

Super trust denies redemptions

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Requests by industry superannuation vehicles in the past 15 months to sell down their holdings in a direct property trust have been denied because of fears that the fund's performance would suffer.

The \$7 billion Industry Superannuation Property Trust invests in direct property, such as office blocks and shopping centres, on behalf of 26 industry retirement funds, including Australian Super, HESTA, Cbus and HostPlus.

Since the beginning of last year "a handful" of super funds have asked to redeem about \$150 million from ISPT. The property vehicle's board of trustees, comprising three independent directors and seven super fund representatives, considered the redemption requests but decided a sale would be detrimental to the investor base as a whole.

It is understood the board was, in part, concerned the fund could be forced into a fire sale of properties to enable investors to redeem their units. The trustees also considered whether spare capital was best spent on items such as repairs and maintenance of buildings and were mindful that in the present economic climate they should keep debt levels to a minimum.

"Trustees must take an overarching view of all investors," ISPT chief executive Daryl Browning said. "It is all part of being a conservatively managed business. We don't want to increase our debt position to redeem units."

In addition to redemption requests, ISPT has received no inflows in the past year, although the fund is expected to pay about \$200 million in distributions to unit holders, about the same level as last year.



Vendors in distress . . . large properties, such as shopping centres, are proving extremely difficult to sell.

Photo: TAMARA VONINSKI

Most retirement vehicles have been leaving contributions in cash in recent months as asset prices have collapsed and members have switched more of their savings into defensive investment options.

Although some wealthy private investors are interested in buying smaller properties, large properties are extremely difficult to sell in this environment because of the poor outlook for the economy and the dearth of debt funding.

It is estimated that the value of the ISPT core fund fell about 5 per cent in the three months to March, after declining 5.4 per cent in the December quarter. However, industry experts predict much greater falls this year.

If rental yields rise 1 percentage point, the value of superannuation funds' unlisted property assets will

decline by about 16 per cent this year, according to research firm Chant West.

Some experts argue that prices will fall even further, especially if debt-laden property owners are forced to sell commercial properties at bargain prices because of refinancing problems.

Listed property funds have fallen 56 per cent in the past 12 months.

One of the problems facing the property industry is the decision by the major banks to scale back their exposure to the sector until economic conditions improve. In some cases lenders are refusing to take on new clients.

The Big Four banks have been hit by billions of dollars in impairment charges because of their exposure to the distressed commercial property market, capped by the near collapse

of shopping centre owner Centro Properties Group last year.

The federal government has established a joint-venture bank with the private sector, the Australian Business Investment Partnership – also known as RuddBank – to support lenders and industry participants.

Mr Browning said ISPT was selling smaller properties held by the fund with the aim of building up a war chest to reinvest once market conditions improved.

Last week the Australian Prudential Regulation Authority warned super funds of the importance of valuing unlisted assets accurately and regularly.

ISPT revalues its entire portfolio every three months, using eight estate agents which are rotated every two years.