AustralianSuper to double real estate

Duncan Hughes

AustralianSuper, one of the nation's largest superannuation funds with about $46 billion under management, is finalising its new property strategy that will involve more than doubling its portfolio to about $9 billion over the next four years.

Jack McGougan, head of property, said the group is appointing a research manager and senior investment manager to build and manage new local and international relationships.

"We are on the cusp of rolling out the new strategy," Mr McGougan said. "It depends on market conditions and we recognise that we need to find the right model to allocate capital through different cycles and regions."

As well as increasing the size of property investment, it is also seeking more control over asset allocation by going from pooled funds to direct holdings, focusing on regional shopping centres and offices.

KEY POINTS

- One of the country's biggest superannuation funds is to adopt a new property strategy.
- It will move from pooled funds to direct holdings
- The focus will be on regional shopping centres and offices.

It is part of the fund's broader strategic switch to bring in-house more of the major decisions about asset allocation by developing research capabilities, such as establishing an expert panel to consult on its Asian equity strategy.

"This is a progressive shift," Mr McGougan said.

"We want to be able to exercise discretion over fundamental portfolio decisions and then out-source the asset property management."

AustralianSuper, which has 1.9 million members, is moving away from pooled vehicles because in many instances, despite being the largest investor, it is not given increased input into the management or given fee reductions commensurate with its scale.

It is looking for domestic and international managers "that are flexible in their approach to investment management", Mr McGougan said.

That is expected to result in more mandates with fund managers who are the asset manager as well as co-investments and joint ventures, he said.

"We have a low-risk strategy," he said. "Development by the fund will be restricted.

"We are not a developer and do not intend going down that route because it creates a lot more volatility and risk," he said.

The core assets will be office and retail with a "slight bias" to large super-regional shopping and CBD centres, he said. The offices will be premium and A-grade in major cities.

There would also be a focus on reducing management costs from about 60 basis points to less than half a percentage point by 2016.

The new investment manager and research manager will be developing strategies ensuring portfolio management decisions are increasingly made in-house and property and asset management generally out-sourced, Mr McGougan said.

It will be retaining QIC, which was established by the Queensland Government to manage its long-term investments, and ISPT, which is co-owned by 22 industry superannuation funds, which jointly manage about 74 per cent of its property assets.

"We are perfectly happy with those relationships," he said.

International assets, which account for about 5.5 per cent, are expected to increase to 20 per cent due to a shortage of opportunities locally and increased competition for them.

Jack McGougan . . . flexibility sought.

Talks give Reed some hope

Ben Wilmot

PPB Advisory, the liquidator of Reed Constructions Australia (RCA), has been in settlement talks with company founder Geoff Reed.

If PPB, which was appointed as liquidator in July, is able to reach a deal with Mr Reed, he could regain control of parts of the collapsed construction company.

Reed Constructions and another related company, RST Nominees, were part of a wave of collapses to hit the NSW industry this year.

They were placed into voluntary administration with Ferrier Hodgson in June, owing about $182.1 million after suffering losses on several key contracts.

In an update before a creditors committee meeting this week, PPB emphasised the centrality of a complex series of loans from RCA to its parent, RBG Pty Limited (RBG).

The PPB update said RBG owed RCA about $114 million.

The loan was created by RCA loaning rather than distributing its profit over the past decade to RBG. It was also a means of accounting for movements between entities that were required to support the contract and tender requirements.

The loan was split between a $45 million term deposit that moved between groups to support their financial viability, $40 million in monies lent by RBG to other group companies to fund developments or purchases, and about $20 million accruing interest at 13 per cent.

Former administrators Ferrier Hodgson put the value of the properties where $40 million had been lent at just $26 million.

Westpac subsidiary St George Bank, a secured creditor, is owed $48.1 million, and the bank would have first rights, leaving no surplus available to repay the intercompany loans.

In August, Mr Reed, on behalf o RBG, submitted a proposed settlement to PPB. This was rejecte but he has made a fresh proposal to settle claims PPB may have against RBG and himself in respect of bot the inter-company loan and any other claims, regarding potential insolvent trading.

He offered $7.4 million to settle all claims – amounting to $5 million for the inter-company clain and $2.4 million for all other claim without any admission of liability.

A further $2.5 million is on offe if RCA comes out of liquidation an back into RBG's control via a deed of company arrangement.

PPB's report last week said it had not been able to finalise the proposal nor had it been able seek approval from the creditors' committee of inspection.

Quintessential in $22 million sale

Nick Lenaghan

Property fund manager Quintessential Equity has sold a Melbourne CBD office building to a private Malaysian investor for $22 million.

Quintessential added the 333 Exhibition Street property to its $200 million-plus portfolio after acquiring it from GE Real Estate early last year for $17.5 million.

The latest transaction reflects a yield of 8.7 per cent, after the property was brokered by Savills agents Clinton Baxter and Nick Peden, in conjunction with Colliers agents Matt Stagg and Daniel Wolman.

The five-level office building has a net lettable area of 6528 square metres fully leased to Telstra. It is a strata component in a larger mixed use development.

Mr Baxter said there was strong interest from local investors and buyers from China and Malaysia.

Quintessential director Shane Quinn said the transaction was an example of the fund manager "turning an asset around that the market had discarded and as a result was substantially undervalued".

"We are very actively buying property at the moment and our focus is to be making significant purchases over the next 12 to 18 months to replace property like this one being sold," he said.

Mr Quinn said the fund had decided to take advantage of offshore demand to sell the asset now.