TREADING CAREFULLY

If you're a broker looking to incorporate property investment advice into your service proposition, make sure you are equipped to do so, writes Ben Kingsley, chair of Property Investment Professionals of Australia (PIPA).

WHILE INVESTMENT activity may ebb and flow, property investment has become a part of the Australian culture. There will always be active investors, even when the broader market may quieten, and brokers know this better than most.

PIPA's 2009 Investor Sentiment Survey showed that 65% of investors secured their last investment loan through a broker, and 77% plan on securing their next investment loan through a broker. This is welcome news to brokers' ears, even if it is hardly surprising given over half of all mortgages are now written by mortgage brok ers.

In today’s complex borrowing environment, brokers have clearly become a firm favourite with investors, offering greater choice and valuable advice on navigating the changing lending landscape. And with investor activity remaining strong, more and more brokers are starting to look at how they can better service the borrower segment and create further opportunity within their businesses.

The value of investors
In running my own business, I am a big advocate of cultivating investor relationships to drive future business opportunities as investors are a major component of my own client base. This is because investor clients can be very sticky. Usually, if successful in their strategy – and pleased with the service you provide – an investor will become a repeat client as they build a portfolio of properties that will generate the passive income they are looking for in their retirement.

Brokering property investment advice is clearly an effective way to expand your service offering as a broker and meet your investor clients’ broader needs. However, being an unregulated domain, this territory can raise a few red flags.

Unlike other asset classes, property is not recognised as a financial product under the Corporations Act. This means that anyone is free to potentially provide property investment advice without any qualifications, credentials, or even genuine experience, and ASIC can’t stop them. But despite the lack of specific regulation, poor advice can still get you into trouble in other areas of the law. We’ve all seen the property speaker headlines, which unfortunately still appear too frequently as a result of poor advice being given to investors.

In many cases, those in trouble have been deliberately misleading consumers. The industry is littered with people claiming they’re certified in one type of strategy over another, when really they’re product pushing. But there is also the occasional situation where the adviser is well-intentioned but unfortunately unqualified and unprepared.

I’ve seen many successful cases of brokers expanding their service offering to meet their clients’ broader needs, but a real danger for those brokers who want to play in the property investment space can be around their true level of knowledge and understanding of property as an investment. Just because you have helped a household secure a loan for their investment properties doesn’t mean you are an expert on all things property investing. Brokers can destroy their reputations and potentially their whole business by trying to be property investment experts when they aren’t.

Diversifying into property investment
But don’t let this scare you off! There’s no doubt that property investment advice sits nicely alongside mortgage brokering. Lending is a fundamental component of most property investment actions, so there is undoubtedly a huge opportunity for brokers with multiple skill sets to expand their services in the property investment space – it just has to be done in the right way.

So the question is, which way is the right way? The first step brokers should take is to formalise their property knowledge. My own career trajectory is proof of the value of this, as I first worked as a mortgage broker and then undertook further formal education to become qualified in the property investment space.

There are several courses you can take to become formally educated like I did, including PIPA’s Qualified Property Investment Adviser (QPIA) qualification. Completing a course to build your knowledge is a great way to become appropriately skilled and to be financially remunerated for your advice.

The second critical factor for ensuring success in the investment advice space is full disclosure. When working with clients, one thing you should be aware of as brokers is how to make sure you are acting in the best interests of your clients, across all areas of your business. If there are any conflicts of interest, between you and your client, you should disclose these (this is also a rule under the PIPA code of conduct).

Lastly, remember: property investment is not transactional – it’s a long-term wealth creation strategy. So by maintaining close contact with your investor clients you’ll help ensure their investment journey stays on track, and ensure any new business opportunities come your way.