SELF MANAGED SUPERANNUATION & PROPERTY INVESTMENT

A GUIDE TO SMSF FINANCE

EDITION 2 - 2026

mortgage LINK

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Introduction

Self-Managed Super Funds (SMSFs) can be an effective vehicle for saving for your retirement. SMSFs, however, have significant differences from traditional superannuation structures.

An SMSF structure consists of Member/s and Trustee/s.

Members of an SMSF operate the Fund for their direct benefit and are responsible for complying with superannuation and taxation regulations.

Trustees are individuals, or a company appointed to manage the SMSF on behalf of its members.

An SMSF requires careful and specific advice to ensure there is ultimately a benefit over the long term to justify the additional time and cost invested in their ongoing management.

SMSFs & Property

This guide deals with key areas where investors use SMSFs, specifically for property investment.

Investment Strategies: Section One outlines the process for incorporating strategies such as SMSF structure and gearing into your retirement planning.

Alternatives: Section Two tests the validity of an SMSF and its application for investors. We compare Private Investment Companies (PICs) as an alternative position that deals with investing outside the SMSF environment.

Lending: Section Three provides insights into best practice lending when structuring and obtaining SMSF finance.

Next Steps: Section Four offers you a pathway to gain advice from a trusted team.

2026 Legislative Update

Business Real Property (BRP)

From 10 August 2026, a Self-Managed Superannuation Fund (SMSF) may use a Limited Recourse Borrowing Arrangement (LRBA) to acquire real property only if that property meets the definition of "business real property" under section 66 of the Superannuation Industry (Supervision) Act 1993 (SIS Act).

The Five Key Updates

- **New residential borrowing is closed**

New LRBAs can no longer be used to acquire residential property because residential dwellings do not satisfy the business real property test.

- **It is a "business real property" test, not a blanket "residential" test**

The key question is whether the property is used wholly and exclusively for one or more businesses. Accordingly, some residential property used in a business may qualify, while some commercial property may not. Examples that may not qualify include mixed-use properties, vacant land, lifestyle blocks, and possibly newly built or off-the-plan premises not yet in business use. These edge cases remain subject to further ATO guidance.

- **Existing arrangements are grandfathered**

Existing LRBAs, refinancing of existing arrangements, and new arrangements where contracts were exchanged before 10 August 2026 (even if settlement occurs later) are protected and do not need to be unwound.

- **Unleveraged residential purchases remain permitted**

An SMSF can still acquire residential property outright using fund cash, subject to its investment strategy and the usual SIS Act rules.

- **Commercial and business real property lending continues**

Business owners can still use an LRBA to acquire qualifying business premises and lease them back to their operating entity at market rates.

SECTION ONE

SMSF Strategies

A. The SMSF Market

The Australian Tax Office (ATO) regularly publishes data and provides excellent insights into the composition and nature of the growing SMSF market. ATO figures from March 2026 are highlighted below, along with Australian Prudential Regulation Authority (APRA) data to 31 December 2025.

Key Insights

- There are over 672,800 SMSFs, representing more than 1.22 million members
- SMSFs collectively hold a third of Australia's superannuation savings, with total estimated assets of $1.06 trillion
- The average SMSF asset size sits at around $1.5M
- There are $4.5 trillion in total super assets under management (including SMSFs).

In the 2025 financial year, over 42,000 new SMSFs were created, with 2026 already showing record growth.

Despite the SMSF sector representing around 24% of total super funds under management, they count for much less in contributions, at around 13% of all contributions.

B. The SMSF Structure

Is an SMSF the right choice for you?

An SMSF is fundamentally a good thing for those who meet eligibility.

Pros

- An SMSF allows complete control over your superannuation.
- There is the flexibility to invest in areas you generally can't do within a retail super fund.
- The capacity to have up to six family members included in your structure.

Cons

- No minimum balance is required to set up an SMSF, but it may only become cost-effective once you have a balance of $500,000 or more.
- There are several direct costs, including fees for preparing financial statements and tax returns and conducting an independent audit.
- A red flag is where those without existing SMSF structures look to create one solely to acquire property, a concern addressed by the 2026 reform in relations to residential gearing.

TIP: There is much content available about the worth of SMSFs. The key is to build a reliable team of experts and seek advice.

C. Establishing an SMSF

Getting Started

The Australian Tax Office (ATO) is responsible for regulating SMSFs. The Fund must be set up correctly to be eligible for tax concessions, receive contributions and be efficient to administer.

The process can be summarised as:

1. Get Advice	5. Ensure your Fund is an Australian Fund
2. Choose an Individual or Corporate Trustee	6. Register your Fund and get an ABN
3. Appoint your Trustees or Directors	7. Set up Bank Account/Electronic Service Address
4. Create the Trust & Trust Deed	

TIP: Several resources are available to assist you in getting started with an SMSF. The SMSF resources from the Australian Tax Office are a good starting point.

SMSF Members and Trustees

Stringent regulations guide the operation of SMSFs, which extend to Fund members and trustees.

Members

These individuals contribute to the SMSF and benefit from it on retirement. Members can also be trustees or directors of a corporate trustee, depending on the structure of the Fund.

A member of an SMSF must meet specific criteria, including:

- Must hold Australian Residency for ATO purposes
- Up to a maximum of six (6) members
- Must be a natural person (i.e. not a company or trust)
- Need to be self-employed or a current or prospective employee of a business

The SMSF must have at least one member who is also a trustee. The trustee, which can be a corporate trustee, is responsible for all aspects of the SMSF.

Trustees

Trustees must meet the ATO criteria to be eligible, provide written consent, and sign a declaration. A trustee can appoint others to provide services to the Fund, including an accountant or financial planner. However, all trustees remain mutually responsible to each other for all decisions.

D. Superannuation & Property

Ownership Of Property Within Superannuation

An option for investors is to consider owning property within the superannuation environment via an SMSF.

Provided the Fund accords with relevant legislation, it can achieve this directly using an investment vehicle that effectively allows the SMSF to borrow to buy the property.

Although a very popular strategy in Australia, it requires careful planning.

Once the property is part of the SMSF, you cannot dispose of the property and access the proceeds for external purposes. The proceeds remain in the Fund until preservation age, when normal superannuation release conditions apply.

Professional financial advice is recommended before committing to property ownership in an SMSF.

ATO Rules For Property

When using an SMSF to purchase property, the ATO requires the property to:

- Meet the 'sole purpose test' (assets must only provide benefits to members of the SMSF in retirement)
- Not have been acquired from a related party of a fund member (subject to limited exceptions, including business real property)
- Not have any fund member or related parties reside on the property
- Not be leased to a fund member or related parties (noting a different treatment for business real property)

D. Superannuation & Property

Residential Property

- Residential investment property can only be used to provide retirement benefits to the SMSF members. Otherwise, it will breach the sole purpose test.
- An SMSF will fail the sole purpose test if it provides a pre-retirement benefit, such as personal use of a fund asset. An example would be using a property to store a wine or art collection.
- A member or their relatives cannot occupy the property owned within an SMSF.

Residential Property & the 2026 Reforms

From 10 August 2026, an SMSF can no longer borrow (via an LRBA) to acquire residential property. Residential property can still be acquired outright from fund cash.

Existing residential LRBAs are grandfathered, but no new residential borrowing is permitted.

Residential borrowing is a small part of the SMSF landscape. SMSF residential borrowing accounts for under 1% of Australia's residential mortgage market, while only an estimated 8,000–10,000 SMSFs hold residential property under an LRBA.

The 2026 reform therefore impacted a niche investor strategy rather than affecting the entire SMSF sector.

Commercial Property

- Commercial properties that qualify as business real property can be purchased through an SMSF and (generally) leased to fund members to conduct genuine business activities at market rates.
- Business Real Property (BRP) is now the gateway for all new SMSF borrowing as covered in the next section.

D. Superannuation & Property

Funding Property in Superannuation

Federal legislation enacted in 2007 first allowed super funds to borrow to purchase certain assets in Australia, including property, subject to conditions.

That framework remains, but since 10 August 2026 a real property asset acquired under an LRBA must be business real property.

- This is achieved through the investor paying an initial instalment together with a borrowing of money to fund the remaining amount required to acquire the asset.
- The borrowing is repaid by the investor, who will make ongoing instalment payments.
- The SMSF obtains a beneficial interest in the underlying asset with the right to full legal ownership once the loan is repaid.

Advantages of the Limited Recourse Structure

The SMSFs interest in the asset is provided as security for the borrowing. If the fund defaults on the borrowing, the lender may only have recourse to the asset acquired, not to the assets of the fund (See Limited Recourse Lending on page 12).

Therefore, this structure is popular for business owner-occupiers acquiring their own premises.

Again, specialised advice is required when looking to enter arrangements involving an SMSF structure. Our experience is that many people have done so without a complete understanding of whether there is a net benefit in the long term.

TIP: Gearing via superannuation remains a viable strategy for the right business real property.

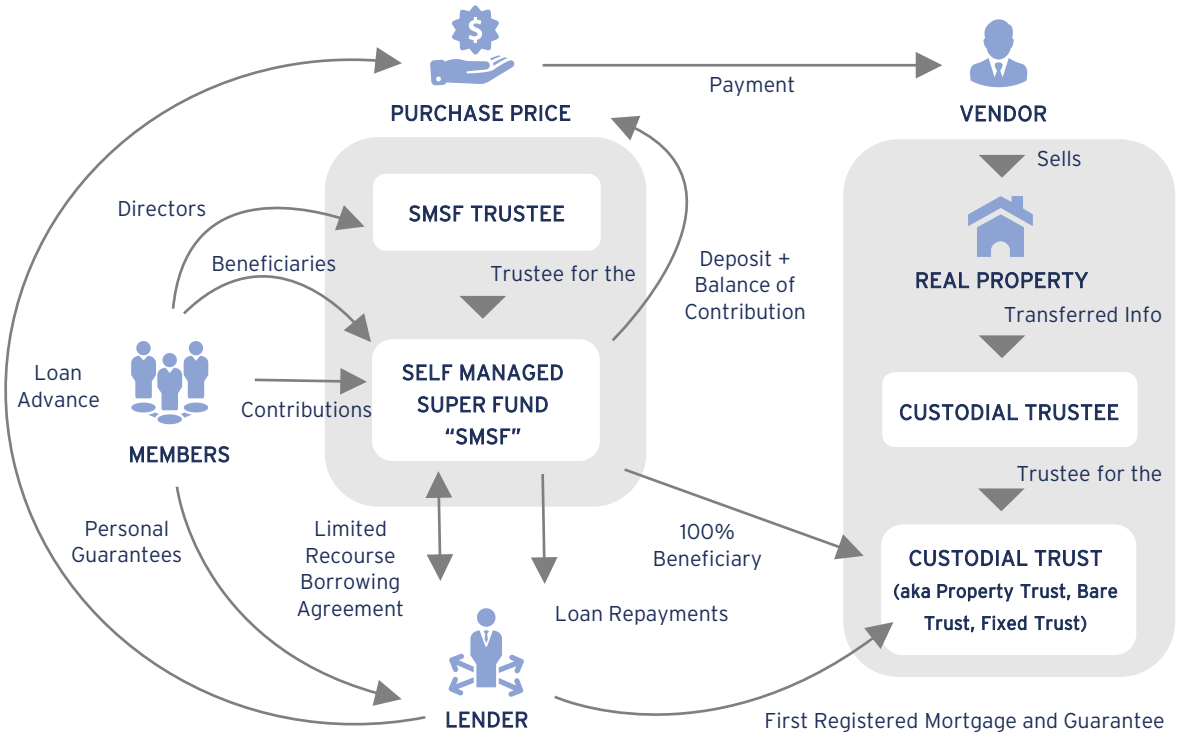
D. Superannuation & Property

How it Works

An example of the legal structure, including the parties involved, is outlined below.

SUPER BORROWINGS DIAGRAM SUMMARY

The diagram shows in detail how super borrowing works.



Key Criteria

All arrangements must generally satisfy the following criteria:

- The finance is used to acquire an asset the Fund is not prohibited from acquiring.
- From August 2026, this refers to business real property.
- Any recourse the financier has under the arrangement against the SMSF is limited to rights relating to the asset acquired.
- The SMSF holds a beneficial interest in the property and has the right to have legal title to the property transferred to the SMSF once the borrowed funds are fully repaid to the financier.
- Income from the property flows from the security trust to the SMSF. All expenses, including interest, are met by the SMSF.
- The rights and obligations of the SMSF and the security trustee with respect to the property are set out in the security trust deed.

E. Superannuation & Lending

Limited Recourse Lending

An SMSF can borrow funds to assist in acquiring business real property. The arrangement is commonly referred to as Limited Recourse Lending or a Limited Recourse Borrowing Arrangement (LRBA).

The purchased property is isolated in a Bare Trust or Property Trust, which has a different trustee than the SMSF. This structure ensures that the assets of the SMSF are protected and that the Bank has "No Recourse" at all to the assets of the SMSF.

LRBA & the 2026 Reforms

For arrangements entered into after 10 August 2026, an LRBA can only be used to acquire real property that is business real property. New residential LRBAs are no longer available. Existing residential LRBAs and contracts exchanged before that date will continue under grandfathering.

Lender Support and Policies

Traditionally, superannuation lending was accessed by existing SMSF holders running established businesses or investment strategies. It later became a vehicle for individuals to purchase residential property, which drew the regulatory scrutiny that led to the 2026 government reforms.

Most lenders have common sense policies in place, such as requiring that the SMSF has initial liquidity before purchasing a property. With new residential borrowing closed, lender focus shifted to qualifying business real property.

Refinancing Existing Arrangements

Refinancing an existing residential LRBA remains permitted, provided the arrangement is not materially changed. Switching lenders or altering loan terms may risk being treated as a new arrangement. Always seek advice from your SMSF team.

F. Superannuation Hidden Costs

The availability of SMSF lending historically influenced less experienced investors to speculate on property without fully understanding the costs and risks. Although the 2026 reforms removed new residential gearing from that equation, the following cost considerations remain central to any SMSF borrowing decision.

01 Borrowing Costs

It is essential to consider the extra cost of borrowing when using an SMSF. Typically, this would involve an interest rate premium of 1.0% - 1.5% or more against equivalent borrowing "outside" a Fund.

- Using the example of $1M loan over a 15-year term, this is an interest cost premium of over $220,000.
- Therefore, the benefits need to offset this cost over the loan term.

02 Gearing Costs

Using gearing via an SMSF is an excellent strategy in the right circumstances, especially for business owners looking to own property as a separation from operating business activities.

For the appropriate asset, debt can create leverage and allow access to a property in a practical and advantageous ownership structure. There must be a greater opportunity for contribution from the asset (through income and capital growth) to offset borrowing and related holding costs.

The key is to choose the appropriate asset.

F. Superannuation Hidden Costs

03 The Cost of Changing Government Policy

With an ongoing climate of changing policy, it is worth considering whether investing in or outside super is better.

Throughout our working lives, governments come and go, with elections every three years or so. There are always changes to how we are governed and taxed, which adds a variable of political risk to savings.

> For those who start working at around 20 years of age and work until 65, there stands a chance to accumulate up to 45 years' worth of savings, give or take. Therefore, those with all their retirement savings sitting in superannuation face 45 years of potential investment volatility over a lifetime.

While you can plan and implement risk mitigation strategies for investment, knowing how to balance political risk is more challenging due to the inherent unpredictability of changing government policy.

With the sheer size and value of wealth now sitting across superannuation funds in Australia, it is wise to be adaptable to Federal budgets that drive policy changes. In any change, there will be winners and losers; however, take comfort that the government's goal is to deliver wins for individuals and businesses in the longer term by necessity.

04 Protecting Your Retirement Nest Egg

Superannuation is not as front of mind in your 20s - 40s, as savings are usually generated from compulsory employer contributions. However, your superannuation nest egg becomes crucial as you approach the end of your working life and look to retire.

For many, it is only later in their working lives that they can afford to save for their retirement more seriously. This is after paying off the family home, and the costs of raising and educating children decrease.

At this stage, you may aim to own your home outright by paying it off as quickly as you can afford, rather than contribute more to your Super Fund. Professional advice can be helpful here. Keep in mind that every dollar of interest you save gives you an effective after-tax saving on the principal you have paid off. Your primary residence is also among the last bastions of tax-free capital gain.

F. Superannuation Hidden Costs

05 The Cost of Self-Employment

Many self-employed people in the economy get left behind. Superannuation can be a low priority as business owners and ABN holders balance other cash flow-draining priorities. There is commonly a fear of committing money into a structure that is inaccessible until several years into the future.

Too often, business owners only look at superannuation strategies when they want to purchase an asset like property, which is a big splash into an otherwise empty super pool. The pool is designed to be contributed to in smaller, regular amounts to receive maximum compound interest and cost-averaging advantages.

Better superannuation strategies for the self-employed can be:

- Get started early - build a discipline and habit from the start of your business journey
- A little often - small amounts added regularly can make a big impact over a long period
- Motivation - start with a long-term goal and work towards achieving it, such as the ability to start an SMSF by a certain age.

TIP: Avoid making decisions from a taxation advantage or incentive perspective. Before leaping into an SMSF, understand why you are investing in property in the first place. Is it a good decision for your goals and life circumstances? If yes, the proper structure can follow, and an SMSF can form a part of that plan.

SECTION TWO

An SMSF Alternative

A. Private Investment Companies

Overview

In planning for financial independence, diversification is not only about your investment classes and geographies. It is also about your investment structures. While effective retirement planning includes contributing to superannuation, other options exist.

Before thinking about your next property and looking into the intricacies of negative gearing, consider starting a Private Investment Company, or PIC.

A PIC has the potential to provide a level of structural diversification to help mitigate political risk. We are not suggesting that a PIC is a better structure than an SMSF. However, as successive governments reduce superannuation tax benefits and regulations become more complex, a PIC can be a viable option for more stability.

The Advantages of PICs

01 **PICs are not required to have an external administrator/be audited.**

SMSFs must be audited annually by an independent auditor, adding to the running cost. While appointing an external administrator is optional for an SMSF, most SMSFs have one to help wade through the constantly changing complexities of government regulation to ensure they stay compliant.

02 **There is no limit on contributions to a PIC as part of a personal savings plan.**

There are numerous caps on placing funds into SMSFs, and this area has changed many times in recent years. As a general guide, the concessional (before-tax) cap is currently $30,000 per person per year, and the non-concessional (after-tax) cap is currently $120,000 per year, with a bring-forward of up to $360,000 over three years for those eligible. A PIC has no equivalent limit on funds contributed as part of a personal savings plan.

03 **You can withdraw funds from a PIC at any time.**

This is a significant difference. Generally, once you put money into your Super Fund, you can't access it until you reach preservation age (60 years) and retire permanently from the workforce. Even if you qualify to withdraw funds at 60, there can be tax consequences.

A. Private Investment Companies

04 **There is no requirement for a PIC to have a Trustee.**

Conversely, SMSFs must have either a corporate trustee or, alternatively, each beneficiary must be a trustee. The obligations imposed by APRA and the ATO to understand and comply with the law are onerous. Any change to an investment or even opening a bank account can make SMSF administration requirements onerous.

You can add a corporate beneficiary if you are a small business owner or professional with a discretionary trust.

05 **There is no restriction on the PIC borrowing from or lending to shareholders, subject to paying commercial interest rates.**

SMSFs can only borrow funds to purchase property under stringent rules. They are not permitted to borrow or lend funds from related parties such as beneficiaries. There are limited opportunities to manage the taxable income of an SMSF.

Currently, the small company tax rate is a straight 25% compared with the highest personal marginal tax rate of 47%.

A corporation can manage tax by making prepayments, purchasing depreciating assets, and contributing superannuation to a lower taxable income in the group.

TIP: Contribution caps, tax rates and preservation ages are indexed and subject to change. Always confirm the current facts with your accountant.

A. Private Investment Companies

A TAX DEFERRAL COMPARISON

The tax deferral is significant if you allocate $100,000 to a corporate beneficiary in a year rather than pay income tax at the top marginal rate.

- The small corporate beneficiary (PIC) pays 25% tax or $25,000
- The highest tax rate of 47% when applied to the extra $100,000 is $47,000
- So, there is a deferral opportunity for the difference between 47% and 25%, i.e. 22% or up to $22,000

Remember, this is a deferral and not a saving. However, you can use the funds within the company structure for other investments over an extended period.

PROS:

- For professionals and small business owners, it can be effective to divert income this way
- The amount can vary each year, subject to other financial plans
- There are no real upper or lower limits on how much income can be deferred to the company
- The key is the diversion of this income at a preferable corporate tax rate

06 **When the PIC pays income tax, the franking account is credited and can be used in the future.**

There is the opportunity to get this tax paid back during years when shareholders have low taxable incomes.

For example, suppose a dividend of $12,740 is paid to a shareholder who has no other taxable income. In that case, this dividend is grossed up to $18,200, which is the amount of taxable income that attracts zero tax, i.e., the tax-free threshold. The franking credits attached of $5,460 are then paid back as cash to the shareholder by the ATO.

At the upper end, you can pay an annual dividend of $100,000 to a single shareholder and pay no additional tax where there is no other income, as the franking credits cover the income tax otherwise payable.

When an SMSF pays tax, it is the same as paying income tax as an individual.

A. Private Investment Companies

07 **Income earned can be reinvested in listed securities, paying fully franked dividends.**

In this way, no further income tax will be paid until the securities are sold at a profit. The franked dividends received each year will be essentially tax-free and can be reinvested.

With advice, you can find investments that meet your needs and risk appetite. You determine when and how funds are transferred from the company and do this at a time that suits you, perhaps when your income is lower.

08 **PIC Investments can offer asset protection.**

You can set up a PIC with the person least exposed to potential litigation as a director/shareholder. However, remember that income distributions can only be made to the shareholders.

PICs do not receive capital gains tax (CGT) concession on the sale of assets, which is why many tax advisers prefer using superannuation and discretionary trusts.

However, with the corporate tax rate at 25% and the top marginal rate at 47%, this disadvantage is minimal if you are at the top rate of personal tax.

TIP: A PIC can be a valuable addition to your investment strategy and provides several benefits over other structures. It is worth considering, along with superannuation and discretionary trusts. Information on PICs is not widely published, so consult an accountant for advice.

SECTION THREE

SMSF Finance Guide

A. Your Goals & Objectives

Self-Managed Super Fund Finance is a highly specialised area where relevant skills and experience are required to succeed. Section Three provides insights into best practice lending when structuring and obtaining SMSF finance.

Identify lending outcomes that meet your goals and objectives.

A professional finance broker will raise your awareness of a range of issues that may be relevant to your circumstances, including:

- Different Interest Rate Options
- Loan Structure and Repayment Options
- Capacity to Service Debt
- Credit Providers suitable for your circumstances
- A Comparison of Lending Costs

This section contains general information that may assist you in making decisions or raise questions to be discussed further with your finance broker.

B. Security Provided for Debt

Security or Collateral are the assets that an individual or entity borrower provides to a lender, such as security for credit (debt). For the credit provider, this protects against potential loss of capital.

For SMSF arrangements, a property will be the sole security for any lending arrangement. As a result, a mortgagee (e.g. credit provider) only has recourse on the property and not against any other assets within the SMSF.

The property is owned by a "bare trust", with the SMSF having a beneficial entitlement. The bare trust holds legal ownership until all debt is paid.

After the loan is repaid, the SMSF has the right to acquire the legal ownership of the asset. Property financed under a new LRBA after 10 August 2026 must be business real property.

Background of the Members And Trustees

In most instances, the personal financial position of the applicants will be reviewed, as the capital base accumulated should indirectly reflect their "story". A lender will look to connect that to some extent.

In all cases, financiers will request a completed Asset & Liability Statement for all individuals. Despite the non-recourse nature of these arrangements, this will help assess the ability of the borrowers to make future contributions to their SMSF.

Retirement of Debt

The financier will need to see how debt will be retired (repaid in full). Given the nature of SMSF, the primary strategies they look for are:

- Rental Income received from the Property
- Income generated from other assets in the SMSF
- The ability to make ongoing SMSF contributions in the future

Tip: The sale of the primary security is not a sufficient debt strategy in most instances. Credit providers want to see the "first way out".

B. Security Provided for Debt

Loan Servicing

For investors, the rental income received from a property investment is not sufficient on its own to demonstrate loan servicing.

Take the following example of a new property acquisition of $1M, with borrowing to 70% of valuation under an SMSF arrangement:

Property Details	Property Type	Lease Status	Titleholder	Loan	Rate	Type	Value	Annual Rent
BRP Property	Commercial	Yes - Market	Bare Trust	$700,000	7.25%	P&I	$1,000,000	$65,000

The property has a Gross Yield of 6.5% (Being $65,000 / $1,000,000). For a credit provider this is less than the headline interest rate of 6.75%. The gap gets wider as we sensitise both the income, and the interest rate "buffer" applied to the loan as well:

Annual Rental Income	$65,000	
Sensitised Rental Income	**$52,000**	A
Loan Term	25 Years	
Interest Rate %	7.25%	
Buffer Interest Rate %	9.75%	
Actual Repayment	$60,700	
Sensitised Repayment	**$74,900**	B
Shortfall	**-$22,900**	= (A+B)

This shortfall ($22,900) needs to be supported by other income means. The lender will include earnings inside the existing SMSF structure or, less preferred, the ability to make future concessional or non-concessional contributions.

Tip: When determining yield, always allow for lenders to sensitise rental income and add interest rate buffers.

C. Repayment Structure & Amortisation

Setting a loan term is an important aspect of structuring SMSF lending. In our experience, it is often overlooked and should be a material consideration in the overall investment strategy of an SMSF.

Tip: The key is to match the loan term with the period in which the assets being acquired provide the maximum benefit, in consideration of the life cycle of the members.

Repayment Options

01

Principal & Interest (P&I)

Principal and Interest or P&I repayments are designed to ensure that the loan balance is fully repaid after a specified term.

The P&I repayment is a contracted ongoing repayment based on the outstanding loan limit (not balance), the interest rate and the term remaining. The repayment can change over time as interest rates move as a result.

The repayment basis will vary on the type of facility. As a rule, there is less flexibility on the timing of repayments compared to home loans.

Principal & Interest Repayments

Pros:
Generally, a lower interest rate; assists retirement of debt without any active engagement.

Cons:
Set loan repayment regardless of utilisation (amounts in redraw or offset won't reduce the P&I repayment required).

C. Repayment Structure & Amortisation

02

Interest Only (IO)

Interest Only or IO repayments do not require the repayment of principal for a period of time (usually a maximum term of 5 years). These loans typically attract a higher interest rate.

Upon the IO term maturing, the following P&I term will be based on the total period, less the IO period. As a consequence, borrowers will usually find themselves with higher residual repayments.

For example, If your loan term was 15 years with 4 years Interest Only, the residual term is 11 years P&I.

Interest Only may suit businesses that want to preserve cash flow. However, Principal & Interest from the outset can be desirable in many cases. The best option will ultimately come down to the opportunity cost of the "saving" and borrowers need to be aware of this consideration.

Interest Only Repayments

Pros:
Lower repayments; may assist with tax strategies; minimise cash flow to your mortgage.

Cons:
Higher interest costs; more aggressive P&I repayments when the IO term matures; more costly over the loan life.

Types of SMSF Property Investment

2026 Reforms & Residential Property as Security

Using a residential property as security for an SMSF loan structure was a common strategy until 2026.

From 10 August 2026, it is no longer a viable form of security for a new SMSF loan. Previous arrangements are grandfathered.

C. Repayment Structure & Amortisation

Commercial Property / Business Real Property (BRP)

SMSF lending using commercial property as collateral is diverse. This was the essence of the original SMSF borrowing structures, with the business owner seeking to transfer or purchase their business premises.

General commercial is broadly defined as Standard or Non-Standard. Standard commercial properties are preferred, and the best terms can generally be extracted. Standard security generates more lending options and terms.

Standard Commercial examples:

- Commercial Offices
- Industrial Warehouses & Factories
- Retail Premises & Shopfronts

Specialised commercial properties are generally a higher risk to credit providers, as they have a smaller available market on exit.

Non-Standard Commercial examples:

- Specialised Accommodation (Motels, Hotels, Caravan Parks)
- Aged Care Facilities
- Child Care Facilities
- Agri/Farms/Rural Properties

Business Real Property Nuance

Not all commercial property automatically qualifies as business real property. Mixed-use property, vacant land, lifestyle blocks and hobby farms may fall outside the definition. Newly built or off-the-plan commercial premises not yet in business use may also be ineligible.

Always review eligibility before entering an LRBA.

D. Loan Rates

Loan Rate Options

01 Variable Rate Loans

A variable facility can be packaged by lenders in several ways.

Like mortgages, which typically move in the same direction as the Reserve Bank cash rate, SMSF rates are correlated to changes in these broader funding costs.

Variable rate loans are popular with borrowers as there are usually few or no restrictions. Most variable loans are flexible, and they allow unlimited extra repayments.

Variable Rate Loan

Pros:
Extra repayments without penalty or restrictions; an easier loan type to refinance; benefit from interest rate falls.

Cons:
Exposure to interest rate rises, which increases loan repayments.

Recommended for:
Borrowers seeking flexibility, have good business cash flow to retire debt and can readily absorb interest rate rises.

D. Loan Rates

02 Fixed Rate Loans

SMSF interest rates can be fixed, usually for a term of 1 to 5 years. Fixed rates can be restrictive, and extra repayments can trigger "break costs".

Break costs occur when you repay more than what is allowed under the product. A larger prepaid amount and a longer fixed period can potentially mean a more significant break cost. If interest rates decrease after fixing, your break cost liability increases.

Some short term fixed SMSF facilities can be combined with variable rates, allowing the borrower to choose a structure to suit cash flow.

Fixed Rate Loans

Pros:
Benefits an individual or business that prefers a predictable budget as repayments are set for a period of time; protecting against rate rises.

Cons:
The product has break costs if you prepay debt by more than what is allowed or discharge the facility.

Recommended for:
Borrowers who have a firm plan and are budget-wise; or are sensitive to interest rate rises.

E. Capacity to Service Debt

Assessing the borrowing capacity of the SMSF customer is generally very similar to simple property lending, such as applies to general mortgage policy.

Loan Serviceability Measures

Key measures of loan serviceability include:

Interest Cover Ratio (ICR)

ICR is a measure of how easily a borrower can pay interest on outstanding debt.

Debt Service Ratio (DSR)

A measure of how easily a borrower can pay total debt repayments on outstanding debt.

Debt To Income Ratio (DTI)

A more holistic measure of outstanding debt, against the total gross income of the borrower.

SMSF Serviceability

In most scenarios, the SMSF lender will prefer to use DSR to assess:

Income

- Future SMSF Contributions (must show a connection to current income, etc.)
- Other Investment Income in the SMSF
- Property Rental Income

***Less* Expenses**

- Sensitised Loan Repayments for New Debt
- Other SMSF Expenses
- Other SMSF Liabilities

Tip: DSR can be a more relevant measure of liquidity. Unlike ICR, it includes the actual cash commitment to reduce debt. Where strong amortisation is needed, the gap between DSR and ICR can be wide.

F. Choice of Lenders

SMSF Lending

SMSF lending has evolved rapidly over its relatively short life. Initially, this structure was the domain of major lenders and was funded against commercial property assets.

The risk aversion, regulation and capital adequacy requirements imposed on major and second-tier banks meant they retreated broadly from this market over the last decade.

This opened the door for a range of non-bank financial institution (NBFI) lenders to enter the market with increased sophistication.

There was strong government lobbying for this structure to be banned, with fears that it was used as a vehicle to promote lower-quality property investment.

Evolving SMSF Credit Policy

In recent years, the market has been more aggressive, and we have seen the volume of credit providers returning, along with an expansion of credit policy, such as:

Removal/Reduction of Liquidity Requirements

SMSF loan liquidity requirements refer to other readily liquid assets held in the Fund. Credit providers traditionally want to see at least 10-20% of the property value available, which supports statutory purchase costs and other expenses associated with a property.

For example, for a property acquisition of $1,000,000, the credit provider would previously look for at least $100,000 (10%) in liquid assets in your SMSF. This requirement has softened in recent years.

Higher Maximum Loan to Value Ratios (LVR)

As competition has returned, so has the extension of loan value against security value. As a rule, this extends to up to 75% for eligible commercial property.

G. Basis of Recommendations

A basis of recommendations is a best practice step in the SMSF lending process. Understanding lending structures and costs will assist you in making an informed decision.

Choosing A Lending Structure

Structuring SMSF Finance is restrained by the limited pool of participating lenders.

Many expected second tiers would fill the void as major banks retreated from SMSF lending. However, most adopted a credit appetite that sits alongside or behind the majors.

Instead, specialist lenders have developed specific credit products for SMSF. These include Liberty Financial, Latrobe, Pepper Money, Bluestone and Bank of Queensland, which all source funding differently.

In our experience, the structure and subsequent conduct of borrowings are more material than the credit provider selected. Therefore, it is critical to focus on identifying the needs of the SMSF first before jumping straight into a credit solution or provider.

Understand Lending Costs

All prospective lending terms depend on the borrower's relative risk of default, combined with a "score" calculated by bespoke lender risk grading systems that capture qualitative and quantitative measures.

This score presents a required Return on Equity (ROE), which forms the ultimate basis of the lender's rate pricing and fee model. The modelling considers the probability of default based on risk grade. Then, it calculates the "loss given default", which generates the capital cost requirement based on the lender's cost of funds.

From a cost perspective, upfront fees for SMSF lending are higher than those for mortgage lending. A combination of legal, administrative and general application fees also contribute to the overall cost of borrowing.

G. Basis of Recommendations

Cost Comparison

A comparison of upfront costs and the indicative interest rate should be taken into consideration by the borrower. Consider the following example:

- Option 1 has a lower headline interest rate of 6.50% than Option 2's 6.60%.
- However, after adding additional set-up and ongoing fees, Option 1 will cost $3,273 more than Option 2 over the 15-year loan term.

Funder Option 1	ABC	Funder Option 2	XYZ
Drawn Amount ($)	$1,000,000	Drawn Amount ($)	$1,000,000
Select Repayment Type	P&I	Select Repayment Type	P&I
Notional Loan Term (Years)	15.0	Total Loan Term (Years)	15.0
Loan Particulars		**Loan Particulars**	
Total Rate (% p.a)	6.50%	Interest Rate (% p.a)	6.60%
Establishment Cost		**Establishment Cost**	
Application Fee	$8,000	Application Fee	$2,000
Other Fees	$4,000	Other Fees	$1,500
Ongoing Costs		**Ongoing Costs**	
Annual Fee	$299	Annual Fee	$0
Monthly Fee	$15	Monthly Fee	$0
Total Fees over Term	**$19,185**	**Total Fees over Term**	**$3,500**
Total Repayments & Fees	**$1,583,178**	**Total Repayments & Fees**	**$1,579,905**
Interest & Fees Paid	**$583,178**	**Interest & Fees Paid**	**$579,905**
Comparison Rate	**6.70%**	**Comparison Rate**	**6.63%**

TIP: The above example highlights how interest rates, costs and fees all factor into the bottom line over a loan term.

SECTION FOUR

Next Steps

A. Build Your Team

When making decisions related to retirement structures, it is helpful to build a team of trusted advisers around you, including:

Finance Broker

Assists in delivering the proper finance structure, suitable flexibility and competitive interest rates.

Financial Planner/ Adviser

Ensures you have the right personal plan and protection and will provide advice if purchasing in self-managed super funds.

Solicitor

Advises on all relevant contracts, handles the transfer of ownership (conveyancing) and sets up structures and trusts while protecting your assets.

Property Manager

Procures high-quality tenants and manages the day-to-day maintenance of your property.

Accountant

Necessary for maximising your financial benefits, recommending purchasing structures and complying with tax office requirements.

About Mortgage Link

Mortgage Link assists individuals and businesses with financial broking and advisory solutions - from simple to complex. We offer a vast network of professional services contacts.

Mortgage Link is an accredited credit representative of MCP Financial Services, which has representation in Sydney, Melbourne, Adelaide & Brisbane, along with several regional locations in Queensland, New South Wales & Victoria.

Whatever financial strategy you require, we'd love to connect.

B. SMSF Borrower Preference Checklist

Please indicate your preferences in the form below to assist your finance broker in providing further information to support you.

For assistance with this form, speak to your broker or contact Mortgage Link

	YES	MAYBE	NOT APPLICABLE
A) PRODUCTS			
1. VARIABLE RATE FACILITY	☐	☐	☐
2. FIXED RATE FACILITY	☐	☐	☐
3. HYBRID FACILITIES (Part Fixed/Variable)	☐	☐	☐
B) REPAYMENT TYPE			
1. PRINCIPAL & INTEREST (P&I)	☐	☐	☐
2. INTEREST ONLY (IO)	☐	☐	☐
C) COLLATERAL			
1. RESIDENTIAL PROPERTY (Grandfathered / refinance)	☐	☐	☐
2. COMMERCIAL PROPERTY	☐	☐	☐
3. EQUIPMENT	☐	☐	☐
4. BUSINESS	☐	☐	☐
5. UNSECURED	☐	☐	☐
D) LENDERS			
1. MAJOR BANKS	☐	☐	☐
2. SECOND TIER BANKS	☐	☐	☐
3. FINTECH / NEOBANK	☐	☐	☐
4. PRIVATE FUNDERS	☐	☐	☐

Glossary

Glossary

APRA	Australian Prudential Regulation Authority. An independent authority that supervises institutions across banking, insurance and superannuation and promotes financial system stability in Australia.
ASFA	The Association of Superannuation Funds of Australia is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA works alongside government bodies and superannuation funds to achieve good public policy and industry best practice.
ATO	The Australian Tax Office (ATO) is the principal revenue collection agency of the Australian Government, responsible for tax and superannuation systems.
Bare Trust	A bare trust is a basic trust in which the beneficiary has the absolute right to the capital and assets within the trust, as well as the income generated from these assets. The trustee has no duties to perform beyond handing over the property to the beneficiaries when instructed to do so.
Business Real Property (BRP)	Property used wholly and exclusively in one or more businesses, as defined in section 66 of the SIS Act. From 10 August 2026, real property acquired under a new LRBA must meet this test. Some residential property used in a business may qualify; some commercial property (mixed use, vacant land, lifestyle blocks) may not.
CGT	Capital Gains Tax (CGT) is the tax you pay on profits from disposing of assets including investments, such as property. It is part of income tax and can be either a capital gain (tax payable) or a capital loss (tax offset).
Discretionary Trust	A legal relationship whereby one party (the trustee) holds assets for the benefit of another (the beneficiary/ies). The trustee has discretion to distribute income and assets among beneficiaries in a way that can potentially maximise tax advantages.
DSR	Debt Service Ratio (DSR) is a measure of how easily a business can pay total loan repayments on its outstanding debt relative to EBITDA. Considers principal and interest.
DTI	Debt-to-income (DTI) ratio used by lenders to determine borrowing risk. A DTI ratio represents the total amount of debt owed compared to the total amount of money earned. It is measured as the percentage of monthly gross income that goes to paying monthly debt payments.
Fixed Interest Rate	Where the loan interest rate is fixed, usually for a term of 1 to 5 years. Fixed rate loans can restrict features such as offset and redraw. Break-costs need to be considered. Suitable for borrowers who like to budget to a plan or are sensitive to interest rate rises.
Franking Credit	A franking credit, also known as an imputation credit, is a type of tax credit paid by corporations to their shareholders along with their dividend payments. Australia and several other countries allow franking credits as a way to reduce or eliminate double taxation.
Gearing	Gearing means to borrow money to invest. In lending, gearing (also known as leverage) is the relationship, or ratio, of a company's debt-to-equity and is used to determine a company's creditworthiness. (See Negative Gearing)
Grandfathering	Transitional protection allowing existing arrangements to continue under prior rules. Existing residential LRBAs, permitted refinances, and contracts exchanged before 10 August 2026 are grandfathered.
Gross Yield	The gross yield of an investment is its profit before taxes and expenses are deducted expressed in percentage terms. It is calculated as the annual return on an investment (before taxes and expenses) divided by the current price of the investment.

Glossary

ICR	The interest coverage ratio (ICR) shows how easily a business can pay its interest expenses. This measure ignores any principal reduction.
IO or I/O	Interest Only loan repayments are only covering the interest on the amount borrowed (the principal) for a set period of time. Repayments will vary due to the utilised balance, number of calendar days in a month.
Limited Recourse Lending (LRBA)	A loan to acquire a single asset where the lender's recourse is limited to that asset if the borrower defaults. From 10 August 2026, real property acquired this way must be business real property.
LVR	Loan to Value Ratio – the loan amount divided by the property (or business) valuation, expressed as a percentage.
NBFI	Non-Bank Financial Institution. In other words, a credit provider that does not hold a banking licence.
Negative Gearing	A rental property is negatively geared if it is purchased with the assistance of borrowed funds and the net rental income, after deducting other expenses, is less than the interest on the borrowings.
P&I	Principal & Interest is the most common repayment type and requires a payment towards loan principal along with interest. Repayments are set based on the interest rate.
PIC	A Private Investment Company can be an alternative structure to a SMSF. Investment companies make profits by buying and selling shares, property, bonds, cash, other funds, and other assets.
Preservation Age	You can access your super before 65 if you retire at your preservation age. Your preservation age is between 55 and 60 depending on when you were born.
ROE	Return on Equity divides Net Profit after Tax by Total Equity to measure how efficiently a business is using its equity to generate profit.
SIS Act	Superannuation Industry (Supervision) Act 1993 – the primary legislation governing SMSFs, including the LRBA rules in section 67A.
SMSF	A self-managed super fund (SMSF) is a way of saving for retirement. The members of the fund run it for their own benefit.
SMSF Members	Members of an SMSF operate the fund for their direct benefit and are responsible for complying with superannuation and taxation regulations.
SMSF Trustees	Trustees are individuals, or a company appointed to manage the SMSF on behalf of its members.
Sole Purpose Test	A SMSF needs to be maintained for the sole purpose of providing retirement benefits to members, or to their dependants. A fund fails the sole purpose test if it provides a pre-retirement benefit to someone – for example, personal use of a fund asset.
Variable Interest Rate	Also "Standard Variable" or "Basic/Base Variable" loans. The interest rate is changeable and typically moves in the same direction as the Reserve Bank cash rate. Suitable for borrowers who want features like extra repayments, offset/redraw facility or split loans and can plan to absorb interest rate rises.

SMSF FINANCE

Talk to Mortgage Link

Business and Financial Services

Commercial Finance

Broad solutions for corporate, business and property funding of all shapes and sizes, even yours.

Equipment Finance

We act fast to find the most optimal lender to fund your business and personal assets.

Mortgage Finance

From simple to complex, we've seen it all and are here to help. Tell us your story – we are good listeners.

SMSF Finance

You'll find advisers that understand the unique needs of SMSF structures and borrowings.

You need a finance partner with experience.

Our award-winning expertise includes accounting, economics, legal, marketing and strategy. Talk to us, we're good listeners.

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Visit our Website

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