

The DomaCom Fund – Case Study 3

Geared Property Investment for a SMSF



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# Case Study 3: Geared property investment for an SMSF

- Dave is 42 and runs his own electrical business and has been making regular contributions to his SMSF and has a balance of \$500,000
- He has expressed an interest in diversifying his portfolio into residential property to complement his other investments
- He feels that geared property is a good investment option in his situation and a property has been identified using a Buyers Agent
- Issues to consider:
  - If looking to purchase the whole property through his SMSF, the cost of setting up a Bare Trust and sourcing a Limited Recourse Borrowing Arrangement (LRBA)
  - May be required to provide personal guarantees for any LRBA
  - How to get diversification with limited funds and looking for options to reduce the possibility of concentration and cash flow risks

# Case Study 3: Geared property investment for an SMSF

- Solution:
  - Dave's SMSF allocates \$50,000 towards the property purchase
  - Other like-minded investors/ clients (including SMSF's) co-invest for the remaining amount required
  - DomaCom sources the required loan and is the borrower, therefore:
    - No servicing checks on each investor by the lender
    - No need to incur the significant cost of setting up a Bare Trust and source an LRBA (and no requirement for personal guarantees)
    - The loan is non-recourse i.e. recourse is only to the underlying asset
    - Conservative borrowing up to a maximum 60% LVR
    - The investment must be positively geared (this will determine the final LVR) so no additional servicing of the loan
  - Dave through his SMSF receives:
    - The exposure to residential property that he was after and can also invest in other properties to diversify
    - Exposure to the capital return and net income in proportion to his holding
    - Transparency and control over his property investments

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