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LAW REFORM COMMITTEE

Inquiry into property investment

Melbourne — 12 November 2007

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Witnesses

Mr N. Higgins, National Finance Manager, and

Mr T. Gunasekara, Branch Manager, The Investors Club.

The CHAIR — Thank you very much for coming to talk to us today about your work in The Investors Club. Just two preliminaries: firstly, this hearing operates under the provisions of the Parliamentary Committees Act. That means that anything you say in this hearing is the subject of parliamentary privilege, which means that you cannot be sued for anything you might say that is a little bit intemperate. You can say that in here, but if you say the same thing outside the confines of this hearing you will not be afforded the same protection. Secondly, Hansard staff are recording what we say this afternoon and a transcript of that will be sent to you some time after the meeting, when it is ready. You will be able to make some small changes to that but not change in any substantial way what you have contributed. We run these meetings fairly informally. We will give you 10 or 15 minutes to tell us about yourselves and then we will ask some questions.

Mr HIGGINS — Thank you for the opportunity to appear before the Committee on behalf of The Investors Club. We are a national business represented in every capital in Australia and in some regional areas. Troy and I represent different parts of the business: Troy on the marketing side of the business as a branch manager in Victoria and me as the national finance manager for the group around the origination of finance for our members to purchase property. I might pass to Troy at this point just to give you a bit of a snapshot of how the marketing works.

Mr GUNASEKARA — On the marketing side of our business, we simply work with Club members to assist them with their property investment purchases. It is totally provided. From the members perspective, they go ahead at each step through the process when they are most comfortable. So there is no saying, ‘You have to come and get this property’, or, ‘You have to get this at this time’, because we think it and we are the experts. All we simply come from is giving them all current factual information and just letting them make their decision in their own time. We are simply there to facilitate and assist. If you like, the qualification to become a support member within The Investors Club is simply that you have actually bought a Club property yourself, so you have gone through and you can physically talk through what you have done — the pitfalls, because there are ups and downs with anything, obviously, and working through to assist the member to property purchase.

A bit of our Club history: the Club has been around since 1994, when it was formed. We now have over 10 000 members who have purchased property. One in three of those members has purchased multiple properties, which is one of our really strong points, showing that the members are comfortable enough with what they have gone through and got that they come back a second, third and fourth time. We have a Property Millionaires Club (PMC). The entry level to that Club, which sounds a bit different at the start, is \$1 million in debt, the premise being that if you have \$1 million in debt you obviously have over \$1 million in investable assets, and then moving forward from there.

Mr HIGGINS — In terms of the finance activity, which I am directly responsible for across the network, there are 27 individual broker-owned businesses — as I said, in every capital and some regional areas across Australia — which represent 35 touch points to represent our six-figure membership across the nation. As part of the branch manager and support member activity, we now have approximately 350 actual, the support member being the person who deals with the individual member of the public, and in Troy’s role, the branch manager, supervising that team. It is about 350 nationally.

Troy mentioned 1994 as being the establishment point for the Club. The founders and still current directors of the Club, Kevin and Kathy Young, remain as very active in the business every day, talking with members, helping out branches and directing marketing strategy. On that note, both Troy and I are members of the management advisory panel to the directors, in terms of providing strategy. Some of the Club network activities, just to give you a little bit of a snapshot across that, very much involve some active research across property to see not only that we list every piece of stock that might be presented to us across builders and developers, but we would reject probably 20 or 25 per cent of stock that might be presented to us across the builders and developers. There is a legal part to the business and finance — part of the network includes groups of accountants and solicitors on the conveyancing side of the business as well.

In terms of where the finance activities sit, we have such a healthy base of clients that I have clarified with all parts of the Club loans network that no defaults have occurred or are current with any Club member across the nation, which is a pretty strong statement for any group, I think you would agree. Considering the style of member or client that we fortunately attract, I suppose, it is very much not the first home buyer or second home buyer but somebody who is mature, well established in their work, their asset position, their income and their gearing ratios. So it is a

very solid client that we deal with week in and week out. I think we would probably hold about six meetings a week across Australia — —

Mr GUNASEKARA — Yes.

Mr HIGGINS — In various states and venues. On the premise of why you have invited us here today, it is on the position of where our business sits, and primarily, I suppose, where the industry moves forward, which is always of interest. It can move forward in various different ways, I appreciate that, but the premise of where we come from is as it was back in terms of our presentation to the federal committee in April 2005, and it is very much around accreditation versus more regulation. We very much follow that in terms of the sorts of things that we get on a daily compliance basis, I guess you might say, by various government departments around the heavy compliance on audits in many, many ways.

The key things as to where we stand are particularly to assist, I guess, the public, and it is certainly very much around full disclosure of the valuation by the lending institution to the client. We believe that has a very positive effect in significantly reducing the potential on the two-tier marketing by the client being very informed at the outset to make their conscious decision, and also full written disclosure of all sales made within a 1-kilometre radius in the previous 12 months to the property they are considering purchasing, and obviously there is a good educational situation there for the client.

Do we make our client base available for new clients or for new members that come to us to have an open discussion to say, ‘What has your experience been like?’. We make that freely available, obviously with our members authority, so new members can ask those obvious and real questions, ‘Are you dealing with somebody that you should be dealing with?’, and we make that freely available. That is not freely available in the open market by the real estate agencies.

As part of our business through the rental side we get three written rental appraisals by three local agents. Traditionally that does not happen if you are purchasing an investment property, certainly with a local real estate agent. Bidders at auctions must have a bidding card, and no dummy bids are to be accepted. All parties involved in the sale of a property must fully declare their commissions, including the vendor, the seller and the solicitor. They are the seven pillars of recommendations that we stand by, and we trust they would form a good part of potential recommendations from your Committee. Thank you.

The CHAIR — Thank you very much for that. Can I just open up by asking, and I suppose this is a question to Troy: can you just step us through how a person goes from, for example, not knowing anything about The Investors Club to becoming a member? You mentioned in passing that there are support members and a millionaire’s club, and then you talked about clients as well. Just give us a bit of a picture about how a person comes into The Investors Club, and then about the different hierarchy or levels of membership, and what that means.

Mr GUNASEKARA — Definitely. Typically our membership base is, as Neil alluded to, very large nationally. We have a lot of members who receive our newsletter every two months; it is a bimonthly newsletter. Typically we are making contact through that, and rolling through and just helping them with a bit more information relevant to the areas, properties and just general information about the property. Then, typically, they would come into one of what we call our introductory workshops — —

The CHAIR — You already know about them to send out the newsletter?

Mr GUNASEKARA — Correct, yes.

The CHAIR — How does that contact occur?

Mr GUNASEKARA — Pretty much most of our business today is by word of mouth, which is really good. Again, when you think about it, it is a strong recommendation. We have families telling each other, ‘You should come and speak to these people because they know what they are talking about’. It is not like saying, ‘This is a good mobile phone’. You are talking about maybe spending some dollars on an investment property, which obviously carries a little more weight.

There are also expos. We just had the Property Expo here in Melbourne a couple of weeks ago. We had a stand there as well. There are different forums like that where we get our new contacts, if you like, onto our database. But more and more it is just through word of mouth, which is a great point to start off with, and there is that comfort factor there.

The CHAIR — Did you get a lot of people from the Expo?

Mr GUNASEKARA — Yes. Across all of us in Victoria — there were a few different support members represented in Victoria — I think about 800 contacts came through which was good. We had a stand there and we talked about what we do and how we do it and provided more information on ourselves. What we do in terms of our newsletter is that we give some more information about what the Club is and what we do. The next step is that we have our introductory workshop. It is simply where members who do not really know much about the Club or property investing or the like come along and find out what we do and how we do it. We step through the introductory booklet, which I understand you have a copy of — —

The CHAIR — Yes.

Mr GUNASEKARA — That is what we talk through in there. A few testimonials are given. People who have brought properties through the Club say, ‘The system has worked for us; we are not broke; we are not going backwards; we have not had a default. It has worked for us’. It is very easy then to share that with others. Then we go to a one-on-one home meeting with the member, typically. Either they come to our place or we go to theirs and we go through the next steps.

What we have found in the process is that obviously people are very different and they have different understanding and financial literacy, if you like. It is about getting across the numbers and how a property might be financed, how you choose a property, and whether you would be comfortable choosing a property interstate versus in the next street. Are you happy with debt levels et cetera? All of those things. We go through and answer that, and then typically it is another two or three months before the member decides if they are comfortable enough to proceed through the next steps. Some people get it really quickly, those who have already got lots of properties or, as I like to say, are financially literate. For the others, they need some hand-holding. We see how it would work. Obviously at no stage do we say, ‘We think this is a fantastic one and we think it will grow in value’. All of our information is simply given from current factual and historical information. There are no forward projections or anything of the like made. Then it goes through to the property purchase.

The CHAIR — The structure when you talk about support, members, millionaires club, how does that work?

Mr GUNASEKARA — A support member, as I said, is simply someone who has actually purchased a property through the Club. If you like, you have taken your own medicine, you know what to do and can easily explain it to someone else. That is all a support member is. My wife and I are simply branch managers in the process. What that means is we have got a team of support members that we work with from a mentoring point of view, managing and assisting them through the process, because we have done it ourselves many times and have got a lot more experience from that. It is really a structure and is really not confusing from that side. The Property Millionaires Club is for any Club member or support member or branch manager, anyone in the Club who has bought a property with the entry level point being \$1 million in debt.

The CHAIR — Are there levels in between?

Mr GUNASEKARA — There are. Sorry, there are other levels above that for the PMC, so there is bronze, silver and gold.

The CHAIR — So you go from a support member and then there is nothing until you get to the Millionaires Club. Does it go on from there? What I am trying to get is a picture of how a person steps through and whether there are rewards in it, like what is in it for them as they move through that organisation.

Mr GUNASEKARA — The basic premise when Kevin and Kathy and the directors of the business formed the Property Millionaires Club was to give more advanced information. We have a newsletter that goes out monthly for the Property Millionaires Club, and functions that are geared towards these Property Millionaires Club

investors because they have got a more advanced portfolio. There are different things they have to take into account versus Joe Smith who is buying his first property.

Mr HIGGINS — Your question might also relate to whether it costs any money for a member of the public to become a Club member? No, it does not. Does it cost any money to become a Property Millionaires Club member? No, it does not.

The CHAIR — Just one last question and I will move on to others: what is the difference between a client and a member? You talked about clients and you talked about members.

Mr GUNASEKARA — I meant the same person, I am sorry about that. Client and member, they are viewed obviously both ways but in Investors Club-speak really they are a Club member. I guess from the finance side, for the finance brokers that is their client.

Mr HIGGINS — It can interchange itself but Club member is exactly — —

The CHAIR — For my last question: how many people are employed by the Investors Club, on the payroll?

Mr HIGGINS — There are approximately 30 in the head office. Across the branch managers and the support members, there are just over the 300 level. When you say ‘employed’, just part of what the structure looks like, not physical in terms of whether they are on a wage situation, there can be different — —

The CHAIR — That is what I meant. Have you got people on a wage?

Mr HIGGINS — In terms of head office only, there is a structure within that. Not everybody is on wage but, sure, there is a portion there that are on wage but the branch manager and support member structure is not on a wage.

The CHAIR — So how many have you got that are on a wage?

Mr GUNASEKARA — That is 30 to 40 people.

Mr HIGGINS — I would say we would probably have 25 on a wage.

Mr BROOKS — I was just going to ask a quick question if I could. A lot of the witnesses we have heard from already have mentioned problems that have been mentioned in the media and their concerns about some of those high-profile cases of property investment advice not necessarily working the way it should. I was just looking for your view on some of those instances, and where you might see regulation being improved to pick up some of those instances.

Mr HIGGINS — You would be referring to the Henry Kayes of the world.

Mr BROOKS — Those sorts of examples.

Mr HIGGINS — The Dudley Quinlivans of the world.

Mr BROOKS — Westpoint.

Mr HIGGINS — A different investment structure, I guess, through the Westpoint although it is probably involving property to some degree through the trust environment.

Mr BROOKS — Would you offer comment as to how we can improve things to avoid those circumstances?

Mr HIGGINS — Particularly through the property industry. I did allude to that as one of our recommendations in terms of, if through the property industry that valuation had been disclosed to the buying party in the first stance, a lot of grief would have been saved, a lot of mud would have fallen on to those spruikers’ faces no doubt and I think they would have been out of business significantly before they eventually were. That is one angle to it. We do not get involved in the share market per se, so in terms of the likes of the company you

mentioned before, no comment about that side of it. We are very much purely property. Many of our members do of course own shares but that is not part of our business.

Mr FOLEY — The seven pillars of honesty that you have identified and taken us through. Are they really just aimed at the real estate industry or do you see them as much broader in terms of being the basis for a review of property investment, property management, regulation more generally? Does the Club have a view as to whether that would be best done, as Kevin's, I think, original submission to the federal Senate inquiry dealt with, in federal legislation or best done, given that through real estate agencies are still largely regulated at the state level if they are regulated at all, at a state level?

Mr HIGGINS — I guess if we looked at the seven pillars, as you said, there in terms of what we stand for, I think we need to be very mindful about — if I can take a couple of moments just to reflect on the audit compliance. The requirements that are across small, medium and large business are very onerous in today's society. I refer to such things, and this is what our general manager cops on a regular basis, as ATO audit, Office of Fair Trading, ASIC, payroll audit through the office of state revenue, GST, income tax, capital gains tax, employment compliance and the WorkChoices legislation. When we reflect on that level of compliance, back to the real estate industry, this is one of the key things that we are talking about for the necessary accreditation across the industry. To regulate it and put a heavy level of cost and compliance in any further degree, does not have a positive in terms of the business sector but if I look at where that needs to head forward, I think it is all around trading honestly and more transparently, and that is where we are coming from.

Mr FOLEY — Just to follow that up then in terms of how that transparency would operate, as I understand it — I have just read the stuff that is here, and I would be more than happy for you to flesh it out — you have got the Investors Club Limited, which is, from my reading of it, the initial vehicle that the Club members somehow join. I am not sure what the basis is of what they are joining. And then that in turn has a relationship, I understand, with a range of entities, including Kevin's company, Lisson Pty Ltd.

Mr HIGGINS — Yes.

Mr FOLEY — And I am wondering what the relationship there is in regards to the transparency that you are talking about.

Mr HIGGINS — Sure.

Mr FOLEY — And then it goes through what Troy was referring to, the non-hierarchical word-of-mouth method in which Club members find out about the Club, and I am wondering how that operates in practice and who your normal — if there is such a thing — investor is.

Mr GUNASEKARA — Their profile.

Mr FOLEY — Yes, their profile. I am interested in what sort of other existing institutions or networks the Club uses or liaises with to find and deal with new Club members, and how in practice it works. As you say, unlike some of the property trusts, there is not a lot of the high-powered advertising and that sort of stuff, it is much more low key, but it is big and it is national. I suppose I am just trying to get my mind around how in practice you get what clearly you and your Club members believe is a good and worthwhile product out there to potential members who I assume are fundamentally investors as well.

Mr HIGGINS — Yes.

Mr FOLEY — I am trying to get my mind around how all that works in practice, what real-life mechanisms are employed and who we are really talking about as your members.

Mr HIGGINS — I might endeavour to take the corporate question first in amongst all of that.

Mr GUNASEKARA — Yes, if you can take that.

Mr HIGGINS — In terms of The Investors Club Ltd, it is a not-for-profit organisation, but the structure in behind that consists of Lisson, which you mentioned, which is the parent trading company, and there is a structure there I think of five other company entities, including Club Loans Pty Ltd, which is where I come into it, as one of the trading entities in behind that. Kevin and Kathy Young are the sole directors across the company base, so there

is no external interest or ownership across that base. Can we control our destiny for the benefit of our members? Absolutely. That is certainly the positive side of that. Just remind me of some of the other questions that you just asked.

Mr FOLEY — I suppose what intrigued me about the profile of the Club was its, if you like, under-the-radar approach to how it goes about what is a substantial operation nationally and how it makes links with people, what the profile is, how it gets out there to get its Club members together, whether it uses any other pre-existing networks, and how that sort of stuff works in terms of the average punter that you would get along.

Mr GUNASEKARA — A typical profile of our members — and I jotted this down after we spoke — is a typical mum and dad working; it could be with one job or it could be with two jobs; and it could be with one kid, two kids or no kids. It really is a broad cross-section. When I looked at this — which I did the other day in preparation for this — I picked as a good snapshot the last 10 people that we worked with who have actually come through and got property purchases. They are all from very different backgrounds with very different income levels ranging from \$50 000 to \$200 000, and they are very different in terms of where they live — they could live in Geelong, or they could live close to town et cetera. There is no really typical member profile that you would look at that would be ‘double income, no kids’ or the like. How it works, just fleshing out what I spoke about earlier, is that it is just really the relationship that the Club member and the Club support member has with the Club member that helps get them across the line and comfortable with what they want to do at the time that they perceive is right for them.

Mr FOLEY — Are there any existing networks that you would use?

Mr GUNASEKARA — At the moment with our Club Loans Pty Ltd networks and the finance brokers that we do work with, we do have some referral business going back and forth between there. We are looking at some other options down the track. We are always willing to grow the business and get better benefits overall for the Club members, but there is nothing really that has been formalised at the moment.

Mr HIGGINS — The question is do we actually have arrangements with big accountancy practices, big financial planning groups or that sort of thing.

Mr FOLEY — Yes, for instance, or any other network, whether they be financial planners, accountants, real estate agents or community groups. How do you get the message out?

Mr HIGGINS — There is nothing formal at this point in time across that in terms of strategic alliances. That is not in place.

Mr FOLEY — Informally?

Mr GUNASEKARA — Informally there are accountants who work with Club members.

Mr HIGGINS — In terms of individuals.

Mr GUNASEKARA — Exactly, and they manage members’ properties. They might speak at one of our advanced workshops and say, ‘Hey, this is what we do and how we’ve done it’. We have also bought properties through the Club. We are helping Club members with their accountancy and tax requirements et cetera. They then get referrals through that, and they then work with those Club members and work through that. It is pretty informal at the moment, and again it really is the community feel of everything. You will have people at a barbecue or at what we call an advanced workshop where we go through our services — as mentioned earlier with the PMC side of the business — and advanced information, and then we will be covering those topics, and then those things come into play. It could be very different here to the way it works in Perth, for example.

The CHAIR — I am sorry to stop you there, but I am just very conscious of the time. We already have the next witnesses here, so we need to move on.

Mr HIGGINS — Just to express the interest, if I could paint you a little bit of a picture on that in terms of our support and enthusiasm over the course of at least the last three years since I have been involved in the business. The national conference is a very prominent event in our calendar. Last year we had approximately 700 people attend the Sydney Convention Centre in Darling Harbour, and that was on each of the Saturdays and the

Sundays. It is purely information. Sure, there is a small fee to attend that particular one, but not the branch meetings that Troy and his team run. That was just to paint a bit of a picture for you.

Mr FOLEY — So if there were to be either state or federal regulation brought into this area — and there are all sorts of different models and propositions — in relation to issues like your commission of up to 6 per cent, cooling-off periods and so on, I suspect that your Club probably would not be covered by regulation as it exists now. Does the Club have a view on how that sort of regulation would impact on it in terms of difficulties, closures, impacts on what that might mean for investors or Club members should they wish to have a cooling-off period, and items like that?

Mr HIGGINS — I notice you mentioned the 6 per cent fee. We are very open and comfortable about that in terms of the much more value-added proposition than the average Australian in the market.

Mr FOLEY — Up to 6 per cent.

Mr HIGGINS — Yes, but that is okay. I do not see 6 per cent hugely often though, I must admit, just in the current market. But to have a bit of a look at the value-added proposition in behind that in terms of the additional things that we do for our members, like sending a property inspector in before purchase, quality surveying activity that we help to put in line, real estate agent activity; there is a make-up there obviously in terms of then the research we would put into the styles of investments our members find of great interest. That was the answer to one part of your question. As to the other part, in terms of where we sit, we simply want it to be as transparent as possible.

Mr FOLEY — So you would not have a problem that consistent regulation applying to the Club if it applied to everybody in a transparent manner?

Mr HIGGINS — We are pretty confident in how we operate. I am not sure a lot of people have the same ethical standards and the same integrities. I do not see why we would have any problem.

Mr GUNASEKARA — We have come through a lot of audits, and as you have seen most, or at least some, of our properties over the history have been in Queensland, and the current Queensland law is that there is full disclosure of commissions. Our members get the PAMD form which they have to sign off and show that this is the commission payable from the vendor to the Investors Club and how that works. That is all explained and as we said, we are more than happy, and again the proof is in the pudding: it is quite transparent to the members, where they see that and are well aware of it, but they are also well aware of all the benefits they are getting around that. Our services continue whether they buy 1 property or 10 properties, or if 10 years from now they want to sit down and have a chat about their structures, our thoughts on areas, information, accountants, advance strategies et cetera. That is what we cover ongoing.

The CHAIR — We do have to wrap it up. It has been all too brief a time. Thank you very much for coming and for providing us with the material. As I said, you will receive a copy of the Hansard transcript, to which you make some minor adjustments if you need to. I hope you do not mind if Kerry and Susan get in touch with you as a follow-up for any further information we might need.

Mr HIGGINS — No. Thank you, we appreciate the opportunity.

Mr GUNASEKARA — Thank you.

Witnesses withdrew.