Division/Agency: Australian Securities and Investment Commission
Question No: 011
Committee Member: Senator Louise Pratt

Question:

CHAIR: These proceedings are resumed. Senator Pratt, you need to leave earlier than I do, so I'm going to hand over to you.

Senator PRATT: I'm grateful for that, Chair. Thank you very much. I have questions for ASIC in relation to the Sterling Group. I understand the secretariat may have given you some notice of this, but only perhaps as of yesterday. At the outset I would like to ask you for an overview of the Sterling Group's business model—a brief outline of that and a detailed answer on notice—and to ask how common such business models are in Australia.

Ms Armour: It was a business model established approximately 10 years ago focusing on expertise in sourcing rent rolls and property management arrangements and how to fund those sorts of arrangements. Over time, the business developed and a product was launched in 2016 which provided some investment options. It was really focused on investments by senior investors—older Australians. There were two investment options: to invest capital in a trust and later in a company called Silverlink. The idea of these investments was that they'd generate a return which would cover rent payments on a long-term residential lease where the investors in property would reside.

Unfortunately, the value of the underlying property assets deteriorated, and that impacted on the return of the investment. The property trusts, the companies and the group have subsequently gone into liquidation. I'm not aware of how prevalent this model is more broadly in Australia but I'd be happy to see if we can source some information on that for you and provide you that information on notice.

Senator PRATT: I'm not aware of any extremely similar business models, unless of course they might be those kinds of shared-lease holiday type homes et cetera, but they are again quite different. If you're able to give us more detail on notice. In your understanding of what happened at Sterling Group and who was affected, you said that it was an underlying deterioration in the property prices. Was the assessment that there was anything intrinsically risky or improper about this particular business model given how uncommon it is?

Answer:

To ASIC's understanding, there are a number of operating listed and non-listed entities with a business model focussed on property investment involving the aggregation of rent rolls, whereas, the Sterling Group "pioneered" in Australia the concept of the Sterling New Life Lease (SNLL) (a long term residential lease) coupled with the business model of property investment involving the aggregation of rent rolls.

In Sterling marketing materials regarding the SNLL, Sterling was described in the following terms:

"a market leader in the provision of affordable housing to Australia's rapidly expanding retirement sector. Through its SNLL product, the company has created an <u>innovative</u>

solution…….is a genuine alternative…..after more than 3 years of incubation and development, launched the SNLL product in early 2016…"

The intention of the Sterling Group was to generate sufficient returns from the aggregated rent rolls to cover rental payments on a long-term residential lease for an SNLL investor.

At the time of the appointment of Ferrier Hodgson (now known as KPMG) as Voluntary Administrators (VA) to the Sterling Group on 3 May 2019 the rent roll had grown to over 3,600 properties under management with operations in WA, Victoria and Queensland employing about 75 staff.

The income associated with rent roll rental management agreements for the most part was initially assigned to the Sterling Income Trust or at a late stage the Silverlink Income Rights Trust.

In reference to whether the *"pioneering"* Sterling Group SNLL business model was risky or improper, in the Ferrier Hodgson VA report dated 30 May 2019 it was stated under the heading "What do the administrators consider were the underlying causes of the Group's failure" that it was:

> *"The complexity of the organisational and operational structure which ultimately resulted in higher operational costs and a level of dysfunctionality. Uncommercial pricing structure under the Master Deed of Assignments which as a result of a reduction in rental income failed to reflect the cost to run the rental management agreements business (putting it into a loss making position) and the reliance on capital raising to fund operations."*