an asset like property at cost, although before you do so you need to check that the fund rules don't state that you have to come up with an annual valuation, which they can do.

Olivia Long of Super Guardian says trustees with property in their DIY fund have extra responsibilities.
Photo David Mariuz

As a fund auditor, Aisbett says her first move on valuation is to check the trust rules. If they are silent on valuation requirements or they state that it is up to the trustee's discretion and they are in accumulation phase and have put the property in the accounts at cost price, this is no problem from an audit perspective as far as she is concerned.

Long says, however, that there are auditors who will insist on regular revaluations during the accumulation phase even to the point of an independent assessment by a qualified valuer every three years. Where a valuation is not recent some will check a property before they are satisfied the value is fair and reasonable.

**Revaluing is not a legislative requirement unless members start a pension or leave the fund.**

It is not uncommon, Long says, for an auditor to ask for evidence of a more recent valuation if they believe the current value is too high or too low, or even unsubstantiated.

Aisbett says it is essential that when a fund starts a pension the investments must appear at market value because the minimum pension requirement is based on the annual value of the fund. A valuation should take place at the end of the year. She says that a real estate agent's appraisal is often quite satisfactory to support an annual valuation estimate by a trustee, although she accepts that not every auditor agrees with this. Formal annual independent valuations can be quite expensive for accounting purposes.

When she does ask for such valuations, however, is if a trustee wants to transfer a commercial property into a fund or when a member leaves a fund or dies.

When a member takes their entire benefit from a fund, she says, all the investments need to be appraised at market value. She insists the market value be net of investment disposal costs – otherwise the value of the assets will be overstated.

All these requirements are extra steps that trustees need to be familiar with when they own property.