

Super funds find new home in housing market

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The \$10 billion Industry Funds Management is preparing to invest directly in residential property development by setting up a \$500 million fund that targets projects with affordable housing components.

Ten per cent of home owners are experiencing mortgage stress, a similar proportion of renters are stretching their budgets and a key measure of housing affordability is the lowest in its 22-year history. Everyone is looking for solutions.

Not-for-profit groups are teaming up with developers, governments are experimenting with shared equity schemes and property giants such as Lend Lease are working at delivering housing to those on lower incomes.

Garry Weaven, industry super pioneer and the chairman of IFM's parent, Industry Fund Services, stressed that while it was not their role to solve social problems, "we can at least ensure that there is a part of the institutional investment market focused on profitable investment at the more affordable end of the market, and that would be our objective".

By virtually any measure, the dream of home ownership is getting beyond the reach of many Australians. Research by the Housing Industry Association has found that 10 per cent of Australian households with mortgages - or 261,000 households - are in housing stress, defined by spending more than 30 per cent of their disposable income on housing costs. But that figure rose to 14.3 per cent, or 124,256 in NSW. Equally significantly, according to the National Centre for Economic and Social

Modelling, 12 per cent of renters are in housing stress, which is forecast to rise to 15.8 per cent in 2009-10 - pushing home ownership even further away.

Rental vacancies have fallen below 2 per cent in most capital cities, causing rents to rise and worsening the crisis for low-income earners.

In December, the HIA/Commonwealth Bank housing affordability index sank to its lowest point

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since it was established in 1984, as mortgage payments rose to 35.6 per cent of disposable first-buyer income.

Another measure of the ratio of median house prices to median household incomes, by the Demographia consultancy, has found that Australia's overall multiple is 6.6, more than twice what is considered affordable.

The ratio varies from 6.6 in Melbourne to 8.5 in Sydney.

A paper to be presented to The Australian Financial Review Housing Congress in Melbourne today and tomorrow by the Swinburne University-based Australian Housing and Urban Research Institute will say that lower income families are forgoing basic necessities to pay rising rents and mortgages.

Sensing a growing election issue, Prime Minister John Howard has suggested that the federal government could provide some form of increased assistance for renters.

Established house prices in the eight capital cities have risen by about 250 per cent over the past decade and, despite first home buyers' grants, it is getting harder to get a foothold into property ownership for many on average incomes.

The search for answers to the linked dilemmas of housing affordability and the provision of affordable housing has thrown up some creative solutions from governments.

Last month, the West Australian government announced a \$300 million shared equity program, the first of its kind in Australia, in which the government will take a 30 to 40 per cent stake in a property and then give the home owner a low-deposit loan to buy the rest.

It will be offered to 3000 low to moderate-income earners.

The South Australian government has passed legislation to establish an affordable housing trust to partner with the community and private sectors to build more affordable homes for low and moderate-income South Australians who are locked out of the housing market.

In Victoria, the state government's development corporation, VicUrban, is trialling an affordable housing product that includes a shared equity "ballot", in which VicUrban will take a 25 per cent stake through a second mortgage in 10 new house-and-land packages on several of its estates.

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Called the OwnHome ballot scheme, it is targeted at incomes of between \$54,000 and \$60,000.

"The affordability gap is becoming chronic," VicUrban's chief executive, Pru Sanderson, said at a lunch hosted by the Urban Development Institute of Australia last week.

"If you take the median salary of \$56,000 a household, you can afford to buy fewer than 10 per cent of the houses in Melbourne.

"We're talking about tertiary educated people, average teachers, nurses-type salaries, people who have had the benefit of tertiary education, so where does it leave people without that start in life?"

For Industry Funds Management, which is owned by 40 industry funds, the move into affordable housing will initially have the a modest aim of delivering 10 per cent of any development as affordable housing (normally defined as rented or sold at 75 per cent of the standard market value or rate).

Industry Funds Management's general manager, Damian Moloney, said IFM and its partner in the new fund, the Industry Superannuation Property Trust, had spent three years grappling with the best solution to the crisis of housing affordability before concluding that they could produce the desired outcomes from investment on the supply side.

"The simple idea is - if we can, and when we can - design in a reasonable sized estate or development houses that people on moderate incomes can afford to buy," he said.

"It's nothing revolutionary. Most developments do start from a blank sheet of paper, and if you start with the objective of at least designing in that outcome, you can do it.

"The economics work for us, too, because the cheaper a house is, the more people who can look at it and buy it, so you get more turnover and cash out of the project quickly."

The fund will have a wide mandate to invest in broadacre subdivisions, apartments, integrated housing and retirement living.

The investment manager of the new IFM/ISPT Residential Fund, Owen Tyas, said it was envisaged that affordable housing could be delivered without compromising the returns to the fund.

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"We don't see affordability coming as a result of loss of profit," he said.

The involvement of the superannuation industry in the provision of affordable housing is "the holy grail", according to Ken Marchingo, founder of Powerhousing.Australia, a national network of 15 not-for-profit community housing groups that collectively control or manage about 15,000 rental dwellings valued at \$4 billion. Another \$120 million of works is in the pipeline.

"Lots of people [in the affordable housing sector] have been wishing to access super funds for years," he says.

"But the reality is that superannuation fund trustees have a legislative requirement to maximise their returns for their members, and so it should be. And I think the reason we haven't seen large-scale investment into the affordable housing market is there's no product out there that has a solid business model behind it that is well understood."

Powerhousing.Australia is working with the Bendigo Bank to develop a rent-to-buy model that allows tenants to make the transition to home ownership.

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