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**Call for legislation over borrowing for property against SMSFs**

**Property research house RiskWise is calling on the Council of Financial Regulators to introduced legislation to ban borrowing for property against Self-Managed Super Funds (SMSFs).**

In December last year, as [reported](https://www.theaustralian.com.au/business/wealth/good-news-for-selfmanaged-funds-as-campaign-to-ban-smsf-property-borrowing-appears-to-stall/news-story/56b88b56fb18ae3e23419aa73be6d37c) in *The Australian*, the regulator ‘offered the sector a new lease of life indicating no apparent appetite to quash the practice in its quarterly statement’ due to a ‘shift in dynamics in the housing market’.

However, [RiskWise Property Research](http://www.riskwiseproperty.com.au) CEO Doron Peleg said all of the major banks had stopped loans to SMSFs, and this had flowed on to their subsidiaries, including the AMP. The ATO has also expressed concerns about the risk to the retirement savings of individual SMSF trustees in the event of property decline, while the Financial System Inquiry (FSI) has recommended a ban on direct borrowing by SMSFs to prevent an ‘unnecessary build-up of risk in the superannuation system’.

“Lending to SMSFs is an accident waiting to happen as people gamble with their retirement funds,” Mr Peleg said.

“It really is high risk and, in fact, Labor will move to ban borrowing against SMSFs if they are returned to power in the next Federal election, which is extremely likely according to polls. And David Murray’s Financial System Inquiry in 2014 even recommended the practice be outlawed.

“Super is the only asset class you can leverage against but using it to buy property is definitely high risk if things go wrong.”

Mr Peleg said this risk had been acknowledged by the major banks and the regulator should take notice and implement it across the entire industry. However, while most banks have halted the practice, non-banks lenders are filling the void and continued to do so.

The good news is the Banking Royal Commission findings will now require advisers to tell clients in writing if their advice is not independent and why this is the case. They will also be required to outline each year the total fees they are paying and services they are receiving.

Over the past few years, Self-Managed Superannuation Funds (SMSFs) have gained such popularity there are now more than 600,000 in Australia, managing around $700 billion in assets. This is according to figures from the Australian Prudential Regulation Authority (APRA), and the Australian Taxation Office (ATO).

In fact, according to the ATO, in the five years to 2017, SMSF assets grew by $274.3 billion, or a staggering 65 per cent. However, the Productivity Commission says SMSFs with balances lower than $500,000 deliver significantly lower returns than average ones.

Borrowing on super to feed into property is governed by strict conditions known as 'Limited Recourse Borrowing Arrangements'. And according to Industry Super Australia, there has been a 200 per cent rise in the past few years.

RiskWise research shows off-the-plan (OTP) properties are very popular with SMSFs, however, many carry a high level of risk largely due to potential oversupply - leading to squashed property values, high vacancy rates and a cooler market. Mr Peleg said in many cases marketers generated very large commissions that were factored into the property price, in some cases up to 8 per cent of the property value and that meant there was an increased settlement risk. In addition, generally the buyer had no idea how high the commission was or that the sellers were not independent. Inner-city Brisbane is a case in point where weakness in the market has led to a high level of risk for investors and therefore lower valuations and rising defaults on settlements, as well as huge price reductions and lower rents.

“What this means is that many individuals fall into debt they can’t climb out of as their SMSF hits the ‘rock bottom’ known as a ‘property bust’,” he said.

“The three major types of risks associated with over-supplied OTP high-risk suburbs are Equity Risk, Cashflow Risk and Settlement Risk and they all add up to potential disaster for the anyone staring retirement in the face, especially as set-up costs for these types of borrowings often have higher fees.”

Mr Peleg said when considering buying property through a superannuation fund it was important to identify loss of income if there was an oversupply in the area and there was a problem finding tenants to rent the property, especially as these dwellings appealed to a limited market and not families with children seeking bigger homes and a decent-sized block.

Visit [www.riskwiseproperty.com.au](http://www.riskwiseproperty.com.au)

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***About RiskWise:***

RiskWise Property Research was formed in 2016 with the goal of providing property risk advise and research services to help its clients make informed purchasing decisions.

Its goal is to provide private investors, home buyers, property professionals and institutional clients with detailed risk information to support smarter decision making. Its vision is to be a global leader in property risk rating and research helping its clients to achieve deeper risk insights so they can make smarter property investment decisions.

Visit [www.riskwiseproperty.com.au](http://www.riskwiseproperty.com.au)

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