Funds rush yields, gearing

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The ability to gear and the prospect of high yields and long-term leases are encouraging self-managed superannuation funds to pile into commercial property.

About three out of four buyers of NSW industrial property under $5 million that was sold through real estate agent Jones Lang LaSalle were SMSF trustees, said Andrew Maher, head of industrial NSW at JLLS.

Just five years ago, SMSF buyers were non-existent, he said.

“Their [SMSFs’] ability to gear the asset is what’s really driving [sales],” Mr Maher said. “Previously if you had to use 100 per cent equity from a super fund there was no point. You didn’t get a return on your equity.”

The majority of SMSFs are purchasing commercial real estate as stand-alone investments, although an increasing number of trustees are buying their own business premises.

Trustees are also attracted to the long leases available on warehouses and factories, typically three to five years. By contrast, residential property leases run for between six and 12 months.

“[Commercial real estate] seems to be much more of a stable asset class and you’re picking up an 8 per cent return versus a 4 per cent [at] best for residential,” Mr Maher said.

The trend is echoed by rival firms, even if they are not seeing quite the same level of demand from do-it-yourself funds.

Real estate company Colliers International said about 40 per cent of commercial sales under the $5 million mark went to SMSFs.

At CB Richard Ellis, self-managed funds account for 30 to 40 per cent of commercial property sales under $2 million, with locations varying across the country, the company said. CBRE senior director Simon Fenn said SMSFs typically looked for passive investments with long leases.

Direct commercial property investments have been on the rise in the SMSF investor community, research shows.

When trustees from more than 1900 funds were asked what asset class they wanted to invest in in 2010, some 7 per cent chose commercial property – up from 5 per cent in 2009 – said an analyst at research house Investment Trends, Recep Peker. Four years ago, 7 per cent of total DIY super money was invested directly into commercial property. It was 8 per cent last year, according to Investment Trends.

The Australian Financial Review

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