

PIPA ADVISER

ISSUE #10

For members of the Property Investment Professionals of Australia

HOW BEING FIRST OFF THE BLOCKS WINS BUSINESS



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PIPA (Property Investment Professionals of Australia) has been formed by industry practitioners with the objective of representing and raising the professional standards of all operators involved in property investment.

The *PIPA ADVISER* is a bi-monthly title published six times a year by PIPA (Property Investment Professionals of Australia)
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contents

PROPERTY
INVESTMENT
PROFESSIONALS
OF AUSTRALIA

PIPA

4

CHAIRMAN'S REPORT

By the time this issue lands in your in-box, winter will be officially behind us and the much celebrated "spring selling season" will be here.

6

INDUSTRY NEWS

Peter Koulizos is currently undertaking research based on the book that he wrote in 2008, reviewing the results to see how accurate his forecasts were.

8

MARKET UPDATE – SA

The South Australian property market has been showing early signs of growth, according to the latest data, but don't expect a boom anytime soon.

10

PIPA PROFILE

Melbourne-based Richard Crabb of the ASPIRE Advisor Network was recently elected to the PIPA Board of Directors.

12

SMALL BUSINESS - COVER STORY

Let's face it, being first off the blocks is absolutely critical if you want to win customers or retain their business.

16

DEPRECIATION

Investors who are looking to purchase a new property often look at buying off-the-plan, which can mean solid depreciation opportunities.

18

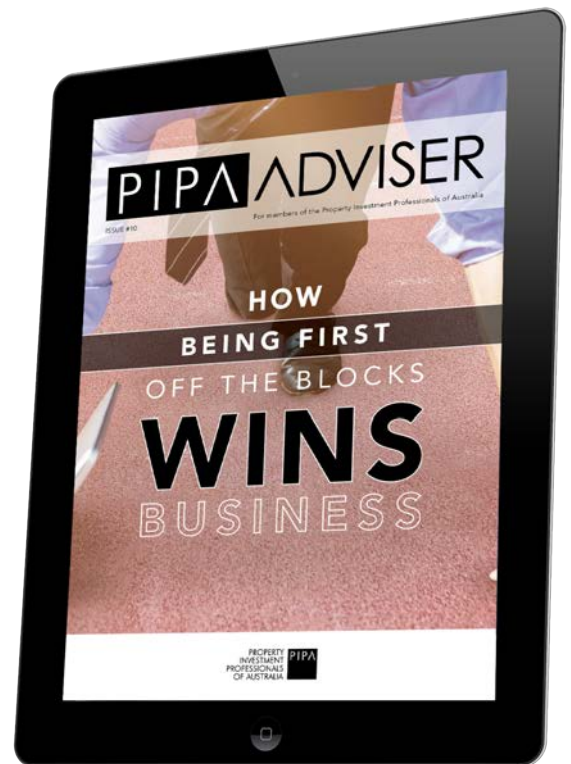
FINANCE

Better-educated people are better equipped to ask the right questions and make more informed decisions, according to The Conversation.

20

RESEARCH

Industrial real estate is a relatively cheap, versatile building asset that more investors are considering.



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A time of change...

Welcome to the latest issue of the PIPA Adviser. By the time this issue lands in your in-box, winter will be officially behind us and the much celebrated “spring selling season” will be here.

We also have a new Prime Minister in Scott Morrison, who PIPA is looking forward to working with to progress regulation in the property investment advice space.

There is no doubt that property markets have changed since this time last year, with Sydney and Melbourne both posting quarterly dwelling price falls, according to the latest figures from CoreLogic.

Hobart’s market appears to be moderating as well, with Brisbane and Adelaide starting to record reasonable quarterly results after a number of years of mostly benign market conditions.

Contrary to some of the more alarmist media headlines, there is no bust on the horizon and our members continue to find opportunities for their clients

across the country.

The 2018 PIPA Investor Sentiment Survey is currently under way, which will provide a significant snapshot of current market sentiment when the results are released later in September.

The survey is PIPA’s most substantial event every year, so please share it with your investor clients so we can make it the biggest in the country. The survey is open until 5pm on Friday 7 September. You can find the [link here](#).

The PIPA Board elected two new members recently in Richard Crabb from the ASPIRE Advisor Network and Kylie Davis from CoreLogic.

Richard brings a wealth of experience in the new property

investment space to the board, while Kylie is a 25-year media veteran and has nearly 10 years’ experience in property.

Kylie’s appointment also brings the percentage of females on the PIPA board to 30 per cent, which is the benchmark set by the ASX, and highlights the association’s commitment to be representative of the wider property investment industry.

PIPA held its Sydney breakfast seminar in July, which attracted a record number of attendees.

I’m pleased to announce that the Melbourne breakfast seminar will be held on Thursday 22 November at the Sofitel Melbourne on Collins.

Invites will be sent for the event, which is free for members, later in September so please keep an eye out for them.

PIPA is also currently investigating updating the QPIA into an online course, which will make it more accessible to the growing numbers of students across the country.

Last, but certainly not least, don’t forget that PIPA regularly uploads webinars for members, which you can access via your member profile page on the PIPA website.

Until next time, then, I hope your business continues to flourish with the onset of spring. ▀

PETER KOULIZOS
PIPA CHAIRMAN

PIPA media kit

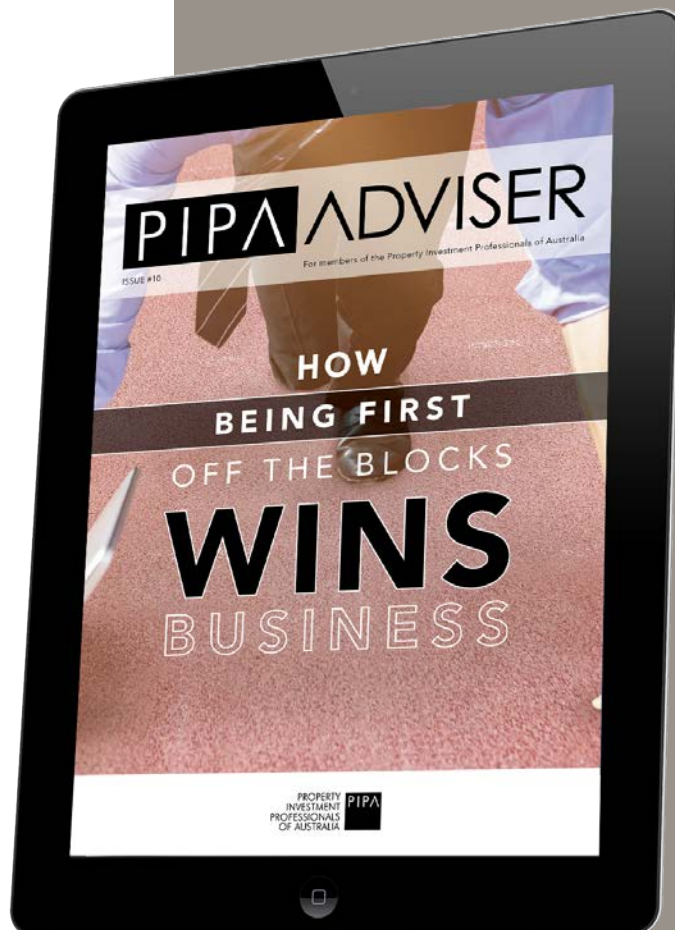
The Property Investment Professionals of Australia (PIPA) is the peak national property investment industry association. Our members subscribe to a Code of Conduct which considers all consumers and commits to disclosure and a high standard of best practice.

The **PIPA Adviser** is a bi-monthly industry e-magazine that features the latest industry news, research and state market analysis as well as PIPA happenings including upcoming events and media mentions.

Delivered to hundreds of PIPA members every two months, the **PIPA Adviser** has a potential reach of

thousands of property investment professionals across Australia.

As the only e-magazine dedicated to the property investment advice sector, the **PIPA Adviser** offers advertisers the unique opportunity to reach a dedicated and sophisticated audience of property investment professionals.



Membership of PIPA is open to all professionals working within the field of property investment advice and can include:

- ▶ Qualified Property Investment Advisers (QPIAs)
- ▶ Mortgage brokers
- ▶ Tax accountants
- ▶ Buyers' agents
- ▶ Financial planners
- ▶ Conveyancers, solicitors and lawyers
- ▶ Education and research providers
- ▶ Property managers
- ▶ Building and/or pest inspectors
- ▶ Licensed builders
- ▶ Developers
- ▶ Quantity surveyors
- ▶ Real estate sales agents
- ▶ Licensed valuers.

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PETER KOULIZOS
Chairman, PIPA

The reality of mining town property investment

I am currently undertaking research based on the book that I wrote in 2008, which was titled, “The Property Professor’s Top Australian Suburbs”.

In the book, I detailed 107 suburbs where properties should perform well in relation to capital growth.

Now, more than 10 years later, I am reviewing the results to see how accurate my forecasts were.

This research and analysis continues. I will publish my results later this year.

Tim Lawless at CoreLogic has supplied me with very comprehensive property statistics on all the suburbs and towns in Australia over the past 10 years so that I can complete my research.

Before I started specific research on my 107 suburbs, I began playing around with these figures.

I sorted all of the suburbs and towns to determine the best and worst performing areas over the past decade.

As you can imagine there is lots of data as there are literally thousands of suburbs in Australia!

■ MINING TOWN MALAISE

Maybe it shouldn’t have come as a surprise to me, but do you know what I found at the top of the worst performer’s list?

Mining towns and lots of them!

On the opposite page I have selected just a small sample of the mining towns and their performance over the past 10 years.

As you can see, these results are unbelievable!

What this data shows us is that if you had bought property in one of these towns, not only did your property not increase in value over this 10-year period, but it is actually worth less.

In my home state of South Australia, house prices in the mining town of Roxby Downs fell by 36 per cent.

Not only did property prices fall but real estate agents must be really struggling as in 2018, only 51 houses were sold in Roxby Downs. This is in comparison to the 140 houses sold in 2008. That’s a huge reduction in sales commissions.

These price decreases were at a time when, according to the ABS, Adelaide house prices increased by 29 per cent over the same period of time.

Historically speaking, a 29 per cent increase in house prices is nothing to write home about but

it is certainly better than losing money over 10 years.

Queensland mining towns and suburbs within those towns have also suffered, according to the data. Gladstone was promoted by many property spruikers and it’s clear they have seriously come unstuck.

South Gladstone house prices fell by 31.7 per cent and West Gladstone house prices fell by 47.6 per cent over that time period.

However, these two suburbs are not the worst performers. Property prices in the mining town of Dysart fell a whopping 77.4 per cent, while at the same time Brisbane house prices increased by 24 per cent.

■ WEST AUSTRALIA WOE

West Australia, which benefited the most from the mining boom, has also suffered the most from the mining bust.

There is a very long list of underperforming mining towns in WA, but the worst is South Hedland, a suburb in Port Hedland, where house prices fell a whopping 74.8 per cent.

Newman came in a close second to South Hedland, where the median house price was \$501,000 in 2008 and now it is only \$147,000.

Imagine if you had taken out a \$400,000 loan to buy a \$500,000 property? If it was an interest-only loan, your mortgage is still \$400,000 but the house is only worth \$147,000.

That said, Perth house prices only increased a total of five per

cent in the same 10-year period, but I'd take that growth any day compared to a loss of 70 per cent!

But enough of the bad news...

I am not writing this to put you off buying property outside of capital cities. In fact, there are many regional and country areas that are deserving of your investment dollars.

The moral of the story is that successful property investment is about long-term economic

fundamentals, not supposed short-term financial gains.

And that usually means investing in locations with diverse, multi-faceted economies, not areas that financially ebb and flow depending on the strength – or weakness – of a single industry. ■

Suburb	State	Council area	Housing type (House / Unit)	Num sales 12 months to March 2018	Num sales 12 months to March 2008	Median price (12 months to March 2018)	Median price (12 months to March 2008)	Change in median price (10 years)
PORT HEDLAND	WA	Port Hedland	H	65	87	\$390,000	\$770,000	-49.4%
PORT HEDLAND	WA	Port Hedland	U	30	17	\$197,500	\$534,500	-63.0%
SOUTH HEDLAND	WA	Port Hedland	U	45	18	\$80,000	\$317,500	-74.8%
NEWMAN	WA	East Pilbara	H	83	61	\$147,500	\$501,000	-70.6%
PEGS CREEK	WA	Roebourne	H	39	45	\$252,000	\$689,000	-63.4%
BULGARRA	WA	Roebourne	H	69	75	\$260,000	\$659,500	-60.6%
BAYNTON	WA	Roebourne	H	86	57	\$420,500	\$730,000	-42.4%
MILLARS WELL	WA	Roebourne	H	48	48	\$242,500	\$640,000	-62.1%
PEGS CREEK	WA	Roebourne	H	39	45	\$252,000	\$689,000	-63.4%
PEGS CREEK	WA	Roebourne	U	14	15	\$264,500	\$424,000	-37.6%
WEST GLADSTONE	QLD	Gladstone	H	38	129	\$178,000	\$340,000	-47.6%
WEST GLADSTONE	QLD	Gladstone	U	7	17		\$325,000	
SOUTH GLADSTONE	QLD	Gladstone	H	29	88	\$240,000	\$351,500	-31.7%
SOUTH GLADSTONE	QLD	Gladstone	U	6	70		\$234,000	
DYSART	QLD	Isaac	H	49	103	\$73,500	\$325,000	-77.4%
ROXBY DOWNS	SA	Roxby Downs	H	51	140	\$240,000	\$375,000	-36.0%
ROXBY DOWNS	SA	Roxby Downs	U	14	11	\$140,000	\$270,000	-48.1%

West Australia has also suffered the most from the mining bust.



NICOLA MCDOUGALL
Editor, PIPA Adviser

SA market showing positive signs

The South Australian property market has been showing early signs of growth, according to the latest data, but don't expect a boom anytime soon.

According to the Real Estate Institute of South Australia (REISA), the Adelaide metropolitan median price increased 3.87 per cent to \$470,000 over the year to June.

REISA President Mr Alex Ouwens said that the latest figures showed a significant growth in annual median price, a strong quarterly increase in sales as well as signs that confidence was well and truly back in the real estate market.

"It is fantastic news that this quarter matched the record-breaking median posted last

quarter and shows no signs of going anywhere but upward," he said.

"When we hear that the eastern States have come off the boil and into cool water, Adelaide is defying the trend.

"Now is a great time for first home buyers and investors to enter the real estate market and the results clearly show that they are on board. Business sentiment is at its highest in many years, too."

Mr Ouwens said that the combination of median price growth as well as sales volumes increases was good news for the State's property market.

In the June quarter, 223 houses settled across the Adelaide metropolitan area, which is significantly up from the previous quarter and only slightly down from the same quarter last year.

Sales across the entire State were also significantly up from the last quarter.

"It is absolutely fantastic that sales have significantly increased in the June quarter. The sales figures are solid and represent the continuing resilience of the South Australian real estate market," Mr Ouwens said.

Suburbs with the best growth over the 12-month period were Henley Beach South, Smithfield and Henley Beach. Other big movers included Athelstone, Norwood and Craighburn Farm, according to the REISA.

Top selling suburbs include Morphett Vale, Mawson Lakes and Parafield Gardens.

“Never before have the top performers in sales and growth throughout this quarter exemplified the key drivers of any purchaser’s decision – location and affordability,” Mr Ouwens said.

“Affordability coupled with infrastructure and investment opportunities will always deliver suburbs that do well for first home owners and investors.

“Location, in particular, proximity to the beach will always prove popular in offering lifestyle changes, recreational opportunities and the desire to downsize once the kids have all left home”

According to the REISA, the median unit price fall 1.07 per cent to about \$354,000 over the year to June with the quarterly sales volume reducing slightly to 1,280.

CoreLogic Senior Research Analyst Cameron Kusher said the Adelaide market was producing slow and steady dwelling value growth.

“Affordability is likely to result in further growth in values, however, the overall weaker economic conditions in SA are likely to mean that growth will be at a fairly slow pace. Values are expected to continue to rise at a quite slow pace,” Mr Kusher said.



Adelaide’s affordability is one of its main calling cards at present.

Adelaide-based PIPA chairman Peter Koulizos said the local market was starting to show signs of growth, but he didn’t expect significant price upswings.

“Adelaide’s affordability compared to Sydney and Melbourne is one of its main calling cards at present,” he said.

“Last year, we saw an increased number of interstate buyers’ agents and property investment advisers in Adelaide, but their numbers have reduced somewhat this year.

“There is no doubt that with a median dwelling price of \$438,000, the Adelaide market provides opportunities for first home buyers and investors, but it would be unusual if that translated into double digit price growth over the short-term.”

The South Australian regional property market recorded marginal growth over the 12 months to June to post a median

house value of \$265,000, however, sales were up significantly compared to the previous quarter and the same quarter last year, according to the REISA.

“It is fantastic to see such an increase in sales in the June quarter – almost an eight per cent increase. These figures show the continuing resilience of the regional real estate market and I am optimistic that this trend will continue over the coming months,” Mr Ouwens said.

Suburbs with the best price growth over the 12-month period were Barmera, Port Pirie and Berri with increases of 22.52 per cent, 9.08 per cent and 8.64 per cent respectively.


Top selling suburbs over the June quarter were Victor Harbor, Mount Gambier and Port Lincoln, according to the REISA. ■

SALES STATISTICS - 2ND QUARTER 2018

Index	Category	2Q 2017		1Q 2018		2Q 2018		Quarter % change	12 month % change
		Sales	Median	Sales	Median	Sales	Median		
South Australia	Houses	5,927	\$415,000	5,516	\$420,000	5,725	\$425,000	1.19%	2.41%
Metro Adelaide	Houses	4,457	\$452,500	4,033	\$468,000	4,223	\$470,000	0.43%	3.87%
Central Metro	Houses	2,194	\$530,000	1,920	\$550,000	2,054	\$551,750	0.32%	4.10%
Inner Metro	Houses	359	\$789,000	350	\$810,000	331	\$819,000	1.11%	3.80%
Metro Adelaide	Home Units	1,393	\$358,000	1,295	\$365,000	1,280	\$354,167	-2.97%	-1.07%

PIPA

pipa profile

A portrait of Richard Crabb, a middle-aged man with short brown hair, smiling at the camera. He is wearing a dark suit jacket over a blue patterned shirt. The background is a plain, light-colored wall.

*Melbourne-based **Richard Crabb** of the ASPIRE Advisor Network was recently elected to the PIPA Board of Directors, where he hopes to represent professionals working within the new property space.*

■ **HOW LONG HAVE YOU BEEN A PROPERTY INVESTMENT PROFESSIONAL AND WHAT WAS YOUR CAREER BEFOREHAND?**

I founded the ASPIRE Advisor Network just over seven years ago. Previous to specialising in property, I was in senior financial services roles for 15 years. Seven of those years I was in the niche medical market as the state manager for Victoria and South Australia at Medfin finance.

■ **WHAT WERE YOUR MAIN REASONS FOR BECOMING A QPIA?**

The ASPIRE Advisor Network has strived to set the highest standard of education and licensing for property investment professionals, which is why we have also ensured all our members now undertake the QPIA as the base foundation for property investment advice.

■ **WHAT WERE THE MAIN CHALLENGES OF BECOMING A PROPERTY INVESTMENT ADVISOR?**

Being a property investment advisor to assist clients in the investment journey comes with many challenges.

Advisors need to stay up to date with industry changes, markets conditions, current research and be working with investors on the best solutions for their strategies.

All these combined, as well as

“Anyone working in this space should be a member of PIPA.”

growing your business, means it can be a demanding profession.

■ YOU WERE RECENTLY ELECTED TO THE PIPA BOARD. WHAT DO YOU HOPE TO BRING TO THE BOARD TABLE?

I am looking to represent the new property space on the PIPA board.

This segment has not previously been represented on the board to my knowledge.

The brand-new/off-the-plan market for property investment advice can be done well with the right frameworks, processes and ethics, as well as continuing to lobby for regulation to raise the professional standards in this space.

■ CAN YOU PLEASE TELL US MORE ABOUT YOUR COMPANY?

The ASPIRE Advisor Network (AAN) was founded to bring new property investment into a structured framework, with the view of future regulation in the industry.

The AAN sets a benchmark for qualifications and licensing, provides a custom-built live platform and structured system from beginning to end.

This allows independent property investment advisors to operate without conflicts of interest and to implement their client's personalised strategies – not just selling stock as many do in this segment of the industry.

AAN independent advisors also hold professional indemnity insurance for property investment advice in this currently unregulated environment.

■ HOW DOES THE QPIA AND PIPA SUPPORT YOUR BUSINESS AND ITS GROWTH?

The QPIA is a highly practical qualification that sets the required foundation for being a qualified property investment advisor.

As a business, we have made the QPIA a fundamental requirement for our advisors, along with a real estate license, Cert IV in finance and RG146 in Property Investment Advice.

■ HOW LONG HAVE YOU BEEN A MEMBER OF PIPA?

As a network we officially joined PIPA at the beginning of March this year.

■ HOW DID YOU FIND OUT ABOUT THE ASSOCIATION?

We have known about the

association for many years through the exposure in the industry and have followed the great work the association has done.

■ WOULD YOU RECOMMEND OTHER PROPERTY INVESTMENT PROFESSIONALS TO BECOME MEMBERS OF PIPA AND TO COMPLETE THE QPIA COURSE? WHY?

Anyone working in this space should be a member of PIPA and have completed, or hold, the QPIA certification.

To also have the ongoing networking opportunities with peers, continual industry updates, and operating under a known code of conduct is a must for all providing property investment advice in an unregulated environment.

■ WHAT'S NEXT FOR YOUR BUSINESS IN THE NEXT 12 MONTHS AND BEYOND?

Our goal is that people should only use an AAN independent member to invest in brand-new property.

We have seen many of our existing advisor's businesses grow and are excited to provide the AAN engine and business system to others wanting to grow a new property investment advice business. ▴

INTERESTED IN BEING A PIPA MEMBER PROFILE IN THE PIPA ADVISER? EMAIL US...

✉ corporateaffairs@pipa.asn.au

How being first off the blocks wins business



MARK CREODON

Director, Red Monkey Coaching

Let's face it, being first off the blocks is absolutely critical if you want to win customers or retain their business.

And adopting the same techniques and attitudes used by Olympic athletes will help get you there.

Determination, consistency, commitment and focus – these things will see you annihilate your competition and put you in number one position in the eyes of your customers.

WINNERS ARE GRINNERS

I understand that you might be a little sceptical of this advice but let me assure you that this concept has worked for me in my business on many occasions.

Let me give you an example.

A few years ago, I was referred to a businesswoman who was looking to grow her business.

After our initial meeting she was very keen to begin working with us and we locked in a date for her first coaching session for the following week.

The day before her session she called my office to cancel and said

that she would make contact again in a few days to reschedule.

After a week, we still hadn't heard from her, so we followed up with a quick courtesy call.

During that conversation she explained that she wasn't quite ready to start her coaching program.

We told her that postponing was perfectly fine, that we completely understood, and that we would keep in touch with her now and again to find out how she was travelling.

We followed through on that promise in several ways.

We added her to our newsletter list, so she'd receive regular communication from us. We called her now and again to check in and see how she was going. We sent her a card on her birthday. We emailed her a newspaper article that was relevant to her industry. We dropped in to see her for a coffee when we were in

the area and we subscribed to her newsletter so that we kept up with the latest news.

Do you know what happened next?

Well, after 18 months, she called us to let us know that she was ready to start her coaching program.

This is a perfect example of how being determined, focussed and consistent can turn a loss into a win.

And we all love to win, after all winners are grinners!

HAVE TO CREATE RAVING FANS

What about your existing customers, too?

How can you use these principles to keep them happy and encourage them to engage you more often?

Well, like I always say, you don't just want customers, what you really want are raving fans!

A raving fan is completely loyal

to your company.

They are also happy to purchase your products or services time and time again and, more importantly, they let everyone else know about it!

HERE ARE A FEW THINGS THAT YOU CAN DO IN YOUR BUSINESS TO CONJURE UP SOME RAVING FANS OF YOUR OWN.

1 Keep in contact with your customers regularly

I communicate with my clients on a regular basis and maintain contact with even those I haven't heard from often.

Obviously, there is a fine line between staying in touch and being a pest, but I would think that maintaining contact on a monthly or bi-monthly basis would be perfectly reasonable.

One of the things that you can do to avoid being labelled a pest is to maintain communication in different forms.

For instance, you might email your customers a weekly tip, followed by a monthly or bi-monthly e-newsletter, a new product update or a special offer in the mail.

Every few months, you may choose to invite your customers to a product launch, workshop, function or celebration.

A few simple rules to consider in your communications is to keep it relevant (make sure you let your customers know what's in it for them), keep it interesting and always include a call to action for any promotions or special offers.

And for those of you who were wondering, a call to action are words that urge the reader, listener, or viewer of a promotional message to take immediate action, such as "Write Now," "Call Now," or

"Click Here."

An advertisement or promotion without a call to action is usually considered incomplete and ineffective.

2 Give your customers a gift or card on special occasions

Gathering customer information such as birthdays, anniversaries, special occasions and other significant dates will give you a genuine reason for contacting your customer on a regular basis.

You'll be surprised at how truly impressed and appreciative clients can be when they receive a simple birthday or anniversary card.

It's a very simple process to keep track of, particularly with the assistance of data management software, which you can obtain cheaply or as part of your software package.

A hand-written birthday card only takes a few minutes of your time but will leave a lasting impression on a customer, prospective customer, or supplier.

3 **Implement a rewards program or loyalty card**

Customer loyalty and reward programs are an excellent way to actually acknowledge the value that each customer brings to your business.

Banks and airlines have been implementing loyalty and reward programs successfully for many years, but the concept can work in any business of any size.

It doesn't need to be complicated either.

You can have customer loyalty cards printed and you can keep record of customer loyalty and rewards on your database, which is a very clever thing to do.

You can also simply make sure that you know your customers well enough that their return business is rewarded with an

acknowledgement at the very least, but preferably with some kind of actual physical reward.

Also, remember that loyalty and reward programs are only effective if they are implemented properly, so there is little point in having a very fancy reward program if, in fact, its execution and follow through by you or your team is ineffective and inconsistent.

4 **Follow up, follow up again and follow up some more**

I can't stress this enough.

It can take up to seven points of contact before you will complete a sale to a new customer.

Every person who engages you may in fact have seen or had some form of contact or association with your business up to six times before they ultimately decided to walk in the door or pick up the phone to purchase a product or service from you.

Those six times may have consisted of seeing advertising material, being told about you

by a friend, walking past your shop, reading your blog, or having seen something in the media or online about you or your products and services.

It is vital that when someone makes contact with your business that you have procedures in place to add them to your database.

If you don't have their details it will be virtually impossible to make contact with them again to make sure those further points of contact actually occur.

So, make sure you communicate with and follow up your customers in a variety of ways – both in terms of content and delivery.

This will guarantee that your business is top of mind when your customers and prospects are ready to purchase.

And that means you're first off the blocks – and leagues ahead of your competition. ▀



Loyalty and reward programs are only effective if they are implemented properly.

PIPA in the news

PIPA is a regular commentator and expert source in property-related stories across the nation. Below are a selection of articles from the past two months.



Shock at number of investors getting poor advice

A new ASIC report has found that a shocking number of SMSF property investors are subject to bad advice that could leave them “significantly” worse off in retirement.

<http://bit.ly/PIPA-010-15A>



CoreLogic's Kylie Davis appointed to PIPA board

The Property Investment Professionals of Australia (PIPA) have elected two new board directors including CoreLogic's head of content Kylie Davis as its membership base has been growing.

<http://bit.ly/PIPA-010-15B>



Adelaide's inner-west set for gentrification

Investors chasing capital growth should cast their eye to Adelaide's inner-west with Thebarton, West Croydon and Hindmarsh tipped for substantial growth in the years ahead.

<http://bit.ly/PIPA-010-15C>

new members

PIPA welcomes our newest members and QPIAs...

INDIVIDUAL MEMBERS

► **JANITHA SILVA**
Universal Lending

CORPORATE MEMBERS

► **DANIEL WALSH**
Your Property Your Wealth

► **JARROD PROUT**
Profits from Property

► **SCOTT NORTHCOTT**
Real Property Advice (QPIA)

► **PETER YANNOPOULOS,**
Manticore Projects

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PIPA *depreciation*

Depreciation and off-the-plan properties



BRADLEY BEER
CEO, BMT Tax Depreciation

Investors who are looking to purchase a new property often look at buying off-the plan.

Buying off-the-plan essentially means you are entering into a contract to purchase a property prior to, or during the construction phase, of a property or a development.

One big benefit of purchasing off-the-plan that investors often fail to consider is the property depreciation benefits available.

There are significant depreciation deductions available to the owner of a property purchased off-the-plan.

It is important to note, however, that the property

must be completed and be generating an income to claim depreciation deductions.

A completed property purchased off-the-plan will typically attract between \$8,000 and \$14,000 in depreciation deductions in the first full financial year, so it is fair to say that the new owner can make significant savings and increase their available cash flow by claiming depreciation for the property once it is income producing.

Newly-built properties constructed off-the-plan will

contain new fixtures and fittings*.

Therefore, the depreciable value of these items will be higher.

The owners are also eligible to claim the maximum capital works deductions for the building structure, which means more deductions are available to claim over the life of the property (40 years).

When it comes to the fixtures and fittings in an off-the-plan property, investors should be aware that not all assets are created equal.

In most cases, those assets with a higher starting cost will generate

Introduce property depreciation to your clients this tax time and **reap the benefits**

BMT Tax Depreciation can help you increase client satisfaction by saving them thousands of dollars each year, simply through maximising the depreciation deductions from their investment property.

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BMT Tax Depreciation
QUANTITY SURVEYORS

Asset	Cost	First year deductions	First five years (cumulative deductions)
High price range			
Oven	\$5,150	\$858.51	\$3,080.74
Cooktop	\$3,550	\$591.79	\$2,123.62
Rangehoods	\$2,525	\$420.92	\$1,510.46
Dishwashers	\$2,825	\$565	\$1,899.30
Microwave ovens	\$2,320	\$464	\$1,726.08
Medium price range			
Oven	\$2,350	\$391.75	\$1,405.78
Cooktop	\$1,650	\$275.06	\$1,277.05
Rangehoods	\$1,420	\$236.71	\$1,179.27
Dishwashers	\$1,950	\$390	\$1,560.00
Microwave ovens	\$1,400	\$280	\$1,181.25
Low price range			
Oven	\$1,425	\$237.55	\$1,183.42
Cooktop	\$850	\$159.38	\$744.62
Rangehoods	\$549	\$102.94	\$480.94
Dishwashers	\$1,350	\$270	\$1,139.06
Microwave ovens	\$220	\$220.00	\$220.00

2018_TA088

The depreciation estimates in the above table have been calculated using the diminishing value method of depreciation. The immediate write-off rule and low value pooling have been applied for applicable items.

depreciation differences.

Please note that the low-range microwave oven purchased for \$220 would receive a 100 per cent write-off in the first year.

It is recommended that investors speak with a reputable quantity surveyor to get an estimate of the likely depreciation deductions available for an off-the-plan property.

A specialist quantity surveyor such as BMT Tax Depreciation will liaise with the property developer to request information about the property. This information is used to provide a detailed estimate of the depreciation deductions that will become available once the property has been completed and is income-producing.

By obtaining this information, the owner will have a far more comprehensive idea of the end cost involved in holding the property.

The additional cash flow created from a depreciation claim can be put towards future loan repayments or to help save for future investment property purchases. ▀

* Under new legislation outlined in the Treasury Laws Amendment (Housing Tax Integrity) Bill 2017 passed by Parliament on 15th November 2017, investors who exchange contracts on a second-hand residential property after 7:30pm on 9th May 2017 will no longer be able to claim depreciation on previously used plant and equipment assets. Investors can claim deductions on plant and equipment assets they purchase and directly incur the expense for. Investors who purchased prior to this date and those who purchase a brand-new property will still be able to claim depreciation as they were previously. To learn more visit www.bmtqs.com.au/budget-2017 or read BMT's comprehensive White Paper document at www.bmtqs.com.au/2017-budget-whitepaper. Visit www.bmtqs.com.au/co-ownership-example to see how a split report increases deductions for two owners.

higher depreciation deductions.

For this reason, investors may want to consider the brand and price range of assets in an off-the-plan property.

Focusing on a kitchen in an off-the-plan property, the above table illustrates how the depreciation deductions available will vary depending on the model or price range.

As you can see, those assets with a higher starting cost generate higher deductions than those with a lower base cost, both in the first full financial year and over the first five years combined.

As one example, a high range oven costing \$5,150 will receive \$858.51 in first year deductions and \$3,080.74 in the first five years, while a low range oven purchased for \$1,425 will get \$237.55 in first year deductions and \$1,183.42 over the first five years. This is a difference of \$1,897.32 in the first five years.

If this is the difference an investor can see from just one asset, it's understandable why they would want to give due thought to all the plant and equipment assets installed, as they add up to substantial

The royal commission should result not only in new regulation, but new education

Better-educated people are better equipped to ask the right questions and make more informed decisions.

The Financial Services Royal Commission has not only shown that banks and their representatives have behaved appallingly, but that we need better-educated consumers.

It is naive not to expect new schemes will pop up to replace the now (or soon to be) banned practices. There is a clear pattern of repeating unconscionable behaviour in the financial services industry.

Consumers need to be trained to ask the right questions. “How much do I have to pay each week over the life of the loan including (hidden) fees?”, “How much do I have to pay in fees each year?”, and “Why is this right for me rather than right for the bank?”

Being able to answer such questions can help reduce the invariably expensive and imperfect regulation that generally follows inquiries such as the royal commission.

A 20-year-old, let's call him Mark,

just started his first job paying A\$45,000 a year. Confidently, he walks into a bank branch, applies and is approved for a A\$30,000 car loan within 20 minutes. He wants a new car and isn't too concerned about the 12.5% annual interest.

Mark states afterwards he didn't know he could hardly afford the loan. It cost more than A\$40,000 over five years. And with other commitments he was in over his head, leaving no room for changes in work, illness, etc.

Should Mark be expected to know? Was he taught any of this? Could he know if he had made some effort, or should the bank have informed him better and been more explicit?

■ **AND WHERE DOES THE RESPONSIBILITY SIT?**

We assumed in the story (loosely related to one heard by the royal commission) that the bank had informed Mark about rates and fees, but had not effectively

communicated what this meant in terms of weekly payments or total cost.

For the moment, let's put aside the primary role of the banks and their representatives - it is their practices on the line and we are not blaming or judging the victims. Neither do we know the client's individual circumstances.

But, caveats established, how much information must be presented and what can be reasonably expected in terms of the financial literacy level of customers? If the response from the royal commission is increased disclosure, these are the relevant questions.

But this still leaves whether we can be confident that education is being provided so customers can make informed decisions.

Financial literacy is in the National Curriculum and being taught to primary and secondary students. But, given Mark's age, there is no guarantee he would



Can we be confident that education is being provided so customers can make informed decisions?

have received financial literacy education at school.

For the future Marks, financial literacy is now embedded, but coverage remains uneven as what is taught varies by state and school level.

Elsewhere policy is continuing the trend of transferring financial responsibilities from government to individuals, which requires greater financial literacy. For example, the NDIS aims to build a new disability marketplace, requiring important financial decisions from individuals or their representatives.

But the royal commission has clearly shown people suffered by following bad advice or by not questioning numbers sufficiently.

How were 24% p.a. car loans supported by banks and accepted by customers? Were the numbers too abstract and customers didn't know what 24% a year meant in dollar terms?

■ NOT JUST NEW REGULATION BUT NEW EDUCATION

Better-educated people are better equipped to ask the right questions and make more informed decisions.

We can't just rely on regulated disclosure - we need to continue to ensure the "simple" questions about the total costs over the life of the loan and whether it's right for the customer, rather than just the bank, are taught. Teaching consumers to ask these questions, to question the information provided, is important and can enhance the regulation.

Who should provide this education? Not those with a conflict of interest such as financial institutions. If the royal commission tells us one thing it is that incentives matter.

If you are incentivised, or part of an incentivised brand, it may be better you don't have a role in education. The Dollarmites

scandal may not be the biggest scandal this year but it's emblematic and part of a problem.

Schools, VET and universities can do better and more.

A new round of regulation will create new incentives to avoid it. Regulation tries to catch up and focuses on institutions - here the banks. But new financial technologies mean financial providers don't look like they used to - for example, new app-based peer-to-peer lenders at your favourite store.

We can't rely on education alone but we also can't rely on regulation alone.

Let's recognise the limitations of regulation as we try to improve outcomes and consider whether some of the money spent on designing and enforcing new regulations may be better spent further educating our future customers. ▣



Teaching consumers to ask these questions, to question the information provided, is important.

The rise of industrial real estate investment



ELIZA OWENS
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Industrial real estate is a relatively cheap, versatile building asset.

According to the Australian Bureau of Statistics' Functional Classification of Buildings publication, industrial real estate is "used for warehousing, primary production and the production and assembly activities of industrial or manufacturing processes." Examples include storage and distribution warehouses, laboratories, transport depots and abattoirs.

INDUSTRIAL REAL ESTATE AS AN ASSET

In the year to June, CoreLogic collected 19,835 commercial real estate transactions.

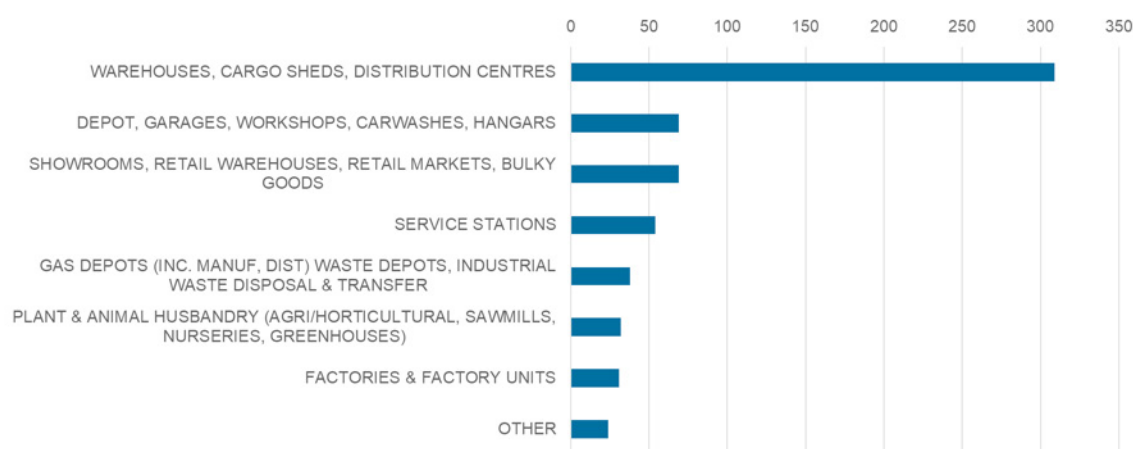
Of these, 7,907, or 39.9 per cent, were industrial. The total value of industrial sales over the year, based on preliminary transaction data, was \$15.2 billion, with a median value of \$649,000.

Areas with high industrial real estate turnover include Malaga in WA with 81 sales, Campbellfield in Victoria (76 sales), and Dandenong

South in Victoria (69 sales). The commonality of these suburbs is that they house significant industrial precincts, within the metropolitan regions of capital cities (albeit on the fringes of the metropolitan).

It is difficult to say whether the high frequency of warehouse acquisitions is for conversion or utilisation of the asset as it is. Examining CoreLogic construction data provides some added insight into the industrial craze.

Figure 1: Types of Industrial Projects Under Construction - April 2018



Source: CoreLogic



The total value of industrial sales was \$15.2 billion.

WHAT DOES INDUSTRIAL BUILDING LOOK LIKE ACROSS AUSTRALIA?

CoreLogic project data indicates that as of the end of April, there are about 9,077 projects under construction. Of these, seven per cent are industrial builds.

Figure 1 shows the types of industrial real estate currently under construction. By far the most common types of industrial builds currently under way, according to CoreLogic project data, are warehouses to be used

for the storage and distribution of goods.

Figure 2 shows the location of industrial projects currently under way across Australia.

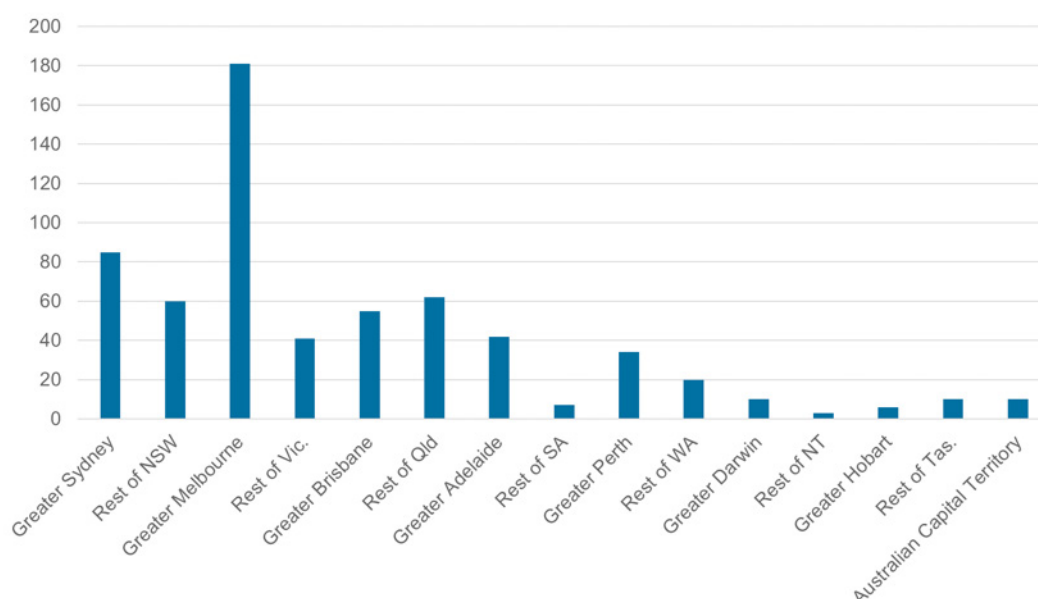
The highest concentration of industrial developments are occurring across Greater Melbourne – which has historically been the case.

The GCCSA region contains 28.9 per cent of the industrial builds across Australia (181 projects), 75 per cent of which were warehouses or

distribution centres.

Within Melbourne, the highest frequency location of industrial development was in Greater Dandenong, where 15 projects are estimated to be taking place. The well-established industrial area is endowed with proximity to arterial roads, the South Gippsland Highway, the Monash Freeway and Eastlink.

Figure 2: Number of Industrial Constructions in Progress by GCCSA - April 2018



Source: CoreLogic

■ WHY ARE WE BUILDING INDUSTRIAL?

Industrial real estate may seem like a counter-intuitive asset type for investment in Australia given the narrative of declining manufacturing. Manufacturing contributions to GDP have declined -3.8 percentage points since 2008.

Given the nature of industrial builds as hosting the storage and distribution of goods, rather than growth in manufacturing, it is quite possible that the rise

of industrial real estate may be indicated by increased household consumption, particularly through online channels.

When comparing annual growth in household consumption to annual growth in starts of warehousing (**Figure 3**), there is indeed a moderately positive relationship between the two variables (0.53).

The graph on the next page shows the distribution of growth in warehouse commencements

over the past 20 years, and the corresponding household consumption growth in that period.

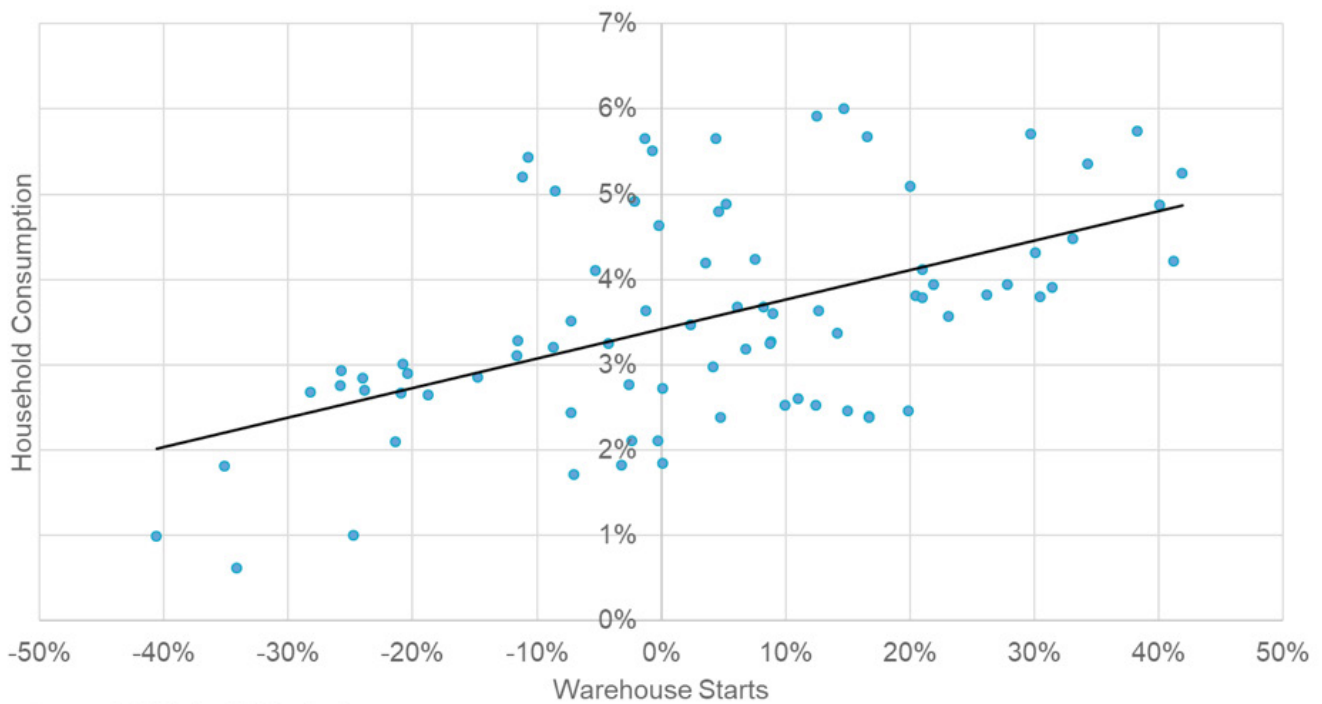
It suggests strong increases in household consumption are moderately related to increases in warehouse commencements.

The correlation becomes stronger when lag is removed from the data (0.57).

Admittedly, the correlation may be due to other forces exerting some upwards pressure on

“***Industrial may seem like a counter-intuitive asset type for investment.***”

Figure 3: Quarterly Growth in Warehouse Starts against Household Consumption



Source: ABS (derived) | CoreLogic

household consumption, such as increased migration or exporting, which would also place demand on commercial real estate.

However, gaining a more detailed view of the type of construction under way provides a better chance of identifying leading indicators in construction.

Household consumption experienced a relatively subdued period of growth following the end of the mining boom in 2012. However, some indicators suggest

household consumption growth may strengthen, provided there are no major demand shocks to the Australian economy.

Full time employment growth was 3.1 per cent in the year to April 2018, well above the historical average of 1.9 per cent. Growth in the wage price index has also recovered from a historic low of 1.9 per cent at the June 2017 quarter, to 2.1 per cent at the March quarter. This could further support growth in retail trade,

and the growth of East Melbourne as a distribution hub, despite the disruption to traditional brick and mortar outlets across Australia. ▀



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