

This Week's Top Articles

- **It's as much Smashing Pumpkins as smashed avocado** *Graham Hand*
- **Little room for error in equity markets now** *Ashley Owen*
- **Five reasons why emerging markets lead tech** *Kim Catechis*
- **How to use factors to tailor your investing** *Michael Roach*
- **Check tax exemption on income from super pension assets** *Monica Rule*
- **Can my SMSF buy my investment property?** *Mark Ellem*
- **Property and why PropTech is the future** *Adrian Harrington*

It's as much Smashing Pumpkins as smashed avocado

Graham Hand

There is no greater accolade for a social commentator than having an idea enter the national lexicon. So it was with obvious pride that demographer Bernard Salt showed his unmitigated delight at the way his 'smashed avocado' reference now sums up an entire generation of Millennials and their spending habits. Salt was speaking at a Colonial First State Global Asset Management Forum on 1 May 2018, and he explained how media companies from all over the world have contacted him to discuss his smashed avos.

Salt's reference to \$22 breakfasts in the [original article in *The Australian*](#) has become a touchpoint on housing affordability and even intergenerational conflict. He said of young people:

"Shouldn't they be economising by eating at home? How often are they eating out? Twenty-two dollars several times a week could go towards a deposit on a house."

However, at the panel discussion, he said the real purpose of the column was misunderstood, as he subsequently wrote:

"It was intended not as a criticism of youth but as a parody of middle-aged moralisers, using the setting of a hipster cafe to showcase the conservatism of middle-aged thinking."

The mistaken message has more merit

Notwithstanding Salt's attempts to step back from the original interpretation, the incorrect meaning surely carries more gravitas. This struck me while attending a concert at the ICC Sydney Theatre a few days after hearing him speak. Here was a showing of highlights from the BBC series, Planet Earth II, 'live in concert' with the Sydney Symphony Orchestra playing an original score to match the action. The theatre holds about 9,000 people, and the only empty seats were the cheap 'bronze' sections at the side.

Now here's the thing. The audience was overwhelmingly young people, say under 30, and most of the tickets were in the 'platinum' and 'gold' categories. The ticket tiers are shown in the extract. With mediocre wine



Cost

Bronze: \$71.20

Silver: \$101.50

Gold: \$132.30

Platinum: \$183.25

BBC Earth Lounge: \$449.00

[Book tickets >](#)

in a plastic cup at \$10 a pop, each young couple was up for \$400, and the 'BBC Earth Lounge' was full at \$1,000 a couple. People queued impatiently to buy drinks and chips while the free water sat unloved.

For what? It was a great show, but BBC nature documentaries and David Attenborough are at saturation levels on free-to-air and pay television. Most people have big flat screens and good sound systems, and could watch the animals with great sound any night of the week. This was not a once-in-a-lifetime chance to see a music legend. It was a good night out watching something readily available, acknowledging that the SSO made it extra special.

Smashing Pumpkins 30th anniversary tour

In a couple of months, the legendary band Smashing Pumpkins will start a 30th anniversary reunion tour in the United States, the first time most of the band has toured together in almost 20 years. The band has a big Australian following, and if the tour makes it here, they will sell out at an average of \$200 a ticket.

In 2013, Pink sold out 46 concerts for over 600,000 fans, with the cheapest seats at \$150 and the 'True Love' package of meaningless stuff at \$400. Justin Bieber's recent VIP experience was over \$500. Adele sold 200,000 tickets for two open-air Sydney concerts in 2017 with D Reserve, up in the heavens at the ANZ Stadium, costing over \$100, and A Reserve nearer the stage at over \$300. Ed Sheeran's 2018 Australian tour sold over 1 million tickets with 225,000 in three shows in Sydney, slightly more than AC/DC in 2010.

The list is endless, week after week, worth billions a year, and Australia can't get enough of it.

What do some young people earn?

Clearly, many young people are well-paid and \$400 is the cost of a decent night out, but it is common to read young journalists bemoan their inability to ever buy a house in Sydney or Melbourne. The gig economy is making more jobs part-time and removing job security and benefits. Many struggle to make rental payments, never mind borrowing half a million.

Writing in *The Sydney Morning Herald* on 7 May 2018, a Fairfax contributor, 27-year-old Joshua Dabelstein said he does not know anybody who has ever considered buying property. He said his generation is more concerned with paying the rent.

"A friend of mine's boss convinced her that paying \$17 per hour at a café was a great deal because she wouldn't have to pay tax on it ... In the past 48 hours, two close friends have been fired. One has spent seven months working for a restaurant that paid him a flat rate of \$19 an hour."

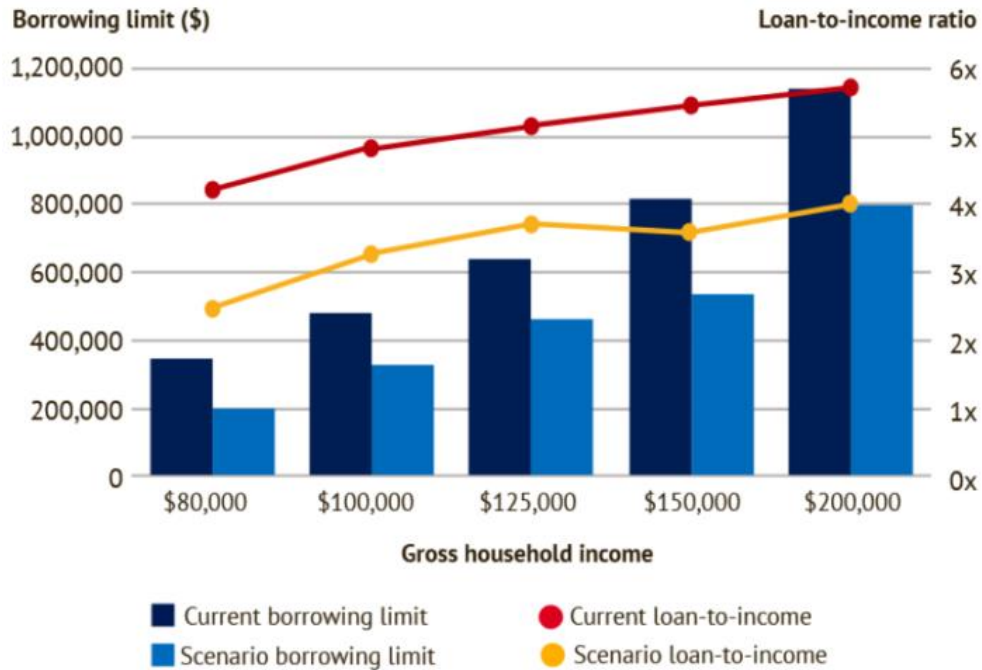
So without entering the debate on what's fair and whether small business can afford to pay penalty rates, there are vast numbers of young people earning less than \$20 an hour. Perhaps these are not the people going to many concerts, but when Ed Sheeran sells one million tickets and Pink and Adele sell 600,000, there's a lot of gig economy and casual workers among the audience.

What do banks now require for a home loan?

In the last year, qualifying for a home loan has changed dramatically. Lenders want to know far more details than they did at the start of the residential property boom that has now ended. The Financial Services Royal Commission produced much evidence in Round 1 on how easy it was to obtain finance. Now, lenders want to know about day-to-day living expenses, down to details such as how much is spent on fuel, eating out and, yes, going to movies and concerts. There is more checking of bank statements by line item, and reports of lenders asking why borrowers needed luxury items like [gym memberships](#). The Royal Commission's honing in on responsible lending obligations has changed mortgage industry procedures. ANZ Bank CEO Shayne Elliott said the more risk-averse mood would make it harder for some consumers to borrow for a home.

The investment bank UBS has done an estimate of how borrowing conditions have changed, as shown below, with a decline in loan size for given levels of household income, and lower loan-to-income ratios based on new lending scenarios.

Following the Royal Commission, much larger deposits will be required, and most people will only achieve this by reducing their spending or going to the Bank of Mum and Dad.



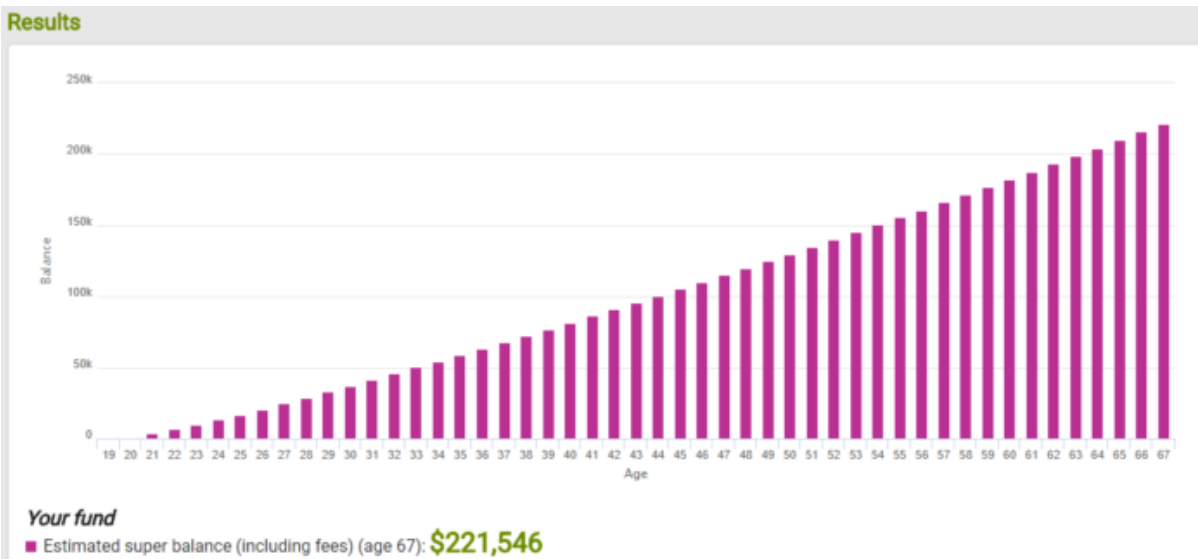
Source: Major banks' borrowing calculators, UBS estimates

What could be achieved by smashing the concert desire?

Life is for living and café breakfasts and concerts are fun and part of the joy of an Australian way of life. I get that. But for the sake of the exercise, let's see what could be achieved by salary sacrificing into superannuation instead of buying a \$200 concert ticket (or finding some other saving) each month.

These calculations are made using ASIC's [MoneySmart Superannuation Calculator](#) where anyone can experiment with the numbers. Check the website for the underlying assumptions but this example uses the following:

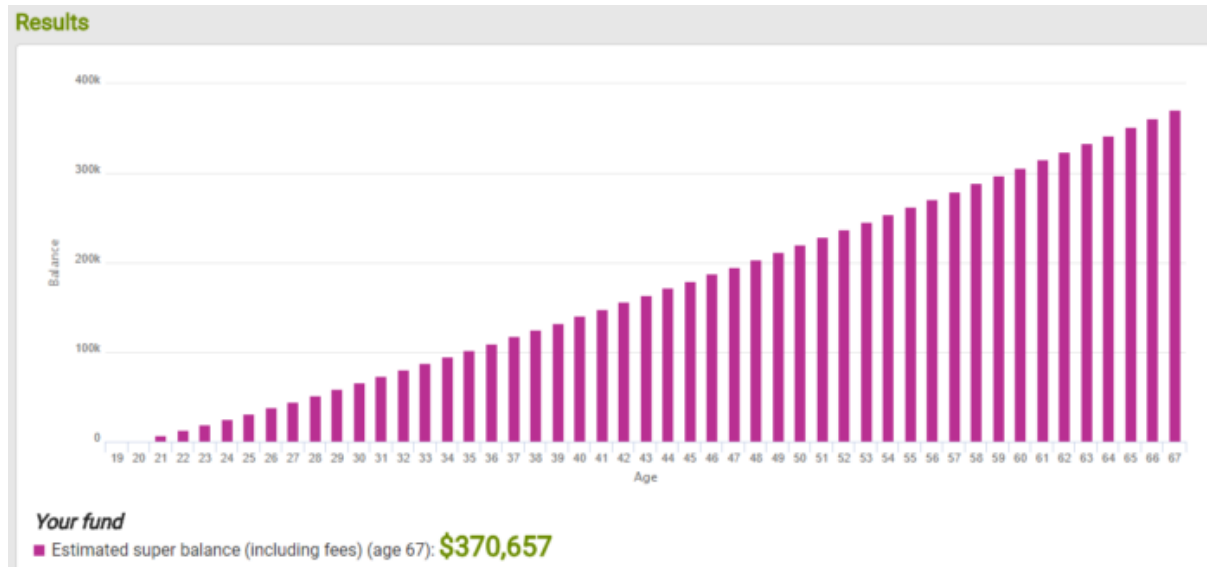
- Age at start, 20
- Annual income before tax and super, \$40,000
- Desired retirement age, 67
- Employer contributions, 9.5%
- Low-Medium fund with fee of 0.9% pa plus \$50 pa admin fee
- Growth fund with investment return of 5% pa.



The estimated fund balance at age 67 is \$221,546. Of course, investments markets do not deliver smooth, predictable results as this chart implies, but it's an ASIC-approved picture of long-term potential.

Now let's change only **one** assumption, with the saver making additional salary sacrifice contributions to superannuation of \$200 a month. All numbers are adjusted for inflation.

The balance at age 67 is now \$370,657, an increase of about \$150,000 or nearly 70%.



Sacrifices are needed

It doesn't matter whether the \$200 a month comes from missing a concert or avocado on toast, the numbers show the remarkable impact of disciplined saving and a relatively modest amount extra each month. Of course, many people would struggle to find \$50 a week, but missing a coffee a day would go half way there. It's a matter of lifestyle and future financial security at the cost of current consumption and enjoyment.

Seeing Smashing Pumpkins, Pink, Justin Bieber and animals on a big screen are all fun to somebody, but having financial security at age 67 is fun for everybody. Bernard Salt was right the first time: saving all the little extras for many years could go towards a home deposit or a decent retirement.

If his original article really was a "parody of middle-aged moralisers", the queue starts here.

Graham Hand is Managing Editor of Cuffelinks.

Little room for error in equity markets now

Ashley Owen

The key reason for concern about exposure to equity markets is the over-pricing in much of the market in the US, Europe and UK. The US stock market makes up more than half of the global market capitalisation and what happens in the US echoes around the world.

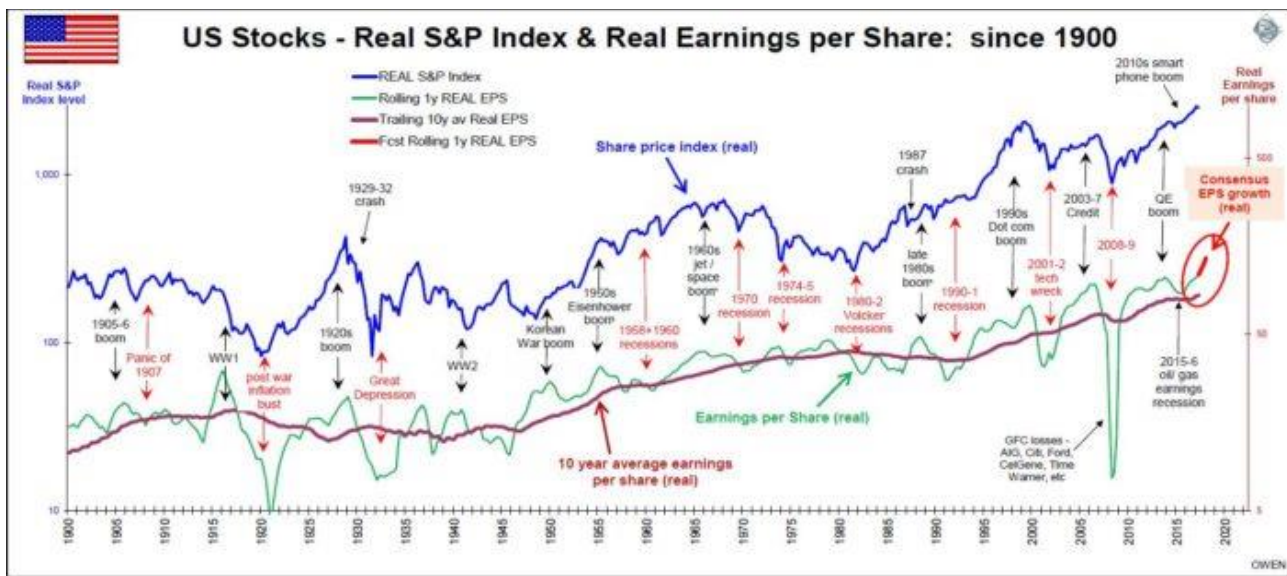
We have been relatively bullish on US shares since the start of the current 'Quantitative Easing' and technology boom since 2012, especially in smart phones. It has been a tremendous rally, with the US broad market returning an incredible 140% in the past five years led by tech giants Apple, Amazon, Facebook, Google, Microsoft, and the like. The problem is not profits or dividends as both have been rising strongly during the boom, and the current profit reporting season has seen more double-digit profit growth. The problem is that everybody has come to expect double digit profit growth as the norm, but it is not sustainable and never has been.

Downside risk now dominates

Prices are so high and profit growth so strong that there is now little room for error. We are at a point where there is more downside than upside. The chance of share prices doubling in the next year or so is small, but share prices could easily fall dramatically and languish for years – as they have done several times in the past.

The chart below shows the broad US stock market index in real (inflation-adjusted) terms (blue line) since 1900. The green line shows aggregate annual company earnings (profit) per share across the market. Profits oscillate up and down wildly through booms and busts. The maroon line is the 10-year average real earnings per share. This is much smoother.

Real profit growth (maroon line) has averaged just 2% per year for the past couple of centuries. In that time, America has grown from being an 'emerging market' to the largest economy in the world in which its leading companies dominate most industries on the planet. Even in recent decades, real profit growth has still averaged around the same 2% per year.



Watch for complacency

Company profits (green line) rise strongly in booms as they are doing now. The problem is that whenever the green profit line rises too far above the maroon trend line as the booms progress, people become complacent and set their expectations too high. They expect double-digit growth to last forever. Whenever boom-time profits reach beyond about 30% above the long-term trend, share prices tend to snap back sharply in sell-offs. The last big sell-off was the 2008-2009 'GFC'.

The profit line is currently 30% above its long-term trend and that is on a par with numerous prior booms before sell-offs. So we are in dangerous territory. A further concern is that the current market expectations of profits for the next couple of years (red line on the far-right end of the green profit line) is for further astronomic profit growth, heading into the stratosphere.

For the current tech boom to continue at the same pace as it has been to date, Apple, Amazon, Facebook, Google, Microsoft, etc would need find a new planet, fill it with another 7 billion people and then sell phones, apps and software to them all within the next few years! Elon Musk at Tesla is doing his best, but it will not be quick enough.

Ashley Owen is Chief Investment Officer at advisory firm [Stanford Brown](#) and The Lunar Group. He is also a Director of Third Link Investment Managers, a fund that supports Australian charities. This article is general information that does not consider the circumstances of any individual.

Five reasons why emerging markets lead tech

Kim Catechis

Emerging markets are at the forefront of global technology growth. Many emerging market tech companies are the most innovative and fastest growing in the world, driven by young, increasingly affluent and tech-savvy populations. The MSCI Emerging Market Index now has the largest technology weighting of any global index, with its share rising from 13% at the end of 2010 to 28% by the end of January 2018.

Here are five key reasons why emerging markets leads the tech revolution:

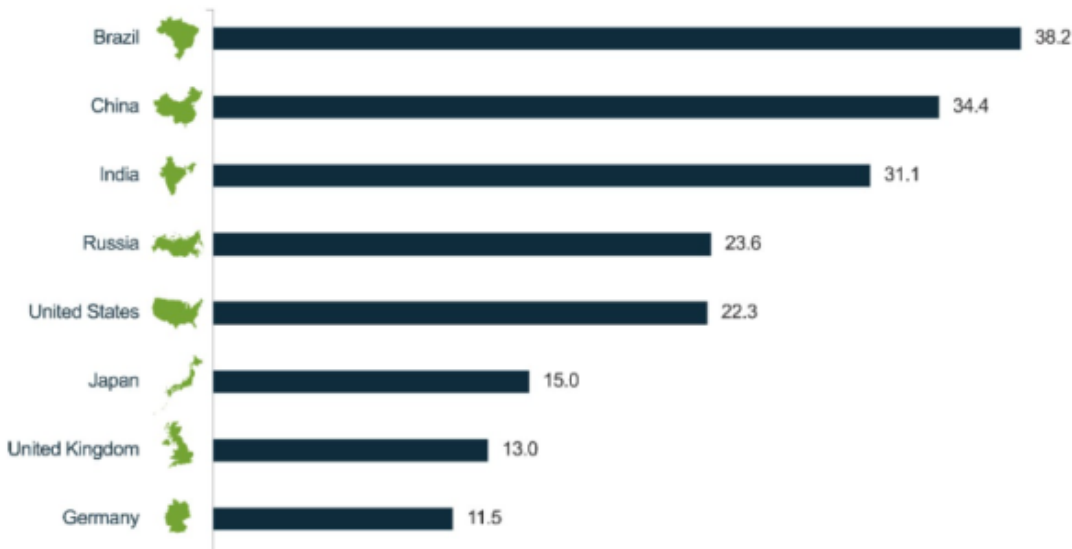
1. Huge appetite for tech

The sheer size of populations in emerging markets is itself an opportunity. While internet-user growth has been blistering, there’s still plenty of room for expansion. China’s 730 million online population is larger than that of the European Union and US combined but represents only half of the country.

A significant percentage of the ‘unconnected’ in China and other emerging markets like India, Brazil and Russia are urban dwellers (see chart below), which means they can be added relatively fast and cheaply. The youthful demographic profiles of many emerging markets are a real tailwind for technology, given faster adoption and creativity that characterises younger generations.

A long way still to go for internet penetration in EM

Urban individuals not connected to the internet as a % of total urban population in 2017



Source: Statista, IHS Markit and Wireless Broadband Alliance.

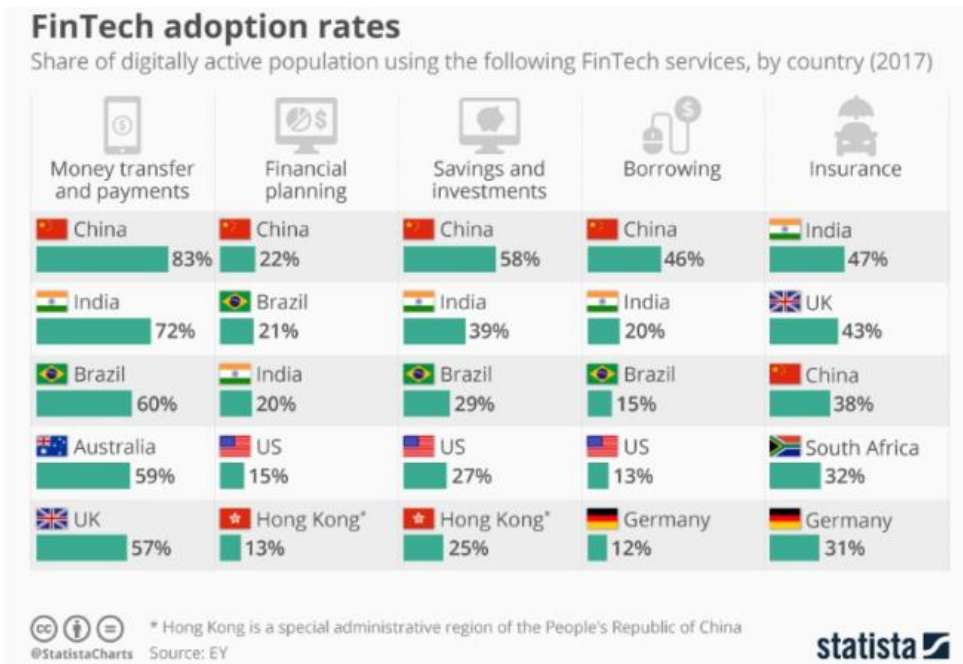
2. Power of the mobile phone

A large proportion of the population in emerging markets is accessing the internet via smartphones, and this has spurred phenomenal innovation. China’s Tencent, for example, has built a whole content-driven social-networking ecosystem through mobile internet. This includes e-finance, e-commerce, ad-platforms, online-to-offline services, travel and mobile gaming – effectively making it a Facebook, PayPal, WhatsApp, and Amazon all rolled into one. US companies may have spearheaded personal computer internet services, but emerging market tech firms are leading the mobile internet revolution.

3. Taking the lead in FinTech

FinTech – the fusion of finance and technology – is a prime example of an area where emerging markets are outpacing their developed counterparts by some margin. This is assisted in no small measure by the mobile revolution, but also broader efforts to improve financial inclusion. Whether it be money transfer & payments, savings & investments, insurance or borrowing, emerging markets exhibit more enthusiastic use of FinTech than elsewhere.

Emerging market financial institutions have also been quick to embrace technology, making them world leaders in the use of electronic distribution channels. The bank with the largest Twitter following in the world is not of developed-world provenance, but India's Yes Bank.



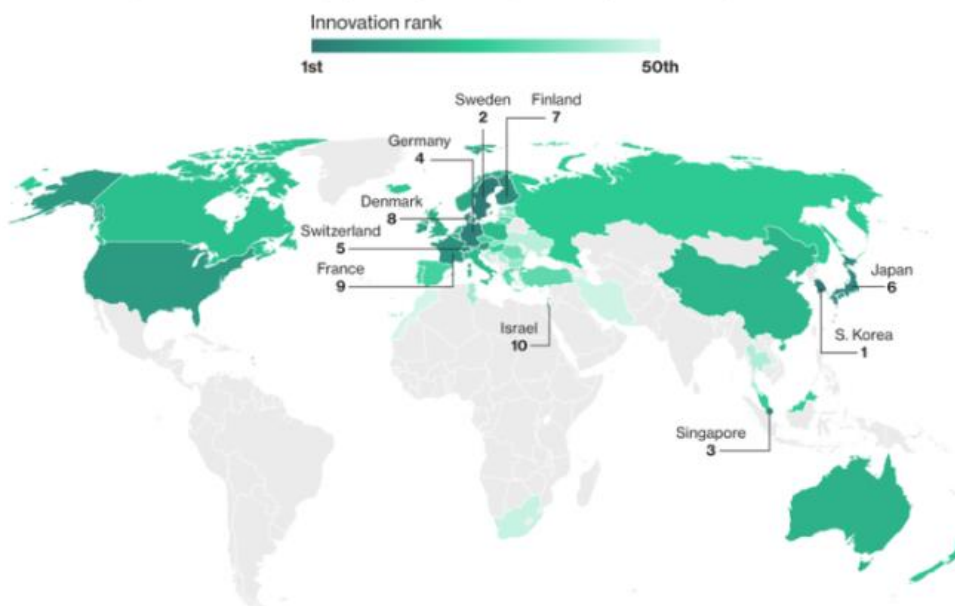
4. Governments are on board

Emerging market governments are keen to use technology to increase efficiencies and reduce cost. What's more, demographic pressures have forced governments to focus on their young and increasingly affluent populations. This rise in income and social mobility is most starkly illustrated in Asia, where the Brookings Institute estimates that over two billion people will join the middle class by 2030.

A focus on education and innovation has also helped some emerging markets steal a march on developed market competitors. In Bloomberg's latest index of the world's most innovative countries, South Korea again led the field, topping the international charts in Research & Development intensity, value-added manufacturing and patent activity, and with top-five rankings in high-tech density, higher education, and researcher concentration.

Fifty Most Innovative Economies

South Korea, Sweden and Singapore top the list; U.S. drops out of top 10.



Source: Bloomberg, International Labour Organisation, International Monetary Fund, World Bank, Organisation for Economic Co-operation and Development, World International Property Organisation, Jan 2018.

5. Emerging market tech titans

Emerging markets today boast world-class technology firms in both the hardware and software space. Chinese names like e-commerce giants Alibaba and Tencent have built huge footprints domestically (note that in China, US tech giants like Facebook, Amazon, and Google are peripheral players in their respective areas of social media, e-commerce, and search engines).

Both Alibaba and Tencent are now extending their coverage across Asia. Armed with Asia-centric games, social networking, and e-commerce platforms, we believe they will give the formerly dominant US names very tough competition. Meanwhile, other emerging market tech firms, like colossus chip-maker Taiwan Semiconductor, are central players in global supply chains – providing components for major brands like Apple.

Emerging markets – the new destination for tech exposure

Rather than catching up, emerging markets are now taking the lead in a whole raft of different areas of technology. With plenty of untapped growth left, and the highest-quality firms widening their competitive moats, we believe this area presents some of the most attractive long-term opportunities for investors.

Kim Catechis is Head of Emerging Markets at [Martin Currie](#), a Legg Mason affiliate. Legg Mason is a sponsor of Cuffelinks.

How to use factors to tailor your investing

Michael Roach

Factor-based investing has gained greater attention in recent years, in part because of the rise of alternatively-weighted indexes and 'smart-beta' products.

However, investing in factors is nothing new. Benjamin Graham and David Dodd published ideas on what we now call value investing in their book *Security Analysis* published in 1934.

Portfolios might tilt towards or away from certain factors. What is new about factor-based investing is using the factor lens to evaluate portfolios, crediting factors for their impact on risk and return.

Today, value investing is considered one type of factor strategy – with minimum volatility, quality, momentum and liquidity being other common factor strategies.

We think of factors as the DNA of an investment – the underlying attributes that explain and influence how an investment behaves. Factor strategies leverage the positive effects of factor exposures through systematic, diversified, and disciplined tilts.

With an increasing array of factor funds on offer, deciding what's right for your portfolio can be difficult. By keeping some fundamentals in mind, investors can work out what might genuinely assist in reaching their financial goals.

Align your goals with your investment choices

How you use factors when constructing a portfolio depends on your goals. Rather than targeting pure outperformance with factor funds, you might be better off considering the kind of characteristics a certain factor can add to your portfolio. Your goals may involve specific time-horizon constraints, or varying risk profiles.

For example, those in pension phase with concerns about volatile markets may see the benefit in using a factor fund focused on minimising volatility in part of their equity exposure. This might apply especially when reallocating too large a sum to fixed interest could jeopardise the capital growth required to protect against outliving assets.

Historically, an investor may have looked towards equity funds that emphasised 'defensive' sectors or those with higher dividend yields for volatility reduction. However, while lower volatility can be, at times, a by-product

of these types of strategies, it is not the objective. Additionally, products like these may lack proper diversification and not provide the downside protection when needed the most.

A minimum volatility strategy is optimised to provide equity returns with lower volatility than the broad markets in a diversified portfolio.

Alternatively, a growth-oriented investor might conclude that the style characteristics of their total global equities portfolio are not appropriate for the level of desired risk. If the investor wishes to maintain the outperformance potential of their existing funds while reducing the active risk, they could allocate a portion of their global equities portfolio to a value fund providing a value equity factor tilt.

Active or index?

Historically, investors may have accessed factor exposure through non-market capitalisation, index-weighted strategies. However, we view any portfolio that uses a non-cap-weighted scheme as an active portfolio. Factor-based investing uses factors like value, minimum volatility or a tilt to a certain sector to outperform the broader markets.

Using an active approach to factor implementation can provide greater control over factor exposure and reduce factor drift in the portfolio, with the flexibility to change portfolio holdings as needed. This is because positions can be adjusted as needed in order to maintain continual dynamic exposure to targeted factors.

Adopting lower cost active management to replace higher cost traditional active funds can remove one of the most persistent headwinds to active outperformance.

Consider the risks

Using factor products can help you employ a transparent, controlled active approach towards meeting your goals, but factor investing is not without risks. Similar to many forms of active management, factors can perform inconsistently and experience sustained periods of underperformance.

Factor-timing is difficult, in fact like any active tilt, factors carry higher risk relative to the broad market, and demand patience and conviction from investors. They must have the ability to resist the urge to sell down underperforming active positions which may recover and provide outperformance over the longer term.

Rather than trying to identify a sure-fire solution for outperformance in all market cycles, factor strategies should match your investment objectives and be sure you have the patience needed to stick with the strategy over the long term.

Michael Roach is Head of Quantitative Equity Group at [Vanguard Australia](#), a sponsor of Cuffelinks. This article is in the nature of general information and does not consider the circumstances of any investor.

Check tax exemption on income from super pension assets

Monica Rule

There is confusion about which method to use when calculating the tax exemption on income from assets supporting superannuation retirement pensions. This confusion stems from changes to the superannuation law that took effect from 1 July 2017 and the Tax Office's interpretation of the tax law. Let's clear this up.

The difference between segregated and unsegregated assets

As SMSF members will usually retire at different times, and because the tax treatment of income from SMSF assets differs between accumulation and pension phases, the correct proportion of tax-exempt and tax payable income needs to be determined. There are cases where specific SMSF assets are held for the benefit of specific members, meaning there is a segregation of assets. Or the assets can be unsegregated, where the SMSF's assets and income will be supporting all members, retired or not. The existence of segregated or unsegregated assets determines how the tax exemption is calculated.

Unsegregated versus segregated method

If an SMSF has a member with a total super balance of \$1.6 million (as at prior 30 June) across all of their super funds, and the person is in receipt of a retirement pension, then the SMSF can only calculate the tax exemption using the unsegregated or proportionate method. This is regardless of whether the SMSF's pension assets were segregated at any time during the current financial year.

If an SMSF has members in receipt of retirement pensions and each of these member's total superannuation balance is less than \$1.6 million across all their superannuation funds at 30 June of the previous financial year, then the SMSF can claim the tax exemption using the relevant segregated and/or unsegregated method.

For fund members with a total superannuation balance of less than \$1.6 million, the Tax Office's interpretation of the tax law is based on whether the SMSF had pension assets that were segregated at any time throughout the financial year. If so, then the SMSF must calculate the tax exemption using the segregated method for that time period.

If, during a financial year, an SMSF did have pension assets that were segregated but at a later time it no longer had segregated pension assets, then it must use the segregated method to calculate the tax exemption for the time period where the pension assets were segregated. It must use the unsegregated method to calculate the tax exemption for the period the SMSF's assets were no longer segregated.

Prior to 1 July 2017, SMSF trustees and professionals were simply using the unsegregated method to calculate the tax exemption when SMSFs had segregated pension assets at some time during the financial year, and unsegregated assets at other times during the same financial year. They did this to simplify the tax exemption calculation. Unfortunately, the Tax Office has stated that using the unsegregated method for those situations is no longer an option from 1 July 2017.

Let's look at an example

Assume an SMSF has two members in the accumulation phase on 1 July 2017. On 1 October 2017, both members commenced retirement pensions with their total superannuation balance of \$1 million each. Then on 1 December 2017, one of the members makes non-concessional contributions into the SMSF and on 1 February 2018 commences a second retirement pension account.

Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Accumulation			Pension		Accum/Pens		Pension				
Unsegregated			Segregated		Unsegregated		Segregated				

This means the SMSF was completely in the retirement pension phase during the periods 1 October 2017 to 30 November 2017 and 1 February 2018 to 30 June 2018. However, the SMSF was not entirely in the pension phase during 1 July 2017 to 30 September 2017 and 1 December 2017 to 31 January 2018. The SMSF trustee will need to take into account four accounting periods. They must apply the segregated method of a 100% tax exemption on investment earnings of pension assets during the period the SMSF was completely in pension phase and apply the unsegregated method to the other periods when the SMSF was not totally in pension phase.

The calculation of the tax exemption is certainly more complex now and it is most important that SMSF trustees and professionals are aware of this.

Monica Rule is an SMSF Specialist and author. See www.monicarule.com.au.

Can my SMSF buy my investment property?

Mark Ellem

A failure to understand property investment rules for SMSFs can have nasty consequences, especially if the property is acquired from a fund member or related party. In some circumstances, getting it wrong could mean a year's room and board in Her Majesty's finest!

Many SMSF trustees such as architects and doctors want to place their commercial properties into their SMSF and then rent the property from the fund, so it's important to know the rules.

There are three critical aspects in determining whether an SMSF can buy an investment property from a member or related party:

1. Does the property meet the 'business real property' (BRP) definition?
2. Does the acquisition meet the fund's investment strategy?
3. Does the asset meet the sole purpose test?

This article will focus on the BRP definition.

What is the general rule in acquiring an asset from a member or related party?

Section 66 of the Superannuation Industry (Supervision) Act (SISA) provides a general prohibition on the trustee intentionally acquiring an asset from a 'related party'. There are exceptions to this general prohibition which include:

- Listed securities
- Business real property, and
- Widely-held trusts (commonly referred to as managed funds).

Further, the asset must be acquired by the SMSF at 'market value' or the market price of the asset. For example, listed securities are valued at the ASX price. Property is generally valued by a qualified third party such as a real estate agent or registered property valuer.

Who is a 'related party' of an SMSF?

A related party of an SMSF includes:

- Members and trustees of the fund
- Relatives of members and trustees of the fund
- Entities that are controlled by the members, trustees or their relatives
- Other person's known as 'Part 8 Associates' of the SMSF members.

This can cover a broad range of people and entities so care needs to be taken when a SMSF is dealing with a related party.

When is 'Business Real Property'?

The ATO's ruling on what they consider to be BRP is [SMSFR 2009/1](#). Generally, an investment property that is used as a person's residence will not meet the BRP definition. However, an investment property used wholly in a business or businesses, such as commercial premises, would generally meet the BRP definition.

The use of the property and whether it's generally regarded as residential or commercial is critical. For example, a residential property could be used as the business premises for a doctor (refer example 21 of the ruling) or the office for an accountant or solicitor. However, the property must be also used 'wholly and exclusively' in one or more businesses. Whilst there is some small allowance for non-business use, generally, the whole of the property must be used in business.

Am I carrying on a property investment business?

A question often asked is whether a person is carrying on a business of renting residential properties. If yes, then the residential property would likely meet the BRP definition and is consequentially eligible to be acquired by the person's SMSF.

SMSF 2009/1 discusses this issue (paragraphs 189 to 194) and provides examples in Appendix 2. It must be shown that the activities associated with the letting of the residential property must have a business character, rather than merely being investment activities carried out other than by way of a business.

This is contrasted in three examples from the ruling, examples 13, 14 and 15 as follows:

Example 13 – Ms Hend with two holiday flats

Ms Hend owns two holiday flats, which are let for short-term accommodation. Ms Hend and her partner manage the flats, including attending to cleaning and general maintenance. Whilst the ATO considers there to be a possibility of a rental property business being carried on, the scale of the operations (only two flats) means it is not considered a business. Consequently, the flats owned by Ms Hend are not considered BRP and cannot be acquired by her SMSF.

Example 14 – Mr Wood and his 20 residential units

Mr Wood owns and leases 20 residential units to long-term tenants. He manages and maintains the flats himself and the units are not mortgaged. The ATO considers that Mr Wood is carrying on a property investment business. Consequently, his SMSF can acquire one or more of the units.

Example 15 – Ms Harrington has 10 residential units

Ms Harrington owns 10 residential units that are leased to long-term tenants. She uses the services of an agent to manage the premises. The ATO considers the use of the agent as a crucial factor in determining that Ms Harrington is not carrying on a property investment business. Consequently, the residential units are not permitted to be acquired by her SMSF.

Other possible definitions

Residential property could also satisfy the definition of BRP in a further three scenarios:

1. Where the residential property is held as trading stock of a property development business.
2. Where the residential property is leased to a business and used in that business's short-term accommodation business.
3. Where the residential property is situated on land which is used to conduct a primary production business, provided the area used for private purposes is not more than 2 hectares.

Other considerations when transferring to an SMSF

Once it has been determined that the SMSF can acquire the related party's investment property, there are other considerations:

- The SMSF must acquire the property at 'market value', which needs to be substantiated.
- How will the fund will pay for the acquisition of the property? Will it be cash, using the limited recourse borrowing rules or an 'in-specie' contribution within the relevant contribution caps?
- The transaction will be a disposal of the property by the member or related party and will be a capital gains tax event. Therefore, consider the personal tax liability arising from the disposal.
- Is the transaction subject to GST? In general, the sale of residential property, as defined under the GST Act, is input taxed, however, if the property is vacant land, for example, GST may apply. If GST does apply, is there a qualifying exemption or concession?
- Transaction costs will include legal fees and any applicable stamp duty.

The best advice is to get advice

When contemplating transferring a property owned by a member or related party to an SMSF there are many rules that must be followed and complied with. I have heard of the jail penalty being applied but there are other penalty options available to the ATO. Prior to entering into such a transaction, it is best to seek advice on the compliance requirements.

Mark Ellem is Executive Manager, SMSF Technical Services at [SuperConcepts](#), a sponsor of Cuffelinks and a leading provider of innovative SMSF services, training, and administration. This article is general information only and does not consider the circumstances of any individual.

Property and why PropTech is the future

Adrian Harrington

The current pace of technological change is unprecedented. Whole industries are being transformed or disrupted as businesses look to do things smarter, cheaper, and quicker.

The property industry is not immune to this change. The convergence of property and technology, coined 'PropTech' is about leveraging new technology into the property ecosystem to create entirely new transaction, delivery, management, and service models for property businesses, their customers, and the built environment.

Two years ago, no one was really talking about PropTech. Maybe the physical nature of property gave us insiders some comfort that the disruption that was creating havoc in sectors such as financial services would not affect our industry. But now, inspired by the success of two of the most successful start-ups in history, Airbnb and WeWork, PropTech is front and centre.

The impact of technology on real estate

Big data (data analytics), the internet of things (connected devices), cloud computing, artificial intelligence, virtual reality, Blockchain, drones, 3D printing, and robotics are just some of the innovations reshaping the property landscape. Their influence is permeating just about every touchpoint in the industry from listing and search services to marketing, transacting, conveyancing, property and facilities management, leasing, space utilisation, customer engagement, urban planning, design, construction, valuation, lending, payment services, and research.

It is not just the technological innovation in our sector that is forcing change. The tenants of our buildings and the users of the urban environments we create are also being affected. As a result, their demands and expectations of our buildings and cities are also changing. Connectivity, mobility, flexibility, and wellbeing are now part of their lexicon.

KPMG's inaugural Global PropTech Survey, released in November last year, found that 92% of respondents representing property owners, investors, managers, financiers, advisers, and agents believe that digital/technological innovation will have a significant impact on their business. Surprisingly, 86% saw it as an opportunity. However, there's a wide gap between acknowledgment and adoption. Just over half gave themselves a rating of five or less (out of 10) in relation to their digital/technological innovation. They know that technology is critical, and offers a business opportunity, but they have yet to develop and implement a digital strategy to help their business remain competitive.

Partnering and recruitments

The recent announcement by Stockland that Robyn Elliot was moving across from Fairfax Media to a newly created position of Chief Technology and Innovation Officer and Scentre's (ASX:SCG) announcement late last year that Cynthia Whelan had been lured from Telstra to be Chief Strategy and Business Development Officer sends a strong message to the industry that technology is changing things in ways that many of our largest property owners and managers could not have imagined a few years ago.

In announcing Elliot's appointment, Stockland's chief executive, Mark Steinert, pointed out that it would create "the opportunity to capitalise on the synergies between innovation and technology ... and further enhance our ability to progress commercial outcomes from innovation projects."

Yet it is not just about bringing smart tech people inside the business. Some of the industry's largest incumbents are establishing incubator programs to partner with start-ups.

JLL (NYSE:JLL) has established Spark, an independent unit to "ensure that JLL and its clients benefit from technology-driven transformation by building a team that will create new products, make strategic investments and incubate PropTech start-ups."

Charter Hall recently announced a property start-up accelerator program in collaboration with Collective Campus, an innovation hub and start-up accelerator consultancy firm. The program has identified four start-ups – InSpaceXR (virtual reality), BricksandAgent.com (cloud-based property management platform), Snaploader (3D modelling/visualisation), and Estate Baron (crowdfunding) that it will work with in the coming months to fine tune their offers and secure investments.

The Lowys are backing technology in the next evolution of their retail vision. Steven Lowy will chair the retail tech business, OneMarket, when it is spun out and listed on the ASX, once Westfield completes its merger with Unibail-Rodamco.

According to Sir Frank Lowy:

"OneMarket's strategy is to develop a retail network that seeks to help bricks and mortar retailers compete more effectively" by rapidly implementing "new technology at scale, to facilitate collaboration and to leverage a comprehensive set of consumer data to provide network participants with insights and intelligence."

It's not surprising that investment in PropTech platforms has increased exponentially. Back in 2012, around \$US220 million was invested into PropTech ventures. According to ReTech, a leading US-based PropTech research firm, more than \$US12 billion was invested last year. And it is not just venture capital and private equity firms investing in PropTech. In 2017, the largest dedicated fund for investing in PropTech, Fifth Wall Ventures, raised \$US212 million from some of the biggest property names in the US – CBRE, Hines, Prologis, and Equity Residential.

It's time to get on board and view technology not as a disrupter but a good business opportunity.

Adrian Harrington is Head of Funds Management at [Folkestone](#), a sponsor of Cuffelinks.

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