



Investment & Financial Services Association Ltd

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The Commissioners
Market for Retail Tenancies Leases Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616

By email: retailtenancies@pc.gov.au

Dear Commissioners

MARKET FOR RETAIL TENANCIES LEASES INQUIRY

Thank you for the opportunity to provide a written submission to the Productivity Commission in response to its inquiry.

The **Investment and Financial Services Association Limited (IFSA)** is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries. IFSA has over 145 members who are responsible for investing over \$1 trillion on behalf of more than nine million Australians. Members' compliance with IFSA Standards and Guidance Notes ensures the promotion of industry best practice.

IFSA believes that any examination of the retail tenancies leases market should give due consideration to the role of listed property trusts (LPTs) in investors' superannuation funds. LPTs are also commonly known as real estate investment trusts (REITs) overseas.

The retail lease market is already highly regulated, including by international standards. The imposition of further regulation has the potential to increase costs, impede competition and thus exert downward pressure on returns to investors.

This has the potential to have a significant impact on a wide cross section of the Australian population. According to APRA¹, as at 30 June 2006 LPTs represented approximately 3 percent of total superannuation funds' default allocation. With superannuation balances for active members in the December quarter 2006 averaging \$39,663², it might reasonably be surmised that the average person with superannuation (a large majority of the population) will have something of the order of \$1,190 each on average invested in LPTs.

It is thus essential that the interests of superannuation investors, as the beneficial owners of LPTs, be taken into account in the Inquiry's deliberations.

LPTs have assisted investors towards achieving financial adequacy. Over the five year period to May 2007, the average return for LPTs (gross) of 19.4 percent exceeded the average return for Australian equities of 18.2 percent. Over the 12 month period to May 2007, on average LPTs returned 40.8

¹ APRA, Annual Superannuation Bulletin, June 2006

² The AMP Superannuation Adequacy Index Report, 25 July 2007

percent (gross), while the average for Australian equities was 31.6 percent (gross)³. The relatively high returns of LPTs have thus assisted superannuation investors in achieving financial adequacy for their retirement.

Investment in a variety of asset classes (including LPTs) by superannuation funds as part of a balanced portfolio also acts as risk mitigation strategy, as it spreads the risk across a range of investments. Any change to the regulatory regime for retail tenancy leases that reduced the attractiveness of investing in LPTs, and thus discouraged diversification, may well be antithetical to this approach.

Moreover, while over the 20 year period to June 2005 equities and LPTs performed very similarly in terms of returns, LPTs exhibited significantly lower volatility, at 11.3 percent per annum compared with 16.9 percent per annum for shares⁴. By reducing the volatility of overall investment, LPTs lower the risk faced by superannuation investors of negative returns and thus assist in the achievement of financial adequacy in retirement and strengthen confidence in the financial system. This is especially noteworthy given that people are increasingly expected to provide for their own retirement and with increases in longevity prolonging the period must provide for themselves after retirement.

The significance of the Australian LPT market to the Australian sharemarket and the economy more generally should also be taken into consideration. The Australian LPT market is one of the leading global REIT markets, as well as being one of the most developed and sophisticated.

However, REIT-based legislation has now been introduced to most developed capital markets. The REIT market will continue to grow globally and it is critical that the Australian LPT sector maintains its global competitiveness. Singapore has the goal of becoming the hub for REIT markets in the region, with Singaporean regulators explicitly modelling their initial legislation on the successful Australian LPT market.

Should the domestic LPT market become uncompetitive, it will have a significant impact on Australia's ability to attract foreign investment. It is therefore essential that the Inquiry take this into account in its deliberations.

It would also have wider implications for the Australian sharemarket given the significance of LPTs. According to UBS research, total market capitalisation on the Australian Stock Exchange of LPTs exceeded \$120 billion in May 2007, making Australian LPTs the third largest sector, accounting for 13.0 percent of total listed investments⁵.

We hope the information contained in this submission is of assistance, and please do not hesitate to contact me if you require further information.

Yours sincerely



Richard Gilbert
Chief Executive Officer

³ Intech, Super Survey, May 2007

⁴ Australian Direct Property Investment Association (ADPIA) Report 2005

⁵ UBS, unpublished