29 September 2017

Financial Services Taxation Unit
Corporate and International Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: affordablehousingtax@treasury.gov.au

Dear Madam/Sir,

SMSF ASSOCIATION SUBMISSION ON INCREASING THE SUPPLY OF AFFORDABLE HOUSING

The Self Managed Super Fund Association (SMSFA) welcomes the opportunity to make a submission on the Government's measures increasing the supply of affordable housing. Specifically, the SMSFA would like to comment on the amendment that clarifies that Managed Investment Trusts (MITs) cannot acquire investments in residential property except where it is affordable housing.

Australian residential property makes a strong contribution to the strategic asset allocation of investment portfolios in Australia, including for self managed super funds (SMSFs). Specifically, Australian residential property delivers strong long-run risk-adjusted returns and portfolio diversification benefits as there is little correlation between the Australian residential property market and other common investments, such as Australian equities. This indicates the strategic role and potential added-value of residential property in many portfolios.

Unlisted wholesale residential property funds are an appropriate model for attracting large-scale investment in residential property in Australia, and particularly for affordable housing investment. Unlisted wholesale residential property funds require a significant minimum investment, with low debt levels, and tend to be much less volatile and far more stable in their investment returns. These features are very consistent with the appetite of institutional investors such as superannuation funds and retail investors looking for stable returns, such as SMSFs with members in retirement phase.

From an SMSF perspective, it is arguable that stopping MITs from investing in residential property limits the opportunity for SMSFs to invest in residential property in an indirect, fractional method which offers the benefits of liquidity and smaller asset size, encouraging diversification. Allowing SMSFs exposure to residential property through MITs as opposed to direct investments is a positive for diversification and asset allocation, reducing risks of SMSFs being over concentrated in a single asset class.

Furthermore, allowing SMSF investors to invest in residential property through MITs, especially those that participate in build-to-rent investment benefits housing affordability as this investment assists in providing adequate rental supply which can reduce price pressures caused by unmatched demand for investment properties. Further, the long-term investment horizon that investors in these MITs have, such as that of SMSF investors, ensures stability for renters.

Further, we do not agree with the Government's view expressed in paragraph 2.10 of the Explanatory Memorandum that MITs investing in residential property are doing so with a long-term capital gain motive. We believe this may be correct for individual investors in residential property, but investors in MIT structures are more likely to use these vehicles for income, especially via build-to-rent schemes.

For example, SMSF investors look for long term stable returns, often to fund pensions, rather than capital gains. This investment outlook can assist maintain stable rental prices for the Australian housing market.

In summary, we believe that disallowing MITs to invest in residential housing will have negative effects on both housing affordability and investment opportunities for Australian investors, including SMSFs.

Accordingly, we believe that the Government should consider working with industry to better understand how MITs interact with the property market. The SMSFA understands that capital gains tax concessions for affordable housing must be appropriately targeted but believe it is not necessary to restrict MITs from investing in residential property to implement the Government's affordable housing measures. The negative consequences of restricting investment choice for SMSF investors in MITs and build-to-rent should be avoided. We strongly believe that the tax treatment, on its own, should not be the determinative factor for an asset class to exist, but should be a secondary consideration.

If you have any questions about our submission please do not hesitate in contacting us.

Yours sincerely,

John Maroney
Chief Executive Officer
SMSF Association

ABOUT THE SMSF ASSOCIATION

The Self Managed Super Fund (SMSF) Association is the peak professional body representing SMSF sector which is comprised of over 1.1 million SMSF members who have $696 billion of funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.