Property's a super option

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Nice little earner ... a compact, well-located unit has helped Gene and Tony Bernar to diversify.

People are directing their self-managed funds into bricks and mortar to secure their retirements, writes Susan Wellings.

It's one of life's perennial dilemmas: what's the safest and most profitable way of building retirement savings? Once, we thought it was by stashing cash. Another time, accumulating shares looked the wisest option.

But today, with more of us than ever setting up self-managed superannuation funds, property as a long-term, post-global financial crisis investment is once more standing tall in the mix.

"You can put your money in a bank and earn 5 to 6 per cent interest but often people aren't happy with that option," says the managing director of Zenith Finance, Richard Korda. "You can buy shares but some [people] have been spooked and are hesitant about investing back in the sharemarket"

In demand ... the Bernars' one-bedroom unit in the popular beachside suburb of Cronulla was affordable, has low levies and is easy to rent out.

"With property, however, a lot of people feel they understand it and like to invest in it, especially with something long term like a super fund."

Over the past three years, the regulations governing self-managed super funds have changed significantly, making them cheaper to set up while at the same time relaxing the rules on how they can be used to invest in residential property and even borrow to buy.

As a result, many real estate agents have, over the past six months, noticed a sharp surge in the number of buyers in the market looking for investment properties - usually apartments - to purchase through their super funds.

"A lot of people, particularly baby boomers, like to keep their money in bricks and mortar," says Adam Vernon of Belle Property Mosman.

"They feel there's less risk as they get closer to retirement.

"They tend to like buying close to where they live so they can drive by and keep an eye on the property, too, which is reassuring, while they get a nice income from the rent. We're now finding that's happening more and more."

In Surry Hills and Alexandria, it's a trend that's made BresicWhitney agent Walter Burfitt-Williams sit up and take notice. "We're now seeing many people out there looking for an investment for their super fund since the stockmarket has been so tumultuous," he says.

"People like to invest in something they can touch, rather than in a share certificate, and with a fair bit of money in these self-managed super funds, people are gravitating towards real estate."

Long term, the returns from property and shares are similar, about 11.5 per cent since 1920, according to a senior economist at Fairfax Media-owned analysts Australian Property Monitors (APM), Andrew Wilson.

"But the benefit of having an investment property with a super fund is that you gain from the capital growth in a strong Australian housing market as well as having a healthy yield which is a good income stream," he says.

Setting up self-managed super funds

Before the rules changed, it could cost up to $12,000 to set up the complex financial structure of a self-managed super fund but now it can cost as little as $4000, says Chris Duffield, the head of Dixon Advisory Property, which sets up funds for customers and then either advises them on property to buy, or buys for them.

In addition, it's now possible for super funds to borrow a large part of the property price, usually up to 70 per cent.

"As a result, particularly over the last six months, we've been inundated with inquiries from people looking to use residential property to secure their future in super," he says. "A couple or four family members, for example, might have $150,000 in super, which enables them to buy a property of up to $400,000."

Additional benefits of buying property with super include capital gains on assets held for 12 months or more being taxed at just 10 per cent and, during the pension phase, being totally exempt from tax - as is income earned.

On the downside, it's more expensive and time-consuming to buy and sell property than shares and it might not suit everyone to have money tied for the long term.

If you're planning for your super fund to borrow money to buy, banks also tend to charge a higher rate of interest, says the managing director of buyers' agency Curtis Associates, Chris Curtis. "You also have to bear in mind that the law is constantly being changed," he says. "So there is an element of risk there."

What and where should you buy

Sydney is certainly the best market in which to buy at the moment, APM's Wilson says, since it tends to be less cyclical and volatile than elsewhere, with a strong underlying demand for housing.

Duffield's even currently seeing a lot of Melbourne buyers coming here looking for bargains for their super funds.

"They're looking for areas with strong population growth which also have good gentrification potential," Duffield says.

Older buyers often seek good rental returns as their priority, while younger super-fund buyers who are investing for the longer term look for strong capital growth. A healthy mix of both, Korda says, is ideal.

"The staples of good purchasing are properties close to amenities, good transport links, hospitals, universities," says the research manager at Colliers International, Mathew Tiller.

"Such properties in suburbs like Darlinghurst and Surry Hills, Camperdown and Marrickville are in high demand from tenants and have provided consistent capital growth combined with stable income."

Vernon says most super-fund buyers on the north shore are going for one- to two-bedroom apartments with parking, in areas where there's strong demand for rental property, knowing that rents are usually linked closely to inflation. Most are paying between $400,000 and $650,000.

In the east, CBD and inner west, they're tending to pay similar amounts, Burfitt-Williams says, or, if they're choosing a terrace house instead, $700,000 to $1.1 million on a two- to three-bedroom property.

Either way, it's vital buyers do their sums correctly. With apartments, they should always work on net returns rather than gross, which may not take into account high strata levies for buildings with facilities such as a gym, a concierge or a pool.

For that reason, Duffield prefers low-rise apartments for this type of investment since small blocks also have a higher land value attached and are in limited supply.

Buyers who don't have to borrow shouldn't discount studio apartments, either.

Curtis says banks are often unwilling to lend money on apartments under 50 square metres in Kings Cross, Potts Point or Elizabeth Bay but these can provide high yields, perhaps 7 per cent or 8 per cent a year on a $300,000 unit.

The principal of Buyer's Service for Real Estate, Brendan Jack, agrees. "Units are often a good investment, particularly around the city fringe, inner west, east and lower north shore," he says.

"As well as regular levies, buyers should check for special levies in store for older buildings and take a close look at the quality of buildings for the long term."

Why take the self-managed path

1. Greater control and flexibility over your retirement savings. Buy property, hold cash or buy shares.

2. Tax concessions, with earnings taxed at concessional rates of 15 per cent and capital gains taxed at 10 per cent if held for longer than a year.

3. The ability to pool resources with family members. Up to four family members can combine their assets to amass funds for retirement.

4. Estate planning benefits. Can transfer wealth from one generation to the next with minimum tax liability and maximum asset protection.

5. Lower management costs. With pooled assets of more than $200,000, the average cost of a fund can drop below 1 per cent a year, which is usually lower than retail and industry funds.

Source: Dixon Advisory

Small unit helps shore up future

When Gene and Tony Bernar assessed their self-managed super fund, they came to the conclusion they needed to diversify their portfolio a little more. Property, they felt, was the answer.

"The stockmarket is volatile at the moment and we felt we wanted a wider spread of components, so we went for residential investment," Gene says.

"Our main criterion in choosing a place was that it would be in a desirable location in a strong rental market to enable us to use the rent as income and achieve capital growth long term."

The couple, both in their 50s, eventually decided on a small one-bedroom unit in a block of 10 on Wood Lane, Cronulla, being sold by McGrath agents Russell Williams and Kane Battese.

It had low quarterly strata levies of just $367 and a price of $290,000. In such a popular beach suburb, they knew it would be easy to rent out.

"If we bought in a more speculative market, we'd make more money but it would be more of a risk," accountant Gene says.

"But at this stage, we don't want risk in our super fund. We wanted a secure investment in a market we knew would prove a good part of an ongoing portfolio."