



Sargon Small APRA Fund

Direct Property Information Booklet

May 2019

Contents

1. What is a direct property investment?	3
2. What are the key rules around investing in direct property through the Sargon SAF?.	3
3. What is the Business Real Property exemption?	3
4. What are the risks?	4
5. Who will be in charge of the property?	5
6. What control do I have?	5
7. What about insurance over the property?	5
8. What are the costs?	6
9. What if I want to hold a direct property through my Sargon SAF?	8
10. What if I want to sell the direct property?	9
Contact Us	9

This booklet is not investment advice. Nor is it a substitute for reading the Sargon Small APRA Fund Product Disclosure Statement (PDS). You should read the important information contained within the PDS and speak to your adviser before making any investment decision. Superannuation laws are complex and it is of paramount importance to obtain professional legal, accounting and financial advice before investing in direct property using your SAF.

This document has been prepared and issued by Tidswell Financial Services Ltd (TFSL) (ABN 55 010 810 607, AFSL 237628, RSE L0000888). TFSL is the Trustee of the Sargon Small APRA Fund ("Fund" or "Sargon SAF"). The terms 'our', 'we', 'us', 'Sargon' and 'Trustee' refer to TFSL.

This information booklet provides an overview of holding a direct property within the Sargon Small APRA Fund (“Fund” or “Sargon SAF”), including some of the key features and risks.

1. What is a direct property investment?

A direct property investment is the direct purchase of a specific residential or commercial property, using cash (no borrowings). The property would be unencumbered, i.e. not used as security against any borrowings.

2. What are the key rules around investing in direct property through the Sargon SAF?

Subject to the exceptions described in more details below, the direct property must meet the following criteria:

- Be consistent with the 'sole purpose test' of solely providing retirement benefits to fund members
- Not be acquired from a fund member or any related party of a fund member unless it is business real property
- Not be rented by a fund member or any related parties of the fund member unless the property is business real property and a market rental is charged.

3. What is the Business Real Property exemption?

Business Real Property generally means land and buildings used wholly and exclusively in a business. It is an exception to the in-house asset and related party acquisition rules within the super environment.

Business Real Property may be acquired by a Sargon SAF from a member or related party, where the fund provides consideration that reflects the true market value of the property and the acquisition is otherwise undertaken on an arm's length basis. The valuation must be based on impartial and verifiable data. The ATO has released a number of guidelines which deal with how to determine the market value of fund assets which are available on the ATO website (www.ato.gov.au).

The Business Real Property may also be leased to a fund member or related party on commercial terms at an appropriate level of rent reflecting the market rate.

We strongly recommend you obtain professional legal, accounting and financial advice before investing in direct property under the Business Real Property exemption using your Sargon SAF.

4. What are the risks?

There are important risks to consider when deciding whether or not to invest in a direct property through the superannuation environment. Whilst not exhaustive, below is a list of key risks you should consider before making a decision to include a direct property within your Sargon SAF investment portfolio.

Risk	
Diversification	This is the risk that an individual direct property may cause the Fund to be heavily weighted to one asset and asset class. If there is a significant negative shift in asset value or the income generated by the asset, this poses a risk to the value of the Fund assets overall and the retirement savings of the member(s). The Sargon SAF has a maximum direct property exposure limit of 60% of total fund asset value.
Control	You will not have control over many of the decisions and management/running responsibilities of the direct property within the Sargon SAF as these will be undertaken by the Trustee.
Liquidity	Liquidity is a major consideration within a Sargon SAF and a direct property has the potential to be illiquid. It is also inflexible in that it cannot be partially sold off in order to access cash quickly. The impact of owning an illiquid asset within the fund that may take time to realise should be carefully considered. Furthermore, the Fund also needs to have sufficient cash available to cover the costs of holding and managing the property which could mean considerable lump sums to be paid out including council, strata, water rates (in certain states) and maintenance, repair and property management fees.
Property Damage	Whether by natural events or through an unruly tenant, the Fund will be responsible for covering the costs of any damage to the property. A direct property held within the Sargon SAF must have insurance, however this may not be enough to cover the full cost of repairs.
Cashflows	Stemming from the above risks of liquidity and property damage, these risks have the potential to cause significant cashflow problems if it becomes necessary to pay out large lump sums in order to cover the costs of ongoing or one-off major expenses. If a tenant does not pay the rent, then the Fund will not receive the important income the asset ought to be receiving. There may be times when the fund does not have a regular income being paid if the property doesn't have a tenant. Note that if the Fund is in pension mode and the income stream cannot be paid, it would result in the pension stopping and the Fund resuming accumulation phase (with the consequence being the income of the Fund becomes taxable again).
Regulatory Uncertainty	Constant changes to the tax and superannuation regulatory environment can mean owning a direct property within the Sargon SAF can have challenges.

5. Who will be in charge of the property?

There are several layers of responsibility when it comes to holding a direct property within a Sargon SAF.

- **Control and Oversight:** The Trustee is responsible for the operation and compliance of the Sargon SAF as a whole, and this includes any assets held such as direct property. This means that ultimately it is the responsibility of the Trustee to operate and manage the assets, including leasing and maintenance of the properties etc.
- **Ownership:** A property held within the Sargon SAF must ultimately be held in the name of the direct property custodian, not the Trustee or the beneficial owners.
- **Property Management:** The Trustee has outsourced the responsibility of property management to a professional third party with the expertise and relationships to properly administer and manage the direct properties held within a Sargon SAF.

6. What control do I have?

The level of control of a direct property within a self-managed super fund (SMSF) is generally higher for the member than within the Sargon SAF.

With the Sargon SAF, the Trustee will ultimately be responsible for and make all decisions regarding the property, and the beneficial owner(s) will have very little to no influence over property decisions. Such decisions will include the real estate agent managing and leasing the property, the amount of rent to charge, who is chosen to tenant the property, and/or whether or not to pay for property maintenance and repairs and who will conduct these tasks.

The Trustee will at all times endeavour to ensure that the property is properly managed, tenanted and producing a regular income stream, however we cannot and do not guarantee this.

Should you wish to dispose of the property, the Trustee will need to provide approval to the Fund to dispose of the property. Refer to *Section 10 "What if I want to sell the direct property?"* in this booklet for further information.

7. What about insurance over the property?

Building and Landlord insurance must be in place for a direct property holding in the name of the Trustee. Existing policies over the property may be novated to appoint the Trustee as policy-holder if this is permitted by the insurer under an existing insurance policy.

It is your responsibility (in consultation with your adviser) to ensure the insurance cover for the property is both adequate and current. Premiums will be deducted from your cash management account.

8. What are the costs?

There can be significant costs to holding a direct property through your SAF. While not exhaustive, the below gives examples of many of the costs involved in transferring, owning and running a direct property through the Sargon SAF.

Costs of direct property within the Sargon SAF (inclusive of GST)	
Custody of Property	Initial Custody Establishment Fee of \$220 plus an ongoing custody fee of 0.044% per annum of the property value (with a minimum fee of \$1,100 adjusted for CPI on an annual basis).
Direct Property Trustee Establishment Fee	When you transfer a direct property into your Fund from your existing SMSF or SAF, or purchase a property via your Sargon SAF, a once-off Trustee Establishment Fee is payable of \$550.
Residential Property Sales Report ¹	\$132 upon Sargon SAF establishment. A Property Sales Report will also be obtained at least once every 3 years to ensure the Trustee satisfies its superannuation law obligations.
Commercial Property Valuation Report	\$825 valuation report fee for commercial properties to be obtained at least once every 3 years to ensure the Trustee satisfies its superannuation law obligations.
Costs of transferring direct property into the Sargon SAF (note these fees and charges vary depending on the state in which the property is located and are inclusive of GST unless otherwise stated).	
Verification of Identity per individual	Up to \$135
Title Search	Up to \$57
Stamp Duty (if applicable) ²	Up to \$50
Registration Fee ³	Up to \$390
Final Search	Up to \$55
Capped Disbursements Costs	Up to \$132
Agent's fee	Up to \$165
Conveyancing fee ⁴	Up to \$792
Review of Sargon SAF Trust Deed for new sales or purchases of property by Sargon SAF post establishment	Up to \$110

Notes:

¹ The Property Sales Report includes a kerbside inspection report, comparative market analysis and a current appraisal letter.

² This assumes that a stamp duty exemption or concession applies. If not, ad valorem duty would be payable.

³ Applicable fees for transactions lodged before 1 July 2019. These fees are subject to change.

⁴ This fee may change and it is possible an additional up to \$110 per hour may be charged for complicated matters in relation to the conveyance of the property or any application for stamp duty concessions or exemptions that require Solicitor's attendance.

Please note that unforeseen costs may arise and these will be charged to the Sargon SAF. The fees and costs above relate to the transfer in and holding of direct property fees and costs within the Sargon SAF. There are other costs involved in a direct property investment which are not unique to

the Sargon SAF or superannuation environment and are common to investment properties regardless of whether held in or outside of superannuation. It is important for you to understand that the fees and costs that can apply to a direct property can be many and varied, both in terms of the types and amounts. It is not possible to list and quantify all potential outgoings due to the uncertain and changing nature of these fees and costs.

The table below provides an overview of the expenses associated with the leasing costs of a property and should not be taken as an exhaustive list of the possible expenses that come with owning a direct property. For example, property maintenance and repairs will differ greatly in terms of the amount of work required and the amounts charged for carrying out this work.

Costs for professional management of direct property held within Sargon SAF (excluding GST)¹		
Fees for Residential Properties		
Service	Fixed Fees	Upon Request
Leasing		
Leasing Fee (new tenant)	1 week's rent	
Re-Leasing Fee (to existing tenant)	0.5 week's rent	
Marketing (including online advertising)	\$250	
Photography	\$280	
Tenant database, background and visa check	\$15 per individual or at cost (\$50) for a company	
Management		
Monthly Management Fee (if tenanted)	6.0% of monthly rent	
Monthly Administration Fee (if tenanted)	\$5	
End of Financial Year statement	\$50	
Miscellaneous		
Building Inspection		\$200 to \$400
Smoke Alarms/Detectors (annual)		\$90
Carbon Monoxide (annual)		\$145
Tax Depreciation schedule (once-off)		\$650
Insurance		
Dealing with claims		\$250
Keys, remotes, access cards & fobs		At cost
Tribunal Charges		
Registered post		At cost
Application fees		At cost
Warrant of possession		At cost
Attendance fee		\$120 for first 2 hours then \$80 per hour
Renovations (exceeding \$2,000)	10% of invoice	
Sworn Valuations		\$400 to 500

Costs for professional management of direct property held within Sargon SAF (excluding GST)¹	
Fees for Commercial Properties²	
Leasing	
Leasing Fee (new tenant)	1 month's rent
Re-Leasing Fee (to existing tenant)	0.5 month's rent
Management	
Monthly Management Fee (if tenanted)	6.0% of monthly rent
Marketing	Variable on a case by case basis

Notes:

¹ Other variable fees may apply on a case by case basis in respect of commercial properties.

² Fees and costs are subject to yearly review.

Disposal Fees

The Sargon SAF will be required to cover all costs associated with the disposal of the property. Such costs will include agent fees, marketing fees, conveyancer/solicitor fees, necessary repairs and cleaning expenses, and potential government fees and taxes. The costs of these activities will vary from property to property and state to state.

Fees and costs quoted are valid as at the date of preparation of this document. Please read the Sargon Small APRA Fund PDS for details about the fees and costs of a direct property holding within the Sargon SAF.

9. What if I want to hold a direct property through my Sargon SAF?

There are two ways to hold direct property through the Sargon SAF – either a transfer of title from an existing trustee of an SMSF or another Small APRA Fund, or an outright purchase of a property once the Sargon SAF is operational.

Transfer

If you are converting your SMSF or another Small APRA Fund to a Sargon SAF, you may transfer in your direct property as part of the conversion. Your financial adviser will provide you with guidance and advice on the necessary steps and documentation needed to ensure a smooth transition.

Purchase

If a property is to be purchased by an existing Sargon SAF, the property custodian must be noted as the buyer in the sales contract. Due to the complexities of property law, the increased requirements of various State Land Title Offices and potential stamp duty tax implications the need for quality legal advice on all transactions is imperative.

Important points to note on the purchase process are:

- The Trustee needs to be advised of the proposal to purchase the property;
- A property manager will be engaged to supply a Property Sales Report to determine the value of the property;
- The Sargon SAF will not accept encumbered assets, therefore the Sargon SAF will need to have sufficient cash holdings to purchase the property without any borrowings;

- The request to purchase the property will need to be assessed by the Trustee to ensure it is in line with your Sargon SAF's Investment Strategy and other requirements;
- Upon property purchase, a copy of the Sale Contract should be forwarded to the Trustee; and
- The Trustee's preferred property manager must be appointed as the property manager and arrange for leasing of the property to an approved tenant.

Your financial adviser should provide direction to the Trustee as to the liquidity arrangements and the source of funding to acquire the property.

A direct property may not be purchased at auction. It must be a private sale process and an independent valuation must be obtained prior to sale to determine fair value for the asset.

10. What if I want to sell the direct property?

The Trustee will make all reasonable endeavours to facilitate the sale of the direct property. The Fund will be required to cover all costs associated with the disposal of the property.

The Trustee has final approval of the sale of a property and will rely on the advice given by the financial adviser to the Sargon SAF members(s) for the reasons and other relevant considerations for the sale. It is a requirement for all Small APRA Funds and SMSFs that they attribute market value to the assets of the fund in the financials of the entity, meaning the market value of the property should be accurately reflected. Therefore, it may be necessary to obtain an independent valuation to establish fair value for the asset.

The Trustee will be guided by the selling agent as to the best sales approach (for example, length of campaign, marketing materials, auction, price etc).

Sale proceeds (less any fees and costs associated with the sale) will be credited to the cash management account linked to the Sargon SAF. Allocation to members will normally be as per their existing member entitlement.

We strongly recommend you obtain professional legal, accounting and financial advice before investing in direct property using your Sargon SAF.

Contact Us

In writing: POX 374, Flinders Lane, VIC, 8009

Website: www.sargon.com/saf

Email: safenquiries@sargon.com

Phone: 1300 081 191



This document contains general information only and has not considered your circumstances, including your personal objectives, financial situation and needs. Before acting on any information contained in this document, you should consider its appropriateness to you and consult your financial adviser who can help you decide if this is the right product for you.

This document should be read in conjunction with the Sargon SAF Product Disclosure Statement and the Sargon SAF Investment Information Booklet. These documents should be considered before making a decision about whether to establish a Sargon Small APRA Fund and/or hold a direct property investment through your Sargon SAF.