THE RIGHT ADVICE

Looking for an expert property investment adviser to help secure your future wealth and comfy retirement goals? Well, tread with caution, as it's still an unregulated industry.

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Not all property advisers are equal. That's lesson number one. So, when it comes to the property investment advice industry consumers need to remember:

- The industry isn't regulated, which means regulatory bodies such as ASIC don't oversee it.
- It's not yet compulsory for advisers (who are dishing out property investment information) to have educational qualifications or even meet licensing requirements.

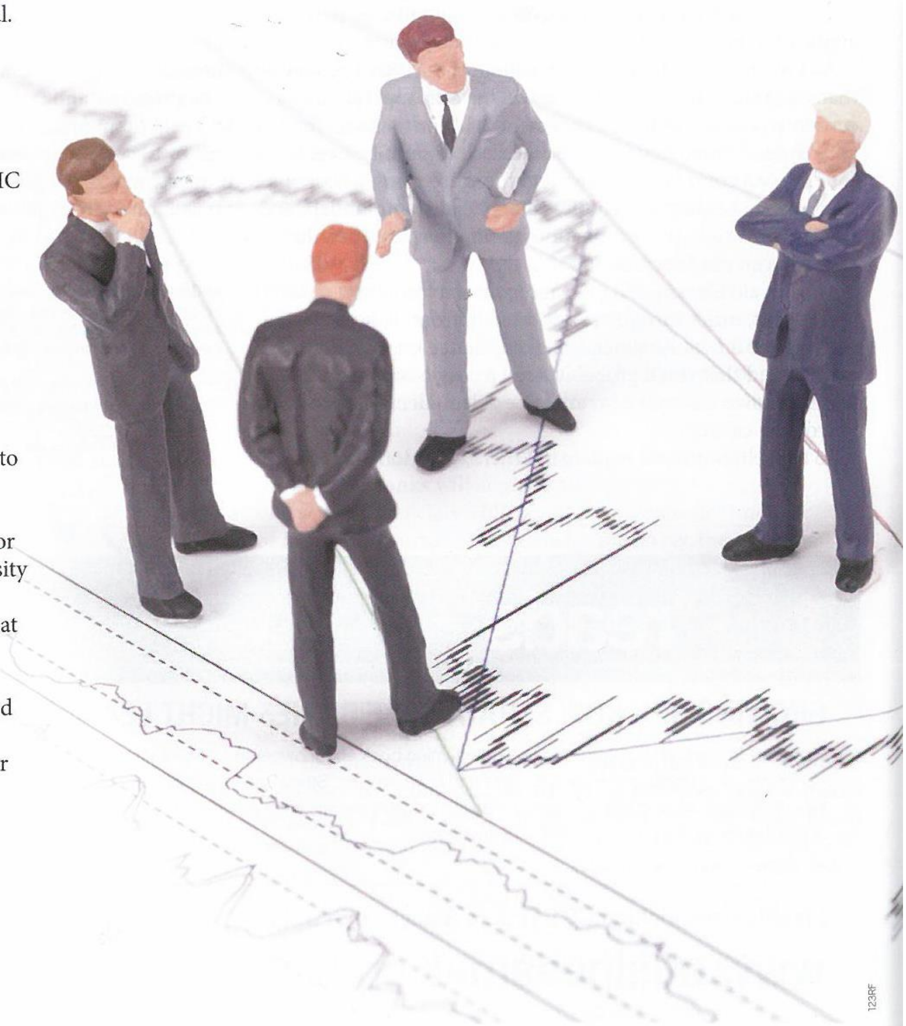
Such a state of affairs does seem ridiculous if you imagine someone, potentially with no qualifications or minimal experience, advising on how to invest half a million dollars or more.

If someone were to sell a $30,000 insurance policy, Peter Koulizos, author and lecturer of property at the University of South Australia, says they'd be required to have formal qualifications at the very least.

"But to advise somebody to buy a half-million-dollar apartment you need no qualifications," he says.

"If you think about it, a five to 10 per cent sales commission of a $500,000 property is a lot of bloody money. And so that attracts a lot of rogues to the industry."

The fact that property costs a lot of money, combined with the lack of industry regulation, means there are cowboys swarming the field "but that



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doesn't mean everyone is a rogue," Koulizos says.

There are things you can do to protect yourself and your investment portfolio prospects should you want to enlist the help of a reputable expert adviser because, despite some rotten eggs, there are plenty of honourable professionals out there who can help you rise to the next level of investing.

WHAT IS A PROPERTY INVESTMENT ADVISER?

In a nut shell, a property investment adviser works like a financial planner in the sense they look at your potential to invest in property, or they review your existing portfolio holistically, and provide advice on which property model or strategy will best suit you.

Ben Kingsley, founding director of Empower Wealth and chair of the Property Investment Professionals of Australia (PIPA), says a property investment adviser will present you with a written property investment plan, just like a financial planner will present you with a statement of advice.

Ideally, anyone calling themselves a property investment adviser should also have a formal qualification to give this advice, he says.

"This documented investment plan should have recommendations about the areas to invest and the types of properties best suited to you.

"Advisers should also make recommendations on the appropriate price-point of the potential property purchase, including targeted growth and target yield outcomes that are hoped to be achieved.

"They should offer area and property type research, including some explanation and comparatives, showing example properties, and discuss in detail the reasons for these locations and the property investment strategy benefits and potential risks."

But there's a limit to what they can do.

"If they make a particular recommendation on a specific property, there's a limit to their involvement from this point forward," Kingsley says.

For example, if a property investment adviser recommends No. 1 Smith Street, technically they can't negotiate or buy that property on behalf of their client, Kingsley says.

"This is where the law does come in. If a property investment adviser is taking a fee or receiving any remuneration by negotiating and buying a specific property on behalf of a client, then technically they're acting as a licensed real estate agent, which requires them to be qualified and licensed within that state or territory in which the property is located.

"Effectively this is what a buyers' agent or advocate does. Some buyers' agents refer to themselves as also being property investment advisers, but again I'd ask them if they hold any formal qualification in making this claim?"

Of course, finance is a big part of the property conversation, too, but a property adviser can't make recommendations on lending.

"This is the realm of the mortgage broker, who's licensed under the *National Consumer Credit Policy*," Kingsley says.

NAVIGATING THE WILD WEST

Founding director of LMW Hegney and Hegney Property Advisers, Gavin Hegney has 35 years' property industry experience. He shares some simple and straightforward tips to help you find a reputable property adviser.

"You need to go in prepared with an idea of what you'd like and with your eyes wide open," Hegney says.

"I say that in the sense that there aren't any necessary rules, so you've got to use common sense.

"There are a couple of rules I follow. Never take advice from someone who hasn't done it themselves. I always ask two questions: What's the theoretical advice? And, based on your experience, what's the practical advice you'd give me?

"And if there's a difference between those two, the person sitting before you should be able to explain [it].

"Now what you're actually getting from this advice is the best of both worlds... That's the difference between theory and practice.

"The second thing I'd say is obviously understand that someone is only as good as the experience they've had.

"Look for their track record, say to them 'show me the success you've had over a sustained period of time.'

"Has the adviser you're speaking to looked at different markets? How long have they been in the market? Have they been through a complete property cycle or a number of complete cycles?

QUESTIONS TO ASK...

Peter Koulizos

- What qualifications do you have in property or investment?
- Are you a Qualified Property Investment Adviser (QPIA)?
- Disclosure on commissions! Ask for them to disclose any arrangements they have with developers on the properties they're trying to sell.

Ben Kingsley

- Are you a PIPA member?
- What is your specialisation?
- What qualifications do you have?
- What's your skillset?
- Where do you buy?
- Why do you buy there?
- Are there any alternatives?
- Why does this advice best suit me?

"If the person can't talk to you in detail about the signs in the cycle, the leading indicators or warning signals, for example, then they're probably not the one you need to be talking to."

As another general tip, Hegney says investors should establish their own purchasing process through numbers and research to help guide a clear purchase decision.

"Whatever isn't being measured is being guessed. The medical profession measures everything because lives are at stake."

In property terms it's okay to have an opinion on something but the adviser should show you this with numbers.

"That's what you're paying for – the thorough and researched evidence of comparable properties detailing their past five to 10 years of growth with projections for future growth and why," he says.

For newbie investors who don't yet know which strategy best suits them or don't know if they're getting the right advice, Hegney shares his own secret investor tip.

"Regardless of what area is hot or not, I have a simple formula when looking at property," he says.

"I look for a minimum of 75 per cent land value and a yield not less than 75 per cent of the interest rate.

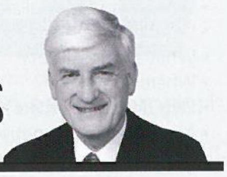
"That's my simple formula. I find I'm getting performers in the best of both camps – growth and yield.

"I can then tweak the formula with emphasis more towards income or capital growth."

BLURRED LINES

Adviser vs. agent

Aren't they kind of the same? You're not alone if you've ever wondered what the difference between a property investment adviser and a buyers' agent is. It can at times be a blurred line, but it shouldn't be. The president of the Real Estate Institute of Australia (REIA) and chair of the Property Investment Professionals of Australia (PIPA) are here to settle the score.



NEVILLE SANDERS
REIA president

"A buyers' agent is a licensed real estate agent who acts for a purchaser and is paid a fee by them. The number of buyers' agents acting in transactions is growing steadily and they provide an important service to their clients. These services can include providing advice on value, perusing contracts, arranging building inspections, negotiating with the vendor's agent and bidding at auction if requested to do so.

"A property adviser is generally required to hold a financial services licence (FSL) and promotes and advises on buying property, negative gearing, finance (if they have the FSL) and often will have a financial relationship with a developer to promote particular properties.

"It should be noted that this role is quite separate from the role of a real estate agent."

BEN KINGSLEY
PIPA chair

"Buyers' agents might have had a pedigree originally as a selling agent and have decided to work for the buyer, but they (typically) don't have any formal investment qualification. They might know about property, how to deal with the contract, they might be able to negotiate the purchase, but in comparison to a property investment adviser they don't necessarily know or have that education or training on what makes for a good property investment, or have an understanding of what drives property values or what drives rental yields.

"A property adviser – I think the best way to explain it is this role is similar to what a financial planner does, in the sense that they're looking to understand the goals of their clients and what the client is trying to achieve. Considering cash flows, considering what's an appropriate investment type, and making sure the client is going to be able to hold the property for the medium- to long-term. A property investment adviser will consider areas such as what are the core drivers for value? What influences yield? What are the supply and demand drivers?

"Your very first point of contact should be a qualified property investment adviser or someone who's formally educated to give property investment advice.

"This basically means they've undertaken an accreditation course or a university course that's given them some education around property investment advice."

THE INDUSTRY

When you take a high-cost asset such as property and combine it with developers and builders offering fairly sizeable commissions, kickbacks and fees, unscrupulous operators can naturally start to come out of the woodwork, like bees to honey.

"So, that's the problem in our industry," Kingsley says.

"Even though countless federal and state inquiries have made many recommendations about regulating property investment advice, the government of the day has unfortunately not had the appetite to bring regulation across direct residential property and we think that's a big mistake."

PIPA is lobbying for the regulation and licensing of property investment advice. Formed by industry practitioners, its objective includes representing and raising the professional standards of all property investment advice operators.

"In a sense you could say PIPA is the sheriff of the industry trying to prevent people from being misled into buying the wrong property, or something that's not suitable to their investment needs because obviously the so-called adviser is incentivised inappropriately," Kingsley says.

PIPA is the only not-for-profit association providing a framework under which property advisers can operate as well as keeping an eye on the shop, according to Kingsely.

"We work on both sides, helping the adviser to become more skilled and the investor to have some form of protection," he says.

PIPA has initiated entry-level educational qualifications, ongoing professional development, a code of conduct and advisers can study to become a Qualified Property Investment Adviser (QPIA).

It's not compulsory for advisers to join PIPA but Kingsley says you should ask if your potential investment adviser is a member.

"If we do receive any consumer complaints then we do full investigations into that member," he says.

"We've expelled members before. PIPA is really all about protecting consumers and protecting the integrity of the industry."

HOW DO ADVISERS GET PAID?

Kingsley says there are two models when it comes to an adviser's income. There's the fee-for-service model, which is where the consumer pays the adviser on a fee basis (and receives no commissions).

The second model is where commission is paid by the builder/developer for off-the-plan or house-and-land packages, which are recommended to investors.

"You've got to then ask yourself is the advice appropriate for me and my situation, and is the advice balanced? Kingsley says.

"Our industry practitioners work under a code of conduct. That code is all about disclosing how you're paid and how much you're paid. Obviously there are probably operators out there who don't disclose this information and promote their service as free, when really it isn't free at all.

"That's why you always need to ask 'are you a member of PIPA?', because disclosure on how your adviser is paid is the first step."

Koulizos says doing a 10- or 15-minute Google search on your prospective adviser will give you a fairly good idea of what sort of person they are.

"For example, if you check their LinkedIn profile or the like, and they have previously worked as a salesperson for some large apartment developers/builders in the past," he says.

"If they're now calling themselves a property investment adviser, and when you met with them all they discussed was buying brand new property, then I don't think they're true investment advisers."

Hegney says plenty of people have stepped into the industry in the past five years and claim to be experts.

"Unfortunately, you just can't be an expert in five years," he says.

PIPA is also encouraging professionals in the industry who may already be buyers' agents or financial planners to undertake the QPIA course.

This will enable them to prepare holistic planning for clients (typical property advisory functions) and operate right through to the purchasing phase and selection of the right property (typical buyers' agent phase).

"We're seeing more brokers and buyers' agents become qualified in QPIAs, which is a good fit," Kingsley says.

WHY USE AN ADVISER?

The right one can stop you making a big mistake financially.

"You want to sit down with someone who doesn't have an agenda, someone who has your best interests at heart. Someone who can work through your personal circumstances, understand your goals and the reasons why you want to invest," Kingsley says.

Just remember to thoroughly research any potential property investment adviser first.

"They should assess your risk profile appropriately to make sure they're not going to add too much risk to your household. They'll provide education and understanding on the process of the journey that is property investing.

"Really Australia has unbelievable property investment opportunities, made up of thousands of markets, and it's really about trying to identify the best opportunity in the best market." API

Talking about disclosure… API is a corporate member of PIPA and our editor is on the PIPA board of directors.