

New vs. Old property for SMSF's?

An important question often asked when buying an investment property with their SMSF is: "Should I buy a brand new property or buy an older property?"

Licensed Real Estate Agent Al Bhanji, CEO of Azure Property Group, provides answers to this question.

The answer really comes down to time, money and expertise. I always ask a few further qualifying questions like, what is the investment strategy for the SMSF and purpose of the investment property? How much time do you have to devote towards this investment? Do you want to be an active or passive property owner? Are you buying the property to move into in the future or are you just looking for a good property in a good position with capital growth potential?

With a new property there are many advantages that would suggest this is the best way to proceed. New properties are modern, clean, have low ongoing and maintenance costs, and they are generally in higher demand by tenants who tend to prefer new property over old which is important in terms of securing a steady income stream with a good tenant. New property also has added tax benefits in terms of the depreciation allowances for fixtures and fittings (generally 20% p.a. over 5 years) and building depreciations (2.5% p.a. over 40 years). These depreciation deductions are in addition to the standard deductions for interest and outgoings on the property and can be anywhere from \$7,000 - \$15,000+ per annum depending upon the price of the property purchased.

New properties in new developments generally are sold off the plan by developers who require presales in order to satisfy their banks development funding requirements. These pre-sales reduce the risk for the banks and enables buyers to secure the property before they are built. In many cases, by the time you see property advertised for sale in new developments the best ones have already been sold to the people who have got in early. New properties also tend to be built in areas where there is high demand for tenants, close to transportation, schools, shopping centres and government services. Within the major capital cities in Australia you will see a move towards increased medium to high density living due to limited land supply and proximity to work and transportation. As the population increases there are more and more people looking to enjoy apartment living and opting to be closer to work and entertainment.

Buying an older property you get the advantage of seeing the completed property before you purchase. This has the benefits in terms of understanding the size and proportions of the property before buying. The negative aspects of purchasing completed property are that they usually have less attractive depreciations or none associated with them (depending upon the age of the property). They tend to have higher ongoing maintenance costs as general wear on the property creeps in over time, so the appliances may need to be replaced, inside and outside painted and plumbing and electrical work done which all cost additional money and will generally come out of your savings or cash flow as you cannot refinance the loan to pay for these expenses. If you plan to buy an older property and renovate and have the time to spend, this can be a way of adding value to a property. The risk is can you buy the property for the right price, negotiate the trades people and builders, come in on time and on budget, while not over capitalising on the renovations? In my experience most people under estimate the scope of work required and the budget required to complete it.

When you weigh up the benefits of buying new property vs. old, that is, time and money, if you find two properties like for like in terms of price, one is new and the other is old, in my opinion I believe you are better off buying the new. However you can't assume that all new properties are a good investment option. You still need to make sure that you have done your research on the property you buy and use the services of a professional who understands the extra challenges faced by the SMSF.

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