TOO HIGH A PRICE FOR PROPERTY ADVICE?

In **part two** of our investigation into property advisers, we provide hints and tips, take a look at what you can reasonably expect from an adviser, and how much responsibility you need to take for your own decisions. **ANGELA YOUNG** [@DepEdAPI]

In part one of our in-depth look into the sometimes murky world of property advice (grab a September issue of API if you haven't already read it), we discovered that the lack of regulation around property advisers has opened the gates to some dodgy practices, in the form of spruiking, kick-backs and false or misleading representations.

It's eye-opening stuff, but it doesn't mean that good, honest property advice is impossible to come by.

There are plenty of perfectly legitimate advisers out there offering a valuable service to investors, so how can you make sure you find the right ones?

Property Investment Professionals of Australia (PIPA) chair Ben Kingsley insists that, despite some of the horror stories, investors should definitely not avoid getting professional advice all together.

"It's too important not to get a professional to help guide you through the complex process of investing in property," he says.

"At PIPA we recommend looking for advisers who are QPIA qualified or in the process of getting their qualification.

"You can search for advisers and other key professionals – such as mortgage brokers, accountants, buyers' agents, property managers, etc – via our website, www.pipa.asn.au."

Sydney-based buyers' agent Rich Harvey, too, is confident it's not all bad.

"There's plenty of them that are doing it legitimately, there are plenty.

"That's the problem, everyone tends to paint the bad and the good ones with the same brush, and there's quite a few out there that do it quite well."

As president of the Real Estate Buyers Agents Association (REBAA), Harvey has some tips for making sure your buyers' agent is a good one, i.e. working for you and you alone.

"Pick your advisers carefully," he says. "First thing you do is use someone who's REBAA accredited.

"To be a member of REBAA you have to be licensed in the state you're operating, you have to have been operating for a minimum of two years and you have to abide by a very strict code of ethics," he explains.

"Ask the adviser for testimonials, ask them for their track record, look at their longevity, see if they've won any awards… there's a range of things you can do to check out their credentials, but checking up their licence is a first step.

"You can jump on the website of each state and put in a person's name or a company name and check that they're licensed, that's absolutely the first critical step."

Harvey has faith in this country's property buyers, however.

"Australians, we've got a good BS radar – use it, you know?"

He recommends you ask plenty of questions of your adviser, around how they do their research.

"If you're talking about investment property… people can sort of blind you with science, so it's good to look at the track record of the company," he says.

"How long have they been operating, why do they make their recommendations, how do they do their research? Look at that and make sure it makes sense."

IT'S GOOD TO SPECIALISE

Kingsley recommends working with buyers' agents who specialise in property investment, "rather than just a buyers' agent generally who might have very little experience, knowledge or qualifications around property investment".

For other kinds of advisers, he suggests avoiding the typical smooth or fast-talking sales people "who have all the sales lines but lack substance and depth in what they know or can tell you about property investing".

You should test them on their knowledge of different investment strategies to gauge their skill and experience levels, he adds, and if they try to keep bringing you back to just

ESSENTIAL CHECKLIST

Don't leave home without PIPA's Ben Kingsley's wise words on 10 key things to check when engaging an adviser…

1. Do they have any **formal qualifications** to be providing this advice?
2. **How do I pay** for their services – is it a fee for service or are they paid commission from someone else?
3. How much of my **personal circumstances** have they taken into consideration – have they conducted detailed enquiries into my cash flow or future change in circumstances, such as starting a family?
4. Have they been able to demonstrate clearly any **modelling of my desired outcomes** and, if so, have the projections they used been conservative or aggressive?
5. Did they spend any time talking about **risks** – such as provisions for change in circumstances, risk of regulation changes, market risks, tenant damage risks, etc?
6. Do they recommend (or sell from) **a stock list** or are they giving me advice that works across the entire marketplace?
7. Have they talked about tax and or lending scenarios? If so, are they **licensed or qualified** to do so? Be very careful in dealing with any unqualified adviser giving this advice, as it's illegal for them to do so. Ensure you get an opinion from a licensed or qualified professional regarding taxation (an accountant) or lending matters (a mortgage broker).
8. Am I getting a **detailed written property investment plan**, as part of the services they offer? Is it something I can refer back to or track progress against?
9. Have they been able to **answer my investment questions** honestly and give clear and logical responses, backed up by lots of evidence to support their claims?
10. Do I feel they've provided me with an **individually tailored** plan or have they just given me the same advice they give everyone? (In other words, have they done all the talking while I've had little input into the advice I'm receiving?)

"Australians, we've got a good BS radar – use it."
RICH HARVEY

CASE STUDY

Beware the 'freebies'

In 2013, Consumer Protection Western Australia issued a warning about "so-called 'free' property investment and wealth creation seminars", urging people to carefully consider what was being offered before signing.

Commissioner Anne Driscoll said at the time: "A number of eastern states' operators have been conducting these 'free' seminars in WA... but those who attend may not be getting what they expect.

"The advertising of these seminars give the impression that those who attend simply receive free information about how to secure their financial future but, in fact, they are subjected to high pressure sales tactics that promote coaching and mentoring programs costing between $3000 and $10,000," she continued.

"The presentations highlighted the benefits of investing while downgrading the risks involved in securing the financial future of participants. They also appear to exaggerate the potential gains from property and other investments by following the promoter's programs."

The commissioner went on to say that the seminars appeared to be a clever sales tactic to simply draw people into a room for several hours with the hope that they'd sign up for the courses, but that "very little information is offered for free".

The question to ask, Driscoll pointed out, was what would be the benefit to a promoter of holding a "free" seminar if they didn't sell something at the event?

Consumer Protection officers in fact attended three separate seminars and reported that all followed a similar formula:

- Free to attend but mainly a forum for selling expensive mentoring and coaching programs
- Downplaying the risks and costs involved in property investment
- Claiming to offer "the secret to financial success"
- Only offering hints and teasers, with participants having to pay for programs if they wanted any further information
- "Special" rates offered for programs if people signed up then and there.

The officers' advice was simple: "We warn attendees to resist the pressure to sign any contracts or pay any fees when attending these events."

> "The advertising of these seminars give the impression that those who attend simply receive free information..."

one strategy – because that's all they know or sell – get a second opinion from another adviser.

"If they're promising quick riches or fast-track strategies, how much time are they dedicating to tell you about the risk of what can go wrong?" he points out.

"More often than not, the free service providers who get commission or kick-backs are the ones where most of the trouble lies. If commissions are involved, you need to demand full transparency."

Although there are some very reputable businesses that attract new business via free seminars or home appointments, these types of sales strategies are also the ways in which many spruikers practise their craft, Kingsley adds.

"Some property investment courses cost thousands but deliver no real learning outcomes or aren't tailored to the consumer's needs.

"You name it, when there is potentially big or easy money to be made by preying on unsuspecting consumers, there'll always be horror stories of financial loss."

To undertake necessary checks on an adviser, Kingsley suggests checking out the PIPA website, as well as contacting Consumer Affairs to see if the person has had any complaints made against them.

"There are some forums in which you might be able to make investigations, but just be careful as to the legitimacy of the comments on these sites," he warns.

"You don't know if the person making them is legitimate themselves, especially if they don't offer up their name – they could be a competitor being mischievous."

EXTRA COOLING-OFF TIME

Queensland Office of Fair Trading executive director Brian Bauer says the recommendations from the state organisation are that people should not attend free "wealth creation" seminars.

"However, if you attend a seminar where there was no indication goods or services would be sold, you are entitled to a 10-business-day cooling-off period for anything you buy over $100," he says.

Another way consumers can protect themselves, he adds, is by being aware of high pressure sales tactics.

"Don't let a salesperson rush you into decisions, or signing contracts and paying fees on the same day," Bauer says.

"Salespeople are trained to focus on and exploit the fear of missing out. However, in many cases, you'll be able to forego the 'special limited offer' at the seminar you attend, and if you decide later that you want to go ahead, simply attend another seminar to receive the same offer."

In further advice, Bauer urges people to be wary of "one-stop-shops" where the property spruiker or related entities also provide services such as mortgage broking, finance and conveyancing, or tax advice. He also recommends being sceptical of claims of capital growth or rental returns that either aren't independent, seem higher than expected, or in some way are represented as certain when they actually rely on market movements or trends.

PERSONAL RESPONSIBILITY

Of course, bad situations arising from property advice aren't always solely down to the adviser, and it's important that consumers take some responsibility for their own actions – particularly in an age where many people like to dish out blame before taking the time to analyse their own behaviour.

Expectations of just how much a property adviser will be able to help you are sometimes way too high, according to Harvey.

"[People] try to run ahead of themselves, and they have an expectation that the buyers' agent is a magician and that the first property they buy they're going to get a 50 per cent return on," he says.

"You have to just temper the expectations with the reality of the market."

A spokesperson for New South Wales Fair Trading points out that there is always an onus on prospective purchasers to do their due diligence and seek advice or information from a variety of sources prior to committing.

GREAT EXPECTATIONS: WHAT YOU CAN AND CAN'T EXPECT FROM YOUR PROPERTY ADVICE

FAIR EXPECTATIONS	EXPECTING TOO MUCH
Advice on a general investing strategy that would suit your personal financial circumstances	A step-by-step walkthrough of exactly where you should invest your money and when/how
An informed suggestion of what property markets are doing/have been doing	A guarantee of where property markets are going/exactly how much you are going to make on your investment
The provision of up-to-date data about the area in which you are looking to invest	Guarantees about the short- or long-term future of an area
Educated predictions	Knowledge of the future
Helping you find an appropriate property for your strategy	Massive returns or hugely under-market-value property prices
Upfront fee disclosure	Working for no fee/income
Honest general advice, free from misrepresentations	Absolutely on-the-nose information on markets/figures/outcomes

Whistle Blower author Anna Porter says she sometimes finds people's behaviour a little confusing, especially when it comes to property spruikers.

"I must admit that I do often scratch my head as to why people assume that the service is for free and why they don't ask who's paying the investment firm," she says.

"But I also know that firms have great 'cover' stories too, so even when they do ask they're often misled."

For those advisers offering genuinely good, honest advice, she points out that not everything can be blamed on them.

"Advisers cannot take responsibility for the economy on a broader scale and certainly can't be held responsible for things like the market fallout from the GFC or when the political climate changes and there's a bump-on effect to the market," she says.

"But, they should be accountable for things like getting their clients into Brisbane off-the-plan units that are statistically retracting in value and they are still actively recommending these properties in a market where that asset class is declining, while established homes in the same location are going up in value.

"You have to ask, 'why are they still recommending these properties and not

VERIFY YOUR BUYERS' AGENT

Rich Harvey recommends seven things to verify in a buyers' agent:

1. **Industry experience** – how long have they been going for?
2. **Market coverage** – where do they look?
3. **Their results** (testimonials from previous clients)
4. **Their network and contacts** – how wide?
5. **Their research system** – what are their strategies?
6. **Their credentials** – check them out through the appropriate body (REBAA, PIPA, etc)
7. **Their fees.**

REMEMBER...

...property typically returns around **6% a year**, year after year.
If you're offered returns of more than 1% higher than this, get a second opinion.

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CASE STUDY

The Australian Securities and Investments Commission (ASIC) warns of seminars at which a motivational speaker claims to be a self-made millionaire and will share their secrets to financial success.

"One seminar featured 'Four of Australia's greatest financial superstars'," says a spokesperson.

"When ASIC checked them out, none of the presenters had an Australian Financial Services licence – in fact, three of the four speakers were found to live and work in the USA.

"Who knows if they were 'financial superstars' or just slick salesmen?"

advising clients to buy an established home in an area that's seeing growth?'. It's because they get such a big fee to recommend the units over the houses."

The old saying "buyer beware" does not, Porter stresses, let bad advisers off the hook.

"['Buyer beware'] certainly should not apply when a professional comes to you as your trusted adviser, positions themselves as working in your best interest and then gives you negligent advice that was never designed to serve your needs," she says.

"They often come with the recommendation of a broker or accountant that has aligned themselves with the firm to receive kickbacks, so you instantly have a level of trust.

"This practice is never the buyer's fault, it is a lack of regulation.

"Most people only buy one or two properties in their lifetime, so they seek advice from someone they perceive to be an expert so that they can protect themselves, only to find out that they were being duped from the start."

Bauer also stresses that customer foolishness doesn't necessarily relinquish a bad adviser from blame.

"A decision by a consumer not to seek independent advice, while not recommended, does not remove liability of the spruiker for giving false or misleading advice," he says.

"Provided the consumer doesn't make unreasonable assumptions based on the advice given, the 'spruiker' will be held liable for the representations made.

"It's vitally important that property investors seek independent legal and financial advice before agreeing to anything."

Kingsley concurs that while some responsibility must be taken for decisions made, the bad apples should still face retribution.

"Given it is such a large amount of money that households are investing, there should be greater consumer protection for investors seeking advice," he says, adding: "That said, consumers need to take responsibility for their actions, too.

"They should do their own due diligence on the company or person they are looking to work with and also ensure they understand the property recommendations being put forward to them before acting." API

TIPS

Don't bow to pressure

If you find yourself in a situation with an adviser trying to pressure you in some way, here are some tips for how to deal with that.

- **Say you need time to think.** Be wary of discounts offered for signing up on the day.
- **Research the business online.** Don't just visit their own website, but undertake proper due diligence on their reviews, stories about them, etc.
- **Ask for a copy of the contract** they want you to sign so you can take it home and review it in your own time
- **Get everything in writing** – never rely on verbal agreements, no matter how nice someone appears to be. A genuine adviser will be happy to get everything down on paper for you.
- **Take your time** – no one should be hurrying you with such a huge decision.
- **If you don't understand it**, don't sign it.
- **If it sounds too good to be true**, it almost certainly is!
- **Watch for their reactions** to your requests. If they're hostile or ignore you, it's probably time to walk away.

"If commissions are involved, you need to demand full transparency."

BEN KINGSLEY