



RETHINK®  
RESIDENTIAL

BUYING RESIDENTIAL PROPERTY

THROUGH A SELF-MANAGED  
SUPER FUND

BEFORE YOU BEGIN

## READ THIS FIRST

### **A note on the purpose of this guide**

We are property specialists, not licensed financial advisers, tax agents, or lawyers. A self-managed super fund and the property held inside it are financial products, and decisions about them carry real consequences for your retirement. This guide is written to explain how SMSF property purchases work and why people consider them. It is general information only. It does not take your personal circumstances into account, and nothing in it should be read as a recommendation to set up a fund, borrow money, or buy a particular property.

Before acting, speak with a licensed financial adviser, an SMSF accountant, and where borrowing is involved, a mortgage broker who specialises in SMSF lending. The right structure depends on your situation, your goals, and current law.

*Figures and thresholds quoted here reflect the 2025–26 financial year and were accurate at the time of writing. Super rules change regularly, so always confirm current figures before relying on them.*

### **How Rethink fits in**

An SMSF property purchase works best when the right specialists handle each part. Rethink brings that team together: SMSF-experienced finance brokers, licensed financial planners who focus on self-managed super, and buyers agents who specialise in investment property.

The financial decision — whether an SMSF suits you at all — sits with a licensed financial planner. Our buyers agents take over once that decision is made, sourcing and securing a suitable property. The step-by-step at the end of this guide shows how the pieces fit together and who to speak to at each stage.

## WHAT IS AN SMSF PROPERTY PURCHASE?

A self-managed super fund, or SMSF, is a private superannuation fund that you run yourself. It can have up to six members, and the members are also the trustees. That means the people who benefit from the fund are the same people responsible for running it and keeping it compliant. SMSFs are regulated by the Australian Taxation Office under the Superannuation Industry (Supervision) Act 1993.

The difference from an industry or retail fund is control. In a large fund, a professional manager decides where your money goes. In an SMSF, the trustees choose the investments directly. For many Australians, one of those investments is residential property.

An SMSF property purchase simply means the fund itself owns an investment property. The property is bought in the name of the fund's trustee, the rent is paid into the fund's bank account, and all the expenses are paid out of it. The investment sits inside the superannuation environment rather than in your personal name.

*By mid-2025 there were roughly 615,000 SMSFs in Australia, holding around \$960 billion in assets – and direct property is a meaningful and growing share of that.*

### **The golden rule: the sole purpose test**

Every decision an SMSF makes, including buying property, must be for the sole purpose of providing retirement benefits to its members. You cannot get a present-day personal benefit from the fund's assets.

In practice this means a residential property owned by your SMSF cannot be lived in or rented by you, any other member, or any of your relatives. It must be a genuine arm's-length investment, rented to unrelated tenants at market rent. The fund also cannot buy a residential property from a related party.

## WHY INVESTORS CONSIDER IT

The appeal of holding property inside super comes down to a few connected ideas: a lower-tax environment, the ability to borrow, asset protection, and the discipline of a long-term structure. Taken together, these can change the maths on a property compared with owning it personally.

### A concessionally taxed environment

Earnings inside super are taxed at concessional rates rather than at your personal marginal rate. This is the single biggest reason the numbers can look different inside a fund.

OUTCOME	ACCUMULATION PHASE	PENSION PHASE
Rental income	Taxed at 15%	Can be 0%
Capital gain (held 12+ months)	Effective 10% after the one-third discount	Can be 0%
Compared with personal ownership	A high earner can pay up to 47% on rent personally	No equivalent

Once a fund moves into the retirement, or pension, phase, earnings on assets supporting that pension can become tax-free, subject to the transfer balance cap. A property producing \$40,000 of rent a year that would attract \$6,000 of tax in accumulation phase may attract none in pension phase. Selling a property while the fund is fully in pension phase can also mean the capital gain is tax-free.

There is a further point worth understanding. Recent reforms have tightened the capital gains tax discount for individuals and trusts, but SMSFs kept their existing one-third discount. That widens the relative tax advantage of holding long-term growth assets, including property, inside a fund rather than in personal names.

### The ability to borrow

Super funds are generally not allowed to borrow, but there is an exception built for exactly this purpose: a limited recourse borrowing arrangement, or LRBA. It lets a fund borrow to buy a single asset such as a property, which means a fund with, say, \$250,000 can control a larger asset than its cash balance alone would allow. The borrowing section below explains how this works and why the structure matters.

### Asset protection and structure

- **Limited recourse.** Under an LRBA, if the loan defaults the lender can only pursue the property itself, not the fund's other assets. The rest of the members' retirement savings sit behind a legal firewall.
- **Forced long-term thinking.** Because super is preserved until a condition of release is met, the structure discourages the short-term churning that often erodes property returns. The investment is built to compound over decades.
- **Diversification.** For a fund otherwise holding shares and managed funds, direct property can broaden the mix of assets.

## WHAT YOU NEED TO GET STARTED

An SMSF property purchase has more moving parts than a personal purchase. The main things to have in place are a fund of sufficient size, the right structure, a documented plan, and a realistic budget for costs.

### A balance that makes the costs worthwhile

There is no legal minimum balance to start an SMSF. The real question is cost-effectiveness. Because many of a fund's costs are fixed, a small balance means those costs eat a larger share of returns. Bodies including ASIC and the Productivity Commission have generally pointed to around \$200,000 as the level where an SMSF starts to become competitive with a large fund. For a property-focused fund the commonly cited starting point is higher again, often \$250,000 or more, because property is less liquid and the fund needs a cash buffer on top of the deposit.

### Realistic costs

COST	INDICATIVE RANGE (2025–26)
Fund setup (professional)	Roughly \$1,500 to \$3,500
Bare or holding trust setup, where borrowing	Roughly \$1,400 to \$1,500 on top
ATO supervisory levy	\$259 per year (mandatory)
Annual administration, accounting and audit	From around \$1,500; varies by provider
Typical total annual running cost	Around \$3,500 to \$6,500 for a simple fund
Funds with property and an LRBA	Can exceed \$10,000 per year

On top of the fund's running costs sit the property's own costs: loan interest, council rates, insurance, repairs, and property management. Most of these are tax-deductible to the fund.

### The right structure and paperwork

- **A corporate trustee.** Most advisers favour a company acting as trustee rather than individual trustees, for cleaner administration and continuity, though it carries a small extra setup cost.
- **A documented investment strategy.** The fund must have a written investment strategy that addresses risk, return, diversification, liquidity, and how members' benefits will be paid. Buying property has to be consistent with it.
- **Trustee acknowledgements.** Since January 2025, trustees are expected to confirm in writing that they understand their obligations, have a documented strategy, and have not acted on unlicensed advice.
- **A liquidity buffer.** The fund needs enough cash to meet loan repayments, expenses, tax, and any insurance, even through a vacancy. A fund that is all property and no cash is a compliance and cash-flow risk.

# BORROWING INSIDE AN SMSF

Most SMSF property purchases involve borrowing through a limited recourse borrowing arrangement. Understanding its mechanics matters, because the structure shapes what you can and cannot do with the property later.

## How an LRBA is put together

- **A separate holding trust.** The property is held in a separate trust, often called a bare or holding trust, which holds it on behalf of the SMSF until the loan is fully repaid. The fund holds the beneficial interest and receives the rent the whole time.
- **A single acquirable asset.** Each LRBA can fund only one asset, for example one property on one title. You cannot bundle two separate properties under a single arrangement.
- **Limited recourse.** If the fund cannot repay, the lender's claim is limited to that one property. Other fund assets are protected.
- **Arm's-length terms.** Interest rates, the loan-to-value ratio, and repayments must reflect genuine commercial terms.

FEATURE	TYPICAL POSITION FOR RESIDENTIAL PROPERTY (2025–26)
Maximum loan-to-value ratio	Up to about 80% (some lenders cap at 70%)
Indicative interest rates	Around 6.8% to 7.5% or higher, above standard home loan rates
Lender pool	Smaller; a limited number of specialist SMSF lenders
Repayment source	Rent, plus member contributions made within the caps

## The rule that drives property selection

Borrowed money under an LRBA can only be used to buy, repair, and maintain the property. It cannot be used to improve it. Major renovations or changes that alter the character of the asset are not allowed while the loan is in place, and improvements must generally be funded from the fund's own cash, not borrowings.

This single rule is the practical reason newer property tends to suit an SMSF, which the next section covers.

## WHY WE LEAN TOWARDS NEWER PROPERTY

For an SMSF, and especially one that is borrowing, a property under about ten years old usually makes a stronger investment than an older one. This is not a stylistic preference. It follows directly from how the rules and the cash flow work.

**01**

### **You cannot easily renovate your way out of problems**

Outside super, if a property needs work you can borrow more, or use spare cash, and add value. Inside an SMSF with an LRBA, you cannot. Borrowed funds are limited to repairs and maintenance, and improvements that change the asset are off the table until the loan is repaid. An older property that needs updating becomes a problem you have to fund entirely from the fund's own cash, which is exactly the cash the fund needs to keep as a buffer. A newer property sidesteps this by simply needing less work.

**02**

### **Lower maintenance protects the fund's cash flow**

Every dollar spent fixing an ageing roof, hot water system, or wiring is a dollar drawn out of the fund, often at the worst time. A fund has fixed running costs and loan repayments to meet, so unpredictable repair bills hurt more than they would for a personal investor with other income to fall back on. Newer properties carry lower maintenance risk and more predictable holding costs, which keeps the fund's cash flow stable.

**03**

### **Stronger depreciation, working inside a low-tax setting**

Newer properties generally offer larger depreciation deductions. Capital works on the building are typically claimed at 2.5% a year, and a brand-new property also allows full depreciation on plant and equipment such as appliances, carpets, and air conditioning. For second-hand properties, deductions on previously used plant and equipment are restricted. A quantity surveyor's depreciation schedule turns this into deductions that reduce the fund's taxable income and improve after-tax cash flow, which in turn supports loan repayments.

### **In short**

Newer property means less unfundable maintenance, more predictable holding costs, and better depreciation — all of which matter more inside the tight cash-flow and compliance rules of an SMSF than they would for a personal purchase.

## WHAT THE NUMBERS CAN MEAN OVER THE LONG TERM

The case for property inside super is a long-game case. Three forces work together over time: a low-tax environment, borrowing, and compounding. None of them is dramatic in a single year. Over twenty or thirty years they can be the difference.

### Tax saved each year is capital kept invested

Consider rental income taxed at 15% inside the fund rather than at a personal marginal rate that might be 37% or 47%. The tax not paid stays in the fund, helping to pay down the loan or build the cash buffer. Across decades, the gap between paying 15% and paying near half compounds in the fund's favour.

### Borrowing brings growth forward

A fund that buys a property worth more than its cash balance is exposed to growth on the whole asset, not just on the deposit. If the property grows in value, that growth accrues to the fund. The loan is gradually repaid from rent and contributions, so the fund's equity in the property builds from both directions: the debt falls and the value, over time, tends to rise.

### The exit can be the most powerful part

The largest single advantage often arrives at the end. If the fund holds the property into pension phase and sells it then, the capital gain can be tax-free. A property bought for \$500,000 and sold for \$800,000 carries a \$300,000 gain. In accumulation phase the tax on that gain might be around \$30,000 after the discount. Fully in pension phase, it can be nil. That is a structural feature of super that personal ownership cannot replicate.

### Contributions are the fuel

How quickly a fund can build a deposit, service a loan, and grow a portfolio depends on what can be contributed. The current caps:

CONTRIBUTION TYPE	2025–26 CAP	FROM 1 JULY 2026
Concessional (before-tax)	\$30,000	\$32,500
Non-concessional (after-tax)	\$120,000	\$130,000
Bring-forward (non-concessional)	\$360,000 over 3 years	\$390,000 over 3 years
Employer super guarantee rate	12%	12%

- **Carry-forward concessional contributions.** If your total super balance was under \$500,000 on 30 June of the prior year, you can use unused concessional cap from the past five years, which can let you contribute more than the annual cap in a single year.
- **Combining balances.** Members of a couple can pool their super into one fund, which is often how a balance reaches the level where a property purchase becomes practical.

### A note on very large balances: Division 296

From 1 July 2026, an additional tax applies to earnings attributable to the part of an individual's total super balance above \$3 million, with a further tier above \$10 million. The thresholds will be indexed, and the revised version applies to realised earnings.

For most people considering their first SMSF property, this is not a live issue, because it only affects balances above \$3 million. It is included here for completeness, and because anyone building towards a large balance should factor it into long-term planning with their adviser.

## THE RULES AND THE RESPONSIBILITIES

Control comes with accountability. As a trustee you are legally responsible for the fund's compliance, and the penalties for getting it wrong are significant. A fund found to be non-complying can be taxed at 45%, and trustees can face personal penalties. The main rules to keep front of mind:

- **Sole purpose only.** Every investment must be for members' retirement benefits, with no present-day personal use or benefit.
- **No personal or related-party use.** Members and relatives cannot live in or rent the residential property, and the fund cannot buy a residential property from a related party.
- **Title and money kept separate.** The property is held by the trustee or holding trust, never in a member's name, and the fund's money must be kept entirely separate from personal money.
- **Arm's-length dealings.** Rent, purchase prices, and any work done must be at genuine market terms, ideally using unrelated third parties.
- **Borrowing rules.** An LRBA can fund one asset and cannot be used for improvements; repairs and maintenance only while the loan stands.
- **Annual obligations.** The fund must keep proper records, value assets at market value, lodge an annual return, and be independently audited each year.
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### Things to weigh up honestly

An SMSF property purchase is not the right move for everyone, and a balanced view means naming the trade-offs as clearly as the benefits.

- **Liquidity.** You cannot sell a bedroom. If the fund needs cash, an indivisible property is hard to draw on, which is why the cash buffer matters.
- **Concentration.** A single property can dominate a smaller fund, leaving it exposed to one asset and one market.
- **Cost drag on small balances.** Fixed fees can quietly erode returns if the balance is too small for the structure.
- **Compliance load.** The responsibility, paperwork, and audit are ongoing, not one-off.
- **Borrowing risk.** Higher SMSF loan rates, a smaller lender pool, and the obligation to meet repayments through vacancies all add risk.
- **Promoter risk.** Regulators have acted against unlicensed parties pushing SMSF property as a one-size-fits-all product. Work only with licensed professionals.
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## WHERE TO GO FROM HERE

If any of this is relevant to you, the sensible next step is not to act, but to work through the process in the right order with the right people. The sequence below keeps the financial decision with a licensed professional, and brings in each specialist at the point they add the most value.

### Step 1 – Start with a conversation

Talk to Rethink about your goals and where you are now. We help you understand whether an SMSF property strategy is worth exploring, and connect you with the right specialists for the next steps.

### Step 2 – Get licensed financial advice

A financial planner who focuses on self-managed super assesses your full situation and confirms whether an SMSF suits you. This decision comes first. Nothing further proceeds until it is clear.

### Step 3 – Set up the fund

An SMSF accountant or administrator establishes the fund, sets up the corporate trustee, and prepares the documented investment strategy that any property purchase has to fit.

### Step 4 – Confirm your finance

If you are borrowing, an SMSF-specialist finance broker confirms your borrowing capacity and arranges the limited recourse borrowing arrangement and holding trust.

### Step 5 – Find and secure the property

Your Rethink buyers agent sources a suitable, newer investment-grade property that fits the fund's strategy, and manages the purchase through to settlement.

### Step 6 – Settle and manage

Arrange property management for the tenancy, and keep the fund compliant through ongoing administration and the annual independent audit.

### Who to contact

Your Rethink team for an SMSF property purchase. Complete the details below before sharing this guide.

STEP	SPECIALIST	CONTACT
Financial advice	Financial planner (SMSF) [Name]	[Phone] [Email]
Fund setup	SMSF accountant / administrator [Name]	[Phone] [Email]
Finance	SMSF finance broker [Name]	[Phone] [Email]
Property	Rethink buyers agent [Name]	[Phone] [Email]

### Useful questions to take into these conversations

Is my balance at a level where the structure makes sense? How much cash buffer will the fund need? What does the all-in annual cost look like for my situation? And how does a property purchase fit the fund's documented investment strategy?

# AN SMSF PROPERTY PURCHASE STARTS WITH THE RIGHT ADVICE.

The structure can be powerful, but it is not right for everyone. The sensible path is to work through it in order: a licensed financial planner first, then fund setup, finance, and property. Rethink brings that team together and our buyers agents step in once the financial decision is made.

**Speak with a Rethink Residential expert.**

[www.rethinkresidential.com.au](http://www.rethinkresidential.com.au) | 1300 965 551

BOOK A PROPERTY STRATEGY REVIEW

**Important disclaimer.** This guide is general information only and does not constitute financial product advice, tax advice, or legal advice. It has been prepared without regard to your objectives, financial situation, or needs. A self-managed super fund and any property held within it are significant financial commitments governed by complex and changing law. The figures and thresholds in this guide relate to the 2025–26 financial year and may change. Before making any decision, obtain advice from appropriately licensed and qualified professionals who can consider your personal circumstances. Rethink's role in property is as a buyers agent. We are not licensed to provide financial, tax, or legal advice, and any such advice referred to in this guide comes from the relevant licensed professional.