SMSF Newsletter

January 2023

Thinktank

The following represents a monthly snapshot of how we see the SMSF sector and developments with respect to regulation and investments. We provide brief comments on the Economy and Sentiment but for more in depth commentary on property, please visit our website thinktank.net.au for our latest Quarterly Market Update and our Monthly Market Focus. This month in SMSF Update we take a look at the recent release by the Australian Tax Office (ATO) of the latest quarterly SMSF statistics for 30 September 2022.

With respect to the Economy and Sentiment, the Westpac-MI Consumer Sentiment Index rose in its recent December release by 3.0% from 78.0 to 80.3 but still well below the 100 (neutral) level of confidence. All three AiG indices fell last month and all were in negative territory below 50 points. At its December meeting the RBA Board raised the OCR by 0.25% for the third straight month after four 0.50% increases in a row. This takes the rate from 2.85% to 3.10%. While further increases are expected, but with no RBA meeting in January this may present the opportunity for a break in the New Year if CPI currently at 7.3% and unemployment at 3.4% justify a pause in the current tightening.

In the SMSF sector, last month we highlighted the release by the Council of Financial Regulators of their review of LRBA's which produced a favourable assessment. Shortly afterwards ASIC released another important review for the SMSF sector with their INFO 274 paper which primarily covered the question of how large a balance should a superannuation fund hold before it should consider opening an SMSF. ASIC had previously issued guidance that $500,000 would be required while others such as the SMSF Association had recommended as low as $200,000. ASIC's new position is mainly based on individuals having sound professional advice when considering establishing an SMSF and the examples given in INFO 274 include both positive and negative outcomes for balances below $200,000 as well as ones above $500,000 with the emphasis being on the individuals level of financial knowledge and willingness to devote their own time to managing the fund and reducing related costs. In short the issue is not straight-forward but we will be reviewing our own approach which currently requires a minimum balance of $250,000 and favours formal financial advice.

CoreLogic dwelling prices for December continued their decline but at a slightly slower pace. National Housing values posted a lower 1.1% fall for the month compared to 1.4% in November. The fall was 3.3% for the quarter nationally compared to last month's figure of 4.1% with a fall of 4.0% in Sydney and 2.9% in Melbourne. Adelaide and Brisbane were also in negative territory this month with dwellings down 0.4% and 1.5% respectively but Perth was alone in positive territory up slightly at 0.1%. Perth and Adelaide were again well rated in the monthly Herron Todd White (HTW) Property Report released late last month. Rents continue to rise up 0.6% for the month with yields at 3.8% nationally and HTW noting a "severe shortage" in units and houses in both Perth and Adelaide and "tightening" in 3 of the 5 capitals in Rental Vacancy Trends with Perth and Brisbane "steady".

We have continued to reflect the further decline of Residential in almost all areas and have maintained our ratings and trends accordingly across most capitals. Retail continues to be showing the signs of volatility as sales fell 0.2% in October but up 12.5% from 2021. Office continues its slow recovery from the pandemic lockdowns and is just Fair. Industrial remains very strong and we are maintaining our Ratings and Trends which are either Strong or Good with an Improving Trend in each of the capitals. It still remains to be seen how interest rate increases will impact on commercial capitalisation rates but a relatively flat yield curve appears to be encouraging as well as strong rental growth in the Industrial sector. Our Quarterly Market Update later this month will have a full review of all property sectors while our Monthly Market Focus takes a break until February.

	SYDNEY		MELBOURNE		ADELAIDE		BRISBANE (SEQ)		PERTH	
Resi- Homes	Weak	Declining	Weak	Declining	Good	Stable	Soft	Declining	Good	Stable
Resi- Units	Weak	Declining	Weak	Declining	Good	Stable	Soft	Declining	Good	Stable
Office	Fair	Stable	Fair	Stable	Good	Stable	Fair	Stable	Good	Stable
Retail	Weak	Stable	Weak	Stable	Good	Stable	Fair	Stable	Fair	Stable
Industrial	Strong	Improving	Strong	Improving	Strong	Improving	Good	Improving	Good	Improving

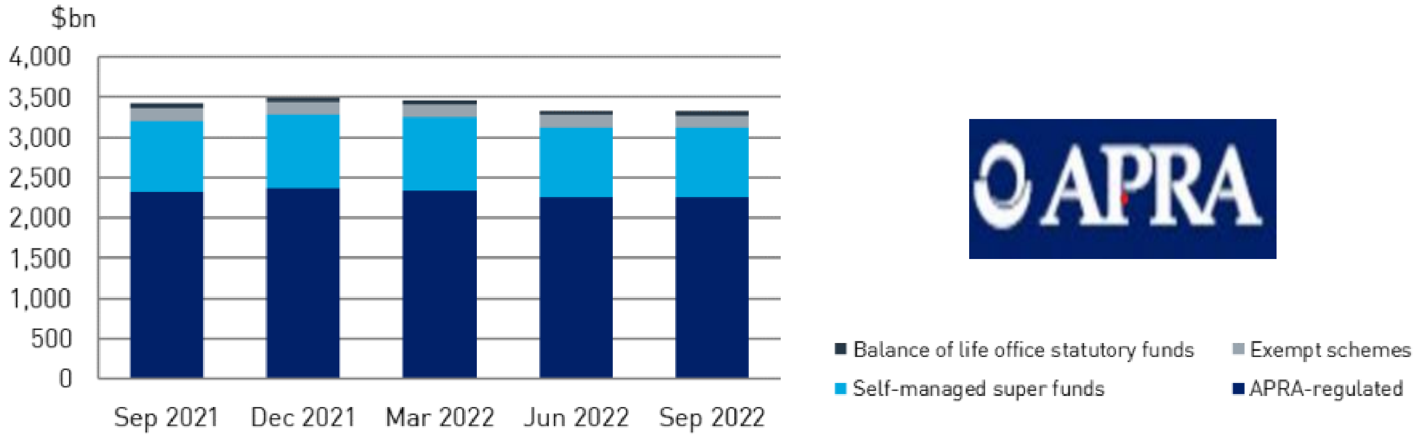
SMSF update

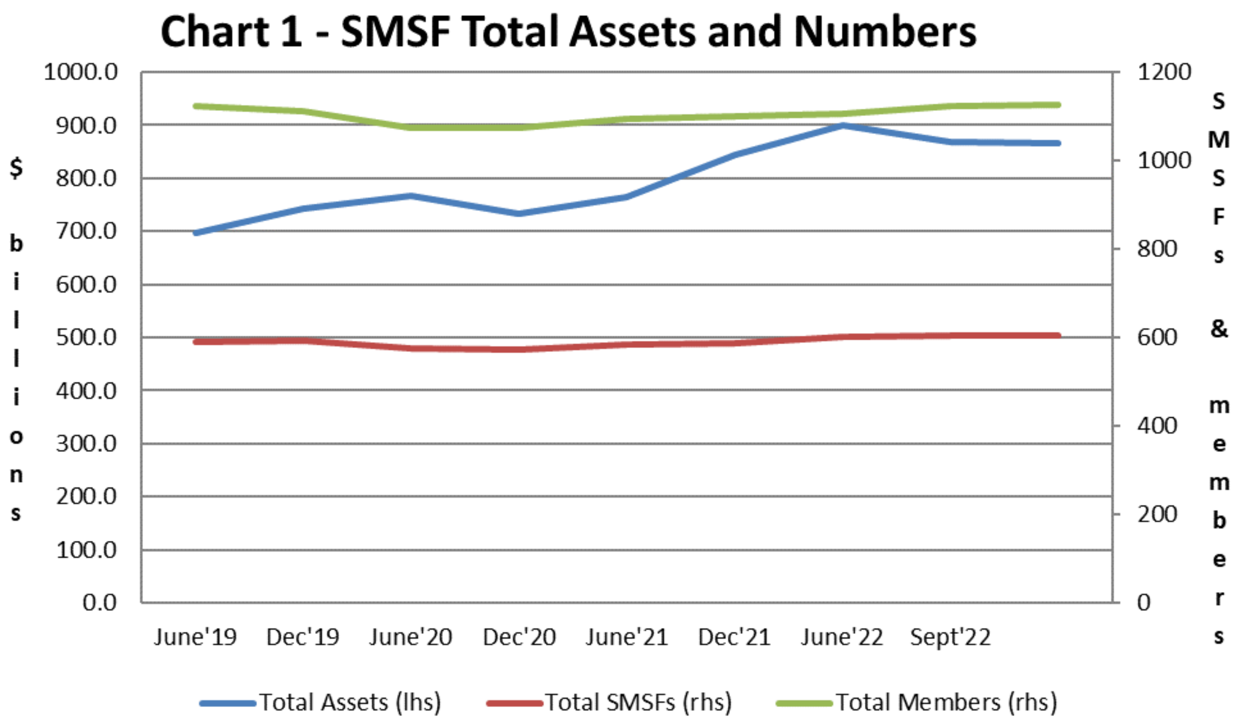
- The Graph below shows the APRA statistics for all Australian Superannuation entities as at 30 September 2022. Total superannuation assets were $3.3 trillion at the end of the September 2022 quarter, a quarterly decrease of 0.5% and an annual decrease of 3.2% respectively. The following comments by APRA relate to funds with more than six members and exclude SMSFs. The rate of return (ROR) for the September 2022 quarter was -0.7% and for the year was -6.4%, a significant decrease compared with the annual ROR for September 2021 (16.9%). This is the third consecutive quarter of negative quarterly ROR, as investment markets have suffered losses predominantly due to tightening monetary policy by many central banks globally, continuing uncertainty largely related to the conflict in Ukraine, pressures from disrupted supply chains and weaker outlook for global growth. The five year average annualised ROR was 4.8%, down from 7.8% in September 2021. Over the September 2022 quarter, total assets decreased by 0.3% (or $6.4 billion) to $2.4 trillion. With over $2.1 trillion in investments, 52.4% were investments in equities (21.7% in Australian listed equities; 25.4% in international listed equities; and 5.3% in unlisted equities). Fixed income and cash investments accounted for 29.1% of total investments (19.0% in fixed income and 10.1% in cash). Property and infrastructure accounted for 16.1% of total investments whilst other assets, including hedge funds and commodities, accounted for 2.3%.

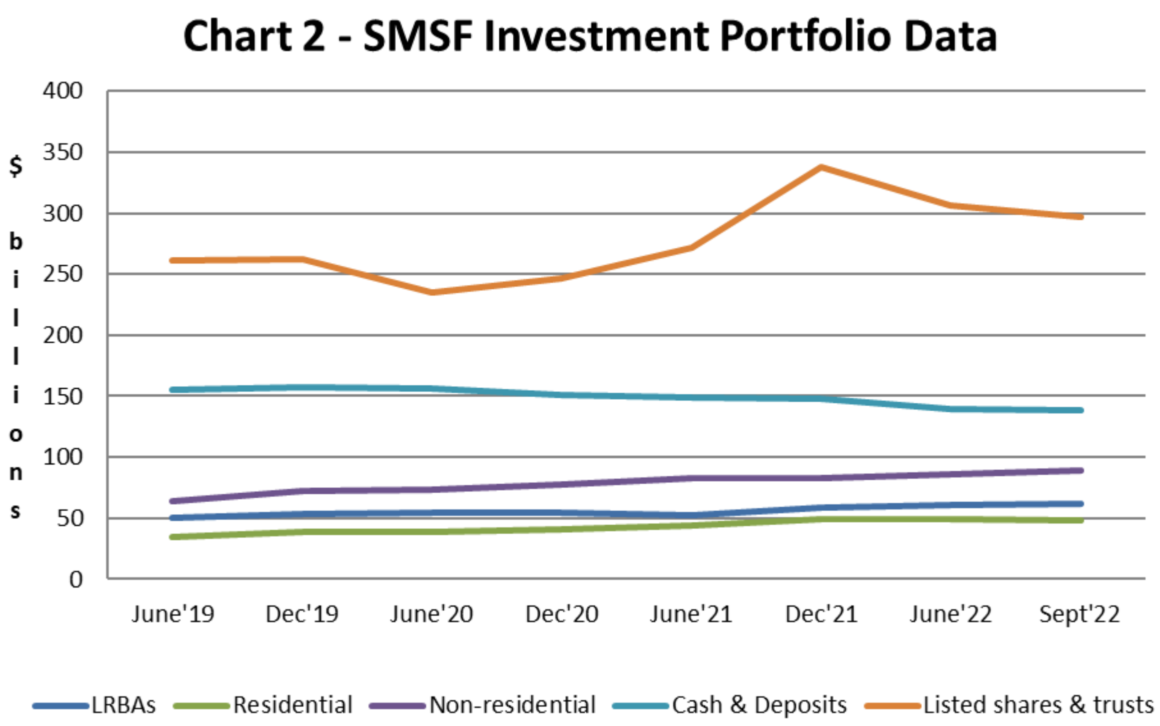
- **Chart 1** opposite shows the very steady numbers of Members and SMSFs for the past three years but with a steady growth in Total Assets from $742.2 billion in June 2019 to $865.2 billion an increase of 16.5%. We can see however, as with the comments above from APRA, that since December 2021 the value of Total Assets has fallen 3.8% and for the same reasons. Some other interesting statistics are also mentioned in the ATO's report such as the not surprising nearly even split between male and female members being 53% male and 47% female. This aligns with the conclusion that married couples make up a large proportion of the 68.7% of SMSFs that are two member funds. Other interesting points are that Residential Real Property is most common in SMSFs in sizes of $200k to $1million and the same is true of LRBAs. Non-residential Real Property is more popular with SMSFs over $1 million in assets.

- **Chart 2** shows some similarities and some differences from the APRA statistics and comments. The Asset Allocation with respect to Cash and Fixed Income is quite different at 29.1% for APRA funds while SMSFs held 16.1% in that asset class. Equities and Listed Trusts were 34.3% for SMSFs while APRA funds had 47.1% and another 5.3% in unlisted equities while SMSFs had just 1.3%. While there is a big difference in Direct Real Estate, both Residential and Non-residential which for SMSFs totals 15.8% being 5.5% residential and 10.3% Non-residential. For APRA regulated funds the property and infrastructure assets amount to 16.1% of total investments, so a similar asset class with similar weightings but a key difference with respect to being Direct Real Estate which only SMSFs hold. The other item that relates to Direct Real Estate is LRBAs which continue to grow in SMSFs and 7.2% of Total Assets and 45.3% of total Direct Real Estate assets.

Balance of Superannuation Entities, 30 September 2022







<u>Source: ATO</u>

Think Tank Group Pty Ltd | P 1300 781 043 | W thinktank.net.au | E deal@thinktank.net.au | A Level 24, 101 Miller Street North Sydney | A PO Box 6125, North Sydney NSW 2059 | ABN 75 117 819 084 | AFSL and Australian credit licence 333163

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Business relationships and loan inquiries

Northern

Cath Ryan
Regional Sales Executive NSW/ACT
0433 862 944
cryan@thinktank.net.au

Susan Kennedy
Residential Account Manager – Northern 0420 340 619
skennedy@thinktank.net.au

Claire Byrne
Senior Relationship Manager NSW
0414 235 478
cbyrne@thinktank.net.au

Robyn Hadlow
Relationship Manager NSW / ACT
0406 857 708
rhadlow@thinktank.net.au

Adam Hutcheson
Regional Sales Executive QLD/WA /NT
0434 609 239
ahutcheson@thinktank.net.au

Matthew Veloso
Commercial Account Manager – Northern 0468 989 444
mveloso@thinktank.net.au

Ranei Alam
Senior Relationship Manager NSW
0434 609 240
ralam@thinktank.net.au

Sam Dobbins
Relationship Manager NSW
0414 010 365
sdobbins@thinktank.net.au

Bob Whetton
Relationship Manager QLD/NT
0413 241 316
bwhetton@thinktank.net.au

Rob Tassone
Strategic Partnership Manager, Distribution - Northern
0450 642 995
rtassone@thinktank.net.au

Paul Burns
Senior Relationship Manager NSW
0434 609 241
pburns@thinktank.net.au

Kat Gasparovic
Relationship Manager QLD/NT
0405 815 287
kgasparovic@thinktank.net.au

Robert Ilov
Relationship Manager QLD/NT
0424 685 008
rilov@thinktank.net.au

Stephanie Stritch
Senior Relationship Manager WA
0410 938 283
sstritch@thinktank.net.au

Southern

Heather Noonan
Regional Sales Executive VIC/TAS/SA
0435 960 646
hnoonan@thinktank.net.au

Rosie Yardley
Commercial Account Manager – Southern 0405 994 824
ryardley@thinktank.net.au

Amod Mahatme
Relationship Manager VIC
0466 632 212
amahatme@thinktank.net.au

Joel Harrison
Strategic Partnership Manager, Distribution - Southern
0410 861 540
jharrison@thinktank.net.au

Tony Zaccari
Senior Relationship Manager VIC/SA
0403 758 514
tzaccari@thinktank.net.au

Matt Petering
Residential Account Manager - Northern
0405 994 824
mpetering@thinktank.net.au

Dev De
Senior Relationship Manager VIC/TAS
0466 576 338
sde@thinktank.net.au

For additional information, please contact:

Publications & Market Update
Per Amundsen
Company Secretary
(02) 8669 5515
0417 064 252
pamundsen@thinktank.net.au

Partnerships & Distribution
Peter Vala
GM Partnerships & Distribution
(02) 8669 5512
0468 989 555
pvala@thinktank.net.au

Residential Partnerships
Belinda Wright
Head of Distribution
(02) 8669 5577
0452 616 915
bwright@thinktank.net.au

Investor Relations
Lauren Ryan
BDM – Investments
(02) 8669 5532
0401 974 839
lryan@thinktank.net.au

Thinktank Property Finance is the leading independent lender specialising in property finance in Australia.
Thinktank offers a wide range of tailored mortgage product options for SMSFs including:

- ✓ Finance for the purchase and refinance of commercial and residential property;
- ✓ Limited Recourse Borrowing Arrangement (LRBA) loans with terms up to 30 years with no ongoing fees or annual reviews