

Submission number: 2014/14

25 March 2014

## **Submission to the Senate Economics Reference Committee - Inquiry into Affordable Housing in Australia**

ASFA commented on only those issues in the terms of reference for the inquiry which relate directly or indirectly to superannuation.

The submission noted that individuals invest in both owner occupied and investment residential properties for a number of reasons. Favourable tax treatment relative to other investments can be one factor.

The submission indicated that there might be around 8,000 or 9,000 residential property purchases by SMSFs in 2011-12 that were supported by borrowings. This is not a large proportion of overall property sales but it would represent over 10% of investment property sales. For some geographic areas or property market segments the percentage could be higher. However, there is likely to have been growth in the number of such purchases since June 2012 given that such arrangements have been actively promoted by at least some real estate agents and other promoters.

In regard to APRA regulated fund financing of housing, the submission noted that superannuation trustees first and foremost owe a fiduciary duty to the members of their funds. Accordingly, they determine their investment strategies on the basis of seeking the best risk adjusted returns for their members.

The challenge that superannuation funds would face investing in housing supply bonds is the degree to which the investor is exposed to construction risk. Investment return is one component that determines the appetite for investment. Just as important is risk. Bond investors are seeking low volatile investments. A key element of any housing bond would be guarantees around the actual risk of the project both in terms of construction, and in terms of tenancy revenues. For larger superannuation funds directly investing in equity in housing, while possible, poses particular issues with respect to managing the property or properties, including its leasing and maintenance, and its relative illiquidity.

While owning a home assists in achieving an acceptable standard of living in retirement, ASFA does not support any proposal to allow the early release of superannuation savings for the purpose of acquiring property. As a result of the compounding effect on the value of savings and investment, any early release of superannuation leads to a material reduction in the amount of superannuation accumulated to provide income in retirement.