Super could help housing

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More than a hundred years ago the Quaker Cadbury brothers, in response to appalling housing conditions in northeast England, built the village of Bourneville for their workers. Designed by the leading architect of the day, its purpose was to provide affordable housing for the firm's workers.

The project represented a new paradigm in housing and liveable spaces, with many of the properties continuing to receive plaudits for their functionality and design. This act of private, enlightened self-interest philanthropy may have lessons for today's housing challenges.

The last decade has seen a persistent and significant growth in real estate as an asset class around the world.

The post-GFC world has seen investment in real estate (mainly commercial) fuelled, in part, by the tax deductibility of debt and record low interest rates. Across the world global financial centres, the new cathedrals of commerce are filled with activity-based working, fed on a diet of the in-house barista and obligatory concierge. Many of these new glass towers are owned by pension funds through Real Estate Investment Trusts.

The latest APRA figures suggest that at an aggregate level, real estate accounts for more than $124 billion — or 9 per cent — of funds under management.

While superannuation is often viewed as the solution to the pressing public policy issue of housing affordability, in reality the conditions needed to bring superannuation capital to the table are not in place. Super funds look to property as a source of long-term returns matched against long-term liabilities. But an overpriced residential property is currently not an attractive asset class for super funds.

At the outset, it is worth noting the relative dearth of innovation in the real estate asset class. While an army of investment banks can slice and dice equities and fixed income, currencies and commodities into exchange traded funds and synthetics, the residential real estate market remains an uninspiring market in terms of innovative investment product offerings for institutional investors.

But could it be and what might success look like?

Current development models reward property developers with huge profits in a crowded market for development space. The resulting poor quality, small units often distant from public transport, are less than attractive.

How can we break the current impasse? One possibility is to leverage the current stock of crown land that sits close to transport infrastructure (often a short commute to our cities), combine it with adjacent land and adjust stamp duties to provide attractive 99-year leases to qualifying developments.

These developments would represent a new class of asset, sharing many of the characteristics of the popular infrastructure assets many funds have recently invested in. Imagine a precinct of mixed multi-family housing, close to critical transport infrastructure, providing housing for first time buyers.

Blended into this are long-term leases of 10 years-plus that facilitate rent-to-buy tenants and even longer 30-year leaseholds for downsizing retirees looking for security of tenure while releasing the equity in their family home. With securitisation of mortgage payments and rents providing liquidity and risk dispersion, the resulting REITs would be attractive to funds but only at the right price.

Creating the right residential real estate investment product for superannuation funds is not without its difficulties. But the legacy of a once-in-a-generation world class affordable liveable spaces is a prize worth our best unafraid hard thinking.

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