

Journal

APR 2008
VOL 59/03

rain, hail or shine

Hail storm
frustration
for property
managers

**Top five
mortgage
trends**

**Growing
your
rent roll**





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Printing:
GEON Penfold Buscombe
(02) 8333 6555
www.geongroup.com



Average monthly distribution 5,206 copies
(CAB audited)

Articles from the *Journal* are also accessible for members at www.reinsw.com.au

REINSW has been in the news a lot recently, particularly the TV news. Deputy President Christian Payne's spot on the Sky Business Channel's *Your Money Your Call* program gave him an excellent opportunity to put across our message – that further cuts to land tax are a necessary part of getting investors back into the market.

Christian was also on Channel Nine's *Today* show, discussing the recent Federal Government initiatives to improve housing affordability.

The topic of real estate agents, how they operate and issues such as under- and over-quoting, material fact and the evolving role of agents was examined in a double page spread in the *Sunday Telegraph*, for which REINSW President Steve Martin was interviewed. Steve laid out the difficulties agents face with pinpointing what is and what is not a material fact and said he believes an agent these days is less of a salesperson and more of a facilitator.

You can find out all the recent media activity of REINSW by visiting our website www.reinsw.com.au, clicking on the Knowledge Centre and then selecting News Centre.

This will take you to our newly-established Media Coverage page. This will be the permanent home for all information about our media activity – what media releases we have sent out, where we were quoted in print and who we talked to on television and radio.

PRESIDENT'S MESSAGE



The tipping point

Property investment in NSW is expected to pick up in the second half of this year. That's straight from the mouth of one of our leading economic commentators, Craig James from CommSec. Speaking at our recent *Property Outlook* luncheon, Craig said he anticipated investors to come back into the housing market later this year because the fundamentals are right.

That is, we have reached a tipping point whereby the benefits gained from owning an investment property are beginning to look attractive compared to the returns from the stock market – the latter are falling while rents are rising as the rental shortage stretches out into its second year.

This makes a compelling reason for investors to look at property, Craig told us. He also pointed out another reason why there has been such a big blow-out between supply and demand – 2007 saw the biggest increase in migrant arrivals to Australia since European settlement began!

If the month-on-month run of interest rate rises comes to an end – something Craig believes will happen – that will be yet another factor that steadies investor nerves.

With all these elements aligned, the long-awaited pick-up in property investment should finally occur. After all, as Craig said, there are only so many people you can squash into a two-bedroom flat.

Steve Martin
REINSW President

NEW MEMBERS

Coldwell Banker Commercial Regency Int.
Shop 7
18-26 Anderson Street
CHATSWOOD NSW 2067

Don Young & Co Pty Ltd
16 Deniliquin Street
TOCUMWAL NSW 2714

Elders Real Estate Coffs Harbour
Elders House
Cnr Pacific Highway & Park Avenue
COFFS HARBOUR NSW 2450

Elders Real Estate Gloucester
38 Church Street
GLOUCESTER NSW 2422

Gayle Walker Real Estate
Mosman Professional Centre
Level 1
3 Bradley Street
MOSMAN NSW 2088

Hannaford Stock and Land
38 Church Street
GLOUCESTER NSW 2422

Harvie Real Estate Group
Suite 3, Level 1
728 Darling Street
ROZELLE NSW 2039

Herne Bay Northern Star Real Estate
Shop 4
1a Hannan's Road
RIVERWOOD NSW 2210

Hills Estate Agents
Shop 2
268 Old Northern Road
CASTLE HILL NSW 2154

Langens & Thomas Property Management
49 Queen Street
GRAFTON NSW 2460

Metropole Buyers Agency Sydney
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203-233 New South Head Road
EDGECLIFF NSW 2027

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Ray White Real Estate Bayview
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1714 Pittwater Road
BAYVIEW NSW 2104

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238-242 Princes Highway
SYLVANIA HEIGHTS NSW 2224

Ray White Westmead
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163-171 Hawksbury Road
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994 Victoria Road
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Richardson & Wrench Windsor
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The Realty Group Macarthur
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10 Main Street
MOUNT ANNAN NSW 2567

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348 The Entrance Road
LONG JETTY NSW 2261

Vines Realty
Shop 4
914 Military Road
MOSMAN NSW 2088



Power sale

Former journalist and TV presenter Maxine McKew became one of the most powerful women in politics when she beat then Prime Minister John Howard in his northern Sydney seat of Bennelong at the last federal election.

At the same time that she moved her workplace to Parliament House in Canberra, Ms McKew and her husband Bob moved house.

Mary Curran from Ray White Neutral Bay Mosman, an REINSW member, looked after Ms McKew's sale.

"Mary delivered everything that she promised," Ms McKew told the *Journal*. We were very happy clients."

If you have a high-profile client who is happy to speak to the Journal about their sale, please send a photo and details to ralderton@reinsw.com.au.

Listings on Facebook

Properties listed with Raine & Horne can now be shared with Facebook friends as the real estate group embraces the social networking phenomenon.

"Raine & Horne has utilised the social aspects of Facebook and designed a feature that enables listings from our website www.rh.com.au to be shared on a valid Facebook account," said David Haythorn, General Manager of Raine & Horne NSW/ACT.

Optimistic investors

More than eight out of 10 property investors intend to purchase more investment properties in the future, according to a survey by Mortgage Choice.

The survey was completed by 1,000 respondents across Australia who own one or more investment properties and purchased in the past two years.

Plan	Percentage of respondents
No intention to add to investment property portfolio.	15%
Buy as many investment properties as possible.	20%
Buy up to 3 properties	34%
Buy 4-5 properties	19%
Buy 6-10 properties	10%
Buy 11-20 properties	2%
Buy 21-50 properties	0.3%

Sydneysiders leaving Sydney

One in five Sydneysiders surveyed said they were so frustrated with the high cost of living and traffic congestion that they were considering moving to another city.

The *Sydney Morning Herald*/Nielsen poll of 986 people found 26% of men and 16% of women were considering a move away from Sydney.

The figures were slightly higher in the younger generations, with 32% of people surveyed aged between 18 and 24 and 27% of people aged 25 to 39 considering leaving the city.



World's first 'green' city

Plans were recently unveiled to create the world's first carbon neutral city.

Masdar City will be developed in Abu Dhabi, near Dubai in the United Arab Emirates. The city's electricity will be generated by solar panels and water will be provided through a solar-powered desalination plant. Landscaping within the city will be irrigated with grey water and treated waste. The city will also be car-free.

The six-square kilometre city is expected to accommodate 1,500 businesses and 50,000 residents.

Renewed interest in renovations

While building construction remains at historical lows in NSW, recent figures have pointed to a jump in renovations.

The value of renovation and alterations construction work done during the December quarter 2007 was up by 14% compared to the previous quarter, and at the highest value in three years, according to recent figures from the Australia Bureau of Statistics.

The figures could indicate a trend for people to improve their current home rather than move elsewhere.

Small business legislation

REIA Chief Executive Bryan Stevens will participate in the Federal Government's Small Business Working Group on the drafting of the substantive workplace relations legislation to be introduced later this year.

The Small Business Working Group will advise specifically on Labor's new unfair dismissal system, Fair Dismissal Code and other matters of particular concern to small business.

Women rule the roost

A survey by Century 21 has demonstrated the major role that women play in decisions about their home. The survey found that:

- 90% of all decisions related to the home are made by women;
- 69% of women choose the home;
- 73% of women choose the agent; and
- 18% of women home owners have purchased a home in their own right.



Prestige property

A 1924 Point Piper mansion overlooking Sydney Harbour (pictured above) recently sold for approximately \$25 million, making it the top-priced sale for the fourth quarter 2007, according to the latest Dyson Austen *Top 10 Prestige Residential* survey.

Two other properties broke the \$20 million mark: a 1980s brick residence at Elizabeth Bay with a harbourside tennis court; and a three-level house in Mosman with features including a boatshed, slipway and 8-car garage.



BERNARD POLIQUIN (NSW MD, JONES LANG LASALLE); RICHARD RUBENACH (PRINCIPAL, SHORE); CHRISTINE BARTLETT (CEO AUST, JONES LANG LASALLE); MARTIN O'BRIEN (PRINCIPAL, SHORE).

Closer to Shore

Property services firm Jones Lang LaSalle has purchased commercial real estate agency Shore Industrial to extend its presence on Sydney's northern beaches.

Bernard Poliquin, NSW Managing Director for Jones Lang LaSalle, said the acquisition was part of his firm's broader plan to provide full-service offices across the competitive suburban markets.

"With this acquisition, Jones Lang LaSalle will be better able to service the needs of investor clients who are seeking commercial and industrial opportunities away from the CBD or established technology parks," he said.

Most common building faults

Archicentre's pre-purchase property inspection figures show that at least one in three homes sold have a building fault of some kind.

Archicentre's inspectors carried out 5,544 inspections across NSW in 2007, and have compiled the following table of the types of faults found, shown as a percentage of all houses inspected in each area:

Type of fault	Percentage
Damp	43%
Cracking	38%
Roofing	35%
Timber rot	33%
Electrical	28%
Illegal building	27%
Framing	22%
Stump faults	17%
Plumbing	8%



Hotels, motels and caravan parks

First National Real Estate NSW has launched a specialised division to manage the sale of tourism properties.

Tourism First National Real Estate specialises in the sale of freehold and leasehold motels, caravan parks, private hotels, guest houses, boarding houses, backpacker hostels, hotels and management rights.

The office operates from North Sydney and is headed up by Peter Sweet and Mark Smith, who have a combined 40 years experience in commercial and tourism property.

"The sale of tourism businesses requires specialised knowledge that often discourages many regular real estate agents from becoming involved," Mr Smith said.

The specialised expertise includes understanding the star classification system and dealing with the range of leases and agreements that govern tenancies in properties such as caravan parks.



Vacancy rates

The latest residential vacancy rates from REINSW show further evidence of the dire state of the rental market.

In February, there was a 0.9% vacancy rate across all of Sydney – including inner, middle and outer suburbs.

Rental accommodation has also declined in regional areas with the university cities of Newcastle and Wollongong both recording significant falls. In Newcastle the vacancy rate dropped from 1.6% in January to 1.0% while Wollongong fell from 2.2% to 1.5%.

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NSW Business Development Manager
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PRD nationwide



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Daddy, can you lend me a few dollars?



BY DAEL CLIMO

BABY BOOMERS ARE SET TO INCREASINGLY PROVIDE A FINANCIAL LEG-UP FOR THEIR CHILDREN TO HELP THEM SHIFT FROM RENTING TO BUYING, AS THE RENTAL MARKET CONTINUES TO WORSEN OVER THE NEXT FEW YEARS.

That was the observation from industry analysts BIS Shrapnel at a recent seminar on residential property prospects from 2008-2012 and it is based on a couple of important facts. Rents in NSW will continue to rise by up to 10% a year for the next three to four years due to a shortage of rental property and the resulting low vacancy rates of around 1% for the same period. At the same time, there is likely to be a hold on interest rate rises, stabilising property prices.

This is welcome news for those currently holding a mortgage, but not for those facing another four or so years of increasing rents. The solution as to how renters will move from being tenants to owner-occupiers is likely to come from within the family as parents realise the only way their off-spring are going to get off the rental cycle is to help them buy a home.

"The worst is still ahead for rental households," said BIS Shrapnel analyst Jason Alexander. "The 25% of households in NSW that are renters will have their weekly spending cut further due to ever-climbing rents.

"As a consequence, we will see some renter households become owner-occupiers as baby boomers and older family members create inter-generational equity by helping their children buy a property."

Nationally, there were 151,000 housing starts in 2008 but demand for 182,000. BIS Shrapnel expects this to blow out to a short fall of 115,000 dwellings by June, 2009 – a situation it calls "unprecedented."

The reason for the discrepancy? It is the strength of the Australian economy,

RENTS IN NSW WILL CONTINUE TO RISE BY UP TO 10% A YEAR FOR THE NEXT THREE TO FOUR YEARS DUE TO A SHORTAGE OF RENTAL PROPERTY.

which is resulting in a boom in both overseas migration and long-term visitors as people flock here to meet demands for labour. BIS Shrapnel says long-term visitors tend to live in rental properties.

In NSW, the imbalance between supply and demand is predicted to

get worse before it gets better. With completions at a 50-year low, the degree of pent-up demand will see demand for stock grow to 40,150 by June 2008 and 57,350 by June 2009.

However, BIS Shrapnel director Rob Mellor believes NSW will have a delayed recovery, with some pick-up in the next 12 months and beyond as mortgage rate increases plateau and multi-residential construction starts showing signs of life.

Many of the starts will be in areas where land has been made available due to knock-downs of existing property including North Sydney, Holroyd, Ku-ring-gai and Concord. In 2008/2009 housing starts will rise 11% in NSW, the highest figure of all States.

"There will be a lot more investors out there in the next 12 to 18 months than there have been in the past three to four years and now is a good time to snap up property," Mr Mellor said. Loans for investment property rose to 5% in the December 2007 quarter.

"We will see a modest rise in the NSW residential construction market in coming months, and beyond that, the building industry in the State will go into a boom in late 2012-2013."

With predictions that rents will rise by 54% in Sydney in the period up to 2012, it is not hard to see why parents will be putting their hands in their pockets to help.

Dael Climo is the REINSW media officer. ♦

Hope for first home buyers

SENSATIONAL NEWSPAPER HEADLINES HAVE PROVIDED A DOOM AND GLOOM PERSPECTIVE ON THE HOUSING MARKET. YET THERE IS STILL HOPE FOR YOUNG PEOPLE TRYING TO ENTER THE PROPERTY MARKET.

Recent measures announced by the Federal Government should make it easier for renters to buy their first home, although it will take several years for the benefits to flow through.

"It is no exaggeration to say that in early 2008, housing affordability is the worst it has been in living memory," Prime Minister Kevin Rudd said.

"There are now 1.1 million low to middle income households spending more than 30% of their income on housing. This is a stunning statistic. And it is a disturbing statistic."

One of the toughest problems for renters is trying to save for a deposit when their rents are skyrocketing due to the huge demand for the few available rental properties.

The Federal Government is therefore aiming to make renting more affordable. It has doubled its pre-election promise to provide 50,000 new affordable rental properties, announcing tax incentives for investors to build up to 100,000 new affordable rental properties.

The aim of the National Rental Affordability Scheme is to cut rent on a new average three-bedroom unit to \$280 from the current \$350 – a saving of \$70.

"BUYING A HOME MAKES MORE ECONOMIC SENSE THAN EVER."

The announcement followed the Federal Government's commitment to carry out their pre-election promise to provide First Home Saver Accounts which will help renters save up for their initial deposit.

These proposals have been the only good news reported in the press when it comes to the housing

market lately. The headlines have been dominated by depressing news of interest rate rises and the sad impact these are having on home owners who can no longer cope with their mortgage repayments.

What the newspapers don't report is that home ownership is still possible.

"People read these stories and it feeds into a misconception that buying a property has become too hard," said REINSW President Steve Martin.

"But with rents on the increase and the shortage of rental properties meaning that they will continue to rise for some time to come, buying a home makes more economic sense than ever.

"There are golden opportunities out there now and in many areas the apartment market, in particular, is under-valued."

While housing affordability is still a challenge, REINSW is reinforcing the message that it's not impossible to overcome. ♦



Feel like the odds are against you?

Whichever way you cut it, the real estate profession is one of the toughest, most competitive fields of business.

As an independent agent, you're competing against large networks with enormous resources. As a franchisee, the financial burdens and contractual obligations can be terrifying.

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BY JASON ROACH



RENT ROLLS ARE CURRENTLY IN HOT DEMAND, WITH MOST AGENCIES WANTING TO GROW AND FEW AGENCIES WILLING TO SELL.

Growing the rent roll is an over-riding strategy for the majority of the 300 real estate agencies surveyed in Macquarie Relationship Banking's recent benchmarking report.

The majority of respondents are heavily focusing on developing this passive revenue side of the business, with 90% wanting to build their rent rolls either organically or through acquisition.

Rent rolls are one of the most reliable forms of income for a real estate agency. While most principals like to focus on sales, often seen as the glamour side of the business, rent rolls not only provide steady revenue but can also open up opportunities to potential sales and greater property management if effectively managed.

Growing organically

The benchmarking report shows that 54% of agents want to grow their rent roll organically, however the market for existing property management businesses is going to become increasingly competitive. Nationally, property management accounts for approximately 29% of revenue. This is expected to grow to 32% by 2010 with smaller agencies more dependent upon this source of income than larger agencies. The report revealed that 25% of small agencies rely on property management for 50% or more of their revenue.

Growing through buying

Real estate agencies revealed that 27% are keen to buy a rent roll to grow their property management operations. An additional 9% want to buy more properties under management. In all, 90% of respondents want to buy and/or grow their rent roll.

FOR SOME AGENCIES IT MAY BE A GOOD TIME TO MAXIMISE THE OPPORTUNITY THE MARKET IS PRESENTING, AS THE SURVEY REVEALED THAT ONLY 3% OF AGENCIES WANT TO SELL THEIR RENT ROLL.

Buying a rent roll is always a good investment for an agency because it is a reliable source of income that generates a certain amount of revenue each year. With interest rates rising it may affect some agencies' client base and rent rolls provide steady revenue to counter the effects of sales fluctuations. In Melbourne and Sydney the multiples are higher than they have ever been and stronger than the rest of Australia.

Selling a rent roll will depend upon the business life cycle of the agency. For some agencies it may be a good time to maximise the opportunity the

market is presenting, as the survey revealed that only 3% of agencies want to sell their rent roll. If you are looking to exit the industry, ensure you have a proper valuation of your rent roll undertaken.

Interestingly, none of the larger agencies were prepared to sell their rent roll, indicating that they appreciate and value the annuity income.

Valuation factors

It is imperative for agencies to understand the value of rent rolls to their business and to keep property management balanced with sales. Agencies should work out how far their rent roll income covers their overall costs, which Macquarie Relationship Banking refers to as the fixed cost coverage ratio.

A lot of agencies don't have separate profit and loss statements for their sales and property management businesses, so when it comes to selling (or buying), they don't know the true value or contribution these two parts of the business make. Here at Macquarie Relationship Banking we have devised a formula using certain assumptions allowing agencies to make a sound economic judgement on their true value.

The valuation takes into account a number of factors such as the number of sales coming out of a rent roll; the geographical spread of properties; the condition of the properties; the spread of houses versus units; and the concentration of owners to the number of properties.

THE CASH FLOW OF YOUR BUSINESS COULD BE SERIOUSLY AFFECTED IF A STAFF MEMBER MANAGING A SIGNIFICANT NUMBER OF PROPERTIES LEAVES.

While a valuation will concentrate on numerical and analytical issues, staffing matters also have a vital role to play.

Staffing issues

The greatest challenge by far that most agencies face is staff recruitment and retention, with 41% of all agencies reporting this to be the biggest issue. Combined with agencies wanting to grow their rent rolls, management of staff will become even more crucial.

It is important for any agency to concentrate on business development and not just property management. Staff will play a key role in helping grow your rent roll by maintaining good communication with existing landlord clients regarding their rental properties and the service they are receiving. That means not only doing annual rental reviews but asking them about other properties they might have with other agents with a view to bringing them across.

Equally important is sufficiently motivating sales staff to ask new purchasers whether the property they've bought is an investment, with a view to getting it on your rent roll.

Trusting your staff and understanding their value to the business is vital. The average Australian agency has 425 properties under management according to the survey with 25% of staff dedicated to property management. The cash flow of your business could be seriously affected if a staff member managing a significant number of properties leaves and he or she has a good relationship with the owners of the property they are managing.

Agencies will need to build a culture that supports staff seeing their place of employment as a career rather than job. Flexible work practices such as the opportunity to work from home, irregular hours and incentives other than the strictly monetary

THE AVERAGE AUSTRALIAN AGENCY HAS 425 PROPERTIES UNDER MANAGEMENT.

incentives will need to be examined to make the agency a more desirable place to work than their competitors.

Content staff managing a rent roll securing 30% of your income is a good asset to have, and having the infrastructure in place to support them is essential as well.

The benchmarking report reveals that while the majority of agencies

are keen to grow their rent roll and thereby secure a reliable passive income, many challenges will be faced in an increasingly competitive market offering near full employment. Agencies will need to know their clients and employees better than ever.

Jason Roach is the joint National Head of Real Estate with Macquarie Relationship Banking. For more information, he can be contacted on (02) 8232 4489 or emailed at Jason.roach@macquarie.com.

To download a copy of the Real Estate Agency Benchmarking Survey, visit www.reinsw.com.au, click on Knowledge Centre and go to this Journal article online. ♦

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Co-operative housing

AN ALTERNATIVE MODEL FOR HOME OWNERSHIP WAS THE TOPIC OF A TWO-DAY CONFERENCE IN SYDNEY RECENTLY, WITH ATTENDEES DISCUSSING HOW SUCCESSFUL HOUSING CO-OPERATIVES FROM OVERSEAS COULD BE REPLICATED IN AUSTRALIA.

In Sweden, more than half the population are members of a housing co-operative. The co-operative movement began in the 1920s when a group of workers – tired of struggling to afford to buy a house – decided to pool their resources and buy together. Nowadays with many Australians facing similar difficulties in affording to enter the housing market, housing co-operatives may be a viable option in this country as well.

In a housing co-operative, each owner has their own unit, town house, villa or house. But unlike strata title, they do not own the property itself; instead they own a share of the entire co-operative, which may be as small as just a few houses, or may be a large apartment building with hundreds of units.

“HOUSING IS NOT ABOUT HAVING FOUR WALLS, A CEILING AND A FLOOR. IT’S ABOUT MEETING THE NEEDS AND VALUES OF PEOPLE.”

One particular benefit of a housing co-operative is that the bargaining power of the whole co-operative can achieve lower interest rates than a home owner approaching a bank on their own.

Housing co-operatives are not necessarily “cheap” public housing. In Sweden, people from all types of social backgrounds live in housing co-operatives.

“You could as well meet one of the big CEOs from one of the big enterprises

“YOUNG PEOPLE ARE GOING TO BE WANTING TO BE A PART OF A CO-OPERATIVE WORLD.”

as widows who are living on their pension,” said Gun-Britt Martensson, the keynote speaker at the Living Co-operatively Symposium, which was organised by the University of Technology Sydney in conjunction with Marrickville and Parramatta councils.

Ms Martensson is on the Board of the International Co-operative Alliance and is chair of HSB, Sweden’s largest organisation for co-operative housing.

She said that one of the best aspects of co-operative housing is the sense of community achieved by the co-op members, who meet regularly and often undertake social activities together. But she stressed that it is imperative to build good quality properties that are aesthetically pleasing.

“It’s hard to give people a sense of pride in their housing when they are all applied with the same brutal architecture,” Ms Martensson said. “Housing is not about having four walls, a ceiling and a floor. It’s about meeting the needs and values of people. It’s so much easier for people to thrive if they live in beautiful dwellings ... Children who grow up where they are proud to live, they can be poor but if the houses are beautiful they take pride in them and it gives them a sense of confidence.”

Ms Martensson believes that housing co-operatives are the way of the future and will be the preferred model for today’s younger generations as they grow up.

“These young people are going to cherish values. They are not thinking of career as the most important part of life. They are a globalised generation. They love to take part and have influence. These young people are going to be wanting to be a part of a co-operative world.”

THE TURNING TORSO – A CO-OPERATIVE HOUSING PROJECT IN SWEDEN.



There are currently about 70 registered housing co-operatives in NSW. However the definition of co-operative housing in NSW currently only refers to management of publicly-owned housing.

At the conference, NSW Fair Trading Minister Linda Burney announced a grant of \$17,000 to support research into the social outcomes of co-operative housing.

“Co-operative housing is a great alternative for low to moderate income earners,” Ms Burney said. “I await the research results with interest and hope to see some recommendations on how to strengthen the co-operative model.”◆

Benefits of co-operative housing

- Lower interest rates on mortgages.
- Lower barriers of entry to the housing market.
- Community ownership of all property, including gardens, common areas etc.
- Sense of belonging.
- Sense of safety as everyone knows their neighbours.
- Opportunities to pool resources and develop further properties.

NEW HOME LOAN PRODUCTS ARE BEING LAUNCHED SO FREQUENTLY IT CAN BE HARD TO KEEP UP.

THE *JOURNAL* HAS COMPILED A LIST OF THE TOP FIVE TRENDS IN MORTGAGE PRODUCTS TO WATCH OUT FOR IN 2008.

Mortgage market

1) Shared equity home loans

The concept of shared equity has been around for some time. The home owner only takes a mortgage on a part of their home, with another party chipping in for the rest. That way, the homeowner only has to pay interest on the part they have borrowed.

Shared equity loans have been popular overseas but are only a recent arrival in Australia. Last year Adelaide Bank teamed up with Rismark International to launch their own version of the product called an Equity Finance Mortgage (EFM).

The EFM is applicable for up to 20% of a property's value. Note that the EFM is a loan – not an equity stake – which means the borrower retains full ownership of their home. The home owner is not required to make any regular monthly interest repayments on the EFM loan, which can be held for 25 years.

The catch is that when you sell the property, you repay the EFM amount plus up to a 40% share of any increase in the value of the property.

On the other hand, if the property value decreased, you do not have to repay the full EFM loan amount and the lender will share up to 20% of the realised losses on the property.

Dennis Orrock, General Manager of website infochoice.com.au, said that a shared equity loan could enable borrowers to purchase a bigger or better located property.

"You can work out how much you can comfortably afford and add 20% onto that," Mr Orrock said.

Alternatively, the loan could be used to enable lower monthly mortgage repayments than you otherwise would have been paying, which could be a good strategy for someone close

"THOSE PRODUCTS ARE FORMALISING WHAT'S ALWAYS TRADITIONALLY HAPPENED, IN THAT PARENTS OR FAMILY HAVE TRADITIONALLY HELPED EACH OTHER OUT WITH PURCHASING THE HOUSE."

to retirement who wants to use the savings to put some more cash into their super fund.

The crunch time will be when the home owner decides to sell later on and has to not only pay back the loan but also hand over some of the

capital gain to the bank – perhaps making it harder for them to upgrade to a bigger or better house.

2) Loans where the parents help out

A number of loan products are now available where the home buyer's mortgage is secured against the equity in a family member's property. The latter provides a guarantee in support of the loan application.

"Those products are formalising what's always traditionally happened, in that parents or family have traditionally helped each other out with purchasing the house," Mr Orrock said.

One of the benefits of these loans is that the home buyer can maximise the amount they can borrow. It can help to cover upfront expenses such as stamp duty and means the applicant avoids paying lenders mortgage insurance, which can amount to thousands of dollars.



Mortgage Choice warns that families need to consider the risks of these loans.

"It is very important for all parties to consider receiving legal advice before committing to a family equity loan because it is a business deal between family members," said Mortgage Choice National Manager Corporate Affairs, Warren O'Rourke.

"Sometimes, even with the best intentions, the borrower can't afford the repayments due to unforeseen circumstances.

"However, in the vast majority of instances, the borrower can afford the loan and once they reach a point where they have enough equity in their property, the guarantor can be released from the loan."

Unlike in the past, the guarantor's home isn't on the line if, for some reason, the borrower can't afford to repay their debts.

"It's different to the traditional open guarantee, which was for the entire loan amount, which put their entire property at risk," said Liz Phelps, Senior Portfolio Manager for Home Loans at St George Bank, which offers a Family Pledge product. "They limit their guarantee to a dollar amount."

She said that if the borrower was having difficulty repaying their mortgage, the bank would look at a number of ways to address the situation before calling upon the guarantor as a last resort.

3) A loan that repays HECS debts

First Permanent offers a loan called the Graduate Home Loan, which repays a borrower's HECS (Higher Education Contribution Scheme) debts.

Graduates from some courses can leave university with debts of more than \$20,000, which can be discouraging when trying to save for that first property. This loan can help a young

professional to buy a property and pay off their HECS debts early.

However this product is not available for everyone who has ever been to university – it's specifically aimed at graduates who are now in jobs earning more than \$65,000 a year. They must also hold any of the following degrees: Accountancy; Finance (e.g B.Commerce, B.Business, B.Economics); Law; Engineering; Medicine (MB BS); Dentistry; Pharmacy; Vet Science; Podiatry; Psychology (must be registered with the relevant State or Territory authority e.g. in NSW, the Psychologists Registration Board).

4) Environmentally-friendly home loans

Home loan providers are increasingly looking at environmental and social issues as they seek a point of difference for their products.

mecu, a co-operative banking organisation, uses a tagline that "banking with us doesn't cost the earth". The organisation produces an annual Sustainability Report, which is printed on recycled paper and details figures including the number of tonnes of landfill the company has produced, its electricity consumption and water usage.

"We want our products to make a contribution towards a responsible and sustainable society," mecu said in its latest report. "Therefore, we have developed a number of products with features to encourage members to be more environmentally responsible and to help alleviate social issues within the community."

mecu's products include a car loan that offsets the vehicle's greenhouse gas emissions, credit cards made from recyclable PETG plastic, and a home loan that provides an interest rate discount for environmentally-friendly homes.

Dennis Orrock from infochoice.com.au said these sorts of loans were popular among a small segment of borrowers.

"The price of those products can sometimes be at a premium. The

"I THINK WHAT YOU WILL SEE IS AN INCREASE IN JOINT PROPERTY PURCHASES, WHERE A COUPLE OF FRIENDS GET TOGETHER AND SAY: 'WHY DON'T THE THREE OF US BUY A HOUSE?'"

biggest issue is as loans become more expensive, unfortunately people care less and less [about the environmental impact of the loan]. They will be looking for a loan that they can afford."

5) Sharing loans with friends

This is technically possible at present, but involves a lot of paperwork and thus far no major bank has formalised this sort of loan into a particular product that they are marketing.

Industry experts believe it's likely to be the next trend in mortgages, with more and more singles looking for affordable ways to get into the property market.

"I think what you will see is an increase in joint property purchases, where a couple of friends get together and say: 'Why don't the three of us buy a house and we will do that as a starting point?'" said Mr Orrock.

Liz Phelps said St George was currently examining whether to launch a 'joint loan' product, where friends each take out a proportion of the mortgage.

"I don't believe any of the mainstream lenders have launched that product yet [but] it's something everybody is looking at," she said. ♦

Disclaimer

The information in this article does not constitute financial advice. The information in this article is of a general nature and individuals should always consider their own circumstances and read the relevant Product Disclosure Statements before making any decision regarding any financial product.

Transformers

A CREATIVE ARCHITECT CAN COMPLETELY TRANSFORM A HOUSE, GIVING IT EXTRA SPACE AND LIGHT. HERE ARE SOME EXAMPLES OF CLEVER DESIGNS FROM ARCHICENTRE ARCHITECTS.

PHOTOS BY ROWAN TURNER



Description:

Restoration, living/dining/kitchen addition, new backyard

"At the back we built a modern addition for the owner who is an art deco collector."

Archicentre Architect:

Andrew Schultz Architects

This design began as an Archicentre Renovation Report for a historic house in the 'Jerkinhead' style prevalent in Sydney's Marrickville.

The undesirable orientation of the new addition benefits from the raised ceiling and celestrial windows that help capture northern light and ventilation. The blade walls and bulky pergolas provide a screen to block views of a block of flats next door.

"We retained the front of the house as bedrooms, and took it back to its period features," said architect Andrew Schultz.

The house was commended in the 2007 Marrickville Medal (for modern conservation design).



Description:

Indoor-outdoor extension with decking for a semi-detached dwelling on a small allotment in the inner west of Sydney.

They hoped Wayne could maintain the existing front of the dwelling (two bedrooms), and rebuild the back giving it a pleasant new outlook with new and improved amenities.

Archicentre Architect:

Wayne Guiffre

Wayne totally rebuilt the rear, while adding only minor cosmetic works to the original street frontage.

The pokey 'lean to' at the rear of this small, semi-detached weatherboard had been enclosed to form a bathroom and small kitchen, which was fine, except it turned the living space into a windowless box! With the rear of the dwelling having no visual connection to the outside yard, the owners called on Archicentre architect Wayne Guiffre to remedy the situation.

"This project demonstrates the importance of good design to achieve an abundance of light and solar access," Wayne said. "Even in mid-winter there is direct sunlight to all spaces."

1. WHAT WINDOW FILM LOOKS LIKE FROM THE INSIDE – THE WINDOW ON THE LEFT HAS WINDOW FILM AND THE WINDOW ON THE RIGHT DOES NOT.

2. THE ONE COLLINS STREET BUILDING AFTER WINDOW FILM WAS APPLIED.



ONE COST-EFFECTIVE METHOD TO REDUCE ENERGY CONSUMPTION IN A COMMERCIAL BUILDING IS TO INSTALL WINDOW FILM.

Window film, formerly known as window tint, has come a long way since its introduction in 1961. Advanced technologies mean window films now offer a greater variety of shades, colours and performance levels.

The One Collins Street Tower building in Melbourne is a recent case study of the effectiveness of window film.

For some time property managers Knight Frank and owner Overland Properties were faced with the problem of how to economically control the temperature of the building while improving the comfort of its tenants.

“There were three compelling issues affecting the property,” said Knight Frank Facilities Manager Marty Byrne.

“First there was the problem of the intense morning sun, especially during summer, on the east and north faces of the building. This was exaggerated by the lack of adjoining buildings that might provide shade.

To combat this problem, the air conditioning plant had to start earlier than usual and both chillers were required to run for most of the year to maintain satisfactory temperatures. This was not an economical or environmentally-friendly scenario.

GLARE WAS A MAJOR PROBLEM, AS VERTICAL BLINDS PROVED VIRTUALLY INEFFECTIVE IN STOPPING HEAT AND GLARE PENETRATING THE BUILDING.

“Secondly, the tenants wanted to maximise floor space by occupying the areas directly in front of the perimeter windows, which became ‘hot zones’ during the warmer months. Glare was also a major problem, as vertical blinds proved virtually ineffective in stopping heat and glare penetrating the building.

“And thirdly, due to the increased use of computers and other office equipment over the years, the

plant’s original design capacity was exceeded. So both chillers had to run for most of the time to maintain temperatures, which left the building without any backup should either of the chillers break down.”

All three problems have been reduced since the application of solar control window film last year.

“It’s been an enormously successful exercise and everyone is enjoying the benefits the window film has made,” Marty said.

“Now we’re only using one chiller for all but the hottest months of the year, which led to a reduction in energy consumption. Plus, the conditioners require less maintenance now as they are not used as often. The reinstatement of our backup capacity for most of the year has also been a relief. The tenants appreciate the use of all of their floor space and can leave the blinds open so they don’t miss out on the glorious views for the sake of comfort.”

To find out more about window film, visit the Window Film Association of Australia and New Zealand website: www.wfaanz.org.au. ♦

Types of window film

There are three basic categories of window film:

Clear (non-reflective)

Clear film does not contain any metals to reflect solar radiation and is usually a Safety Film, offering safety protection and UV control to help reduce fading.

Dyed (non-reflective)

Dyed film contains no metals and is considered non-reflective. This type of film provides glare and fade control and reduces heat gain by solar absorption.

Metalised (reflective)

Metalised film has extremely thin layers of metals deposited directly onto the polyester film substrate. These films have tremendous solar control properties because they can reflect away significant amounts of solar radiation.

What is the impact of low rental vacancies in your area?



Greg Haimandos
Property Manager
Tome Bros, Rockdale

We have a shortage of properties. They are just going so fast and we have so many people applying. At the moment we have got nothing on our books. Our rental vacancies list used to be two or three pages, now it's running on one page.

[One of our property managers] went out to an open house for a unit on Saturday and there were 50 people there applying for the one unit. They just feel let down.

We have a database and we put them all on there. Whenever something comes up we contact them if it's likely to suit them.



Luke Mannion, Principal
Century 21 Crown Real Estate
Narellan

We certainly do have low vacancy rates: as close to zero as you can get.

The effect to the agency is positive – we get competition and we're able to select good quality tenants. The effect to the people trying to rent is not so positive. They are paying more rent and finding it really difficult.

Another impact is that sometimes people will come here, perhaps they have a contract for work for two years. They were not considering purchasing but it's so hard to find a place to rent that it's easier to buy.



Dianne Kelly, Principal
Kelly's Property Sales
Walgett

We have always had demand for rentals. We're a rural-based town. Through the drought, some of the people on properties that would normally employ more people cut back because they didn't need them and they couldn't afford them. That probably slowed it down a little.

Generally we struggle to find enough accommodation to suit everyone. Our town is seasonal. At harvest, you get contractors coming in and there's more demand [for rentals]. In general I don't have anything sitting vacant.



Tom Wetherall, Director
Bevans Real Estate
Dapto

We're running on a minimal vacancy. Our average vacancy is only one week in change-over between tenants. Rents have been increasing. Our advertising of vacancies is practically reduced to nil.

We are seeing quite a few mum and dad investors starting to come out of the woodwork to start putting money into purchasing a rental property.

We are finding that we are doing group inspections of new properties coming onto the market for rent, having up to half a dozen couples at a time.

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hitting the roof

MONTHS AFTER A VIOLENT HAIL STORM STRUCK NORTH-WESTERN SYDNEY, INSURANCE CLAIMS WERE STILL WAITING TO BE PROCESSED AND EVERY TIME IT RAINED, MORE DAMAGE OCCURRED.

JOURNAL EDITOR ROSLYN ALDERTON SPOKE TO PROPERTY MANAGERS AT MEMBER AGENCIES ABOUT THEIR FRUSTRATION AS THEY COPE WITH THE AFTERMATH OF THE STORM.



BY ROSLYN ALDERTON

Photo courtesy of the State Emergency Service.

The storm came and went within just 10 minutes, leaving a trail of destruction across north-western Sydney on the afternoon of Sunday, 9 December. Hail stones the size of cricket balls smashed up hundreds of roofs and tore down trees in suburbs from Blacktown to Glenhaven.

Local property managers immediately went to work to assist landlords and tenants affected by the storm damage.

"On the Sunday it hit, I had 52 messages on my phone," said Lee Dedinja, a property manager from Harcourts Smith Brothers at Blacktown.

It was a similar story for Elly Slan, a property manager from Blacktown

THE BAD WEATHER ALSO CAUSED FURTHER DAMAGE. SEVERAL STORMS WITH STRONG WINDS AND HEAVY RAIN BLEW TARPS OFF THE ROOFS.

Real Estate. "At 10 o'clock on Monday morning I was out on the road. I didn't get back into the office until Wednesday lunch time."

Property managers interviewed by the *Journal* had on average about 50 properties damaged by the hail.

Not only did the property managers have to visit each of these properties to assess the damage, they found themselves subsequently buried under paperwork due to insurance claims and have been constantly on the phone organising times for assessors and tradespeople to visit the properties.

Sheree Williams, a property manager at Walsh & Sullivan First National in Baulkham Hills, estimated that she was still spending an extra five hours a week dealing with the aftermath of the December hail storm.

Almost continuous rain for several months following the storm hampered efforts to make repairs, making it unsafe for tilers and builders to go up onto the roofs to fix the broken

tiles and ceilings. The bad weather also caused further damage. Several storms with strong winds and heavy rain blew tarps off the roofs. Ceilings suffered water damage and collapsed, and properties that were previously habitable were declared unsafe.

"You chase the insurance company for so long and they finally approve a quote for \$1,500 worth of work, but in the meantime the rain has caused extra damage and now there's about \$2,500 worth of work," Sheree said. She said that an assessor would then need to come out a second time to re-quote the repairs. "It's a continuous cycle."

The timing of the hail storm was also a problem as many tradespeople and

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1. HAIL STONES THE SIZE OF CRICKET BALLS CAUSED EXTENSIVE DAMAGE TO ROOFS.
2. THE STORM ALSO BROUGHT DOWN TREES ONTO HOUSES.
3. RAIN CAUSED WATER DAMAGE TO CEILINGS.



Photo courtesy of the State Emergency Service.

1

Photos below courtesy of Walsh & Sullivan First National, Baukham Hills

builders were unavailable over the Christmas/New Year break.

At the time of writing, insurance companies had received about 62,000 claims related to the hail storm, the majority for motor vehicles, according to the Insurance Council of Australia (ICA). Shortly after the storm, there were approximately 8,025 residential properties requiring roof repairs. Nearly two months later, there were still 6,305 that had not yet been fixed.

“Insurance companies have prioritised carrying out repairs to residential roofs to render them permanently weatherproof; this may involve returning to the property at a later time to complete cosmetic work and internal repairs in some cases,” the ICA said in a statement.

HUGE TREES FELL ONTO A PROPERTY IN GLENHAVEN THAT STILL HAVE NOT BEEN REMOVED.

While frustrated, Lee Dedinja didn't believe the insurance companies were being deliberately slow in assessments and repairs. Instead he put the delays down to a combination of the continuing bad weather and the sheer number of properties affected.

“From all the builders I have spoken to, all the assessors, it looks like everyone is trying to pull their weight,” he said. “The insurance companies are stretched out as well.”

Lee understood better than most the frustration of landlords and tenants whose properties were not yet fixed: his own house still had a tarp over the roof. “I had about 70 tiles broken. With all the heavy rain, it's prevented all the repair work. I have all these leaks coming through into my living area and the insurance assessors now have to come back to quote for the painting.”

Sheree said she was still trying to deal with about 25 properties that were badly affected.



2

“Huge trees fell onto a property in Glenhaven that still have not been removed,” she said. One tree fell onto the house, while the rest landed in the yard. “I could only get the really urgent things done. The tree is off the house. All the other trees that have fallen into the yard are still there. They have literally pulled out the whole rooting system. There's a metre drop into the ground.”



3

ONE FAMILY HAD TO MOVE OUT. IT WAS AN ASBESTOS ROOF AND COUNCIL DECLARED THE PLACE UNFIT FOR HABITATION.

In some cases, tenants had to relocate due to safety concerns.

“One family had to move out,” said Elly Slan. “It was an asbestos roof and Council declared the place unfit for habitation. They were ordered out. There wasn't much that we could do. We weren't able to relocate them into another property given the circumstances with the rental market here.”

Commercial property was also damaged by the hail storm. Jason Andreou from L.J. Hooker Commercial in Blacktown said about 30 industrial warehouses and factories within his portfolio suffered roof damage.

“It was hectic,” he said. “Some of the buildings that just had skylights broken were repaired within a couple of days. There were a few that had

asbestos roofs where there was damage inside – they needed to be totally tarped. We had an instance where tenants used their right under the lease to vacate and the lease was made void. Fortunately that particular owner has insurance for loss of rent.”

Jason said the biggest lesson he learned from the hail storm was the amount of time and effort required by property managers when a natural disaster strikes.

“We’ve been involved in normal insurance claims before, for example when a truck hits a building. To have 30 all in one day – the work just went on,” Jason said. “The man hours involved in just collating and itemising all these claims ... we’re doing it because we have a moral responsibility to our owners. It’s all

IN ONE CASE AN OWNER DISCOVERED HIS INSURANCE POLICY HAD EXPIRED AND FOUND HIMSELF ABOUT \$8,000 OUT OF POCKET.

for love. For new managements, we won’t be doing it for free any more. Every new management will have an agreed fee [to cover the cost of our work] if something like this happens again.”

The hail storm has also reaffirmed the importance for owners to have

adequate insurance to cover both building damage and loss of rent. Nearly every property managed by the agents interviewed by the *Journal* has been covered for the storm damage, although in one case an owner discovered his insurance policy had expired and found himself about \$8,000 out of pocket.

Tenants, on the other hand, have not always taken out contents insurance. Many tenants do not realise that contents insurance need not be expensive, with products such as Aon’s TenantSURE available for as little as \$10 a month.

In other cases, property managers have been relieved to find that landlords and tenants have been understanding about the difficult

circumstances. Lee Dedinja said the owner of a property where the ceiling collapsed called the tenants himself to ensure they were okay.

Property managers also extended their thanks to the State Emergency Service (SES) volunteers who carried out urgent repairs and put tarpolins on roofs immediately after the hail storm struck.

With estimates that some insurance claims will take until the middle of the year to be finalised, property managers are now just crossing their fingers that the weather will remain dry enough for repairs to be carried out.

“Let’s hope another storm doesn’t come,” Sheree said.◆

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Photo courtesy of the State Emergency Service.

1

1. SES WORKERS REPAIR
A DAMAGED ROOF.

2. HAIL STONES WENT
STRAIGHT THROUGH
THIS ROOF.



Photo courtesy of Blacktown Real Estate.

2

Advice for property managers in times of natural disaster

Insurance claims

Property managers often fill out claims on behalf of their landlords, but they should note that it is up to the landlord to sign and lodge the claim. From an insurance perspective, the insured person (the landlord) should lodge the claim as they are the insured named under the policy. Some insurance companies may not accept the agent signing the claim form as they are not the named insured. There is also no authority under the Managing Agency Agreement for the property manager to lodge insurance claims on behalf of the landlord.

What a property manager *can* do is to assist with collecting evidence such as photographs of the damage, and assist with filling in some of the paperwork for the landlord. It is then the landlord's responsibility to check the forms, sign them and send them in to the insurance company.

The property manager can be listed as a contact on the insurance form so that they stay informed of what's going on, for example, by enabling the insurer to contact them to arrange a time to send an assessor to the property.

Some insurers now have 'paperless' claims processes which involve lodgement of the claim over the telephone, avoiding the need for a claim form. However if the agent cannot provide authority to lodge the claim as part of their Managing Agency Agreement, then they may not be able to transact any details of the claim over the telephone.

Fees for the extra paperwork

There is an opportunity in the REINSW Managing Agency Agreement for property managers to charge a fee for the extra paperwork involved in times of natural disaster. Many property managers do not tick this box because they think it will never happen to them. Once a flood, bushfire or hailstorm strikes, those property managers may wish that they had included the extra fee in their agency agreements after all.

What if the property is dangerous?

A property manager is not qualified to judge whether a property is deemed habitable or dangerous. If you have concerns, seek a professional opinion from a builder, Council inspector, electrician or whichever qualified person would be appropriate.

If the property is dangerous, uninhabitable and requires extensive repairs, you could declare a frustrated lease to enable the tenants to move out immediately without having to give 14 days' notice.

While agents may wish to help tenants find another place to live, there is no legal obligation to do so.

What if the tenants want to stay in the damaged property?
If the property is still liveable and only requires minor repairs, be careful about how you proceed.

The tenants might agree to continue living in the property and this might seem to be an easy solution for both landlord and tenant, however later

down the track, the tenants might then decide to sue because, for example, they have developed an illness that they allege is due to the living conditions of the property. So if the tenants decide to stay, get everything agreed in writing, which will provide some defence to both your agency and the landlord if the tenants later decide they weren't happy with the circumstances after all.

If the tenants only need to move out for a few days to enable repairs, make sure you get all the details recorded in writing upfront, so that all parties have agreed to the length of time they are out of the property and the impact this will have on their rent. You do not need to sign up the tenants onto a new lease when they return to the property, as long as the rent payments have not ceased.

Whether the tenants stay in a damaged property or move out for a few days, there will need to be some form of recognition about the impact on their rent during this time. The *Residential Tenancies Act 1987* provides for a reduction in the amount of rent the tenant pays proportional to the loss of enjoyment of that property [see section 61(1)(a)].

Note that if you reduce the rent, you will be required to provide 60 days' notice once you wish to raise it again. If you choose to halt rent payments, for example skip payments for two or three weeks, you may also be required to provide 60 days' notice if you wish to raise the rent again; be aware that the Consumer, Trader and Tenancy Tribunal (CTTT) may also consider that skipping

rent payments constitutes a break of the lease.

REINSW recommends that the best course of action is for the tenants to continue to pay rent as normal but receive a rebate equivalent to the loss of enjoyment of the property.

Contents insurance

A landlord is responsible for insuring the building, but tenants are responsible for insuring their own belongings. Many tenants mistakenly believe that their contents will be covered by their landlord and it is only when a problem occurs (such as theft, fire or flood) that they realise they should have taken out contents insurance themselves.

While property managers cannot recommend specific policies, it is important that they highlight to both landlords and tenants the general types of insurance that they should consider.

If you would like to find out more about property insurance, contact Aon's Real Estate Agent Hotline on 1300 734 264.

Aon provides products including landlord's insurance and TenantSURE, a contents insurance product for tenants starting at just \$10 per month.

Disclaimer

The information in this article is of a general nature only and individuals should consider their own circumstances before proceeding in reliance on such information. Whilst care has been taken in preparing this article, and the information contained in it has been obtained from sources that the Aon Group of Companies (Aon) believe to be reliable, Aon does not warrant, represent or guarantee the accuracy, completeness or fitness for purpose of that information. Aon accordingly accepts no liability for any loss resulting from the use of the information in this article.

Financial health check for your agency



BY JANICE ABDOO

AS A BUSINESS OWNER OR MANAGER, YOU NEED TO HAVE YOUR FINGER RIGHT ON THE PULSE IN RELATION TO MONEY MATTERS, BECAUSE THIS IS A KEY PART OF RUNNING A SUCCESSFUL BUSINESS. NO ONE WANTS TO SAY: "WELL LET'S WAIT TILL THE END OF THE MONTH AND SEE IF WE CAN AFFORD IT". YOU NEED TO KNOW WHAT THE FINANCIAL SITUATION IN YOUR AGENCY IS RIGHT NOW.

It is critical to have a very good system and staff in place so that all entries have been entered into your system whenever necessary. The policies must also clearly state each staff member's duty statement.

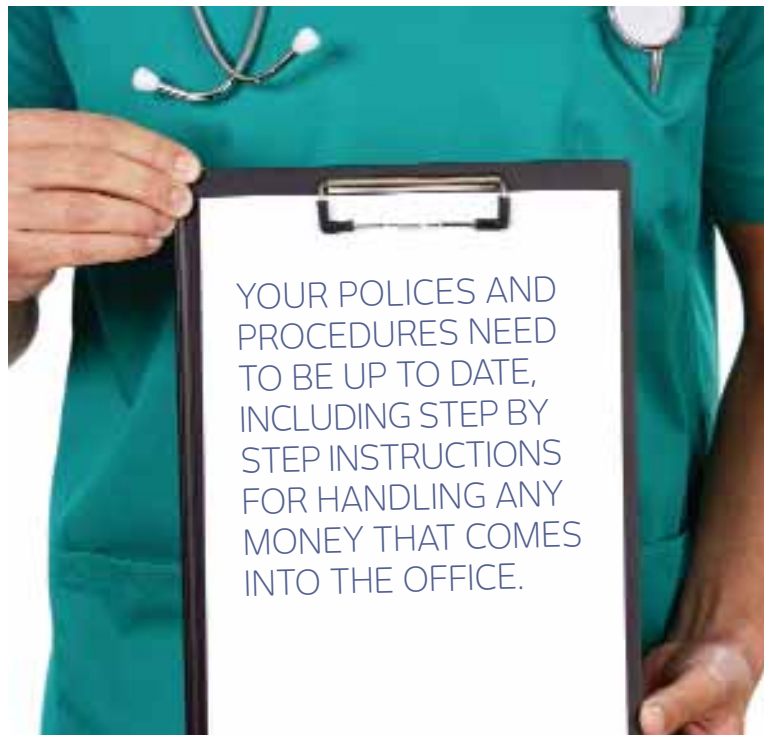
Filing

When filing your paperwork, if your agency is a small to medium size you could put all documents in one large black folder, daily banking in the front and payments in the back with a divider to make it clearly visible where one ends and the other begins. Perhaps monthly dividers for the payments will help make it easier for reference purposes. A larger office may need one file each for both receipts and payments.

One of the simplest systems my accountant showed me how to do which I continued in all my years in business was to have a ledger with money in on one side and on the other side money out. This must be done each time a transaction occurs. Add each side up at the end of the month, take the money out away from the money in, what you have left is yours to run the business. Simple but it worked for me anyway.

What to spend it on

Monitor very carefully your phone calls and any other incoming business as you need to know what is working for you in your area. The person who answers the phone after getting name and number should automatically ask "May I ask what prompted you to



call us?" or words similar. You may discover that everyone is phoning off a particular ad you had in the local paper or perhaps a letter box drop.

Your agency should do more of what works for it, with the result being more business which equals more income therefore a more successful business. If it's not working, don't keep spending money on it!

Income plan

"Income plan, what is that?" I hear some of you thinking. An income plan is a set of office targets. How many appraisals do you need to do to get a listing? How many listings do you need to have to get \$x income each month? How many of each of these does each sales person/property manager need to bring in each month to achieve the office targets?

I believe an office should have short term and long term targets and each sales person or property manager have their own short term and long term targets. Each person is at a different level of experience and therefore would have different targets. You cannot expect a new certificate holder to be doing the same as someone who has been in

the business for 12 months or more. Goals and targets must be achievable and realistic, in my opinion.

Time wasters

Time is money, if you agree or disagree time can certainly cost you money if you are wasting too much of it. Everyone needs a break, however, it is important to get the work done quickly also. Examine your systems and identify the inefficient and time-wasting tasks. Seek more efficient ways to do things.

Training

Training is necessary to keep you in touch with what is going on out there as well as keeping you in top performance and enthusiastic with your work. Perhaps it is time to do a refresher course in trust accounting or maybe getting more listings. Whatever you think you might like to brush up on, we will have a course to suit your needs.

Janice Abdo is a full-time trainer with REINSW Education & Training, which runs skills courses on the financial aspects of running a real estate office. For more information, call (02) 9211 8707, email training@reinsw.com.au or visit www.reinsw.com.au/training. ♦

Check list

Money in:

- Always count cash.
- Always check the cheque is made out correctly with the correct amount of money and signed.
- Receipt money into the computer system, which should automatically send it to the ledgers concerned (I do hope no one is still doing it manually however, there is a system for that as well).
- Check money against receipts for the day.
- When it is correct, bank the money.
- Sign off the daily reconciliation sheet.
- File immediately.

Money out:

- With sales, work out what is owed to whom before drawing any cheques. Only when you are 100% sure it is correct, draw expenses such as cleaning, lawn mowing etc. First, the vendor's cheque and finally the agency's cheque inclusive of the GST.
- Never make a payment from a cheque deposited before it has been cleared.
- Make sure all cheque butts are filled out at the time of writing the cheque.
- Keep all cheque books with a visible balance.
- For end of month for property management, check all entries have been made into the system.
- Do your computer run.
- Before doing the final steps, check all statements have a 0 balance or the balance is correct.
- When all is correct, complete the run and sign it all off.
- File immediately.

Amy's good with money ...





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PROGRESSIVE
AGENT WHO
UNDERSTANDS
CASHFLOW!



As a business owner, Amy knows that a consistent cashflow is what she needs to comfortably plan for the future growth of her business. "It makes a big difference knowing when the money will be there!". PaidOnExchange offers cashflow solutions for Australian Real Estate Agents. Don't wait weeks, sometimes months, for your commission to be paid. Grow your business now through predictable cashflow solutions.

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-  Up to 100% advanced on sales commissions, property management fees and property advertising expenses
-  Fast approval process (you'll know within 30 mins)
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REAL ESTATE CASH FLOW SOLUTIONS

Thinking about becoming a real estate agent?

HERE ARE SOME FREQUENTLY ASKED QUESTIONS ABOUT GETTING A CERTIFICATE OF REGISTRATION.

Do I need a Certificate of Registration?

While there are some duties within a real estate office that do not require a Certificate of Registration, under the *Property, Stock and Business Agents Act* anyone performing the duties of an agent requires a certificate. These duties include conducting open for inspections or arranging repairs for tenants. If you are in doubt about whether you need a certificate, contact either OFT or REINSW for advice.

What category of certificate do I require?

There are currently five categories of certificate that can be held, depending on the functions that the individual is going to perform.

- Real Estate – sale and management of residential or commercial property and rural land up to a maximum of 20 hectares.
- Stock and Station – sale of livestock and sale and management of rural land.
- Business – sale of businesses but not the property.
- Strata – management of the affairs of the owners' corporation of strata property.
- On-site residential property manager – management of one complex which the holder must possess an interest in by way of lease or ownership.

In order to perform the duties of the relevant certificate, the holder must be registered under the direct supervision of a person with the same category of licence. For example, to hold both a Stock and Station and a Real Estate Certificate of Registration you would need to be registered under the supervision of the holder of both a Stock and Station and a Real Estate licence.

What course do I need to do?

REINSW runs a Course in Property Practice for people wanting to attain their Certificate of Registration. Upon



successful completion of the course, you will then need to apply to OFT for the certificate.

What methods of study are available?

We have two options for completing the Course in Property Practice: online or in class. Choosing the eLearning option is particularly appealing to those that wish to complete the course in their own time or find it hard to get to a classroom.

The classroom option allows the participant to spend five days (Monday to Friday or five consecutive Saturdays) in a classroom facilitated by one of our qualified trainers.

How much will it cost to do the course?

The cost of the Course in Property Practice is offered at a discount price for those that are working or have an offer of employment from a member of REINSW. The online course is priced at \$415 for members or \$550 for non-members. The face to face option is priced at \$510 for members or \$645 for non-members.

If you have any further questions about the Certificate of Registration or the Course in Property Practice, call REINSW Education & Training on (02) 9211 8707. ♦

Employee theft

IT IS IMPERATIVE THAT ALL REAL ESTATE PRINCIPALS ARE AWARE OF THE RISK OF FRAUD IN THEIR WORKPLACE. REINSW EDUCATION & TRAINING PROVIDES A NUMBER OF COURSES ON POLICIES AND PROCEDURES TO EFFECTIVELY MONITOR AND SUPERVISE ALL ACTIVITIES WITHIN THE OFFICE.

As business owners we can be very trustworthy of long term loyal staff members. We are so busy creating the vision for our company, managing the staff and developing the business that we can overlook the fundamental common sense checks to protect your business.

The following are suggested guidelines from REINSW trainers that you may be able to use in your office:

Banking

Ensure there are daily bank reconciliations which are prepared by different staff members and signed by the licensee.

Multi skilling

It is very important to have staff able to undertake different tasks/jobs. If the same person is doing the same thing all the time, they may find ways of stealing money.

Spot checks

The licensee should do spot checks on all accounts, similar to what an auditor would do. Pick a file, cheque or account at random and follow the money trail.

Cheque signing

It is not enough just to give a staff member authority to sign cheques. In order to help prevent the risk of theft or fraud, all cheques should be countersigned by the principal. This applies to both the general account and the trust accounts.

Reports

The principal should run off different reports from time to time, such as trust account reports, and go through the figures.

Rental bonds

These should be audited at least annually. One way of preventing fraud in this area is to make it your office policy to have all bond cheques as bank cheques or money orders made out directly to the Rental Bond Board.

Online banking

Never leave your computer online if you have to leave your desk. Change your password on a regular basis and never give the password out to anyone else.

IN ORDER TO HELP PREVENT THE RISK OF THEFT OR FRAUD, ALL CHEQUES SHOULD BE COUNTERSIGNED BY THE PRINCIPAL.

Professional indemnity insurance

Make sure you have adequate insurance cover, such as the policies provided by RealCover which is 100% owned by REINSW.

Staff training

Educating your staff about risk management and procedures is essential to help safeguard your workplace from fraudulent activity.

Most importantly, the licensee in charge must take full responsibility for their office policies and procedures. If they are not doing their job properly, fraudulent behaviour could occur.

REINSW runs several courses that address risk management within a real estate office. The following courses will be held in the classroom in coming months:

- Trust accounting (4 days)
Beginning 30 April and 10 June
- Manage agency risk (2 Days)
Beginning 6 May and 16 June

The following courses are available online through REINSW's eLearning:

- Risk management;
- Fair trading legislation and real estate;
- Litigation; and
- Trust accounting.

To register for one of the above courses, or to find out more, call REINSW Education & Training on (02) 9211 8707, email training@reinsw.com.au or visit www.reinsw.com.au. ♦

Why do CPD with REINSW?

1) You will receive the most up-to-date information on all the latest industry changes.

2) You will receive training by industry experts.

3) You can choose from a great range of courses on relevant topics.

Courses include:

- Winning the listing
- Building your rent roll
- Best practice for the professional property manager
- Understanding and managing your performance
- The professional receptionist
- Commercial/industrial real estate for residential agents
- Surviving a career in real estate

4) As an REINSW member, you will receive discounts on already competitive CPD prices.

REINSW runs 6 point CPD courses from \$135 and 12 point courses from \$199.

5) You can choose from flexible study options.

CPD courses are offered in the classroom, online or even in your office. Courses are also held in locations across the state.

There are also special CPD forums for Rural Agents and Commercial Agents, where all 12 points are achieved in one day.

Rural CPD dates:

Tamworth, 16 July

Orange, 30 July

Commercial Property Forum:

Sydney, 10 September

Book your next CPD session today! Call REINSW Education & Training on (02) 9211 8707, email training@reinsw.com.au or visit the website at www.reinsw.com.au. ♦

Attention all auctioneers!

The Auctioneering School of Excellence is the skills workshop you have been waiting for. Whether you're the best in your area or simply a part-time novice auctioneer, this course is for you.

The interactive three-day course is a dynamic way to gain practical insights into conducting more effective and more professional auctions.

What will you learn?

- The art of setting your audience at ease.
- How to control an auction – from start to finish.
- Techniques to enhance your performance.
- The art of gentle persuasion.
- How to comply with the very latest laws governing auctioneering.
- How to time the auction perfectly.



You will practice dialogues you can use in auctions, and get up to date with all the latest legislation.

If you want to take your career to the next level and hone your skills, come along to the next course.

The next Auctioneering School of Excellence runs from 28 to 30 April. To register, call (02) 9211 8707, email training@reinsw.com.au or visit the website www.reinsw.com.au. ♦

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Property Outlook

More than 150 agents gathered at the Westin, Sydney on 27 February to hear property experts' expectations for the year ahead.

Craig James from CommSec delivered a lively keynote address followed by a panel discussion that covered topics as wide-ranging as the outlook for the Sydney office market and whether more property investors are likely to come from China. ♦

1. THE PROPERTY OUTLOOK LUNCH INCLUDED A QUESTION AND ANSWER SESSION WITH THE GUEST SPEAKERS.

2. STEVE MARTIN FROM REINSW, GRAHAM WOLFE FROM HIA, KATHRYN MATTHEWS FROM JONES LANG LASALLE, CRAIG JAMES FROM COMMSEC AND WARREN MCCARTHY FROM L.J. HOOKER.

3,4,5. CRAIG JAMES FROM COMMSEC PROVIDED AN ENTERTAINING AND INFORMATIVE OVERVIEW OF WHAT'S BEEN HAPPENING IN AUSTRALIA'S ECONOMY.



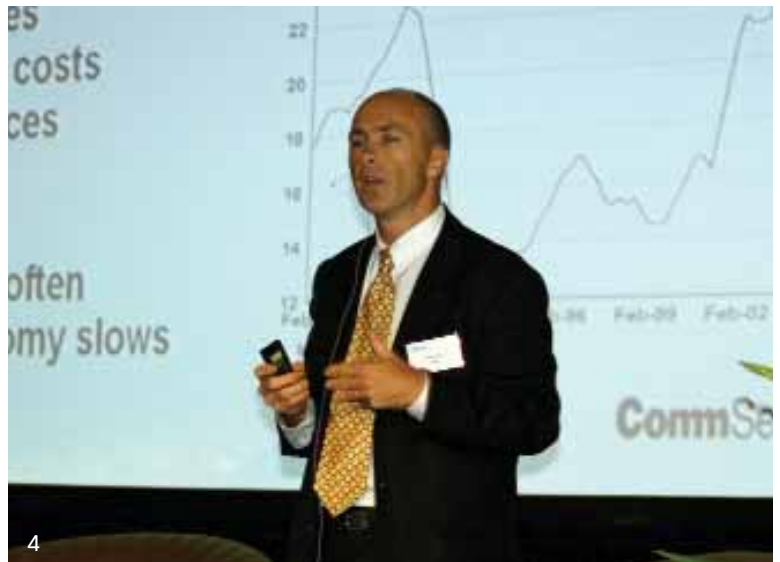
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Dates for your diary

Chapter forums		
16 July: Rural CPD Day, Tamworth	17 April: Property Management Forum, Wagga Wagga	22 May: Property Management Forum, Central Coast
30 July: Rural CPD Day, Orange	18 April: Holiday and Short Term Rentals Forum, Sydney CBD	28 May: Residential Sales Forum, Drummoyne, Sydney
10 September: Commercial Property Forum		
18 October: REINSW Annual Dinner		

Young achievers

Do you have a young star in your office? Let their achievements be recognised by entering the REINSW Awards for Excellence. There are 'Achiever' categories for both residential sales and property management for individuals with less than two years' experience.

Do you have an outstanding receptionist or personal assistant? They also have a chance of being recognised by an industry award in the Corporate Support category.

Kits have now been sent to all nominees to explain the criteria for the awards categories and provide information on what is required for submissions. If you would like a kit, please contact us and we can mail one to you.

Even if you don't win, you might be a finalist. Finalists and winners receive recognition of their achievements and promotional kits to make the most of their success.



TRENT DOCHERTY, 2007 WINNER OF THE RESIDENTIAL PROPERTY MANAGEMENT ACHIEVEMENT CATEGORY.

Enter straight away!
All submissions for the REINSW Awards for Excellence are due by Friday, 16 May.

To find out more, call REINSW on (02) 9264 2343. ♦

Property Outlook 2008

COMMENTS FROM ATTENDEES:

"POSITIVE OUTLOOK FOR THE LATTER PART OF THE YEAR."

"A GOOD GENERAL OVERVIEW OF WHERE THE MARKET IS HEADING."

"GREAT FOOD, MORE IMPORTANTLY GREAT TALK."

Negatives

- Rate hikes
- Housing costs
- Food prices

And now...

- Shares soften
- US economy slows

Awards categories

- Auctioneers
- Auction Marketing
- Business Agent
- Buyers' Agent
- Small Commercial Agency
- Large Commercial Agency
- Commercial Property Management
- Commercial Sales/Leasing
- Copywriting
- Corporate Support
- Holiday and Short Term Rentals
- Innovation
- John Greig OAM Community Service
- Project Marketing
- Small Residential Agency
- Large Residential Agency
- Residential Property Management
- Residential Property Management Achievement
- Residential Sales
- Residential Sales Achievement
- Rural Marketing
- Valuation
- Website – Corporate
- Website – Independent

Chapter news

BEN CHASTON,
LISA SURIAN,
MARINA YASTREBOFF
FROM THE YOUNG
LAWYERS, AND EDDIE
PIDDINGTON.



CHAPTER CHAIRPEOPLE

Auctioneers: Kate Lumby
Business Agents: Position vacant
Buyers Agents: Lisa Bradley
Commercial: Joshua Charles
Holiday and Short Term Rentals: Justin Butterworth
Strata Management: Gary Adamson
Valuers: Colin Rooke
Property Management: Lyn Kimball
Residential Sales: Kathryn Hall
Rural: Phil Rourke

DIVISIONAL CHAIRPEOPLE

Albury: Wayne Matsinos
Central Coast: Position vacant
Central West: Chris Gryllis
City of Sydney: Position vacant
Coffs Harbour: Christine Clarke
East: Craig Sewell
Illawarra: Leigh Stewart
Inner West: Edward Tancred
Mid North Coast: Steven Newman
Murrumbidgee: Kevin Purtell
Nepean, Hawkesbury,
Blue Mountains: Greg Taylor
Newcastle and Hunter: Wayne Stewart
New England: Graeme Mills
North: Position vacant
Northern Beaches: Ardi Melikian
North West: Position vacant
Northern Rivers: Carl Petersen
Orana: Rod Crowfoot
Parramatta & Hills: Lisa Surian
Riverina & South West Slopes: Simon Freemantle
South Coast: John Haslem (Acting Chairman)
South East: Position Vacant
South West: Kay Cole
St George Sutherland Shire: Christian Payne

PROPERTY MANAGEMENT: Forum in Orange

More than 65 agents attended a recent property management forum in Orange, where they discussed solutions to the practical, day to day challenges they encounter.

Experienced property managers Suzie Reid and Miles Felstead from the REINSW Property Management Chapter Committee were the guest speakers, providing anecdotes from their own experiences and answering questions from attendees.

Issues discussed included serving termination notices, handling crisis situations such as floods, and who pays for the connection of pay TV to a rental property.

More forums will be held across NSW over the coming months, with the next to be held in Wagga Wagga on Thursday, 17 April.

COMMERCIAL: Mission statement

The Commercial Chapter Committee recently met to brainstorm ideas for a mission statement. They narrowed down their ideas to six essential points, which will be used as a guideline for the agenda of future meetings:

- Code of Conduct/ethics
- Communication/networking/forums
- Legal opinion/Agency Agreements
- Lobbying
- Professional association
- Training/CPD/Compliance

YOUNG AGENTS: Calling for volunteers

Enthusiasm for a new Young Agents Chapter is running high!

Already there are five members who have attended the first meetings for the committee: Dave Skow from Elders NSW, Lisa Surian from Raine & Horne Parramatta, Eddie Piddington from McGrath, auctioneer Ben Chaston from McGrath and Braden Johnson from Johnson Property Group.

Planning is now underway for a launch party for the Chapter, which will be open to all REINSW members under 35 years of age or less than three years of practice. More details coming soon!

If you would like to help with the Young Agents Chapter, please contact tlucas@reinsw.com.au with a short biography and an outline of why you would like to get involved.

RESIDENTIAL SALES: Young agents forum

Young residential sales agents, here's a forum just for you! The next residential sales forum, on 28 May, will be tailored specifically for the issues and challenges faced by those new to the industry.

The forum has been organised by the Residential Sales Chapter Committee to help encourage young sales agents, who can often feel discouraged.

"The forum is about giving young sales agents practical advice to help them achieve their goals," said Chapter Chairperson Kathryn Hall.

The Chapter is also planning a Forum to be held at Orange to address the needs of country agents. More details of the Coast to Country Connection coming soon.

To book for the Residential Sales forum, call (02) 9264 2343.

Upcoming forums

17 April – Property Management Forum

1pm-3pm
Wagga RSL, Wagga Wagga (corner of Dobb St & Kincaid St)
Speakers: Lyn Kimball and Michelle McLean

18 April – Holiday and Short Term Rentals Forum

1pm-3pm
REINSW Corporate Learning Centre
74-78 Wentworth Avenue, Sydney
Speakers: Justin Butterworth and David Gordon

22 May – Property Management Forum

3pm-5pm
Linton Gardens
611 Wisemans Ferry Rd, Somersby
Speakers: Lyn Tamsett and Sandra Hodgkins

28 May – Residential Sales Forum for young agents

3pm to 5pm
Drummoyne Sailing Club
2 St Georges Crescent, Drummoyne

To book for any of the above forums, please call (02) 9264 2343 or visit www.reinsw.com.au and click on 'Events'.

AUCTIONEERS: Frequently asked questions

The REINSW Auctioneers Chapter Committee has provided the following list of answers to common questions about auctions.

My father is going to be bidding for me but I will be the purchaser. I have my driver's licence with me for registration but my father does not have any identification on him. Can he still bid for me?

No. Both you and your father (who is bidding on your behalf) need to produce sufficient identification to register to bid. Unless your father has sufficient ID, you will have to do the bidding yourself.

I am bidding on behalf of my company of which I am the sole director. Do I need evidence of this in order to register to bid?

Yes, you must produce a letter on company letterhead – or at the very least on paper that has your registered

company name, ABN, registered office address and contact numbers – which authorises you to bid on behalf of the company.

I'm an agent at an auction. A buyer has requested a change to the contract at the last minute before the auction. The change is that the vendor has agreed to allow the buyer access to the property after exchange and before settlement to commence renovations. The vendor is present and they agree to do this. How do I write a special condition into the contract to reflect this?

You can't! In this situation I would advise the vendor to speak to their solicitor. You as an agent cannot change anything outside the black box on the front page of the contract.

Does the highest bidder have the right to exclusive negotiation with the vendor in a situation where the reserve is not met?

No, there is no legal requirement for exclusivity; it is by courtesy and convention only.

Is a foreign passport sufficient as a form of ID when registering to bid?

Yes, but the bidder still needs another document to show their address, as is the case with an Australian passport.

As a proof of ID when an absentee bidder is registering, do you require a copy of their drivers licence or will the number of the licence suffice?

The number is all that is required, as long as there is also a letter of authority, in accordance with Section 69(1)(b) of the *Property, Stock and Business Agents Act*:

(b) in the case of the details of a person on whose behalf another person is to bid, a letter of authority to bid on the person's behalf specifying the person's name and address and the number or other identifier of one or more proofs of identity for that person.

When you are selling multiple properties for the same vendor on site on the same day, do the buyers have to register for each property?

If the properties are in the one complex or all adjacent, then no, the buyers do

not have to register for each property. If they are at different locations, best practice would be to register the buyers for each property.

Can the highest bidder at auction withdraw their bid prior to the fall of the hammer?

Yes. If, however, the hammer had fallen and the auctioneer called 'sold', they cannot withdraw their bid.

Take your auctioneering career to the next level by attending the next Auctioneering School of Excellence! Book now for the next course, which runs from 28 to 30 April. To register, call (02) 9211 8707, email training@reinsw.com.au or visit the website www.reinsw.com.au.

If you have any questions about auctioneering that you would like to ask the REINSW Auctioneers Chapter Committee, please forward your query via tlucas@reinsw.com.au. ♦

We offer members of the Real Estate Institute of New South Wales:

- 1 The option to use Australia's fastest secure web-based connection system for the most efficient rental service on the market.
- 2 The opportunity to take advantage of discounted electricity, gas and telecommunications for your offices, homes and the homes of employees of your Agency.
- 3 Guaranteed highest connection commissions in the industry (we will match or better any competitor's genuine rates).
- 4 Your own dedicated local relationship manager available to support you 7 days a week.
- 5 A specialised connection product for clients buying and selling property - Platinum Connect.
- 6 The only on-line reward system with over 5,000 products and a pre-paid visa card for your use.
- 7 The most comprehensive legal protection for your clients and your agency.
- 8 A specialised connection product for Agents with commercial properties - Business Direct.
- 9 The opportunity to contribute to the local charity of your choice by using our Platinum Connect service.
- 10 A connection service with over 50 years experience in the utility industry & highly trained customer service staff.

Direct Connect

Phone: 1300 664 715, **Fax:** 1300 664 185

Email: info@directconnect.com.au,

Web: www.directconnect.com.au

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Selling skills for property managers



BY COLIN RODGERS

The term 'points of difference' is usually the domain of the sales department of a real estate office. The salesperson who is able to identify and sell his or her points of difference is more likely to get the listing from a prospective vendor.

Similarly, the property manager who can identify and sell his or her points of difference is more likely to win the business of a prospective landlord and get a higher fee.

Sadly, it's a fact that most property managers don't know how to sell what they do and this makes the task of securing the management more difficult.

Usually, property managers initially deal with prospective landlords by way of the landlord making a general enquiry over the telephone or a visit to the property manager's office upon the landlord purchasing an investment property or the landlord transferring to the area. Sometimes initial contact is made by pro-active canvassing by the property manager.

In any of the above scenarios the property manager must be able to identify and sell their points of difference. If the property manager is unable to do this, the prospective landlord will put you in the same basket as the other property managers they have interviewed to manage their property and this makes the job of obtaining the business more difficult. Remember that in the eyes of prospective landlords, all property managers are alike.

When a property manager meets a prospective landlord for the first time, it is like a job interview – the landlord is looking to see if you are the best candidate to manage their property.

It's exactly the same as when you applied for your job. You needed to impress upon your employer that you were the best candidate for the job.

If you can't sell yourself and the job that you do, then the prospective landlord has nothing to buy. Remember the landlord is buying your professional services, so you have to sell, sell sell!!!

To do this, you need to be able to identify what you do differently, i.e. what you do better than the opposition. After all, if you can't identify your points of difference, why you should get the business? How can a prospective landlord make the choice to appoint you over your opposition?

The first thing that everyone in your property management department should ask themselves is: "What are we doing better than the opposition?"

The second thing that needs to be asked is; "What do we need to do to be different to the opposition?" In other words, "What do we need to do to be better?"

Once these questions have been answered, put it in writing. Presto! You have just identified why you should get the business. The next step is to sort your points of difference into a logical list. Don't worry if you have, say, 15 points of difference – you are not an egomaniac! You have just identified 15 reasons why you should get the business and why you are better than the opposition.

It's now time to get creative and create a script to sell each point of difference to a prospective landlord. In creating scripts, don't go for flowery prose. Scripts need to



sound natural, roll off the tongue and easily get your message across.

Now you have listed your points of difference and created your scripts, it's time to do something completely foreign to property managers and that is role play or rehearse your scripts so you are able to sell with conviction and passion why you should get the business, which is in itself a selling point. Just ask any successful salesperson.

Unless you are able to identify and sell your points of difference to a prospective landlord, the only difference between you and the opposition will be who offers the lowest fee – and that's not our job.

Colin Rodgers is the General Manager of Strong Property in Gympie and is a national property management trainer, conference speaker and coach. He can be contacted at (02) 9525 0377 or colin.rodgers@strongfn.com.au. ♦

MOST PROPERTY MANAGERS DON'T KNOW HOW TO SELL WHAT THEY DO AND THIS MAKES THE TASK OF SECURING THE MANAGEMENT MORE DIFFICULT.

Sample points of difference

1. I am the only full time property manager in the area.
2. The landlord will deal with me directly and not a third party in the office.
3. The landlord will receive regular and detailed property inspection reports.
4. Our rent payment methods allow tenants to pay rent 24/7.
5. We provide the landlord with regular investment reports to keep them informed.
6. Our marketing systems work for the landlords.
7. We know the rental market and will keep landlords informed of trends.
8. Landlords deal with a fully trained property management team.
9. We will contact the landlord prior to lease expiry to discuss lease renewal and rent review.
10. We check references verbally and in writing, plus do a database default check on all prospective tenants.

Suggested script

I am not just a rent collector, I manage your investment. A part of our service to you is to provide you with regular investment updates to keep you informed about trends in the rental and sales markets and other property investment news. This is complementary to the property management services that I provide and is a service most other property managers are unable to provide.

HOLIDAY RENTALS:

Lack of affordable accommodation

A RECENT REPORT BY TOURISM AUSTRALIA HIGHLIGHTS THE IMPORTANT CONTRIBUTION HOLIDAY RENTAL PROPERTIES MAKE NOT ONLY TO THE STOCK OF ACCOMMODATION BUT ALSO TOWARDS THE OVERALL TOURISM EXPERIENCE.

The report, *Through the looking glass: The future of domestic tourism in Australia*, looked at the challenges facing the tourism industry at present.

It forecast that Australia would face accommodation shortages in the near term and the shortage was causing hotel room rates to rise significantly.

Research has already shown that consumers are having difficulties finding affordable accommodation in Australia.

"Consumers felt the only options were at the luxury end of the rate scale, otherwise accommodation was neutral and characterless," the report said.

"This trend, along with the already capacity constrained accommodation sector, will lead to increased prices and will drive the forecasts, in the short term at least, toward less commercial accommodation options."

Justin Butterworth, Chairman of the REINSW Holiday and Short Term Rentals Chapter, said the report recognised the importance of diversity and choice for consumers.

"Holiday homes provide the experience and character customers are seeking," he said.

"Furthermore, holiday rental properties provide an important supply of accommodation, particularly during peak periods and special events such as the Commonwealth Games, Grand Prix and music festivals."

"HOLIDAY RENTAL PROPERTIES PROVIDE AN IMPORTANT SUPPLY OF ACCOMMODATION, PARTICULARLY DURING PEAK PERIODS AND SPECIAL EVENTS."

World Youth Day in July this year is expected to bring over 500,000 people to Sydney, including a visit from Pope Benedict XVI. The Sydney Chamber of Commerce expects the event to inject over \$200 million into the local economy.

The Tourism Australia report also found improved quality ratings and consistency would benefit consumers and the industry more widely. In this regard, REINSW is currently developing Best Practise Guidelines to help guide real estate agents towards improved presentation and services for short term rentals.

The report highlighted the need over the longer term to foster domestic travel demand with younger generations.

"It is more important than ever to protect the traditional family beachside holiday," Justin said.

"Any move to ban holiday rentals will only exacerbate the shortage of affordable accommodation identified in the Tourism Australia report. It will also seriously impact the economies of local communities – particularly in regional areas – and give families less choice for where they can stay on their holidays."

To download the *Tourism Australia Report*, visit www.reinsw.com.au, click on Knowledge Centre and go to this Journal article online. ♦

Dear Borrelli Quirk Newcastle Real Estate,

When our home and all of our possessions were destroyed in the June floods, you really came through for us. We were at our wits end after having to have four people stay in a one-room hotel room for four days! You and your team bent over backwards to help us in every way and managed to find us the lovely three bedroom home, fully furnished, at Coxswains Way in Linwood.

Ourselves and our two sons were very happy there (so much so that the boys were reluctant to move home when it was finally finished after staying seven months at Linwood).

The personal service and the effort you put in made a very difficult situation for us into a great experience for my family. I thank you most sincerely for all your help during this time.

Kindest regards,
Paul Clarke.



CHAPTERS

Emergency accommodation

SHORT TERM RENTALS PROVIDE IMPORTANT CRISIS ACCOMMODATION DURING TIMES OF NATURAL DISASTER AND FOR RENTERS CAUGHT IN-BETWEEN TENANCIES.

The floods that hit Newcastle last June caused numerous tenants to seek furnished properties while insurance assessments and building repairs were completed.

Bill Quirk from Borrelli Quirk Newcastle Real Estate said his office received nearly 50 bookings for short term accommodation due to the floods, including the Clarke family (see above) who were forced to stay in rented accommodation for seven months while their house was repaired.

Short term accommodation is also in demand from renters who find themselves in between tenancies.

The latest vacancy rate figures from REINSW show that the entire Sydney metropolitan area is now below 1%. Other areas across the state are also facing tight rental situations, with a vacancy rate of just 1.0% in Newcastle, 1.5% in Wollongong and 0.8% in the South-Eastern region of NSW.

Under such competitive conditions, searching and succeeding with a rental application can take several

"IN THE CURRENT MARKET, SOME TENANTS JUST NEED A COUPLE OF WEEKS TO BRIDGE THE GAP BEFORE MOVING INTO A LONGER TENANCY."

weeks. Storing furniture and renting short term is one option available during this time.

"In the current market, some tenants just need a couple of weeks to bridge the gap before moving into a longer tenancy," said Justin Butterworth, Chairman of the REINSW Short Term and Holiday Rentals Chapter.

"Hotel or serviced apartment accommodation would be completely unaffordable for many of these tenants and just not practical for young families."

Some councils have been using their planning instruments to effectively ban short term rentals. REINSW is making representations to the NSW Government to ensure that short term rentals remain an option. ♦



A real bond with property management

By Dael Climo

IT TAKES MORE THAN JUST GOOD PROPERTY MANAGEMENT SKILLS TO STAY IN THE PROFESSION FOR NEARLY FOUR DECADES.

NEW REINSW BOARD MEMBER MILES FELSTEAD TALKS ABOUT HIS CONTRIBUTION TO HIS LOCAL COMMUNITY, HIS DEDICATION TO THE INDUSTRY AND THE WEEKEND HOBBY THAT TAKES HIS MIND OFF WORK!

As any experienced property manager knows, property management is a vocation and not just a job. Over more than 38 years in the business, Miles Felstead has come to see it as an essential service, requiring specialised skills that can only be learned over time.

He also believes it's a career choice offering a greater degree of security than other aspects of real estate practice but one that young people thinking of joining the industry simply know little about.

That's why he spends time visiting schools, talking to students about property management and the career opportunities it offers. As principal of his own business, Miles' own career serves as proof of how working in property management can provide both a comfortable living and the chance for meaningful involvement in the local community.

Miles' entire working life has revolved around property management. Leaving school in 1969, he joined AH Taylor in Petersham as an assistant property manager. It was a good place to start learning the profession – the company was a family-owned business which had been around since 1926. It still operates today.

"We had to go from door to door to collect the rent."

"It was very high profile and one of the biggest property managers in the inner west," said Miles. "It gave me a very solid grounding in working with tenants. Remember in those days there was no *Residential Tenancies Act* – if a tenant was seven days behind with their rent, their furniture might be removed and the locks changed."

Many of the tenants on AH Taylors' rent roll were protected tenancies, open to returned servicemen and women under the terms of the *Landlord and Tenant (amendment) Act* of 1948. This pegged and kept their rents at 1939 market level to help curb inflation following the war years.

"Taylor's had many protected tenancies and as most people on



these agreements didn't have cheque books, property managers had to do 'rent runs', said Miles. "We had to go from door to door to collect the rent."

With the establishment of the Rental Bond Board in 1977 and the *Residential Tenancies Act* in 1989, however, all



1. A 1927 6½ LITRE BENTLEY THAT MILES HAS RESTORED.

2. MILES' LATEST PROJECT: A 1942 WIRRAWAY FIGHTER PLANE.



“There’s more legislation relating to property management than other aspects of the industry.”

hoc, sometimes ‘hit and miss’ nature of property management that used to exist,” said Miles.

“The changes also meant that unscrupulous landlords could no longer hold onto bonds and refuse to return them, which sometimes used to happen.”

In 1976 he set up on his own, establishing Miles Felstead Realty in Mosman.

The move to Mosman was literally a homecoming. Miles grew up in the area, knew people in the neighbourhood and he “felt comfortable” there.

Today, his business manages about 450 properties in both Mosman and around the lower North Shore area.

He has become an acknowledged expert on the inner workings of the suburb, even being quoted in a university journalism publication that asked why the area is so popular.

As a member of the local Rotary for 24 years, and president of the Mosman Chamber of Commerce, Miles recognises the value of networking within the community in which you work and live. Not that he thinks people should join such organisations simply to make some fast connections.

“I believe that you give something back to your local community,” he said. “It comes down to building relationships. Once people realise you aren’t in it for gain, the business follows, but you have to let this happen naturally, you can’t force it to happen.”

Miles sees his recent election to the Board of REINSW in a similar way, as an opportunity to give back to an organisation that has given him a lot of support and made him many friends over the years.

“My involvement with REINSW has been through the Property Management Chapter,” he said. “There’s more legislation relating to property management than other aspects of the industry and I’ve been fortunate in being able to make a contribution towards improving some of these laws.”

He’s also firmly of the belief that property management plays a pivotal part in determining the longevity of a real estate business.

“Traditionally, it’s property management that keeps an agency alive when sales are down,” he said. “Successful offices have good rent rolls that can help keep a business afloat when the sales market is flat.”

“I believe that you give something back to your local community ... Once people realise you aren’t in it for gain, the business follows.”

On the one and a half days of the week when he’s not running Miles Felstead Realty, playing an active role on the Property Management Chapter or attending Board meetings, Miles indulges in his other great passion: restoring vintage forms of transportation whether they involve travel by land, sea or air.

He owns 35 vintage cars and is currently restoring a prized 6.5 Litre 1929 Bentley and the Royal Tour car from 1954. Recent additions to his collection of trophy forms of machines include a World War II Wirraway fighter and a 1951 timberbridge deck 43’ cruiser.



His dream is to move the cars from their present storage site in Wagga Wagga to a purpose-built, private museum in Bundanoon. A development application has been lodged for the project.

“I find you need to do something that is different to your six-days-a-week job,” he said. “Restoration is a safety valve and helps me avoid burn-out.”

Given his job, his community involvement, his input on the Board and his passion for vintage transport, you could say Miles is driven. One thing is for sure, whatever he manages, he does it well. ♦

Deposit bonds



BY JODIE MASSON AND JANE PARK

WHAT ARE DEPOSIT BONDS AND WHAT ARE SOME OF THE RISKS INVOLVED? HERE'S A BRIEF GUIDE TO PROVIDE SOME BACKGROUND INFORMATION AND SOME PRACTICAL TIPS FOR USING DEPOSIT BONDS.

Deposits

In contracts for the sale of land, a purchaser is normally required to pay to the vendor a 10% cash deposit to provide the vendor with some security if the purchase does not complete due to the purchaser's default. On settlement the deposit is treated as part payment of the purchase price. The deposit is usually held in trust by the agent as an independent stakeholder in the transaction and is only released to the vendor on settlement of the property. If the purchaser fails to settle due to the purchaser's default, then the vendor will normally be entitled to keep the deposit as a penalty for breach of the contract.

What is a deposit bond?

A deposit bond is in effect a written guarantee given to the vendor in place of a cash deposit for all or part of the deposit. The deposit bond is usually issued by a financial institution or an insurance company for a premium of around 1% of the purchase price.

How does a deposit bond work?

If the purchaser defaults and the settlement does not occur, the vendor may demand the issuer to pay the amount of the bond to the vendor. Usually the issuer is then irrevocably and unconditionally authorised to pay the vendor and the issuer has no duty to enquire whether the vendor's claims are valid. This means that even if the purchaser protests that the vendor's claims are not valid, the issuer will

A DEPOSIT BOND IS IN EFFECT A WRITTEN GUARANTEE GIVEN TO THE VENDOR IN PLACE OF A CASH DEPOSIT FOR ALL OR PART OF THE DEPOSIT.

have to pay the amount of the bond to the vendor when the vendor demands that the issuer pay. The issuer will then usually seek the amount of the bond from the purchaser who has to pay on demand. This is called a "counter indemnity".

Who uses deposit bonds?

These days with the property prices rising, some purchasers may find it difficult to provide the full 10% deposit pending settlement. Purchasers may ask the vendor to accept a reduced amount for the deposit. However, in light of recent court decisions (*Ianello & Anor v Sharpe [2007] NSACA 61* and *Luong Dinh Luu v Sovereign Developments Pty Ltd & 2 Ors [2006] NSWCA 40*), vendors may be reluctant to accept anything less than 10%, since standard reduced deposit clauses no longer mean that a vendor is entitled to recover the full 10% if the purchaser fails to settle. If a vendor accepts a deposit bond, they are guaranteed to receive the full 10% of the deposit from the issuer.

Deposit bonds are also ideal for the 'asset rich/cash poor' purchasers who have funds tied up in investments or in their homes. Arranging cash deposits may be time consuming for these purchasers



as they may need to sell their investments or refinance their homes. Using deposit bonds in situations like this will enable the vendor to have a quick sale and the purchaser does not need to go through the hassle of arranging a cash deposit.

Using deposit bonds for off-the-plan purchases are also becoming popular. In some off-the-plan purchases, it may take several months or even years from the time of exchange to settlement. Rather than tie up a 10% cash deposit for an extended period, a purchaser may use a deposit bond.

Practical tips on using deposit bonds

Always check with the vendor to make sure that they will accept a deposit bond.

Before using a deposit bond or agreeing to accept a deposit bond on behalf of a vendor, you must always make sure that the vendor has agreed to accept it. If a vendor is relying on the early release of the deposit from the sale in order to fund the payment of a cash deposit on a purchase, they may refuse to accept a deposit bond. If the vendor is taken by surprise at the delivery of

IF A VENDOR ACCEPTS A DEPOSIT BOND, THEY ARE GUARANTEED TO RECEIVE THE FULL 10% OF THE DEPOSIT FROM THE ISSUER.

a deposit bond in place of a cheque for a cash deposit, the vendor is entitled to demand that the terms of the contract be honoured and may allege breach of the contract. This is because deposit bonds are not recognised as true deposits. Contracts will require the addition of special conditions to deal with deposit bonds since the standard clauses do not cover their use.

Carefully read the conditions of the bond to ensure it adequately protects all parties.

(a) Expiry date

Look out for time limits imposed on deposit bonds. A deposit bond usually expires when the contract is completed, terminated, rescinded or the expiry date occurs, whichever



IN SOME INSTANCES WHERE SETTLEMENT IS DELAYED, THE DEPOSIT BOND MAY EXPIRE, WHICH WILL LEAVE A VENDOR WITH NO SECURITY.

happens first. In some instances where settlement is delayed, the deposit bond may expire, which will leave a vendor with no security.

(b) Conditions

The conditions imposed on the deposit bonds may vary from institution to institution. You should carefully read the conditions to make sure it adequately protects all parties. Seek legal advice if you are not sure.

Beware of disputes regarding the existence or enforceability of the contract.

A purchaser cannot stop an issuer from paying out the bond to the vendor. However, the purchaser may seek an injunction against the vendor to refrain from taking action under the guarantee if there are disputes regarding the existence or enforceability of the contract.

Dangers of abusing the use of deposit bonds

Property seminars that sell the idea of getting rich quickly are notorious for promoting the use of deposit bonds to buy a number of off-the-plan properties with the intention of selling it at a profit before settlement. Purchasers who are thinking of using deposit bonds for speculative purposes should be aware of the risks involved. If the property market drops and the purchaser cannot sell the property for more than what he or she initially paid, then the purchaser is in trouble. The purchaser most likely will not have the capacity to raise the 100% finance on settlement and the vendor would be entitled to call up the deposit bonds. The purchaser will then have to pay the issuer for the amount of the deposit.

Conclusion

When real estate agents receive deposit bonds it is always prudent to

read the conditions and expiry date imposed on the bonds. It is also good to consider who the deposit bond issuer is to ensure that they are reputable.

Real estate agents may also want to ensure that they receive a cheque at settlement for their commission, since in a normal scenario the agent releases the deposit on settlement after taking out their commission.

While there are some risks and aspects to watch out for, if used correctly, deposit bonds are a viable alternative to producing a 10% cash deposit on exchange of the contract.

Jodie Masson is a partner in the property and development practice of Middletons. Jane Park is a solicitor at Middletons. For more information, call (02) 9513 2469. ♦



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Franchise disclosure



BY JASON GEHRKE

PHOTO COURTESY
OF STUDIO 60

CHANGES TO THE FRANCHISING CODE OF AUSTRALIA MEAN THAT FRANCHISORS ARE NOW REQUIRED TO DISCLOSE MORE INFORMATION TO POTENTIAL FRANCHISEES.

Changes in the economy are well-reported in the media and any observer can draw their own conclusions about their effect on the property market and the real estate profession.

However legislative changes to the Franchising Code of Conduct, which regulates the behaviour of franchisors toward franchisees, have not been so well reported.

Although the changes to the Code took effect from March 1, a new consolidated version of the Code was only made publicly available from March 3. The Australian Competition and Consumer Commission (ACCC), the body responsible for administering the Franchising Code (as well as a few other mandatory industry codes) only posted a summary of the changes on its website in early February. Meanwhile, lawyers have been working overtime around the country to ensure their franchisor clients comply with the new legislation.

The principal changes to the Code affect disclosure: the information that franchisors must provide to franchisees before granting a franchise.

The original purpose of disclosure information when the Code was first introduced nearly 10 years ago was to ensure that franchisees

were reasonably informed about the business proposition they were about to enter into. This also assumed that in the main, franchisees came from outside the business – or even outside the industry – which is true for most business format franchisees.

However one of the fundamental differences in real estate franchising is that most franchisees come from within – they have experience of working in the industry, need to be licensed, and usually open their own office under the auspices of an existing brand, or often convert an independent agency into a franchise.

Nonetheless, the Code applies to all franchisees, and the following key amendments will be relevant to real estate franchisors and franchisees:

- Details of the history of the franchise site and territory must be disclosed in a separate document attached to the disclosure document. If a suburb has previously had a franchised agency there, the details of this must be provided. There is no apparent limit on how far back in time this provision extends;
- Names and contact details of past franchisees must be disclosed. This is in addition to the list of current franchisees that must also be disclosed. Because of the relatively high degree of brand-switching among real estate franchises compared to other types of franchising, franchisors will be

THE PRINCIPAL CHANGES TO THE CODE AFFECT DISCLOSURE: THE INFORMATION THAT FRANCHISORS MUST PROVIDE TO FRANCHISEES BEFORE GRANTING A FRANCHISE.

obliged to provide contact details of past franchisees who may now be franchisees with an entirely different brand. In doing their due diligence prior to joining a network, a potential franchisee will be expected to contact current and past franchisees. The influence of past franchisees on the ability to close a deal with a new franchisee is not to be underestimated by any franchisor.

- A list of suppliers that pay rebates to the franchisor must be disclosed. This requirement will disclose who pays rebates or commissions to the franchisor arising from purchases made by franchisees, but will not disclose how much the rebate will be.
- Disclosure of materially relevant facts in 14 days. Previously this was 60 days. The franchisor must provide written notice to franchisees of materially relevant facts (including court proceedings and court-enforceable undertakings) in 14 days, rather than 60 days.
- Financial details of consolidated entity. Where the franchisor is a part of a larger organisation, the financial reports for the overall entity for the last two years must be included in the disclosure document, or a copy of an independent audit stating the company is solvent and can pay its bills as and when they fall due.

There are a number of other changes to the Code that affect all franchisors and franchisees. For more information, view the full Code and a summary of its changes on the ACCC website at www.accc.gov.au.

The Franchise Advisory Centre provides franchise consulting, training and advice for new and established franchisors and franchisees

Centre director Jason Gehrke has over 17 years' experience in franchising, starting out as a marketing manager and director of a new real estate franchise system in the early 90's. He has an MBA, won awards from the Franchise Council of Australia, and publishes a national news bulletin on franchising trends and issues. ♦

Disclaimer

This article contains general information only and is not intended or offered as legal advice.

The Franchise Advisory Centre holds a wide range of franchise training and education seminars and workshops around Australia, many of which include Code compliance obligations. Key franchise training programs of interest to real estate franchisors and franchisees are:

- Financial Benchmarking and Key Performance Indicators (KPI's);
- Franchise Field Support;
- Managing Multiple Outlets;
- Site and Territory Selection;
- Mediation training;
- Introduction to Franchising.

For more information about these and other franchise education programs, or consulting services, visit www.franchiseadvice.com.au or contact Jason Gehrke on (07) 3716 0400 or email jason@franchiseadvice.com.au.

Property (mis)management



BY PETER LYNCH

PRUDENT PROPERTY MANAGERS SHOULD ENSURE THAT ALL OF THEIR LANDLORDS ARE CARRYING ADEQUATE INSURANCES ON THEIR RENTAL PROPERTIES.

THE PROPERTY MANAGEMENT DEPARTMENT IS THE CORNERSTONE OF ANY SUCCESSFUL REAL ESTATE PRACTICE, BUT UNFORTUNATELY IT IS ALSO THE AREA OF THE BUSINESS THAT TENDS TO ATTRACT THE LARGEST VOLUME OF CLAIMS OR ALLEGATIONS OF NEGLIGENCE.

Managing a property in today's social and business climate involves more than just simply collecting the rent. The role of a property manager is diverse and varied and includes selecting the tenants, arranging repairs, marketing properties, negotiating leases and rent reviews and representing property owners at Tribunal hearings, just to name a few.

Additionally, property managers must be well versed in the relevant legislation within their state or territory, affecting both landlords and tenants. Gone are the days where property management was considered merely a starting point to a sales career in the real estate industry – it is now a specialised profession in its own right.

In recent years, property managers have witnessed a dramatic change in the environment in which they work and this can be attributed to a number of factors:

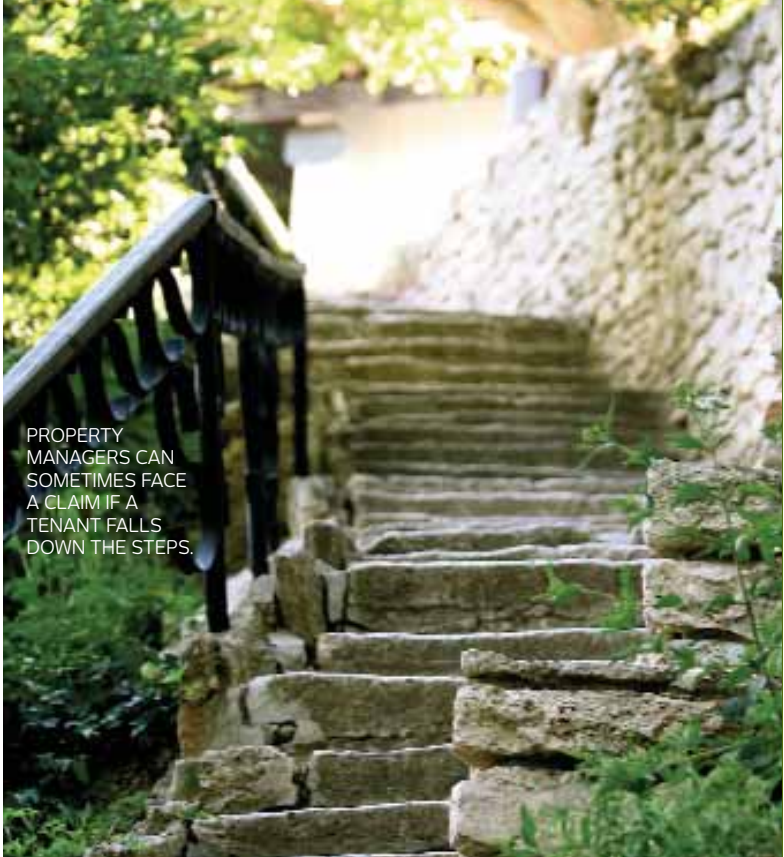
- more sophisticated investors;
- tightening vacancy rates;
- higher expectations from tenants;
- increased legislative requirements; and
- increased litigation.

Unrealistically, landlords often expect property managers to guarantee the return on their investment property and indemnify them for any shortfall or expense, with the landlord often attempting to hold the property manager liable for rental arrears, property damage and wear and tear.

Prudent property managers should ensure that all of their landlords are carrying adequate insurances on their rental properties. Some real estate agencies choose to make this a pre-requisite for the landlord prior to taking on the management rights of their property.

Unfortunately too many property managers and landlords know first hand what it means to be joined in an action against them by a tenant, particularly where the claim involves tenants or their guests who have injured themselves at a rental property. The risk of property managers being held liable for tenants injured from tripping on uneven paths or falling down stairs with loose railings can be minimised with thorough property inspections and risk management plans.

In the unfortunate event that you are faced with a claim against your real estate agency, following is a list of the type of documentation you may be expected to produce to enable your insurer to mount a defence on your behalf :



PROPERTY MANAGERS CAN SOMETIMES FACE A CLAIM IF A TENANT FALLS DOWN THE STEPS.

Property management mistakes

Claims experience reveals that the most common mistakes by property managers that lead to claims against the real estate agency are a failure to:

- execute a written management agreement and ensure the owner has a copy;
- inspect the property before, during and after the tenancy and to document the inspections;
- act quickly on matters of maintenance and repair;
- request and record maintenance instructions;
- properly screen tenants;
- maintain effective internal systems to monitor rent collections; and
- understand the legislation.

- management agreement;
- the lease;
- condition reports;
- inspection reports;
- maintenance book;
- any file notes about complaints/ requests for maintenance;
- any correspondence to the owner for instructions for maintenance;
- invoices showing the history of maintenance;
- telephone records;
- diary notes; and
- statements of account to the owner showing payments for maintenance.

Would your office be able to produce all of the above documentation?

Property mismanagement can not only incur high costs in terms of insurance, legal settlement and legal costs, but can cost dearly in the reputation of the agency.

It is imperative that real estate offices implement and constantly update and review a set of systems and procedures and work practices that will mitigate the risk of litigation.

Remember: good risk management makes good commercial sense.

Peter Lynch is Aon's Account Manager for Professional & Consumer Services.

For more information, contact Aon's Real Estate Agent Hotline: 1300 734 274. ♦

Disclaimer

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Professional indemnity insurance – frequently asked questions



BY KAREN PISANO

AGENTS ARE OFTEN CONFUSED ABOUT THE TYPES OF INSURANCES THEY NEED AND WHAT PROFESSIONAL INDEMNITY (PI) INSURANCE ACTUALLY COVERS. HERE ARE SOME ANSWERS TO SOME COMMON QUERIES.

What is professional indemnity insurance and what does it cover?

Generally speaking, professional indemnity insurance covers for agents' mistakes. It also helps to cover the legal costs of defending against a claim that could be brought against an agent even if the agent hasn't done anything wrong.

In more technical terms, the purpose of professional indemnity insurance is to protect an agent against a civil liability and to compensate third parties that have sustained injury, loss or damage due to the agent's breach of professional duty (or that of their employees) in the conduct of their business caused by any wrongful act, error or omission.

Professional indemnity insurance covers areas such as:

- **Legal costs and expenses**
This is included as part of the cover and within the limit of indemnity and covers legal costs and expenses incurred relating to the defence or settlement of a claim.
- **One automatic reinstatement**
The purpose of this extension is to reinstate the indemnity limit once the indemnity limit has been exhausted.

- **Fidelity**
This is to cover losses of monies that may be sustained by the agent caused by the dishonest acts of any employee (for more about employee theft, see p26). A professional indemnity policy is not intended to give full fidelity cover and in our experience the amount of the losses far exceed the coverage. Specific cover for fidelity is available to provide more extensive cover for these losses.
- **Libel, slander or defamation**
Written or spoken comments/details about a third party.
- **Loss of documents**
Any liability to third parties arising from destruction, damage, loss or mislaying of any documents and/or computer records is covered by this extension. The extension also indemnifies the agent for all reasonable costs and expenses incurred in replacing and/or restoring such documents.
- **Continuous cover**
This allows an insured agent to notify of a claim and/or circumstance that should have been notified within the previous policy period. The claim and/or circumstance can be notified in the current policy period as long as there has been continuous cover with the same insurer. Insurers are then unable to deny liability due to "non disclosure".
- **Intellectual property**
This endorsement is to indemnify the agent for inadvertent

GENERALLY SPEAKING, PROFESSIONAL INDEMNITY INSURANCE COVERS FOR AGENTS' MISTAKES

(unintentional, negligent, inattentive) breach of confidential information, copyright, patent etc.

- **Trade Practices Act and related legislation**
This clause is to indemnify the agent in respect of claims for damages or compensation made under the terms of the Acts arising from misleading or deceptive conduct, as long as the conduct was not deliberate or fraudulent.
- **Costs of inquiries**
This covers the costs of defending a complaint made against an agent, for example before the Office of Fair Trading, and is usually limited to a certain amount.
- **Consultants, sub-contractors and agents**
This clause will indemnify the agent from any wrongful act, error or omission of any other person, firm or company directly appointed by and acting for or on behalf of the agent. Cover is not extended to any such party themselves, unless they are included as a named Insured.

What is NOT covered?

Each policy will identify circumstances under which it will not provide insurance coverage. The list of exclusions can be quite lengthy and it is important that each be considered.

Some common exclusions include claims arising from:



DON'T TAKE THE CHANCE THAT IT WON'T HAPPEN TO YOU

- prior or pending claims or circumstances (made, threatened or intimated against the insured agent prior to the period of cover);
- fraudulent or criminal acts by the insured;
- asbestos;
- occupier's liability (covered under a public liability policy);
- fines and penalties;
- employment-related issues such as coverage for being sued for unfair dismissal or workplace discrimination;
- obligations to employees (covered under a workers compensation policy);
- property development; and
- directors' and officers' liability (covered under a specific policy for directors and officers).

What area of practice do most claims emanate from?

In the experience of RealCover, the majority of claims arise from property

Typical professional indemnity claims

- Personal injury to third parties (tenants or visitors) through property management.
- Breach of professional duty due to any wrongful act, error or omission. For example, inadvertently passing on incorrect information to a purchaser about zoning of a neighbouring property.
- Dishonesty of staff/employees.
- Defamation.
- Legal liability for damages and claimant's costs/expenses arising from the wrongful act, error or omission by employees. For example, an employee fails to lock up after an open house and thieves can enter and steal the vendor's property.
- Wrongful or inadequate advice to clients.
- Undue delay in dealings.
- Acting without proper instructions from the client, for example accepting a 5% deposit instead of 10%
- Breaches of Trade Practices Act/Fair Trading legislation with misleading or deceptive conduct. For example, over or under-estimation of the selling price.



management. Personal injuries claims are the most expensive types of claims. Personal injury claims can arise from any area of practice.

How much coverage is available?

The policy limit available usually varies between \$1 million and \$5 million. The maximum limit the insurance company may be liable for in connection with indemnification is the amount of the policy limit.

Defence costs are the costs of defending a claim and are generally subject to the policy limits expressed in the policy.

Control over the coverage and legal costs is an important aspect of the insurance policy. RealCover gives agents a guaranteed choice to be involved in the claim. We will not settle 'frivolous' claims that some insurance companies think make economic sense to settle, then penalise agents with a claims history. RealCover believes it is important

for agents to have some control and say in the way the claims are handled. RealCover has listened to agents who in the past may have dealt with insurance companies who would advise the agent how the claim settled after the process was long completed!

What is a deductible or excess?

In most policies, the deductible (more commonly known as excess) must be paid by the insured before the insurance company will pay anything towards the defence of the claim.

This is known as a 'costs inclusive excess'. Agents should be aware of the costs of defending claims and that they are responsible for payment of legal costs up to the limit of their excess amount.

RealCover takes a very proactive approach and attempts to resolve issues before a fully blown claim arises. This prevents costs from escalating and erosion of the excess on legal costs. RealCover offers a legal services hotline that puts agents in touch with an external lawyer

REALCOVER TAKES A VERY PROACTIVE APPROACH AND ATTEMPTS TO RESOLVE ISSUES BEFORE A FULLY BLOWN CLAIM ARISES.

who can assist agents to get the right advice to try and avoid a fully blown claim.

In addition, RealCover is 100% owned by the Real Estate Institute of NSW and is designed specifically for agents.

The cost of the policy is far from the last consideration in selecting a policy. It is only after comparing these other factors that agents can truly compare the value of different policies.◆

Karen Pisano is an Account Executive at Aon Risk Services. For more information about professional indemnity insurance, call the RealCover Service Hotline on 1800 803 636, or visit www.realcover.com.au.

Disclaimer

Professional Indemnity insurance products are issued by Aon Risk Services Australia Limited ABN 17000434720 as agents for RealCover Insurances Limited ARBN 103975355.

RealCover is a wholly owned subsidiary of the Real Estate Institute of NSW and was created solely for real estate agents to put control and management of professional indemnity insurance back into the hands of the real estate industry.

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The information in this article is also of a general nature and individuals should always consider their own circumstances and read the relevant Product Disclosure Statement before making any decision regarding any RealCover or Aon product.

Going it alone

REI SUPER IS SEEING MORE AND MORE NEW RETIREES DECIDE TO INVEST ALL THEIR RETIREMENT FUNDS IN TERM DEPOSITS, FIGURING THAT THEY CAN 'DO IT BETTER THEMSELVES'.

With interest rates higher than they have been in 12 years, fixed interest and cash investments are offering investors up to 8%+ p.a. for a relatively low investment risk. Given that long term forecasts for most balanced investment portfolios are no more than 7% p.a. this makes cash investing extremely attractive.

This environment is similar to the early 80s, where high interest rates and high cash/fixed interest returns resulted in many retirees investing their superannuation in cash.

Unfortunately retiree investors often forget that investment markets are

cyclical, and whilst rates may be high now, history shows that they are unlikely to remain so for the next 30 years – which is often how long the superannuation money is expected to fund retirement.

Also, a fixed interest investment has no capital growth – the total return is paid in income. Unless some of this income is reinvested to build the capital, the capital amount will gradually erode in real terms with inflation, meaning that the income that it generates will also decline in real terms. The impact of a declining capital value and reducing interest earnings can have a critical impact on the lifestyle of retirees dependent on those funds to survive.

Many of those who retired in the early 80s investing in cash with high interest rates found themselves really suffering 10 to 15 years later with cash returns halved and the real value of their capital significantly eroded.

The key when investing your retirement funds is to look beyond

the first few years toward what you are trying to achieve in the longer term. A high interest cycle can make fixed interest attractive in the short term, but you will need some exposure to growth investments to keep track with inflation and to protect your lifestyle in the decades to come.

Rei Super strongly encourages all retiree investors to seek advice rather than going it alone. If you would like to speak with an Rei Super adviser regarding your retirement plans, please email admin@reisuper.com.au or call 1300 134 433. ♦

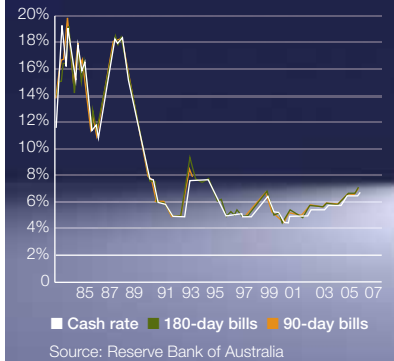
Disclaimer

This information is a summary only and is based on information received from sources within the market which is believed to be reliable. However, no warranty or guarantee is provided as to its accuracy, reliability or completeness. No part of this transmission is to be construed as a solicitation to buy or sell any security and investors are encouraged to seek professional assistance in order to avoid making decisions which are not appropriate to their needs, objectives and circumstances.

Rei Superannuation Fund Pty Ltd ABN 68 056 044
770 AFSL 240569. RSE L 0000314 Rei Super ABN 76 641 658 449 RSE R1000412

THE CAPITAL AMOUNT WILL GRADUALLY ERODE IN REAL TERMS WITH INFLATION, MEANING THAT THE INCOME THAT IT GENERATES WILL ALSO DECLINE IN REAL TERMS.

Short-Term Interest Rates
Monthly average



Don't sell your professionalism short ... make sure it's protected

If someone questions your professionalism or claims injury or property damage, the cost of successfully defending your good name, not to mention your business and personal assets, can be crippling.

Are you prepared?

Professional indemnity: covers you for defending allegations of:

- breach of duty of care, contract or legislation
- misrepresentation of a property
- poor property management (i.e. injured tenant, failure to maintain and repair property)

Public liability: covers claims for bodily injury or property damage, including:

- when conducting open house or sales inspections
- incorrectly positioning or erecting 'for sale' or 'for rent' signs
- client or visitor slips and falls in your office

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LENDING A HAND: Comparison rates



BY ROBERT PROJESKI

First home buyers and new investors should not rely solely on comparison rates when assessing and choosing a new loan or mortgage.

All lenders are now obligated to include comparison rates in advertisements for their home and personal loans. This is designed

to help consumers get a feel for the total cost of the loan, including fees and interest.

However comparison rates only take into account fees and interest rates, not the features, early redemption and other hidden fees.

Examine the loan's key features and especially potentially 'hidden fees' such as account keeping fees, fees for taking money back out of the account, monthly fees and annual review fees. These can equate to well over 0.25% on top of the rate, sometimes more, and the cost for aspects like redraws could end up totalling 0.5% above the rate.

Look at the total costs associated with your particular loan account and how suitable the loan actually is for your personal circumstances. Often you can have features you do not need, but ultimately pay for.

Most importantly, ask the right questions so that you get the full picture before signing on the dotted line.

Robert Projeski is Managing Director of Australian Mortgage Options.

For more information visit www.amo.com.au ♦

WISE INVESTMENT: Houses vs units



BY CHRIS GRAY

Land accumulates and buildings depreciate – follow that rule and most investors would always buy a house. But is it really that simple?

For every dollar spent, houses do have more land content. And with limited supply, land prices will continue to rise. Over the long term, a typical house may grow at 8-10% while units may grow at 6-8%.

Deciding between the two mostly comes down to affordability. Buyers might not be able to afford a house in a high-growth area (that is, 5-15km from a CBD), so may need to look for:

- a house in a low-growth area; or
- a unit in a high-growth area.

These might achieve similar capital growth.

Remember that rent is what provides the cash flow that will finance an investment. Rental returns mainly depend on the property's value and its suburb. The statistics show that both a house in a low-growth area and a unit in a high-growth area might get a 4-5% rental return. It's in higher value properties that things start changing.

Let's compare a \$1.5 million house with three \$500,000 units. Most people that can afford to rent a \$1.5 million house can afford to buy one, and as most people are emotional about their own homes they would very likely buy. As a result, there isn't a lot of demand

OVER THE LONG TERM, A TYPICAL HOUSE MAY GROW AT 8-10% WHILE UNITS MAY GROW AT 6-8%.

for expensive rentals and that often drives the rental return down to only 2-3% or about \$600-900 per week. (Executive rentals, a niche market, do get higher rentals but they are often more susceptible to volatility.)

Compare that to buying three \$500,000 units and getting three \$400-500 rents per week. That equates to \$1,200-1,500 per week.

In this case, you would need to weigh up buying a house and getting maybe 12% capital growth and a 2-3% rental return, or buying three units and getting 10% growth and a 4-5% rental return.

The answer for most buyers comes down to cash flow. If they buy the expensive house, are

paying a mortgage at around 9% interest and are only getting 2-3% in rent, they will need to fund the difference of 6-7% (that's \$60,000 to \$70,000 per million dollars borrowed before tax for a potential capital gain of \$120,000). However, the three units would only cost 4-5% (\$40,000 to \$50,000 per million dollars for a potential gain of \$100,000). It all depends on the investor's long-term strategy.

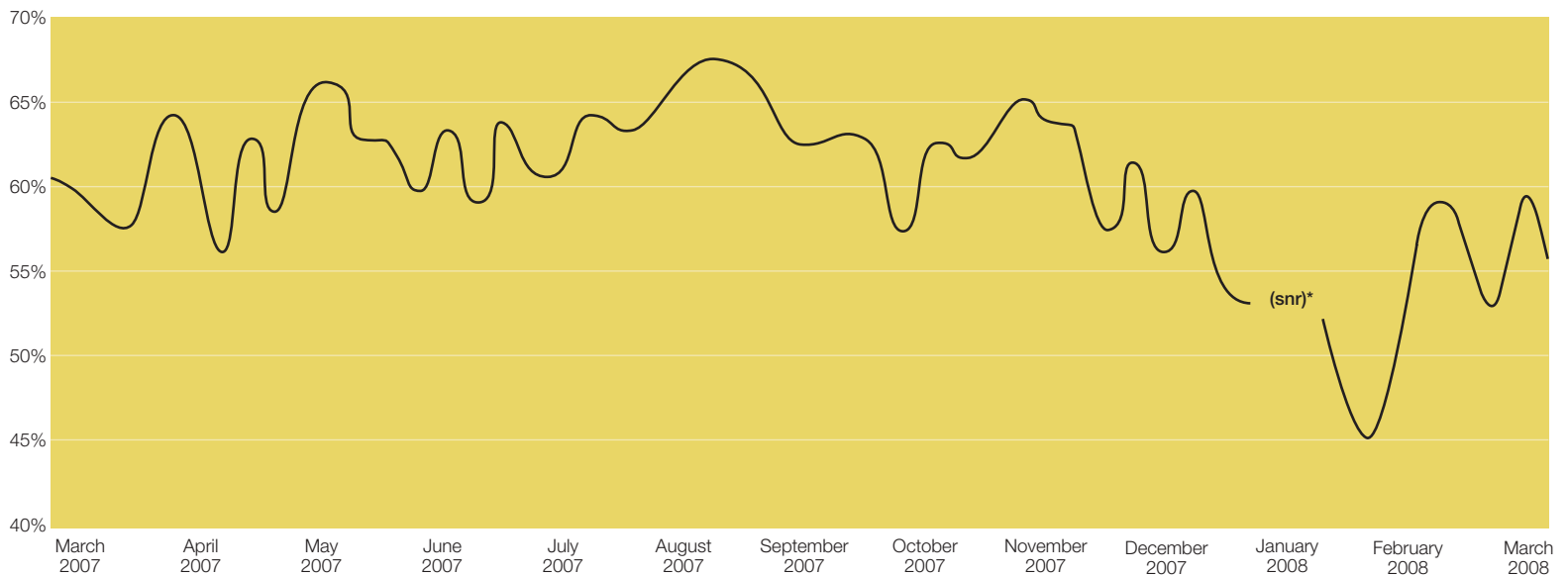
Chris Gray is the Property Expert on Channel 9's MyHome TV, and author of Go For Your Life: How to Turn Your Weekdays into Weekends Through Property Investing. For more information and for Chapters 1-3 of his book for free, visit www.goforyourlife.com ♦

SYDNEY AUCTION DATA

Sydney weekly auction clearance rates

Week Ending	Inner Sydney		Inner West		Lower North		Inner East		Sydney	
	Number Auctioned	Auction Clearance Rate	Number Auctioned	Auction Clearance Rate	Number Auctioned	Auction Clearance Rate	Number Auctioned	Auction Clearance Rate	Number Auctioned	Auction Clearance Rate
2/3/08	83	57.6%	32	81.3%	105	63.9%	112	64.5%	576	54.85%
24/2/08	103	62.7%	36	51.4%	68	63.5%	171	69.0%	639	58.43%
17/2/08	45	72.0%	22	58.3%	25	71.4%	23	60.9%	297	52.96%
10/2/08	18	70.0%	11	75.0%	11	63.6%	4	40.0%	176	58.38%
3/2/08	4	100.0%	6	83.3%	2	100.0%	1	100.0%	87	56.38%
27/1/08	0	snr	0	snr	1	100.0%	1	100.0%	8	50.00%
20/1/08	0	snr	0	snr	0	snr	0	snr	9	45.45%
13/1/08	0	snr	0	snr	0	snr	0	snr	2	50.00%
6/1/08	0	snr	0	snr	0	snr	0	snr	0	snr
30/12/07	0	snr	0	snr	0	snr	0	snr	0	snr
23/12/07	12	64.3%	11	81.8%	10	66.7%	10	63.6%	124	51.80%
16/12/07	67	57.1%	54	69.1%	53	45.5%	90	67.0%	567	53.67%

Sydney auction clearance rates



* Sample not reliable

NEWCASTLE/WOLLONGONG AUCTION DATA

Newcastle and Wollongong weekly auction clearance rates

Week Ending	Newcastle		Wollongong	
	Number Auctioned	Auction Clearance Rate	Number Auctioned	Auction Clearance Rate
2/3/08	10	27.27%	26	17.2%
24/2/08	18	42.11%	18	43.5%
17/2/08	19	35.00%	23	41.7%
10/2/08	40	30.95%	39	16.7%
3/2/08	22	20.83%	19	11.5%
27/1/08	1	100.00%	4	snr
20/1/08	1	50.00%	3	33.3%
13/1/08	0	snr	0	snr
6/1/08	0	snr	0	snr
30/12/07	0	snr	0	snr
23/12/07	3	33.33%	2	66.7%
16/12/07	32	40.00%	21	38.1%



MICHAEL MCNAMARA,
GENERAL MANAGER OF
AUSTRALIAN PROPERTY MONITORS
PUBLISHER OF
WWW.HOMEPRICEGUIDE.COM.AU

"Strong growth for NSW property in the short term might not be on the cards. However, when it comes to buying property at the right time in the cycle, astute investors know that sometimes it is better to be too early than too late. In this way, they don't miss the boat in capitalising on the upside when it inevitably comes"

Agency Services

If you call the REINSW Practice Support helpline, you can trust that whoever answers the phone will be able to assist you with your query, no matter how curly your question or how complicated the problem!

Here are two of the REINSW Practice Support staff, with the experience that backs their knowledge of the law and understanding of what it's really like in practical real estate situations.



Ann Banister

Ann has been answering calls on the helpline at REINSW for nearly two years, so there are few problems that she hasn't heard before! Her aim is to assist members as promptly and efficiently as possible and this she strives to do on a daily basis.

She has been a licensed real estate agent for 15 years and continues to increase her knowledge by attending regular training courses and seminars. Prior to joining REINSW, she worked for agencies on the North Shore in all aspects of the real estate industry, specialising in property management.

Ann was also one of the first Property Managers to qualify to join the L.J. Hooker Captain's Club, which is determined on agents' achievements each year, and has won several awards in this area.



David Pentecost

David has been a licensed real estate agent and auctioneer for 27 years.

In the early 1990s he spent four years working for the Australian embassy in Vienna, Austria, relocating diplomatic staff. Upon returning to Australia, he headed the property department for the Salvation Army where he was responsible for a \$1 billion property portfolio with an annual turnover of \$15 million in sales, purchases and leasing. This included nursing homes, hostels, church buildings, shops and houses.

Since joining REINSW three years ago, he has been responsible for the development of the Compliance Review Service. As well as answering helpline queries, David loves travelling around NSW helping agents to comply with the laws and regulations, and has visited over 300 offices in the last two years.

Practice Support – frequently asked questions

THE REINSW PRACTICE SUPPORT HELPLINE OFFERS ADVICE ON A WIDE RANGE OF EVERYDAY REAL ESTATE PRACTICE MATTERS SUCH AS AGENCY AGREEMENTS, TENANCY ISSUES AND PROPERTY MANAGEMENT.

Here are some of the most common issues dealt with by helpline staff.

Valid agency agreements

Agency agreements must be completed correctly in all respects to ensure you are entitled to commission. Care and attention is required when completing all agreements. You can avoid some of the most common errors and omissions by always checking the following:

- the legal name (not initials) and address of the principal are correct;
- the address of the property is correct;
- the agent details are correct. In particular, ensure the licensee name and licence number are correct (different requirements exist for agents operating as corporations, partnerships and sole traders);
- the duration of agreement is specified by inserting start and end dates; and
- a dollar figure for commission is inserted based upon the estimated selling price (or range).

Length of time documents to be kept

All relevant details of transactions undertaken by a licensee have to be kept onsite for three years; for example, contracts, all agency agreements and applications for tenancies. Different retention requirements apply to the tenancy database (five years) and taxation.

ALL RELEVANT DETAILS OF TRANSACTIONS UNDERTAKEN BY A LICENSEE HAVE TO BE KEPT ONSITE FOR THREE YEARS.

Service of residential tenancy termination notices

It is imperative that termination notices are served correctly in order to allow enforcement if a tenant does not comply.

A termination notice following non-payment of rent is the one most commonly used. All notices must either be served personally or by post using ordinary mail.

The date of posting is not the date of service. The date of service is deemed to be the fourth working day following posting. When calculating the date of service, don't count the day of postage, Saturdays, Sundays or public/bank holidays.

NOTE: If any monies are paid between the date of postage and the date of service, this will invalidate the termination notice (as the tenant will no longer be 14 days in arrears at the date of service). Any payment made after the date of service will not invalidate the notice.

Membership in briefs

Members on the move

Has someone recently joined your office? Let others know the good news by publishing the move in the *Journal*.

Email *Journal* editor Roslyn Alderton at ralderton@reinsw.com.au if you would like the move to be included in a new 'members on the move' section. Please note that the person must be an individual member of REINSW (not just working in a member firm) and you must include the name of their former place of work, for example "Joe Bloggs, formerly of Smith Real Estate, has joined Brown Real Estate as a residential sales agent." ♦

DID YOU KNOW? Office supplies

You could save up to \$500 a year on your office supplies such as paper, toner, bathroom products, tea and coffee.

REINSW members receive special discounts from Corporate Express. Discounts are typically 15% to 20% less than retail price for the office supplies.

Delivery is free regardless of the order size, even for small orders under \$50, anywhere in NSW. Delivery is also guaranteed next day in metropolitan areas and within two days in rural areas.

Take advantage of this member only offer today!

To receive your Corporate Express member discounts, call Paul Gordon on (02) 9335 0956 or 0407 471 100 or email paulg@ce.com.au ♦

FOR THE CONSUMER: Getting on the property ladder

Home ownership is something that countless generations of Australians have aspired to and is a part of our culture. We must make sure that today's Generation X and Ys follow suit and not be discouraged by the floods of negative media stories about housing affordability.

The strategies to save a deposit offer good lessons about what it takes to succeed in life: make a plan, set the goals and go for it. Some young people are lucky enough to get a leg-up as they come from families with the foresight and the wherewithal to start a housing savings fund as soon as their children are born. Others have to wait until they are in the workforce and start saving as soon as they receive their first pay packet. Some go into their first property venture with a friend, halving the size of the deposit they have to achieve. There are always ways and it doesn't matter if the first home is a studio and not near a train line. Money spent on your own bricks and mortar is an investment in the future.

The good news is that governments realise it makes sound political sense to find ways to help people buy their own home. There are still First Home Owners Grants available, and the Federal Government has announced a number of policies to help address housing affordability, including savings accounts that will help young people to save for a house deposit.

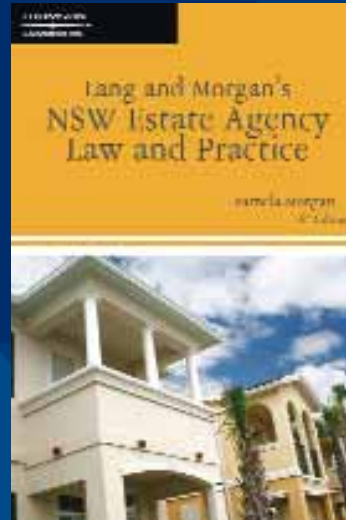
The bottom line is that while buying your first home might seem scary, start with something affordable and small, be disciplined in saving for a deposit, take advantage of the government schemes available, and don't over-stretch yourself with a mortgage that you can't afford if interest rates go up.

Members are welcome to reproduce For the Consumer in their own newsletters. To copy the text, go to www.reinsw.com.au, click on Knowledge Centre and visit the latest *Journal* online. ♦

PRODUCT OF THE MONTH Legal resources

Make sure you're doing the right thing – if you're ever in doubt about any aspect of real estate law, the answers can be at your fingertips with these two legal resources from the REINSW Sales & Supply Centre.

What's more, as REINSW members you will receive an additional 10% discount on the retail price.



Lang and Morgan's NSW Estate Agency Law and Practice

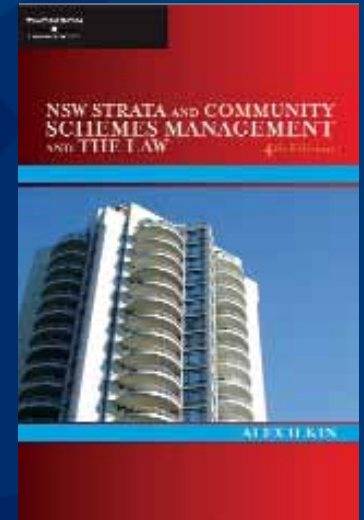
We are proud to announce the launch of the brand new edition of *Lang and Morgan's NSW Estate Agency Law and Practice*.

For almost 30 years, the real estate industry has turned to Lang and Morgan for guidance on how to professionally comply with their legal obligations. The sixth edition will undoubtedly continue this tradition.

This clear and comprehensive book is a must-have for every real estate agent who wants to ensure they comply with their rights and duties.

Experienced property lawyer and conveyancer Pamela Morgan will guide you through the *Property, Stock and Business Agents Act 2002 (NSW)*, providing:

- cutting-edge legislative authority on licensing and controlling the activities of all property agents in New South Wales; and
- in-depth analysis of the role of the Office of Fair Trading – the Rules of Conduct applicable to agents and an overview of conveyancing practice under the 2005 Contract for Sale of Land.



NSW Strata and Community Schemes Management and the Law

The 4th edition of *NSW Strata and Community Schemes Management and the Law* is now available.

Expertly written by prominent practitioner Alex Ilkin, this authoritative publication explores the three Acts of Parliament governing strata schemes in New South Wales.

As well as up-to-date case law presented in summary format, the publication offers over 130 user-friendly strata forms.

This practical guide is essential for strata management practitioners and onsite property managers in a strata scheme.

To order either book, please contact the REINSW Sales & Supply Centre on (02) 9264 2343, email sales@reinsw.com.au or visit www.reinsw.com.au. ♦

Making our mark on the world



BY PHILIP WEBB
PRESIDENT - FIABCI AUSTRALIA

There is no doubt that our younger staff members of today are the long term future of this industry. So encouraging our junior staff to take out membership of FIABCI can only help to build a truly international

perspective within the industry in coming years. Remember, FIABCI membership fees are still just \$150 per year – not a lot when you consider the potential benefits to a promising career!

However, those of us who have been in this industry for a while need to remember that FIABCI membership can make a real impact on our own profile as well. Indeed, it has the real potential to open doors to recognition on a global scale that can make a real difference to your business in today's competitive market.

One example of this was the win in 2006 of FIABCI's 'Prix D'Excellence' by the Kensington Banks project in

I CAN ONLY HOPE THAT MORE AUSSIES TAKE THE TIME TO CONSIDER ENTERING THESE AWARDS.

Melbourne. This effectively ranked it as the best urban renewal project in the world for 2006, confirming that Australia's property industry can not only compete on the world stage, but is quite capable of excelling there.

Yet despite this success (and wins by a number of Australian projects in

past years) too few Australian property professionals seem prepared to take the time to enter these international awards. When you consider the added credibility and market awareness that your business gains by competing at such an elite level, I can only hope that more Aussies take the time to consider entering these awards.

If you would like to know more about the FIABCI awards, or FIABCI membership in general, feel free to contact the Real Estate Institute of Australia or myself.

If you would like to know more about FIABCI membership, please contact Philip Webb on (03) 9874 3355. ♦

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