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## NEWSLETTER

### The argument for regulation of property advice

Posted on Friday, October 19 2012 at 10:30 AM

The Australian property market was valued at \$4.54 trillion in December 2011, compared to the \$1.17 trillion value of the stockmarket. Did you know the provision of advice about investing in this huge asset class, which forms the foundation of most of our personal wealth, is currently unregulated?

The real estate sector is changing and there are plans to create training requirements nationwide for those in the industry. It's anticipated national licensing will require industry professionals to attain the highest level of training. These changes were to be introduced in July this year; they weren't and there has been little news about the progress of this reform.

In all states and territories, a real estate agent acting for a seller is prohibited by law from also acting for a buyer in the same transaction. And while the law requires selling agents to disclose their interests when they're selling a property for a commission, there are some who don't.

I recently attended a property wealth expo and was shown an amazing opportunity to join a group with a 'secret' investment concept called 'land banking'. My introduction began with a disclaimer to be signed before entering the seminar. The seminar was formulaic with plenty of hype, lots of motivational speaking, upbeat music and unreferenced, outdated data and statistics. To close, the audience was told there were "limited opportunities" to invest.

At this point it became even more concerning. To qualify for this investment opportunity, I had to become a 'member' and pay a \$4000 fee. The membership fee would be refunded if I bought some land, of course. Even though that transaction may not occur for several years, they would have the use of my money and I would have no title for quite some time.

What most buyers wouldn't realise is that this is a highly crafted sales pitch and the 'membership fee' was really a property reservation fee. I spoke privately to the presenter during the event and asked how he got paid and by whom. I eventually learned that his company was in fact a "project marketing firm which acted as a vendor's agent and received a commission every time an investor bought the land they had for sale".

What's wrong with that, you may ask? Well, it's against the law to not disclose that vested interest. If that transparency isn't there from the start, then you're right to have reservations.

The other issue in the real estate sector is that unlike the financial planning and mortgage brokerage sectors, property as an investment asset is unregulated. There's no regulatory body (like the Australian Securities and Investments Commission) that requires factual claims be based on evidence.

Property for investment should be considered on the basis of the potential performance against market averages. To support this we need:

- Standardised requirements for claims about historical performance.
- Benchmarks so we can rate if it was an above or below average performance.
- Realistic foundations for claims about the future, rather than the claims by some developers.

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To support transparent decision making, we also need modelling tools that represent the real estimates for projected cash flow for buying, holding and selling the property.

If you don't have the time and resources to do the due diligence yourself, there are qualified and independent professionals who can give you property investment advice to support your wealth creation goals.

As with anything in life, you need to know the necessary questions to ask in order to understand what's being presented to you so that you're better prepared to make informed decisions.



**Rosemary Johnston** is an advisory board member at the Property Investment Association of Australia. [www.piaa.asn.au](http://www.piaa.asn.au)



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