

Role for super in housing - ACTU

Money Management Magazine

By John Wilkinson

Superannuation funds need to be involved in solving Australia's chronic housing shortage, according to ACTU president Sharan Burrow.

Speaking at a Rismark International conference in Melbourne, she said residential property was an asset class superannuation funds should be looking at.

"The ACTU believes superannuation funds are patient long-term investors that can, and will, be part of the housing affordability solution," she said.

"Residential property is an asset sub-class with tremendous potential to deliver good risk-adjusted returns in a diversified portfolio wholly consistent with the single purpose test to which fund trustees adhere."

Burrow said equity finance mortgages (also known as shared equity) packaged for institutions would enable superannuation funds to invest in residential property without buying individual properties.

"A shared equity portfolio provides well-diversified long-term exposure to the residential property asset sub-class," she said.

"Residential property is the largest single asset class in Australia, valued at about \$3.2 trillion.

"But for super funds it has been hard to access because of the high round-trip transaction costs and ongoing maintenance costs associated with buying residential property direct."

Burrow said shared equity offers funds a cost-effective approach to investing in an asset class that was previously seen as untouchable.

"Residential property is definitely a market with sound prospects for institutional investors because of its returns," she said.

Speaking at the same Rismark conference, ANZ head of property and financial system research Paul Braddick said during a 22-year period residential property had outperformed every other asset class.

Based on an index starting at 100 in 1985, the total return for residential property was 2,100, compared to 1,900 for equities.

Commercial property achieved a total return of 1,100 based on the same timelines and bonds were about 800.

"There are a lot of pessimistic views about residential property," he said.

"But the critics are ignoring supply and demand, which is driving the fundamentals of the asset class."

Braddick said pent-up housing demand, especially in Sydney, is driving prices up, which will deliver good returns for investors.

Mercer Investment Consulting principal David Lee said there are lots of potential investment opportunities for superannuation funds in this asset class.

"Funds should be taking a long-term view on residential property and should pick strong managers in the asset class," he said.

"If some managers create adverse perceptions around the asset class, the institutions will see this as alarm bells."

Lee said superannuation funds won't invest in products such as shared equity products immediately, as there is a long investment process involving checks and balances to be undertaken first.

But he saw residential property as a new asset class that should be included in a superannuation fund's investment portfolio to deliver further diversity.