GUIDE

SMSF Lending Guide

Buying property through a Self-Managed Super Fund can be a powerful long-term wealth strategy, but the rules are specific. This guide reflects the current legislation in effect from 1 July.

Buying property through an SMSF

SMSFs can borrow to acquire a single residential or commercial property using a Limited Recourse Borrowing Arrangement (LRBA). The loan is 'limited recourse' — if the fund defaults, the lender can only recover the specific property, not other SMSF assets. Under the current 1 July legislation, structural rules, contribution caps and compliance obligations continue to apply and should be reviewed with a qualified adviser.

Lending requirements

- Typical maximum LVR: 70–80% (residential), 65–75% (commercial)
- Liquidity requirement: often 10% of the property value retained in the fund
- Minimum fund balance: most lenders want $200,000+ before lending
- Documented, compliant SMSF investment strategy
- Custodian/bare trust holding the property until the loan is repaid

Structure

The SMSF sets up a separate corporate trustee (bare trust / custodian trust) to hold the property while the loan is outstanding. The SMSF makes the repayments from rent and contributions. Once the loan is repaid, legal title transfers to the SMSF trustee.

Risks

- Concentration risk — one property is a large slice of the fund
- Liquidity risk — rent and contributions must cover repayments and expenses
- Interest rate risk — SMSF loans typically price above standard home loans
- Compliance risk — errors can lead to significant ATO penalties
- You cannot live in or rent a residential SMSF property to a related party

Benefits

- Concessional tax rate on rental income (up to 15%, or 0% in pension phase)
- Concessional CGT treatment on sale in eligible circumstances
- Diversifies super into direct property
- Business owners can hold their commercial premises inside super

Compliance considerations

SMSF lending sits at the intersection of super law, tax law and lending policy. Always work with a licensed financial adviser, SMSF accountant and specialist broker. Structure it wrong at the start and unwinding it can be costly.

Ready to talk it through? Book a free, no-obligation consultation with Gemma at www.topsoulfinance.com.au or call 0438 285 413.