



Property Council of Australia ABN 13 00847 4422
A Level 7, 50 Carrington Street, Sydney NSW 2000
T +61 2 9033 1900
E info@propertycouncil.com.au
W propertycouncil.com.au
TW @propertycouncil

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Retirement Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600

By email: retirement@treasury.gov.au

Superannuation in Retirement

The Property Council welcomes the opportunity to provide comments to Treasury in relation to the Discussion paper introduced by Treasury on Superannuation in Retirement and how the superannuation system can best provide the security and income Australians need as they live longer and healthier lives in retirement.

We acknowledge and support the intent of the Government's work to assist Australians in an ever-growing number into retirement over the next decade and beyond. However, Property Council of Australia and its members are writing to express our concerns regarding the legislated benchmarking released from MSCI, which we believe has several significant flaws that need to be addressed. Benchmarking is an essential tool for evaluating performance and influences investor portfolio construction decisions. It is crucial that these benchmarks are fair, accurate, and conducive to positive outcomes for members of all superannuation funds. Unfortunately, the current policy falls short in several key areas. We detail the specific issues below in relation to the requirement of stamp duty disclosures within RG97 and the Your Future, Your Super ("YFYS") benchmarking requirements, specifically relating to the International YFYS Property benchmark which currently uses the MSCI Global (Excl. Pan Europe and Pan Asia Funds) Quarterly Property Fund Index (Unfrozen).

The Property Council of Australia is proud to represent Australia's largest industry, representing nearly 13 per cent of national GDP (\$234.7bn), and contributing over 18 per cent of total tax revenue (\$106.1bn) across all levels of government. We champion the industry that employs over 1.4 million Australians, more than any other industry, and shapes the future of our communities and cities. Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism, and hospitality venues and more.

PROSPERITY | JOBS | STRONG COMMUNITIES

Key Principles

Since the earliest days of investing, professionals and hobbyists alike have followed to evolution of investment markets and changing investor behaviours. This trend provides valuable insights about Australian investors, who they are, where they choose to invest, and what their investment goals are. It reveals that regardless of the new wave, trend or fad, the key principles of investment remain,

- a. Diversification
- b. Risk is measurable and manageable
- c. Cost efficiency
- d. Scalability and liquidity.

Your Future, Your Super

The current Your Future, Your Super legislation works to discourage investment in the property sector by Australian Superannuation Funds at a time when housing across the country is in crisis. The Government has passed important reforms to close the nation's housing supply deficit in 2023, including:

- Setting a target of 1.2 million new well-located homes by 2029
- \$3 billion in competition-style incentives to boost the nation's housing supply
- the establishment of the Housing Australia Future Fund (HAFF)
- announcing that the MIT withholding rate on build-to-rent projects will be reduced from 30 to 15 per cent, and
- announcing the reduction in FIRB application fees for build-to-rent projects.

By not amending the regulations the Government is undoing the hard work announced in the past six months. A founding father of investment Benjamin Graham who laid the groundwork for the in-depth fundamental valuation used in stock analysis today by all market participants outlined the need to “invest with a margin of safety”.

RG97

The intent of RG97 is to provide guidance on how fees and costs are disclosed in Product Disclosure Statements (PDSs) and periodic statements. The intent is supported by the Property Council and its members, to assist investors understand fees related to investments. However, the unintended consequence is that stamp duty disclosure as required in RG97 discourages property investments due to the significance of stamp duty on superannuation fund costs (relative to other asset classes e.g. equities, fixed income, infrastructure, etc), leading to less capital to deploy in property in general, particularly in residential. This will also likely have a flow on effect to reduce state government stamp duty receipts due to lower transaction volumes as investors choose more favourable fee options. These factors negatively impact property investment and development across the country, reducing the pipeline of projects and housing supply.

This submission is not questioning the validity of stamp duty, or the requirement to pay it. This submission is seeking the the removal of stamp duty from RG97 calculation methodology as it will prevent distortion within the market. It would also eliminate a significant hurdle and encourage super funds to consider

increasing property investments, which is not the case at the moment. Any increase in capital allocation to Australian real estate will have a follow-on impact of higher stamp duty receipts, helping individual states with the budget challenges and potentially reducing the burden on the Federal Government, assisting with the 1.2 million homes target.

Defined solutions

Your Future, Your Super

The Property Council and our members believe there should be consideration into how to neutralise tracking error introduced by residential investments (e.g. residential investments are carved out for a period).

Members advise there is a request to benchmark to MSCI GPFI as it is re-weighted, and often use this in their annual reports. The fact that benchmarks continue to evolve should support a regular review of which benchmark is used as the Property Council advocates for. We note that moving to a GPFI for international benchmarking would reduce costs for industry as they wouldn't be required to purchase a custom benchmark. It would improve transparency and risk measurement (as industry isn't aware of which funds are in the benchmark). It would solve timing issues by perhaps delaying the international YFYS three months (i.e. 30 June 2026 YFYS test will utilise the 31 March 2026 international YFYS and 30 June 2026 Australian YFYS).

RG97

The Property Council strongly recommends explicitly excluding property stamp duty (or real estate transfer/transaction taxes) from RG97 related legislation in order to keep the neutrality of investment opportunities and to prevent negative impacts to investor decision-making due to attributed fees where super funds invest in real estate assets. This will also promote the attractiveness of investment in property and boost projects to relieve pressure on a sector struggling to reach demand.

Conclusion

Considering these concerns, the Property Council strongly urges you to reconsider the current settings within the Your Future Your Super framework and its unintended outcomes for property investment, especially the fact that industry had no opportunity to consult on the appropriateness and next steps to address these issues. A more flexible and context-aware approach is needed, one that recognises the diversity of organisations and their unique challenges and opportunities. Retirement policy is not made in isolation, there are multiple layers of complexity when investors combine YFYS, RG97 that influences decision making.

The Property Council's members are also willing to assist Treasury to provide further context and to discuss the practicality of various solutions as we consider how we can collaborate with government to increase capital allocation to Australian real estate, particularly in housing. I would welcome the opportunity to discuss these concerns further and contribute to the development of a more effective benchmarking policy that better serves the industry and all Australians. Please do not hesitate to contact Matthew Wales, Policy Manager Capital Markets Division (mwales@propertycouncil.com.au) or myself to arrange a meeting at your earliest convenience.

Thank you for your attention to this matter. I look forward to a productive dialogue on this critical issue.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Antony Knepp', followed by a period.

Antony Knepp
Executive Director
Capital Markets Division
Property Council of Australia