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Incentives Developers pay advisers

SMSF 'disaster waiting to happen'

Duncan Hughes

Incentives paid by developers to financial advisers for recommending property investments to self-managed super investors are "a disaster waiting to happen", regulators have said.

Developers are offering advisers between three and 20 times their usual commissions for selling the property, typically off-the-plan apartments, despite the payments having been banned for all investment products.

Investors are also being encouraged by "outrageous" projections on their property investments, in some cases by developers that are have commercial links to advisers.

"We have no issue with self-managed super funds [SMSF] investing in property," said **Andrew Peters**, managing director of Semaphore Private, a financial adviser. "But the free-lunch flyers, crash courses on SMSF investment and big commission payments to advisers have all the hallmarks of a disaster waiting to happen."

SMSFs have grown from a sophisticated investment strategy for high-end investors into a mass-market product, provided by all the major providers and banks, that accounts for about $500 billion or one-third of the nation's superannuation savings.

The unprecedented growth has overtaken a mish-mash of regulatory agencies that includes the Australian Securities and Investments Commission (ASIC), Australian Taxation Office and real estate bodies.

Regulators claim the schemes are generally well-run and generating investment returns that are comparable with industry benchmarks, which are typically equity returns.

But they also admit their data is two years old and would have missed the recent boom in off-the-plan property sales to DIY super.

An ASIC spokesman said it had banned commissions that "influence" advice on investment decisions but had to consider all circumstances.

Developers from Melbourne's Docklands to Queensland's Gold Coast claim off-the-plan purchases using limited recourse borrowing arrangements – used by SMSFs in geared purchases – account for 90 per cent of sales, a fourfold increase in two years, according to property developers.

Niall Coburn, a former senior adviser and lawyer to ASIC, estimates that in the past three years between $10 billion and $15 billion has been lost by investors in "supposedly government-regulated schemes and/or superannuation vehicles".

Mr Coburn, managing director of investigations for FTI Consulting, said he is fearful do-it-yourself super could be the latest "honey pot" for product providers looking to tap into the world's fourth-largest pool of managed savings.

"A simple check 'under the bonnet' of the investment can often reveal an engine ready to explode, despite the Rolls-Royce image," he said.

Government alarm at the number of financial adviser collapses, such as Storm Financial and Trio Capital, resulted in a tough new regime that attempted to eliminate conflicts of interest by banning commission payments made by product providers.

Developers' commission payments to real estate agents for selling property depends on market conditions and the value of the property.

In buoyant market conditions, where prices are rising and investors are rushing to buy, such as the current market, they would typically range between 1 and 2 per cent of the sale price, according to developers.

Documents obtained by *AFR Weekend* sent by developers to financial advisers offer commissions – or referral fees – ranging from 3.5 per cent to 10 per cent with claims by some advisers they have been offered up to 20 per cent.

For example, Melbourne Land Corporation has written to advisers telling them they can earn commissions of about 2.5 per cent for any single sale resulting from a client referral rising to about 10 per cent for "large referrals".

Advisers are being told the investments are suitable for SMSFs and they can "create an extra income stream" without having to do any selling. The company was not available for comment.

Another Melbourne-based property developer, Itum, is offering advisers between 3 per cent and 3.5 per cent commission on new apartments in central Melbourne and South Africa.

"The regulators should be extremely concerned," said **Neil Kendall**, managing director of Financial Rescue, which specialises in representing loss victims.

Andrew Peters, managing director of Semaphore Private. PHOTO:JESSE MARLOW

Hot property

Extracts of emails from developer, Itum, to financial planner

From: [redacted].com.au]
Sent: Wednesday, 12 June 2013 3:32 PM
To: [redacted]
Subject: [redacted] Working With Itum

Good afternoon [redacted].

I know your time is valuable so I will keep this introduction brief.

My name is [redacted] I represent Itum Property Developers. We are a medium-large property development company based in Melbourne with several projects underway in Richmond, Brunswick and Hawthorn.

I understand that your highest priority is to service your clients in the best possible way in order for them to achieve maximum return on their investments with minimal risk. I would like to offer you the opportunity to further service your clientele using our developments. The effect of which is generally a strengthening of the client's portfolio, a reduction in tax outlay and ultimately progression towards the client's financial goals.

Everything we do is with the highest ethical standards and we do not take part in any practice that we feel is not above board or morally correct.

Once you have inspected the projects in detail and approve them for your clientele, if any properties are bought by your clients you will be remunerated generously.

I would love the opportunity to meet with you and discuss how we can work together to enhance your clients' portfolios, add value to your business and create a long-term relationship between our companies.

Are you available for a short phone conversation this week?
Kind regards,

[redacted]

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From: [redacted]com.au]
Sent: Monday, 17 June 2013 3:17 PM
To: [redacted]
Subject: [redacted] Working With Itum

Hi [redacted].

Following up on last week's emails - what level of remuneration would you be comfortable with?

We generally offer between 3-3.5% depending on market conditions.

Political adviser was stung by insurance double

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