BUMPER ISSUE | WHAT'S YOUR SUBURB WORTH?

Australian Property Investor

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FOR HOMEBUYERS, INVESTORS & PROPERTY PROFESSIONALS

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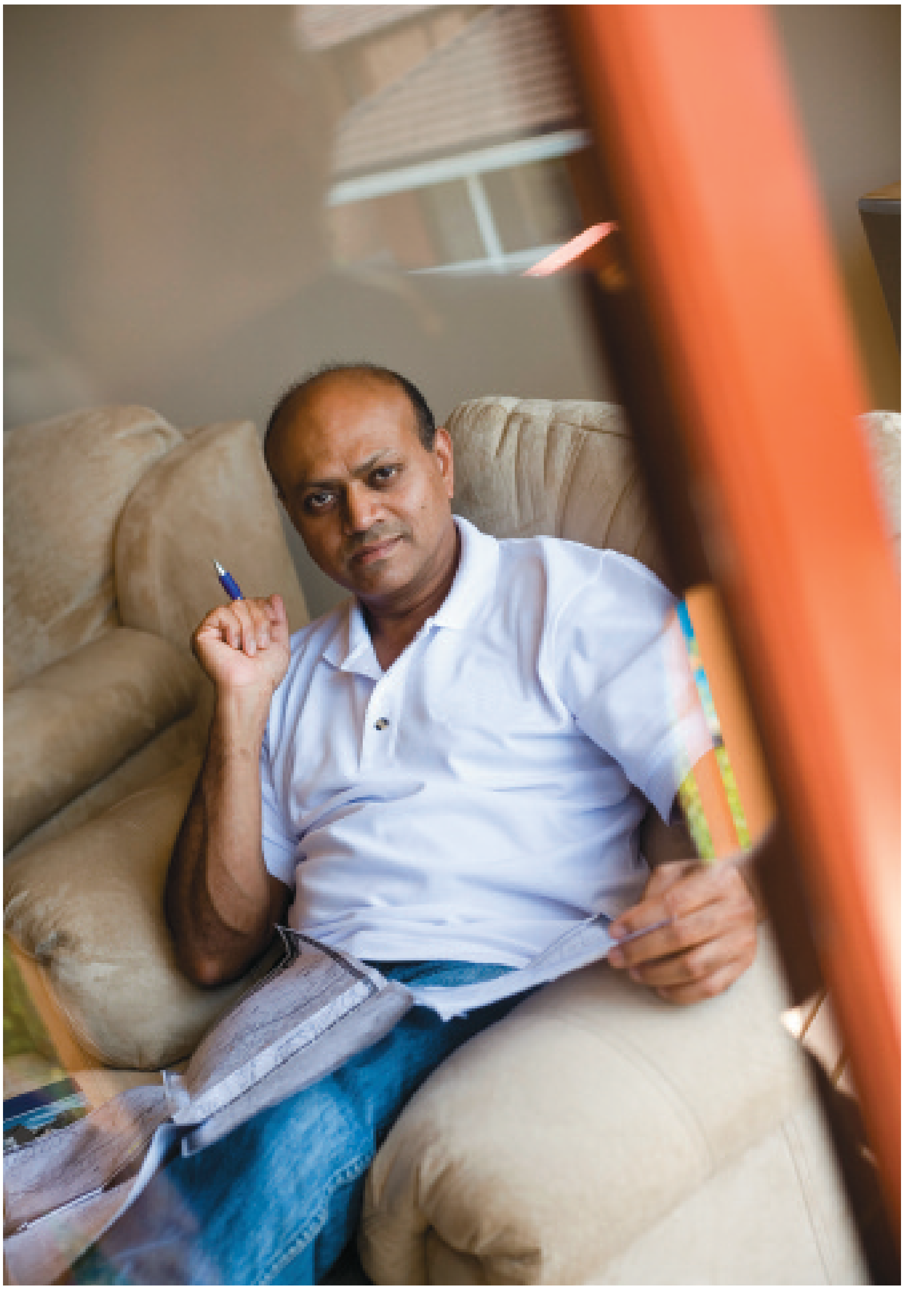
Waiter turns millionaire

If anyone had told Robert Dias that 14 years after arriving in Australia he would own almost $6 million worth of property, he would have thought it was a huge joke.

Sue Fitzgerald



ARUNAS KLUPSAS

IN 1993, Robert Dias and Olivia Kan arrived in Sydney from Hong Kong.

Robert had worked in hospitality in Hong Kong and was hired to oversee a big resort planned for the Kimberley in Western Australia. Unfortunately, the development fell through, but Robert and his wife had already been brought to Australia and had their visas approved, so they decided to try their luck in Sydney instead.

He got a job as a casual waiter at the Sydney Tower Restaurant at Centre-point and was to work there for the next nine and a half years.

During that time he moved from being a waiter to reservation and sales manager on $35,000 a year.

So how did the couple manage to end up with a property portfolio worth close to $6 million?

First a home, then an investment

With such a meagre wage and because of the casual work status, it was hard for Robert to entertain the idea of home ownership, let alone investment property, but he was persistent.

"I went to every bank trying to get our first home. It was a nightmare trying to get a loan. One day, when we weren't looking for a loan, we were standing at the teller in one of the banks and the manager tapped me on the back and said 'do you own your home or do you rent?' And I said 'mate I'd love to own one but I just rent one'.

"Because I'm a waiter and casual, I told him that no-one wanted to lend me money. But he said as long as we could make the repayments and knew what was involved, they would be happy to consider us."

Robert says he provided the manager with documentation and was offered up to $181,000 to buy a property. Other lenders had offered him a maximum of just $69,000. He and Olivia bought a unit in Ashfield to live in for $151,000 in 1993. Four years later, his neighbour sold a unit in the same block for $207,000. This got him thinking about the equity in their own unit. So they sold their unit in 1998 for $227,000 and bought a three-bedroom home in Mortdale for $315,000.

"It was an absolute sham, so I took a month off work and renovated the whole house, pulling up carpets, polishing floors and spending about $15,000. About a month later a real estate agent told me he could get $385,000 for it."

Happy with the increase in value, Robert and Olivia used the equity to buy a three-bedroom unit in Westmead for $222,000. It rented at the time for $240 per week.

"It was covering most of the repayments and we were happy with that."

> "If I can make a dollar from property investing – and I'm no expert – then anyone can do it."

A new career

Robert and Olivia didn't invest in any more property until Robert undertook a career change in 2002. While he was still working at the restaurant, a friend asked him to consider becoming a mortgage broker.

"I said 'it's not going to work – I've never used a calculator in my life before'. I can't do numbers; I'm good at talking to people. But he kept saying they would teach me what I needed to know.

"So after nine and a half years, I thought why not give it a go?

"So I called it quits and in the first few months I was kicking myself thinking I'd given up a good job. I didn't have contacts, didn't know people who needed mortgages or anything. It seemed to be a disaster for the first six to eight months. Then I started getting a few clients and I was lucky because I got clients who were investors.

"They'd buy a property and then maybe a few years later sell it and they were making a lot of money. I thought here I am working day and night and these people probably don't get out of bed until 11 o'clock in the morning. So I thought while I'm in it, why not try to jump on to the bandwagon."

In 2003, one of his clients was selling a house in Narwee. Robert jumped at the chance to obtain another property and purchased it for $470,000. Using the equity from the Mortdale house and the Westmead unit, he says they didn't have to outlay any funds to secure the property.

In 2004, Robert upped the ante with his investing and bought a block of 12 villas in Geraldton, Western Australia.

"It was a bargain. The guy was only asking $850,000 and we offered him $800,000 and he took it. It's now valued at $2.5 million."

Robert says he looked outside of New South Wales because he felt the local market wasn't as strong as it had been.

"I thought we shouldn't put all our eggs in one basket. It was a brilliant buy because we were probably paying about $52,000 (a year) in mortgage repayments but were getting about $72,000 in rental returns."

The villas now return $83,000 per annum in rent.

But Robert wasn't finished with WA just yet. In 2006, they bought a four-bedroom house in Secret Harbour for $382,000, renting for $250 per week.

But then after seeing how property prices were skyrocketing in the west, Robert decided to look elsewhere.

He turned to South Australia, buying a three-bedroom home at Aldinga Beach, south of Adelaide. He likens the beach there to Bondi Beach in Sydney but without the development. He paid $215,000 for the home and the rent was $230 per week.

> "There's still strong population growth in Queensland and housing is in short supply. Taking that into consideration, there's only one way it can go – and that's up."

"When I went to inspect the area, I could see there was a lot of development planned. We always check with the councils to see what activity is happening in the area and we were told there were developers moving into the area and buying up land. So I could see that it would go up in price."

This year, the Sunshine State was their target and at the time of writing they were about to settle on a property in Redbank Plains. It's a four-bedroom house they purchased for $265,000 with a weekly rent of $275.

"If you look at Redbank Plains, only two suburbs away is Springfield Lakes. A similar property there would cost you at least $550,000. Why buy in Springfield Lakes where the price has already gone up when you can buy two suburbs away and the price will probably match it in two years' time?"

In the middle of these property acquisitions, Robert thought they should treat themselves to a nicer home, so in 2005 they moved to Padstow Heights into a four-bedroom home with views of the Georges River.

"It was actually on the market for $1.2 million. They were asking more than what the market price was, so it wasn't selling. So after about nine months, I offered $800,000."

They kept the Mortdale house and it's now rented for $350 per week.

PORTFOLIO

Property	Description	Year purchased	Purchase price	Current value	Weekly rent
Westmead NSW	3 bedroom unit	1998	$222,000	$450,000	$270
Mortdale NSW	3 bedroom house	1998	$315,000	$600,000	$350
Narwee NSW	3 bedroom townhouse	2003	$470,000	$550,000	$350
Geraldton WA	12 villas of 2/3 bedrooms	2004	$800,000	$2,500,000	$1,605
Secret Harbour WA	4 bedroom house	2006	$382,000	$450,000	$250
Aldinga Beach SA	3 bedroom house	2006	$215,000	$230,000	$220
Redbank Plains QLD	4 bedroom house	2007	$265,000	$265,000	$275
Padstow Heights NSW	4 bedroom house	2005	$800,000	$950,000	PPOR
Total	**19 properties**		**$3,469,000**	**$5,995,000**	**$3,320**

PPOR = principal place of residence

Keeping it in the family

Robert says he and Olivia feel comfortable with their property investment plans. Olivia has now moved into the mortgage broking business as well. She does all the legwork, investigating areas with potential for growth in property prices.

"She goes to the councils and looks at the areas we might look at next. Where governments are spending money on infrastructure, where property prices haven't quite hit the roof yet – so she does all the hard work.

"Because we've come from scratch, we had nothing to start with when we came to Australia. If I can make a dollar from property investing – and I'm no expert – then anyone can do it."

Even Robert's eight-year-old daughter Tanya has jumped on the bandwagon.

"We try and educate her as to which properties will perform well. She goes with us (to look at properties). Surprisingly enough we might go look at 30 properties and she'll pick out the properties that most impress her. She'll say, 'Dad these are the two I like, so which one will you get?' I think she's in the right frame of mind at the moment and hopefully she'll continue on that way. Sometimes she phones me up and says, 'Dad are you getting me a low doc loan to buy a house?' But she's aware of the commitment. She wants to know when we're buying a property what the monthly commitment is to the bank."

Robert says they used to buy properties off the internet (as they did with Geraldton and Secret Harbour) but now he makes a point of inspecting the properties before buying.

He's looking at Collingwood Park in Queensland for his next acquisition.

Robert's advice to investors

"A lot of people don't realise how important it is to get their finances right," Robert says. "I always stress that you should always keep your investment loans as standalone so you don't cross collateralise.

"If you're planning to buy a few properties, always go with the lender who will charge you one ongoing fee and charges for all your properties. Otherwise it will cost you an arm and a leg.

"People are always looking for a cheap rate and forget about the flexibility of the loan. The flexibility of the loan is more important than a cheap rate.

"You must be aware of the break costs. So sometimes you might want to sell the property and then you find out there's a 2 or 3 per cent break cost on it.

"Again, if you're looking at buying a few properties, different lenders have different serviceability criteria. Some banks will lend you more than others."

All of their investment loans are on a standalone basis. Robert says the total portfolio is with five different lenders as some were done on full documentation and others on a low doc basis. He says he went with the lenders that were most flexible.

He's set up a trust for the Geraldton villas only. He reasons that because the Geraldton properties are positively geared there's no tax benefit available. The other properties are negatively geared and are in his and Olivia's names.

What the future holds

Robert says he and Olivia want to keep buying properties over the next three years and they have ambitious plans to acquire up to 40.

"Once we get up to 40 properties, we'll keep them for a while and when we're thinking of calling it a day (retiring), we'll sell half and pay down all the loans to fund our lifestyle.

"The way I look at it, we've got $2.5 million we could have in the hand from the sale of our properties (currently). If I put that in any bank, I'd get at least a 6 per cent return and that would give me $150,000 per annum. I think I'd be able to buy my bread and butter with that.

"It's scary because a lot of people don't think about retirement. I know you have to live life but you also have to make provision for later on. You don't want to be working when you're 76. If you wait until you get the pension, that'll only just help you to survive. If you go on a holiday, every dollar you spend, you know you can't earn that back (in retirement).

"I think with investment, the odds are better than lotto. At least you know you'll get something at the end of the day. With lotto you might get something but the odds are very slim."

When they arrived in Sydney, they didn't know anyone. But he says they now have a lot to look forward to.

"I was brought up with the basics in life. I was born and brought up in India, so our life was minimal. I know now that my daughter is set up to continue when we move on."

Strategies

Robert says Olivia was fairly cautious in the beginning. When they'd acquired three investment properties, she was satisfied. But now she's realised that with the returns they're getting it's prudent to keep going.

The couple use property managers to handle their investment properties. Robert believes having a local person handling the rent and maintenance of the properties is better than trying to do it themselves.

"It's all tax deductible, so we'd rather outsource that. Why not let someone else do the work, so we can concentrate on our business."

They haven't had any problems with their tenants so far.

"We get the property managers to call us when someone's going to rent our property.

"For example I had a call from the property manager for one of the villas in Geraldton the other day. But the rundown they gave me didn't gel with me. We'd rather have the property vacant for another week. We'd rather lose a week's rent than have someone in our property that we don't want.

"That could be one of the reasons we've never had a problem with our tenants. Plus we always try to keep our property below market rent. If everyone is renting a house for say $230, we'll give it to them for $220. So are the tenants going to go for the higher rent? I don't think so. And it doesn't make a big difference in the long run."

Robert reasons that it's better to have the property tenanted than lie vacant just to achieve a higher rent. It also cuts down on advertising costs if the property is let quickly.

He's also a big believer in buying houses rather than units now.

"At the end of the day, it's the land that's carrying all the weight in property prices. A house can be small or big but if it's on a good-sized piece of land, at some stage that's going to be worth money. In Sydney, it's hard to

ROBERT'S TIPS

- Don't hesitate to invest in any place where the population is increasing.
- Schools, shops and transportation are major factors that dictate property values.
- The bigger the block of land the better and it might be worthwhile finding out the specifications on subdividing land from the local council.
- Structure your finances correctly and be aware of your monthly commitments. Don't forget to take agents' rental fees, council and water bills etc. into account when you're working out your budget.
- The only way of not having your property vacant is to reduce your rental by $5 off the market price. This will cost you $260 per year but it will always be the first to rent when listed. A property that isn't tenanted will probably cost you $260 a week until you find a new tenant.
- Property near water will always hold its value better over properties that don't have the water advantage.

find a block of land now. If there were two properties, one on a 600 square metre block and one on an 800 square metre block, I'd always take the one with the bigger land component."

In the short term, Robert and Olivia are looking at pockets of southeast Queensland.

"There's still strong population growth in Queensland and housing is in short supply. Taking that into consideration, there's only one way it can go – and that's up."

Robert says investors looking at buying a few homes need to ensure they can service the loans.

It's harder in today's climate to find positively geared properties, so he says investors need to be able to cover the shortfall.

He believes it's better to buy cheaper homes because you can buy more of them, rather than expensive homes.

"If you can find a decent suburb and say the house is $250,000 and the rent is $250 a week, and say the mortgage (interest) rate is 7.2 per cent, you're getting 5 per cent from the rental. So the difference coming out of your own pocket is 2.2 per cent. And you can get a lot of tax benefits from that.

"People often forget about the fact they will receive rent from an investment property – they only look at how much they owe the bank for the purchase." He gives the example of the property at Aldinga Beach.

"The outlay from my pocket every year is about $2500 a year after my tax benefits.

"If I can hold on to that property for three years – this is how I work my numbers out – it's costing me $7500.

"In three years, what kind of gain am I expecting from my property? At least $100,000. Is that worth it? If I can't get $100,000, would I take $50,000? I'll be happy and it's better than the $7500. That's the way I look at it. If I invest my $7500 elsewhere, can I get a $50,000 or $100,000 return?"

Robert concentrates on buying cheaper homes because he feels they rent more easily, cover more of the repayments and provide less risk.

When choosing properties, Robert and Olivia look for those that are close to schools, shops, transport and other facilities.

"That's where people want to rent. So that's where we look, where there are regular renters." ■

API Interactive

Do you have a question you'd like to ask Robert? Email your question to: forum@apimagazine.com.au and we'll do our best to publish the answer in a future issue of API.