



The Buyers Advocate

Connecting People and Property



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Editorial

Hello and welcome to our Peter Rogozik Property Consulting six-monthly newsletter. In the next few weeks we will be releasing a new website. The aim of this website will be to better communicate our services and points of difference to prospective clients. We will also provide property buyers with information and articles that tackle the difficult issues of the day.

In this edition I have covered a wide variety of topics. Property buyers are provided with real estate information from various sources. Unfortunately, much of this information is not an accurate portrayal of the real estate industry. As with previous newsletters my aim is to give property buyers a true insight into the workings of the real estate industry.

The concept of the "hot suburb" i.e. a suburb that will appreciate substantially in the short term is false and flawed. There are many factors that influence capital growth-buying into the correct suburb is just one of many. In this edition I expand on this subject. Following on from this I give a brief explanation of what buyers should be looking for when considering purchasing a high-performing property in Melbourne.

Over the last ten years the building industry has become more regulated. Property owners and buyers need to be aware of their rights and obligations in relation to undertaking building work. In this edition I provide information about compliance certificates and building permits. Many consumers do not

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Ban the bribe

Donations to political parties by property developers should be banned. Successive Victorian governments have caved in to the powerful and affluent interests of those property developers that have lined their pockets through donations.

I have always considered Melbourne one of the great cities of the world: sophisticated and consisting predominately of a combination of low-rise period and modern buildings. Melbourne is a city with an abundance of open space that offers top class amenity.

The CBD is one of the few major central business districts that have been built using a grid formation. This gives it a feeling of space and order with wide tree-lined boulevards intersected by quaint narrow laneways. Unfortunately over the previous few decades there have been some appalling urban planning decisions that have left a permanent scar on the City of Melbourne.

Several great period buildings have been demolished. These were ornate buildings that formed part of Melbourne's history. An example of this was the Federal Hotel and Coffee Palace in Collins Street - one of only a few genuine examples of French Renaissance architecture in Australia. This was a seven-storey building with an intricate facade and unique internal period detail. Built in 1888, it was demolished in 1972 to make way for a speculative concrete tower in what only can be described as a disgraceful act of vandalism. This has not been an isolated occurrence.

Another example of appalling planning policy is Federation Square. Without exaggeration it is the most overdeveloped central piazza in any major city in the world. Essentially, it's a mass of building bulk with the remaining open space consisting mainly of steps.

In many parts of the world the central square occupies a substantial amount of uninterrupted open space, even in countries with much greater land scarcity than Australia.

fully understand these two areas of regulation.

Many property buyers have been sucked in by the shrewd tricks of professional renovators. There are many techniques to make a property appear much better than it really is. I give readers a rare insight into the smoke and mirror strategies used by professional renovators.

Australia and, especially, Melbourne have become destinations sought after by overseas property developers. But we need to ensure that the people of Melbourne have a say in how this city is developed. Now is the time to ban donations from property developers to political parties. There is no such thing as a free lunch. The result of these donations has been, and will continue to be, planning outcomes that are not in the best interests of Melbourne. In this edition I give my opinion on this contentious issue.

As usual, we include our regular article: Market Snapshot. This outlines the recent past performance of the property market. We also present our opinion on future trends in the Melbourne market.

Feel free to contact me if you have any questions in relation to real estate or building matters. Also, if there is a specific topic you would like covered in our next newsletter I would like to hear from you.

Regards,

Peter



Community and other events are staged in these areas. Events at Federation Square feel like a disjointed crush of people.

Docklands and the casino complex are further proof that money going into the pockets of politicians from property developers will always result in overdevelopment, lack of community amenity and a shortage of open space.

The Melbourne Casino is a monument to greed and cronyism. It's an appalling monstrosity that dominates the southern bank of the Yarra River. A better fit for Melbourne would have been a boutique casino similar to that in Monte Carlo. But when politicians have to appease the developers that are lining their pockets, local amenity is the last consideration.

As many overseas property developers descend on Melbourne, the banning of donations to political parties becomes even more important. Many of these developers are from countries that have recently experienced new and sustained periods of economic prosperity. They have a lot of money and are ready, willing and able to make their mark on the Melbourne real estate scene.

Having affluent overseas corporations wanting to invest in our city puts us in an enviable position. This opportunity can prove to be a real positive for Melbourne and should be embraced. Our strong economy, growing population, system of freehold title, transparent business practices and land availability is seen as green pastures.

However, we need to tread carefully. In some of these countries offering money to government officials in return for preferential treatment is considered normal business practice.

The construction industry is the cornerstone of job creation. Melbourne's growing population, expected to be to 7.395 million by 2036, will require companies partnering government to provide much needed supply of housing.

This new phenomenon needs to be managed carefully. New South Wales learnt the hard way-banning donations from developers in 2009 following a corruption scandal. Melbourne should follow suit.

Hopefully, in the future Melbourne's amenity, liveability and feeling of space won't be jeopardised by planning decisions based on which developer is prepared to give the most money to political parties. Our city deserves better.

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Did you receive your Compliance Certificate?

Licensed plumbing and electrical practitioners self-certify their work by issuing consumers with compliance certificates. Issuing a compliance certificate means the practitioner certifies that their work complies with all relevant regulatory requirements. Only licensed plumbing and electrical practitioners may issue compliance certificates.

A licensed plumbing practitioner must issue a compliance certificate for all plumbing work that falls into certain categories. For example, where the total value of work, including materials, appliances, labour and GST, is more than \$750, material costs must be included, regardless of whether the materials or appliances were supplied by another person. There are several other categories of work that require a compliance certificate.



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These are outlined on the plumbing industry commission website.

The Electricity Safety Act 1998 and Electricity Safety (Installations) Regulations 2009 require a certificate of electrical safety to be issued for all electrical installation work.

To ensure that electrical and plumbing work, certified through compliance certificates, meets the high standard required to ensure consumer safety, random audits are conducted on approximately 10% of all electrical and plumbing work completed throughout Victoria. Audits are conducted by compliance auditors. Their role is to conduct on-site assessments of the work performed against the lodged compliance certificate.

Consumers should always request a compliance certificate from plumbers and electricians on completion of work.

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Beware the professional renovator

As the Melbourne real estate market continues to improve we will see the re-emergence of the professional renovator. This is a real estate beast that goes into hibernation when markets are subdued.

The professional renovator scours the market and buys what is perceived to be a bargain. They then undertake a renovation in the hope of selling in the short term and making a profit. The types of renovations I am referring to are properties that are advertised as fully renovated and restored. If a property is advertised this way then that is what should be delivered, anything less is a misrepresentation.

We have seen this phenomenon played out on prime time television. "The Block", Channel Nine's highly rated renovation show, features couples undertaking renovations in the hope they will achieve maximum buyer interest and selling prices. This type of show has been labelled reality television; however, it is far from reality.

After the properties have been sold and the renovators have sipped their final glass of bubbly through their million dollar smiles, the buyers can only hope the project has been completed according to building regulations.

"The Block" provides an independent project manager to monitor the quality of work undertaken by participants. But out on the streets away from the cameras, professional renovators are in charge of their own quality control.

Plumbers and electricians are the only tradesmen required to be licensed and insured against unsatisfactory work. They are also the only trades whose work is subject to an audit through the issuing of a certificate of compliance. Their respective regulatory bodies have the power to order both these trades to rectify non-complying work. This gives the consumer some form of protection without necessarily having to seek redress through such avenues as the Victorian Civil and Administrative Tribunal (VCAT).

In Victoria no other trades are required to be licensed. Anyone with little or no experience can pick up a tool and call themselves a carpenter, tiler, re-stumper, etc. Disputes that arise between these tradespeople and the consumer inevitably

end up at VCAT. This can be costly and time consuming.

Over the past 25 years I have watched professional renovators ply their trade. Some have been competent while most should be avoided at all costs. The cold hard reality is that on many occasions the buyer is left with a building that has defects. When it comes to shiny new renovations what you see is not always what you get. Serious defects can appear up to five years after the keys are handed over to the new owner.

Professional renovators are attempting to make a profit from buying, renovating and selling in the short term. This is not an easy task even when the market is buoyant. Using cheap materials and cutting corners to save money have proven to be a temptation all too great for some professional renovators.

After all, once the buyer has signed on the dotted line there is a legally binding contract in place. In these situations the law provides little protection for unsuspecting buyers. It is only after settlement that faults rear their ugly heads.

Some of the faults that are impossible to detect on a visual inspection are listed below. Rectifying these faults can run into the tens of thousands of dollars.

- Improper installation of waterproof membranes in wet areas. Eighty per cent of domestic building faults are related to waterproofing and weatherproofing. It seems astounding that waterproofing contractors are not required to be licenced in Victoria.
- Poor external surface drainage due to incorrect fall. Conducting an inspection when it is raining is the only way to accurately identify this fault.
- Missing insulation.
- Concrete not cured properly, insufficient control joints, incorrectly placed reinforcement. These all result in unsightly cracking.
- Pipes not connected adequately.
- Coating surfaces to give the impression that it's new. The advancement of coating technology has resulted in the availability of a paint product for most surfaces, including tiles, laminate, even glass. Rather than replace a fixture or fitting a professional renovator will always choose the much cheaper option. A coating only lasts if the surface has been prepared properly, which also takes time that a professional renovator may not allow. Poorly prepared surfaces result in delamination in a short period of time.

Another trick of the trade is the use of upmarket display furniture during the sales campaign. Upmarket display furniture can make the property look a lot better than it really is. On taking possession of the property after settlement many buyers have been flabbergasted at the plain empty shell they have just purchased for a premium.

If a home has been renovated by a person who is attempting to make a profit in the short term, buyers need to satisfy themselves that the renovator who coordinated the works has a reputation for producing quality work that meets building guidelines. If buyers are unable to satisfy themselves of this the result will most likely be nasty surprises and bitter disappointment.

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Does it have a permit?

Before purchasing a property it is important to make sure that previous owners have obtained appropriate permits for any additions or improvements.

I recently inspected a property in Melbourne's outer western suburbs that had what appeared to be a recently constructed extension to the rear of the property. The addition was not well designed as it cut off much of the natural light to the living areas.

The home was situated in a new estate and was built only five years ago. I asked the selling agent if the addition had a building permit. He informed me that a building permit had been obtained by the current owners.

After making an enquiry at the local council I discovered that a building permit had not been granted for the addition.

Not checking before you buy can end up being costly for unsuspecting buyers. Thorough checks are important prior to signing a contract of sale as the new owner becomes responsible for any non-compliance in regards to illegal structures built by previous owners. A new owner can be ordered to remove the illegal structure and also face a stiff penalty.

There are many situations where a building permit may be required. Generally any structural alteration to a building requires a building permit. Before commencing any alterations or improvements it is wise to check with the local council as to your obligations.

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The "hot suburb" myth

The concept of the "hot suburb" is false and flawed. This gives buyers the impression that purchasing in these suburbs automatically results in exceptional capital growth. In reality nothing could be further from the truth.

Investors should not get confused between a growth suburb and a suburb that will produce the optimum capital growth. A growth suburb refers to a situation where both the number of dwellings and the population of that suburb are increasing. These suburbs will not necessarily produce the optimum capital growth.

There are many factors that contribute to the optimum capital growth, e.g. proximity to amenities, quality of streetscape, and the property's scarce and unique features. Buying into the right suburb is just one of many boxes that need to be ticked.

In Melbourne the hot suburbs are those between approximately two kilometres and 10 kilometres of the CBD. Any closer than two kilometres will result in buying a property that has been replicated many times, such as apartments. These suffer from excess supply.

Purchasing a property greater than 10 Kilometres from the CBD means being too far away from sought after amenities, e.g. transport hubs, entertainment precincts, and job opportunities. There is limited demand in these outer areas.

Many buyers have made the mistake of buying the wrong

property in the right suburb. This has resulted in the loss of many hundreds of thousands of dollars in capital growth.

Being a Melbourne buyer's advocate, my choice of hot suburbs will always be situated within two to 10 kilometres of the CBD. Exactly what and where an investor purchases within this radius depends on their financial capacity.

As an investor it is shrewd to purchase a property at the lower end of the price scale without comprising on the quality of the asset. This is because real estate is a big ticket item and it is not wise to tie up excess funds in just one asset.

For this reason suburbs situated in Melbourne's inner north and west are now becoming more sought after by investors. Investors can now purchase in suburbs such as Yarraville, Seddon, Footscray, Kensington and Brunswick without sacrificing capital growth.

However, always remember: choosing the correct suburb is just one determinant. There are many others if optimum capital growth is to be achieved.

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The quality segment

The quality real estate investment segment is that tiny portion of residential property that will double in value every seven to 10 years. At any one time, these properties represent less than 5% of properties on the market. There are many attributes that constitute a quality investment property. At the top of the list is the old real estate cliché: location, location, location. A prime location where demand substantially outstrips supply is paramount.

This segment of the market rarely decreases in value despite the state of the overall market. Even in the worst of economic times these properties hold their value. When property markets are moving forward they appreciate at a much faster rate than other market segments.

In Melbourne these properties were mainly built in early to mid-last century. They occupy the most sought after streets in Melbourne. Most properties built subsequent to this are in secondary locations and don't attract the same level of demand.

As Melbourne expands its housing stock to accommodate a growing population the percentage of this prime investment stock is reducing relative to total housing stock. The greater majority of new housing built over the past 40 years is not quality grade investment property.

What does this mean for investors?

As Melbourne's population increases more people will be attempting to purchase a finite amount of quality investment grade property. This will put further upward pressure on prices. As time goes on it will not get any easier to purchase this elite real estate as these property's price growth will far outstrip any real increases in wages.

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Market Snapshot

The Melbourne property market has shown genuine signs of

resurgence over the past six months. This resurgence has mainly been in suburbs that are within ten kilometres of the CBD. Demand for homes built in the outer suburbs continues to struggle.

Towards the end of last year we were seeing auction clearance rates regularly exceed 60%. This is in contrast to 2011 where clearance rates were regularly below 55%. The pool of buyers looking to make a purchase has slowly increased throughout 2012.

First home buyers are starting to reappear and the top end of the market, i.e. homes in excess of two million dollars, also showed signs of life towards the end of 2012. Property investors are now feeling more confident and comfortable about taking the plunge than they have over the past two years.

The level of activity of property markets can be generalised into three broad categories. A declining market, a balanced market or a situation where prices are increasing rapidly. The current auction clearance rates indicate that the Melbourne property market is in a balanced state. (Clearance rates sit consistently between 60% and 70%.)

The current level of activity is typical of how the Melbourne market operates during the majority of any property cycle. In the last 31 years the average clearance rate at auction has been 66 per cent.

This year will see the current upward trend continue. However, we will experience the customary lull in market activity that occurs prior to a federal election.

Current economic indicators are favourable, i.e. low unemployment, interest rates and inflation. This combined with continued GDP growth will ensure the current balanced market situation continues into the foreseeable future.

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