

Super funds eye listed trusts as prudential rules lead to strategy switch

- Florence Chong The Australian

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AUSTRALIA'S biggest superannuation funds are returning to the \$73 billion listed property trust sector, with Unisuper among the groups buying up to \$200 million of shares in the bigger trusts.

Industry sources told The Australian that others, such as Telstra Super and Queensland-based Sunsuper, have also been active.

The funds would not confirm that they had switched back to Australian Real Estate Investment Trusts.

Melbourne-based asset consultant Ken Atchison said his institutional clients had collectively invested about \$100m in listed property.

"My clients don't have hundreds of millions of dollars to invest, but they have put \$10m-\$20m each into the listed sector," he said.

"We have had the view for some time now that prospective returns from A-REITs and direct property are about similar. We've been talking to clients about the listed market, and in the last six months a number have started to allocate money to the sector."

Mr Atchison said the Australian Prudential Regulation Authority, the governing body, had increased the obligations of super funds trustees to ensure sufficient liquidity in the funds.

This, he suggested, could also mean an increase in liquid investments, such as A-REITs.

AMP Capital Investors global fund manager Brett Ward said: "There is something of resurgence, A-REITs seem cheap and you get good-quality exposure to core markets."

The Australian market is trading at a discount of 5 to 10 per cent, while US REITs are trading at a premium of 15 to 20 per cent.

Mr Ward has moved some funds out of the US market into the Australian market. "We are seeing increased flows into A-REITs in general. There are more enquiries for our A-REIT products and money is being allocated to that sector," he said.

Citigroup head of mergers and acquisitions and property Simon Ranson said money previously going into wholesale funds was starting to flow back into the listed sector. "We are seeing hundreds of millions being put to work. These investors have a preference for quality trusts," he said.

Darren Steinberg, managing director, property, for CFS Global Asset Management, said that in the past year some large Australian super funds had appeared on the registers of his trusts.

"They invest for access to quality assets. They are comfortable with the strategy of these trusts, which have relatively low gearing," he said. "My sense is that this trend will become a longer-term strategy because of the difficulty in accessing prime assets."

Mr Ward said that super funds were probably using the sector as a proxy for direct investment.

Several fund managers said super funds were parking their money in A-REITs and would sell the units when the opportunity to buy direct assets arose. The preference was overwhelmingly for direct property and an en-masse return to listed property was not likely to happen soon.

Some of the country's largest super funds, which between them manage tens of billions of dollars, said that their property allocations were still going into physical assets.

"We still invest predominantly in direct property and not in A-REITs," said Mark Delaney, Australian Super's chief investment officer.

He said in the past year, AustSuper had put money with ISPT and QIC to increase exposure to retail property.

The \$37bn AustSuper treats A-REITs as an asset within the broader equities market and buys when it can see "fair value".

"Most people have the view that Australian shares, including A-REITs, are below their long-term fair value," Mr Delaney said.

A fund manager said institutions would slowly return to the sector but only if they were convinced that the major trusts "won't mess things up again", referring to the destruction of value during the global financial crisis.

"We like a trust like CPA (Commonwealth Property Office Fund), which own core assets, but we want to be sure that it won't do anything silly (like dilutive capital raisings) before we put our money into that trust," he said.

Sunsuper chief investment officer David Hartley said there had been some interesting deals available in the direct property and wholesale trusts.

In September, it paid \$100m for a building owned by Orchard Funds Management in Clarence Street, Sydney, and bought units in a GPT Wholesale trust.

Mr Hartley said that during the global financial crisis, when the listed sector went into meltdown, the lowly geared unlisted sector held its valuation much better.

But he said that there would still be a minor role of A-REITs. "Our REIT investment is through global funds, and we see that Australia is becoming more attractive," Mr Hartley said.