POLICY ANALYSIS REPORT

WLTH

HOUSING & SUPERANNUATION POLICY - JUNE 2026

Banning SMSF LRBA Residential Lending: The Supply Paradox

The commercial risk pivot, the rental market consequences, and what SMSF trustees must do now - a WLTH analysis.

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SMSF LRBA Ban - Analysis & Implications

SMSF FUNDS	TOTAL ASSETS	RESIDENTIAL	COMMERCIAL	SUPPLY IMPACT
672K	$1.06T	6%	11%	32%
Registered SMSFs in Australia Source: ATO	Total SMSF assets under management Source: ATO	SMSF assets in residential (~$63.6B) Asset class affected by ban	SMSF assets in commercial (~$116.6B) Unaffected by ban	Fall in apt approvals post-2017 APRA restrictions Source: ABS 8731.0

SECTION ONE

Executive Summary

01

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The Government's decision to ban SMSFs from borrowing to purchase residential property - secured as a Greens condition for passing the 2026 Budget - creates a direct contradiction at the heart of Australia's housing policy. The ban commences **45 days after Royal Assent**. Contracts signed before that date are grandfathered. Existing properties are unaffected.

KEY FINDINGS

The Supply Contradiction

Removing ~5% of new residential buyers reduces developer pre-sales below construction finance thresholds, directly undermining the 1.2 million homes target.

The Rental Market Impact

Every SMSF property is a rental property - members cannot occupy what they buy. Removing SMSF buyers from the new-build pipeline directly reduces future rental supply.

The Commercial Risk Pivot

Commercial LRBAs are unaffected. SMSF trustees will pivot to lower-priced commercial property - materially higher risk - with zero published government modelling on the substitution effect.

Political, Not Evidence-Based

No Treasury paper, housing review, or impact assessment underpins this policy. It was extracted in a budget negotiation and adds just $50M over 4 years from a $1.06 trillion sector.

Core Finding

The policy removes buyers from the new-build pipeline while claiming to improve affordability, pushes retirement capital toward higher-risk commercial property without any published risk modelling, and was designed in a political negotiation rather than an evidence-based policy process.

Important Notice

SECTION TWO

Background & Political Context

02

What Are SMSFs and LRBAs?

Self-Managed Superannuation Funds (SMSFs) give Australians direct control over their retirement savings. There are **672,000 SMSFs** in Australia managing **$1.06 trillion** in assets - one of the largest pools of managed capital in the country.

A **Limited Recourse Borrowing Arrangement (LRBA)** allows an SMSF to borrow to purchase a single asset held in a bare trust. "Limited recourse" means a lender can only claim against that specific asset on default. LRBAs have been permitted since 2007.

ATO - SCALE OF ACTIVITY

- There are **672,000 SMSFs** managing **$1.06 trillion** in total assets (ATO, latest available)
- Residential property accounts for approximately **6% of total SMSF assets (~$63.6B)**
- Commercial property accounts for approximately **11% of total SMSF assets (~$116.6B)** - nearly double residential
- SMSF buyers account for an estimated 3-6% of residential transactions nationally, concentrated in new medium-density product

The Political Context

The ban was not the product of a housing policy review. It was extracted by the Greens as the price of passing the 2026 Federal Budget - traded before parliament rose for winter recess. The package also included a two-month delay to NDIS reform legislation. Source: AFR (Phillip Coorey, 23 June 2026) and SMSF Adviser (23 June 2026).

45

Days from Royal Assent to commencement

Critical Timeline

The ban commences **45 days after Royal Assent**. Contracts signed before commencement are grandfathered. Existing SMSF residential properties held via LRBA are not affected. Verify all provisions against the final enacted bill before acting.

The $50 Million Question

The fiscal benefit is estimated at **$50 million over four years** - approximately 0.0047% of total SMSF assets. This proportion is significant context when assessing whether the policy rationale matches the scale of disruption to a $1.06 trillion sector.

SECTION THREE

03

Removing Buyers While Targeting 1.2 Million Homes

How Development Finance Works

New residential construction finance requires developers to demonstrate **60-80% pre-sales** before drawing down construction funds. This is the primary risk management mechanism for project finance - not a formality.

The Mechanism

A 100-unit project at 65% pre-sales, with SMSF buyers at 5% of the pool, falls to 60% once they are removed. If the lender threshold is 65%, the project does not proceed. Not 5% less supply - the entire project is lost.

The 2017 Precedent

Australia ran this experiment between 2017 and 2019. APRA's investor lending caps drove investor demand out of the market:

32%

Fall in apartment approvals 2017-2019 after APRA investor restrictions

- New apartment approvals fell **32%** between 2017 and 2019 (ABS 8731.0)
- Off-the-plan sales collapsed in Melbourne and Brisbane; major developers could not proceed
- The supply shortfall is a primary driver of Australia's current rental crisis - record low vacancies, rents outpacing wages for three consecutive years

Key Insight

When investor demand is removed from new property markets, developers do not build less expensive housing for other buyers - they build less housing, full stop. The government is repeating a known experiment with known results.

The 1.2 Million Homes Target

The National Housing Accord requires approximately **240,000 new homes per year** - roughly 60,000 more than Australia's current annual capacity. The NHFIC identifies three binding supply constraints: construction labour/materials; planning approvals; and developer access to project finance via pre-sales. The LRBA ban directly worsens the third constraint.

SECTION FOUR

04

The Rental Market Consequence: Who Actually Pays

Every SMSF Property Is a Rental Property

SMSF compliance rules **absolutely prohibit** any member or related party from occupying a residential property held in the fund. There are no exceptions. Every SMSF residential property in Australia is, by law, a rental dwelling contributing to the supply that millions of Australians depend on.

The Core Irony

The Greens secured this policy in the name of protecting renters. But every SMSF residential investor removed from the new-build market is a landlord who would have supplied a rental property. The policy directly reduces the rental supply available to the renters it claims to protect.

The Two-Stage Supply Impact on Renters

Stage 1 - Immediate

SMSF buyers exit the new residential market. Developer pre-sales fall on marginal projects. Those projects do not proceed. Rental dwellings that would have entered the market in 18-36 months are never built.

Stage 2 - Medium Term

As supply shortfall compounds over 3-5 years, vacancy rates remain structurally low, rents continue rising above wage growth, and competition for available rentals intensifies across all income levels.

The Price Paradox

The policy may produce a **short-term softening** in new property prices - and this will be reported as evidence the policy is working. But the medium-term effect is the opposite: reduced supply relative to population growth sustains upward pressure on both purchase prices and rents. The Productivity Commission, the RBA, and the NHFIC have each reached the same conclusion independently: structural housing undersupply is the primary driver of long-run price growth. This policy worsens structural supply.

Who Bears the Cost

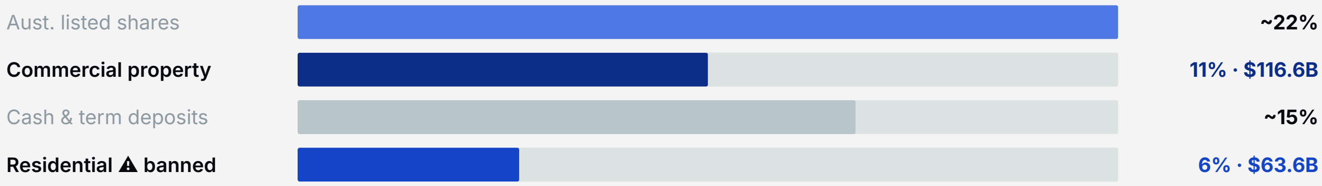
The group most harmed - renters and aspiring first-home buyers - is precisely the constituency the Greens identified as the beneficiary. Reduced rental supply, fewer new homes, and sustained price growth will fall hardest on those with the least financial buffer.

SECTION FIVE

The Unmodelled Risk: The Commercial Property Pivot

Commercial LRBAs are **completely unaffected** by the ban. SMSF trustees denied residential will logically pivot to lower-priced commercial property. The government has produced no analysis of this substitution.

ATO DATA - SMSF ASSET ALLOCATION (TOTAL: $1.06 TRILLION)



Source: ATO SMSF Statistical Report. ⚠ denotes the asset class affected by the ban. Commercial is already nearly double residential within the SMSF sector.

RISK COMPARISON

RISK FACTOR	RESIDENTIAL LRBA	SMALL COMMERCIAL LRBA
Vacancy Rate	1-3% typical	8-20% small retail/office
Value Stability	Owner-occ floor	Tenant-dependent - 20-40% drop on vacancy
LRBA Interest Rate	Lower risk premium	+1-2% above residential
Liquidity at Retirement	30-90 days	12-24 months if distressed
Vacant Income	Easily re-let	Zero income - full loan from fund assets

Scale of Unmodelled Risk

Commercial already represents 11% of SMSF assets ($116.6B) - nearly double residential. A further 2-3% shift into small commercial LRBAs is $21-32B entering shallow markets. Zero published government modelling exists on this substitution effect.

SECTION SIX

06

Political Virtue Signalling vs Evidence-Based Policy

What Was Missing from the Process

Evidence-based policy requires: identification of the problem; analysis of proposed interventions; published modelling of likely outcomes; and assessment of unintended consequences. The LRBA ban clears none of these standards.

- No Treasury impact assessment on supply consequences
- No modelling of the commercial property substitution effect
- No analysis of retirement income adequacy consequences for affected SMSF members
- No assessment of rental supply impact on the constituencies the policy claims to protect
- No published comparison of alternative instruments achieving the stated objective with less damage

The $50 Million Test

The fiscal benefit is $50 million over four years from a sector managing $1.06 trillion - approximately 0.0047% of SMSF assets. This is an implicit acknowledgment that the primary rationale is political rather than economic.

Better Instruments Were Available

New Build Only

Restricting residential LRBAs to new construction channels SMSF capital precisely into the product Australia most needs, while removing competition in the established market.

CGT Rate Adjustment

Reducing the concessional CGT rate for SMSF property reduces tax-distortion without removing the buyer from the market entirely.

Price Threshold

Prohibiting SMSF LRBAs below $750,000 protects the entry-level segment where first-home buyers compete most directly, without removing new-build buyers.

Consistent Commercial Rules

Applying equivalent restrictions to commercial LRBAs eliminates the substitution risk if genuine superannuation risk management is the stated goal.

Assessment

None of these instruments were selected. The blunt ban produces a clean headline for an audience that will not audit downstream consequences. The costs are borne by SMSF trustees, renters, and future homebuyers - not by the parties who made the deal.

SECTION SEVEN

The Other Side: The Case for the Ban

07

A balanced analysis requires honest acknowledgment of the arguments in favour. These are not baseless - they reflect genuine policy concerns with serious academic and regulatory foundations.

The Tax Advantage Is Real

SMSFs pay a maximum of 15% on fund income versus up to 47% for individual investors, and a CGT rate of 10% on assets held over twelve months (versus 23.5% for individuals). This structural advantage allows an SMSF to outbid an owner-occupier for the same property and still achieve a superior after-tax return. This is a genuine and measurable market distortion.

The Murray Inquiry Recommendation

The 2014 Murray Financial System Inquiry - the most comprehensive review of Australia's financial system in a generation - specifically recommended preventing direct leverage in superannuation. The concern was systemic: if property prices decline significantly, leveraged SMSFs face forced selling that could destabilise both the super system and property markets simultaneously.

Superannuation's Core Purpose

Superannuation exists to provide retirement income - not to facilitate tax-advantaged property investment. The ATO has identified compliance concerns with a subset of SMSF LRBA arrangements, including related-party structures that push the boundaries of the sole purpose test.

The Marginal Buyer Counter-Argument

Some economists contend that at 3-6% of the market nationally, SMSF buyers are not large enough to materially affect supply outcomes, and that labour, materials, and planning constraints are the binding obstacles regardless of demand conditions.

Assessment

The pro-ban argument is strongest on equity grounds - the tax distortion is real - and weakest on supply grounds. It does not engage with the commercial property substitution risk at all. Whether the tax-fairness benefit justifies the supply cost and retirement savings risk is a judgment the Greens made in exchange for budget votes, not the output of a policy process that weighed trade-offs transparently.

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SECTION EIGHT

What SMSF Trustees Must Do Now

Read This First

Speed without preparation is dangerous. A rushed, non-compliant transaction is significantly worse than a missed window - it carries ATO scrutiny risk, financial penalty exposure, and potentially the loss of the investment. Follow all six steps in order.

SIX-STEP ACTION FRAMEWORK

1. **Get Licensed SMSF Financial Advice - Before Anything Else**
A licensed adviser must confirm the investment is appropriate for your fund's strategy and retirement timeline. This is a legal obligation. Happens before speaking to a real estate agent.

2. **Confirm Your SMSF Is Fully Established and Compliant**
Current trust deed permitting LRBAs. ATO registration active. Investment strategy documented permitting LRBA investment. Bank account separate and funded. Annual compliance current.

3. **Establish the Bare Trust Structure Correctly**
The contract of sale **must be signed in the bare trust name** - not the trustee's name, not the SMSF name. Engage an SMSF specialist solicitor before signing anything.

4. **Confirm Finance with an SMSF LRBA Specialist**
Not all lenders offer SMSF LRBA products. Confirm lender appetite and borrowing capacity before committing to any purchase.

5. **Select a Compliant Property**
At arm's length from all related parties. No member can occupy or use it. Rental yield must comfortably service the loan with a documented cash flow buffer.

6. **Sign the Contract Before Commencement**
Sign in the correct bare trust name before the 45-day commencement date. Confirm with your solicitor whether a conditional or unconditional contract satisfies grandfathering under the final bill.

The Right Frame

The window is an opportunity for those who are prepared - not a reason for panic. If you cannot complete Steps 1-5 properly within the available time, missing the window is better than doing it wrong.

SECTION NINE

Analysis and Conclusions

09

1

The Policy Creates a Supply Contradiction

The government cannot credibly pursue a 1.2 million homes target while removing buyers responsible for 3-6% of new residential transactions. The evidence points to lower supply and higher long-run prices - not lower prices.

2

Every SMSF Property Lost Is a Rental Lost

SMSF members are legally prohibited from occupying their residential investments. Every SMSF buyer removed from the new-build market is a future landlord. The policy directly reduces rental supply while claiming to help renters.

3

The Commercial Pivot Is Unmodelled and Higher Risk

SMSF capital will not simply exit property. Commercial already comprises 11% of SMSF assets ($116.6B) - nearly double residential (6%, $63.6B). A further shift into small commercial LRBAs increases retirement savings risk with zero published government analysis.

4

This Was Political Virtue Signalling, Not Policy

$50 million over four years from a $1.06 trillion sector. No supply modelling. No substitution analysis. No retirement income assessment. A budget deal dressed as housing policy - the people paying had no seat at the table.

5

A Window Remains - Use It Responsibly

The 45-day transition and contract grandfathering gives prepared, compliant trustees an opportunity. That opportunity is only for those who complete the full compliance and advice process before the deadline.

Final Assessment

The math does not add up. The intent does not match the outcome. The people paying the price - renters, first-home buyers, and SMSF trustees redirected into riskier assets - had no seat at the table when the deal was made before parliament rose for winter recess.

SECTION TEN

Sources & Disclaimer

Sources Referenced

- ATO SMSF Annual Statistical Reports (2022-2025) - fund count, total assets, residential/commercial allocation
- APRA Quarterly Superannuation Statistics - LRBA borrowings outstanding
- ABS Building Approvals (8731.0) - apartment approval series 2016-2019
- NHFIC State of the Nation's Housing Report (2024-25)
- Productivity Commission Housing Costs and Affordability Report (2022)
- Murray Financial System Inquiry Final Report (2014)
- National Housing Accord (2023) - supply targets and funding commitments
- Property Council of Australia; Housing Industry Association pipeline data
- CoreLogic Hedonic Index; PropTrack Rental Market Report
- SMSF Association - industry participation estimates
- AFR, Phillip Coorey, 23 June 2026; SMSF Adviser, 23 June 2026

Legislative Status

At the time of publication, the final legislative text had not been tabled. All references to the 45-day commencement and contract grandfathering are based on media reporting of announced terms. Verify all provisions against the final enacted bill before acting.