SMSF Newsletter

March 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 31 December 2022 as well as comments on proposed changes to the taxation of SMSFs to be scheduled for implementation on 1 July 2025.

With respect to the Economy and Sentiment, the Westpac-MI Consumer Sentiment Index was unchanged in its recent March release staying at 78.5 and still well below the 100 (neutral) level of confidence and near historic lows. The AiG Australian Industry Index launched in a different format in February gaining 9.8 points to -1.8, the index has been in contraction for 10 of the past 12 months. The PMI and PCI will continue to be reported as sub-indices and for March the PMI rose 10.8 points but remains negative at -6.4; the PCI fell 16.4 points taking it into negative territory at -5.0.

At its March meeting the RBA Board raised the OCR by 0.25% marking the tenth increase since May 2022. This took the rate from 3.35% to 3.60%. While further increases had been expected there is now a growing consensus for a pause in April which could have a very positive impact on markets. Pauses by the Bank of Canada earlier this month and the 0.25% increase by the Federal Reserve in the US are positive indicators.

In the SMSF sector the major news has been the Federal Government's announcement that they will introduce legislation to lift the tax rate for SMSF balances over $3 million from the current 15% for all accumulation balances to 30% for those over $3 million. This is to become effective on 1 July 2025 and in terms of current SMSF balances would only impact a small number of members. One issue however is that the $3 million level would not be indexed so many more funds would be impacted over time. Our own view is that there is a long way to go until 1 July 2025 and a lot can change and probably will but many people will be planning accordingly and looking to reduce or limit growth to stay within the $3 million limit. The other recent announcement is the planning to implement the application of a capital gains tax on unrealised gains which is another huge possible impost on SMSFs and one with, in our view, little logic to support it. Time will tell on both.

CoreLogic dwelling prices for February continued their decline but only just as several markets have flattened out or risen slightly. National Housing values posted a 0.1% fall for the month compared to -1.0% in January. The improvement was based on Sydney's 0.3% increase for the month. This has been seen as "a false dawn" by some but we find it very welcome and a true reflection of the Sydney market with some segments performing very well. Perth and Adelaide were again well rated in the monthly Herron Todd White (HTW) Property Report released earlier this month. Rents continue to trend higher with gross yields at 3.9% nationally and HTW noting a "severe shortage" in units and houses in all Capitals except Melbourne and Rental Vacancy Trends "tightening" in 4 of the 5 capitals in with the exception of Perth which remained "steady".

We have reflected the further levelling out of Residential in almost all areas and improvements in Sydney. Retail continues a slight improvement up by 0.2% in February. Office continues its slow recovery from the pandemic lockdowns and is just Fair. Industrial remains strong. It still remains to be seen how interest rate increases will impact on commercial capitalisation rates. Our Quarterly Market Update next month will have a full review of all property sectors while our Monthly Market Focus immediately after the RBA meeting on 4 April will focus on interest rates both here in Australia and elsewhere around the world and outlooks for the Office sector.

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

SMSF Newsletter

March 2023

Thinktank

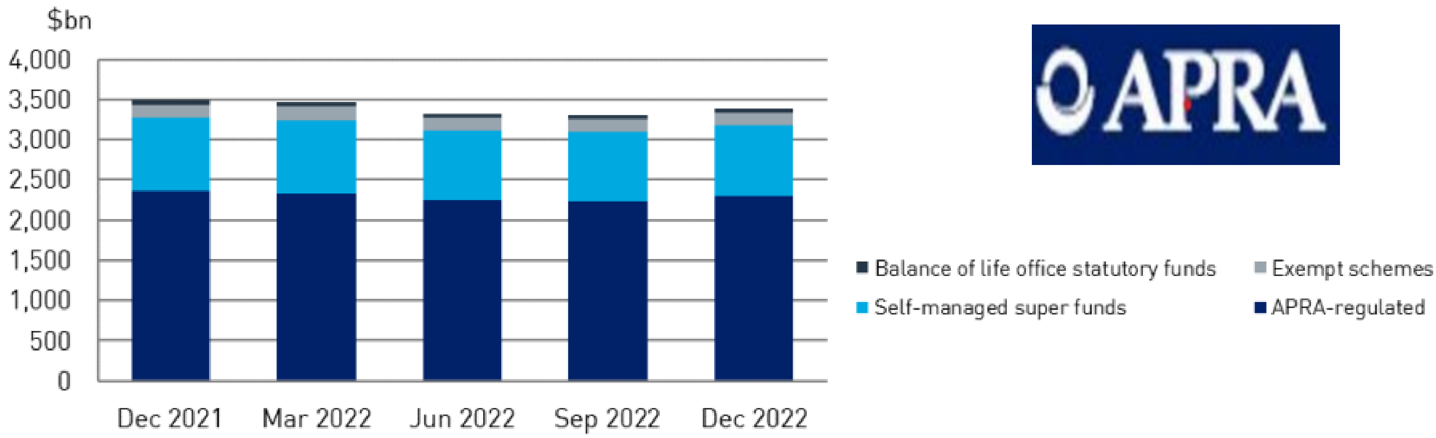
SMSF update

- The Graph below shows the APRA statistics for all Australian Superannuation entities as at 31 December 2022. Total superannuation assets were $3.4 trillion a quarterly increase of 2.5%. This quarterly increase was due to a positive change in the performance of investment markets over the quarter, with previous poor performance contributing to superannuation assets decreasing 3.0% over the 12 months to 31 December 2022. The following comments by APRA relate to regulated funds with more than six members and exclude SMSFs. Contributions totalled $38.5 billion and $154.4 billion for the year ended 31 December 2022 an 11.1% increase over the year compared to 31 December 2021. Net contribution flows (contributions plus net benefit transfers, less benefit payments) totalled $13.1 billion for the quarter. Net contribution flows for the year ending December 2022 were $64.1 billion compared with $58.7 billion for the year ending December 2021. This is largely driven by strong growth in both employer and member contributions. There was a $3.3 billion net outflow to Self Managed Super Funds (SMSFs) for the year ending December 2022 in-line with recent trends.

- **Chart 1** opposite shows the very steady numbers of Members and SMSFs for the past three and a half years with Members growing from 1,049,683 to 1,131,124 up just over 3.1% per annum (still with nearly 70% of SMSFs consisting of two members) but with a steady growth in Total Assets from $712.2 billion in June 2019 to $880.5 billion being an increase of 23.7% or 6.8% per annum. As with the comments above from APRA, since December 2021 the value of Total SMSF Assets has fallen 2.4% and for the same reasons. As we have mentioned previously 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 SMSFs and 54.3% of Members are over the age of 60. 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. Of particular interest with the recent Federal Government proposals to increase the tax rate to 30% on SMSFs over $3 million in size, the average size is reported as under $1.5 million with just 15% of SMSFs having Total Assets of over $2 million.

- **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 28.3% for APRA funds while SMSFs held just 15.5% in that asset class. Equities and Listed Trusts were 35.5% for SMSFs while APRA funds had 48.8% and another 5.1% in unlisted equities while SMSFs had just 1.3%. Not surprisingly, there is a big difference in Direct Real Estate, both Residential and Non-residential which for SMSFs totals 15.2% being 5.3% residential and 9.9% Non-residential. For APRA regulated funds the property and infrastructure assets amount to 16.2% 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 of course LRBAs which remain quite steady in SMSFs at 6.9% of Total Assets and 45.6% of total Direct Real Estate assets, virtually unchanged.

Balance of Superannuation Entities, 31 December 2022



APRA

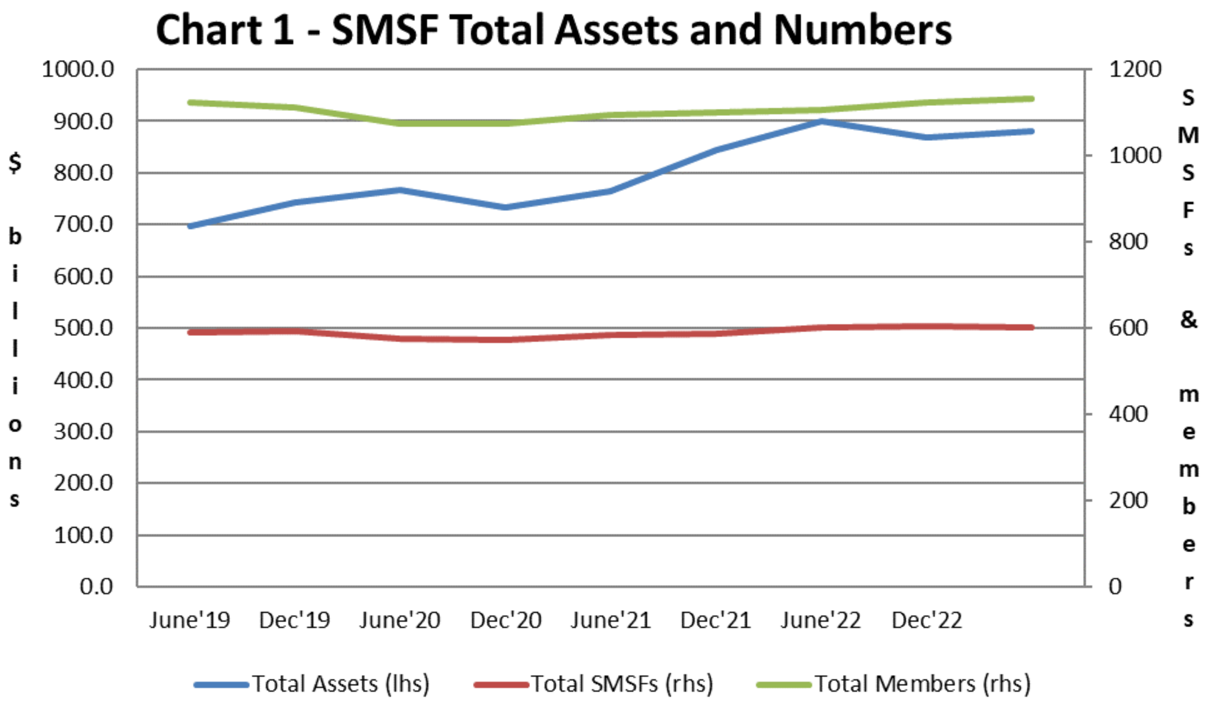


Chart 1 - SMSF Total Assets and Numbers
1000.0
900.0
800.0
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
$ billions
1200
1000
800
600
400
200
0
SMSFs & members
June'19
Dec'19
June'20
Dec'20
June'21
Dec'21
June'22
Dec'22
Total Assets (lhs)
Total SMSFs (rhs)
Total Members (rhs)

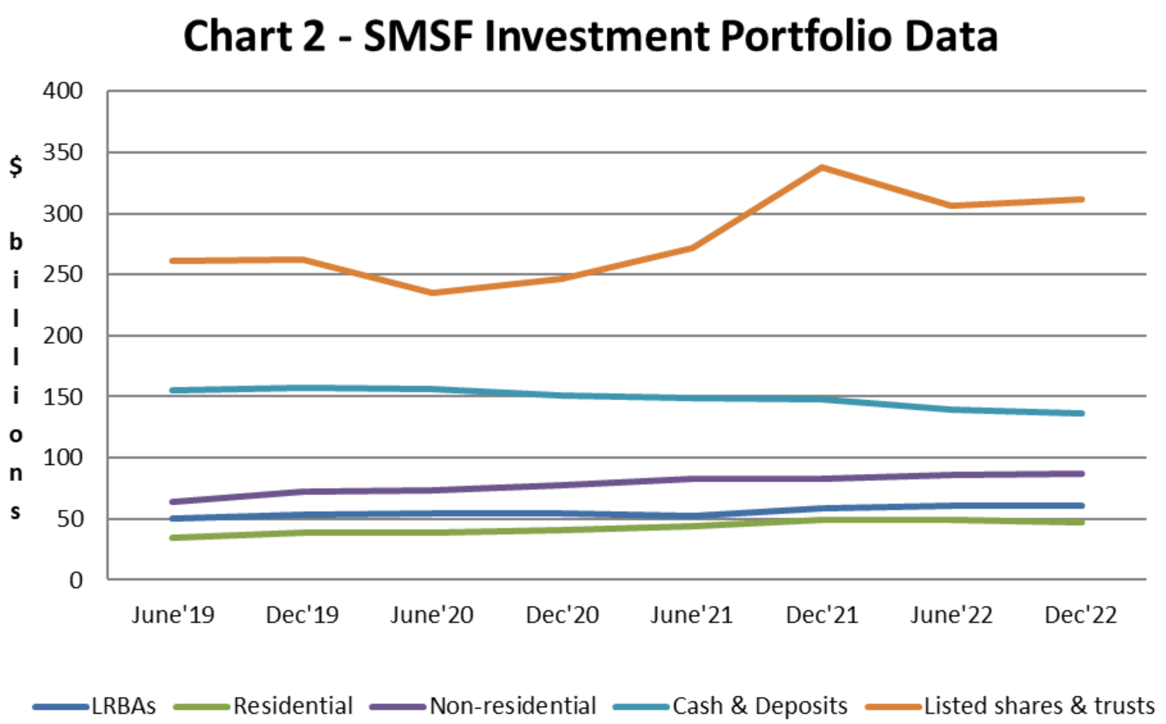


Chart 2 - SMSF Investment Portfolio Data
400
350
300
250
200
150
100
50
0
$ billions
June'19
Dec'19
June'20
Dec'20
June'21
Dec'21
June'22
Dec'22
LRBAs
Residential
Non-residential
Cash & Deposits
Listed shares & trusts

Source: ATO

SMSF Newsletter

March 2023

Thinktank

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

Paul Burns
Senior Relationship Manager NSW
0434 609 241
pburns@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

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

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

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