

Pulling the plug on rogue operators



As a new batch of property investment victims emerges, the Government has the unregulated industry under scrutiny, writes **Jason Bryce**

THE Federal Government is set to act against rogue operators in the property investment industry.

Alarming numbers of people are discovering the dangers of borrowing to invest in rental investment properties.

Spruikers using hard-sell and cold-calling tactics are common. Now some rogue companies in this unregulated part of the real estate and home lending market are coming under intense scrutiny.

This month, Senator Nick Sherry, Minister for Superannuation and Corporate Governance, released the Financial Services and Credit Reform

discussion paper, which singles out the promoters of property investment schemes for possible regulation and accreditation by the Government.

Property investing is the traditional way many families prepare for the retirements of their breadwinners. A rental property can provide a reliable income stream while its capital value appreciates significantly.

Add in the favourable tax treatment afforded the industry by negative gearing and the 50 per cent capital gains tax discount, and renting out a house becomes very attractive.

Traditionally, investing in residential property was also seen as way to build wealth and start a broader

portfolio of investments. "At present this industry is unregulated, and this has resulted in an unprecedented number of unqualified participants providing financial advice to unsuspecting investors," says Margaret Lomas, chairwoman of the Property Investment Professionals of Australia.

Ms Lomas says association members will welcome any such regulation: "We believe that disclosure, professional ethics and a complete

understanding of investor needs is crucial for all property investment advisers, and we strongly support any move toward regulation," she said.

Among the many property investment spruikers is a Brisbane property investment company which has gone into liquidation.

It has left investors with large loans over properties worth much less than what is owed on them.

"It has all been a nightmare, I have been a nervous wreck, every time I think about it or talk about it I come out in rashes all over my body," says

Agnes Dodd, who with her husband Robert has chalked up more than \$300,000 in debts since signing up with the company.

"If we were to pay out our loans now it would cost \$340,000 plus.

"When we went into it two years ago we owed just \$18,000 on our own home, now we owe \$118,000 and we have paid no principal off our loans.

"The house we built was supposed to be worth around \$270,000. It has just been valued at \$240,000."

The Dodds are among thousands of

investors in Queensland and nationwide who have been sold home-and-land packages by the company. Many were called out of the blue by salespeople, then taken to vacant blocks of land and sold the dream of retiring well by financing the construction of a new home and becoming a landlord.

Loans were secured over the investors' own homes as well as the investment property. The mortgages

were based on the contract sale price, rather than lender's valuations.

The Dodds are now approaching their retirement with a very uncertain financial future.

"It all began when they called our silent phone number and said this is something you should do for tax reasons. My husband said if it had something to do with tax we better get them out and find out what it's about.

"They came out and took us to a block of land and said, 'This is where your house will be built'.

"Before I really knew what was happening they had us signing papers with their solicitor. It was bang, bang, bang, all arranged within a month."

Margaret Lomas says the company is typical of many operators on the fringes of the industry.

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"Spruikers like this company are typical of that element in our industry. They haven't broken any laws but they seem to act without a conscience," Ms Lomas says.

"They are essentially marketers, they get into bed with property developers and tell the client that there is no fee or commission to be paid by them.

"In reality they are getting a fairly large kickback or fee from the developer.

"That means the buyer is getting

the property at a substantially higher price than what it is worth." Ms Lomas warns that the problems in the industry are more widespread than a few "rogue operators".

She points to the problem of people setting themselves up as property investment advisers "with no education or qualifications whatsoever".

"Because property investment is unregulated, people go along to see these people and make major financial decisions based on advice that may not be suitable."

Senator Sherry wants to hear the stories of people who have been hurt by the property investment industry.

"I believe we can act to better protect investors through a streamlined approach," he said.

"On property spruikers, the Government wants to hear from the community, as we know people have been hurt by some operators and we'll take action to fix that."

The closing date for submissions is July 1. The discussion paper is available at www.treasury.gov.au.

**Every time
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it, I come out
in a rash**

— Agnes Dodd