

How to purchase property with your super – a basic overview of the structure

In this video animation I have put together, I am going to be go through a basic overview of how purchasing property in your self managed super fund works when you utilise a loan and instalment warrant structure.

The reason I have decided to put this video together, is that there is a lot of information on the net, which is either a written description or a diagram of the process - and it simply doesn't help the everyday property investor understand how they can use their current superannuation as a deposit for an investment property.

I will be honest – there are some diagrams out there which I have seen - and even I don't understand them!

So hopefully this video will take some of the mystery out of the process of using your super to buy property

Step 1

- The first step in the process is that you need to establish a self managed super fund or SMSF
- The SMSF is going to be the beneficial owner of the property
- This means the self managed super fund will receive all the benefits such as the rental income and capital growth from the property

Step 2

- The next step is that you need to rollover or transfer your existing industry or retail superannuation accounts to your new SMSF
- This process can take up to a couple of months - which means you need to organise it quite a while before you are actually ready to buy an investment property using your super
- At this stage – if necessary – you may need to make additional contributions into your new SMSF
- The combined amounts from the transfer or your existing super accounts, and any contributions you make into the SMSF will form the deposit for your investment property

Step 3

- Step 3 should be the easiest and most enjoyable step - finding an appropriate investment property for your SMSF to purchase
- Once you have found a suitable investment property, you can execute a contract to purchase the property the same way you would purchase any other investment property – with one key difference –
- The purchaser listed on the contract **MUST BE THE TRUSTEE OF THE PROPERTY TRUST** – which I will talk about in more detail in the next step
- Also at this stage, you will need to pay the deposit for the investment property
- The deposit will be paid for by your SMSF using the monies it has received via the transfers from your existing industry or retail super accounts (and if necessary any contributions you have made into your SMSF from your own pocket)
- It is extremely important that the deposit does indeed come from your SMSF – there must be a paper trail showing that your SMSF paid the deposit

Step 4

- Step 4 is that you need to set up a special trust that will be the legal owner of the property
- This type of trust has a few names, but is typically referred to as either a custodian trust, debt trust or a property trust
- For the moment I am going to refer to it is a property trust
- Now – this trust is a lot different to a typical trust you may use for owning investment property – such as a family trust or a discretionary trust.
- A property trust – when we talk about purchasing property using our super – is a very simple trust that enables our self managed super fund to obtain a loan to purchase an investment property – something our self managed super fund can't do by itself – IT NEEDS THE PROPERTY TRUST
- Now, the property trust is going to be the legal owner of your investment property
- This means that the only job the property trust has is to hold the title of the investment property on behalf of your self managed super fund
- SO – when the property purchase is all settled and finalised, you can virtually forget about property until either you go to sell the property or when the loan is a paid off in full – which could be 25 or 30 years down the track
- Your property trust doesn't need to worry about:
 - o Opening a bank account
 - o Or getting a tax file number or ABN number or need to do accounts and tax returns
 - o It is simply a legal tool to enable your SMSF to purchase an investment property and have a loan – which as I mentioned earlier – a SMSF can't do by itself!

Step 5

- The next step is that you SMSF needs to apply to the bank for a loan to complete the purchase of the property
- Now – the type of loan the SMSF needs to apply for is not just any loan – it is what is called a 'limited recourse' loan
- This means that if the SMSF defaults on the loan, the only action the bank can take is to re-posses that property
- It can't touch any other assets owned by the SMSF or you personally – it is limited to that property only!

Step 6

- Once the limited recourse loan has been approved by the bank, the next step – step 6 – is settlement
- On settlement, the monies from your superannuation rollovers and contributions - which are sitting in your SMSF bank account - and the limited recourse loan from the bank will be combined to pay the vendor for the property
- The vendor will then transfer legal ownership of the property to the property trust and the bank of course will take security over the property
- On or before settlement your SMSF will also pay all costs associated with the purchase – such as legal fees, stamp duty and any bank establishment fees – these amounts DO NOT come out of your pocket personally

Step 7

- Once the property purchase has been finalised, your SMSF will start to receive all the advantages of owning the investment property
- Your SMSF will receive cash flow from the rental income and be responsible for all the expenses relating to the property
- Your SMSF will also be responsible for paying the interest and repayments on the limited recourse loan from the bank

OK – so this concludes the basic overview of how you purchase property using your super with an instalment warrant and SMSF limited recourse loan.

Please be aware that the information I have provided in this video is a very general overview of how the process of buying property with your super works – however if you have this basic understanding of how the structure works, then you will have a major advantage over 95% of the other property investors out there in the market.

Thank you for taking the time to watch this video

If you are watching this on YouTube, then please click on the link below to visit my blog where I will post a transcript of this video and also some additional notes on how buying property with your super works.

If you are watching this video on my blog then see below for more information.