Chapter 1

Know your why

Set your big-picture lifestyle goals for wealth creation.

Welcome to my office! For every client who walks through my door, the process starts with goal-setting. This is a vital first step to creating their *property investment strategy*.

In this chapter, we'll work on helping you to determine your long-term lifestyle goals, then look at how you can achieve these goals using property as your vehicle. So, have you thought about where you would like to be in 10- or 15-years' time?

Why have a goal?

Because at the end of the day you need a reason for investing, and whether you do it in property or in shares or futures or art works, you need a vehicle that motivates you to stick to your chosen investment strategy.

We'll begin by looking at the bigger picture of what you're trying to achieve, and work backwards to figure out how much money you're going to need to get there. Then we'll look at the different types of property acquisition strategies that could enable you to achieve those goals.

Strategy is really important when you're buying an investment property. You can't just 'buy blind'. I see this all the time. People post on social media, asking me, 'What do you think about this house?' or saying, 'This house looks good!', but there's no rationale behind it.

A lot of people will buy a property solely because they think it's a good area to buy in, without really knowing what that property can do for them. Others buy close to where they live because they think that way they can easily keep an eye on the property. That's also not a good thing to do. You don't want to buy close to where you live unless where you live happens to be the best investment spot in the country. But even if it is a good area to buy in, you need to understand *why* that's going to be good for your goals.

Doing what you're supposed to do is a flawed strategy

I want you to recognise that you really can do anything you want if you put your mind to it. You can be an entrepreneur, a business owner or a successful property investor (or all three). You can create your own lifestyle choices — if you set about devising a strategy to achieve it.

I believe that a lot of what we're taught in school is flawed. School is about getting good marks in the standard curriculum. It doesn't teach you enough about finances or investing. Tertiary education sets you on a single career path, so you can buy a house and pay off a mortgage for 30 years.

I did what I was 'supposed' to do, and by the age of 30 I was working for a boss six days a week, for little reward and no real recognition, and with someone else taking the glory. I realised I didn't want to be in that situation any more; I wanted to create my own destiny.

At that time I was also buying my first properties in the way that everyone has historically bought properties — by negatively gearing them. And I quickly realised that it's a flawed strategy as well. If you negatively gear your properties, you'll be stuck in that job forever. The whole idea of investing is to get yourself *out* of the rut so you can start to live the life you choose.

Most people are too scared to leave a secure job to follow their dream. But if you build up property investments that are positively geared and look after themselves, then you no longer need to rely on another source of income because *the investments are paying you an income*.

That's what I did, and now I have a business as well. These two income streams offer me far more security than being in a job where at any point the boss can say, 'We don't need you any more.'

In my case, I lost my passion for teaching music and made the decision to change my life. I set myself the goal of retiring by age 40, by which time I'd no longer need to rely on my super or pension to get by.

At the time I was on $70k. I had four properties. I lived in my Ingleburn property and had investment properties in Rockdale, Blackwater and Toowoomba. My mortgage payments, less my income from work and rent, meant I was *losing* money each week. Apart from Blackwater, I was negatively geared on all the properties, meaning the rent I received each week was less than my outgoings (mortgages, plus bills and repairs).

If I had just waited for capital growth, it would have been a very slow journey to building my wealth and each property would need to have been bought years apart. So I started to visualise how I could *manufacture growth*, and the types of properties that would work for me. After I did my first duplex development I knew this was going to work, because I was creating equity. I made twice as much money in my first duplex development as I earned in a whole year in a nine-to-five job.

Creating equity means adding value

The problem with relying on a portfolio of properties with only organic capital growth — that is, growth that occurs naturally by way of market movements — is that it can be very slow. And there is no guarantee of how much growth you will get, so typically you need to wait a long time to make a profit. I don't know about you, but I'd rather make my profit in the short term. Having said that, I still advocate that you hold your properties for the long term so you can reap the rewards of positive cashflow, which is needed to help you attain your goals. You will achieve the trifecta if you get instant equity, organic capital growth and positive cashflow.

The way to achieve your goals faster is to take control of your portfolio and actually *manufacture that growth*. This is what I mean by *creating equity* in your portfolio.

Equity is the 'fair market value' of a property based on a bank valuation, minus how much you owe on the property. So if you have a property that is valued at \$400 000 and you have a loan of \$300 000 on it, then you have \$100 000 in equity. This would mean that your loan-to-value ratio (LVR) is 75 per cent, meaning you have 25 per cent equity in the property.

Rental yield is the return on your property investment. To figure this out, use the monthly rent to calculate the annual rental income, then divide it by the property's purchase price and then multiply it by 100. You will get a percentage that will be the gross rental yield. Net rental yield is what's left after costs are taken out.

The big difference with what I do is that, where you traditionally get 4 to 5 per cent rental yields and maybe an average of 6 to 7 per cent growth on properties (depending on the market and where it sits in the property cycle) when I focus on building duplexes or buying houses to renovate, we get a lot more growth than that. And we're looking at 7 per cent plus, for yields as well.

On top of yields you get instant equity — by which I mean within 12 months or less — which can mean 20 to 25 per cent in capital gains. Compare 25 per cent capital growth through instant equity to 6 per cent through organic capital growth over a longer period, and you can see that developing and renovating properties is a no-brainer — and a much quicker way to reach your financial and lifestyle goals.

Going back to the \$400 000 property example, if you increase the equity by doing something clever with the property, such as a subdivision or renovation, you've added value to the property (from \$400 000 to

$500 000). Your loan is still $300 000, assuming you haven't added to it, and suddenly you've got $200 000 equity in the property.

Now you can use that equity you've created to go and buy another property straight away, then another and another. This is how you attain your goals more quickly.

We can afford to do all of these things if we invest in the right type of properties.

More money means more choices

People say, 'Money doesn't create happiness' and even 'Money is the root of all evil.' I don't believe this, but what money does is create choices.

You should be setting yourself up for the future, and ultimately for retirement. You've got the pension and you've got super, but they don't pay very well. And you should not have to work your whole life. If I was still teaching, I wouldn't be in a position to retire until I was 70, and even then I'd be close to broke! Far better to retire early and, ideally, leave something for your kids if you have them.

This book isn't about becoming a multi-millionaire; it's about creating the life you want to live. Without money, your choices are limited — you can only live according to your means.

As a teacher, I got to a certain level and realised, well, I couldn't progress any further. I couldn't drive a nicer car or live in a better house, because I couldn't afford it. I've always wanted to live in a waterfront home and drive a nice car. Property investing allowed me to achieve these lifestyle goals even on a teacher's salary. My salary was used to obtain the loans, but I invested strategically to create equity and cashflow, allowing me to achieve my goals and to continue investing.

Certainly, retiring from a nine-to-five job with my property portfolio has already given me great freedom. And people often ask me why I choose to keep working and running a business. Personally, I always need something to do — goals to achieve, contributions to make. Sitting on the beach all day is something I do only on holiday! I can't just do nothing. When I'm 90 years old I'll still be working, and it will be my choice.

This book is about creating freedom. Freedom is about creating choices. There are teachers out there who love their work so much, they would never willingly retire. I'm not saying everyone quit their job, because society needs dedicated teachers and firefighters and nurses and doctors, but if they build a property portfolio on the side, they can create financial opportunities to create a happier life in the present or the future. The life they deserve.

For me, there is one big reason for me to keep building and expanding Aus Property Professionals.

Building an incredible team at Aus Property Professionals has given me the freedom to take time off to go and do the volunteering activities that are so important to me. I enjoy helping people in the local community. And as we build the business, more of my funds will be directed this way.

I've participated in the Vinnies CEO Sleepout, where my clients and I have raised thousands for the homeless. I'm a regular donor to the Cancer Council of Australia, a cause that has been close to my heart since losing my dad to the disease. I donated a fair bit to the 2020 bushfire appeals. I also donate two instrumental scholarships every year to the Orange Eisteddfod, where I got my start as a musician, to encourage young talent whose families lack the means to pay for tuition fees. I offer workshops for high schools, to teach kids how to understand the property market and to start budgeting and saving from a young age so they can invest wisely.

It takes time and money, and living your life free from the nine-to-five grind, to contribute in a practical way, and my business and investments allow me and my family to do that.

Money's looking pretty good, right?

SUCCESS STORY
Using equity to buy a dream home in Sydney

My clients achieved massive growth with their Northern NSW duplex build.

I helped my clients, 30-something new parents Alex and Sam, to buy their dream home in Sydney, where they could raise their three-year-old daughter. Hardworking couple, Alex and Sam already owned a unit each in Sydney, which added up to a $3.3 million portfolio between them, when they came to Aus Property Professionals.

THE STRATEGY

Our strategy session revealed their long-term goal: to purchase a four-bedroom home in Sydney's Northern Beaches. Despite their existing portfolio, the couple's current income was a single income, as they had a small child to care for. This was not enough to give them the borrowing power to buy in the suburbs they wanted. With a budget of $2 million, they needed to create more deposit through equity if they were ever going to buy their dream home.

The strategy for their next investment was to gain significant equity in a short period of time, and we needed to find a development that we could complete for around $1 million, which would then leave room for a potential second development.

In a booming market, we decided that a duplex development on the east coast of Australia was the fastest way to build equity plus positive cashflow from day one. One duplex block would not be enough, though. They would need to use the equity to build a second development. They could then sell both developments, and sell down one of the units in their existing portfolio, to achieve the funds for their dream home.

THE LOCATION

We were drawn to Lennox Head in Northern Rivers, a town on the north coast of NSW, because we could see that the current market was undervalued, with excellent potential for future growth.

(*continued*)

SUCCESS STORY (*cont'd*)
Using equity to buy a dream home in Sydney

The area was ideal due to a competitive rental market, with vacancies below 1 per cent, and 10-year rental trends were on an upward trajectory. Average annual capital growth in property values had been consistently above 10 per cent over the past decade.

To meet the growing population, plenty of facilities were being developed by the local government, with $100 million committed for infrastructure projects in the area, along with over $300 million for hospital upgrades and over $350 million to improve local amenities.

THE BUILD

When sourcing land, we chose a block with a suitable coastal water aspect so we could do a design that would utilise the views. This would increase the potential return for both equity and rental. The block was in a quiet location, but close to amenities.

The contours of the land and the slope of the block, which declined away from the road towards the water, did affect the build costs, making it a bit more expensive.

Since these properties had an exit strategy, as a part of their long-term goal to buy a dream home, Alex and Sam wanted them to be as premium as possible within the $800 000 build budget. Each duplex would have three bedrooms and two bathrooms, plus a two-car garage. The floorplan was designed so each duplex would enjoy water views from most rooms. They included high-end specifications, including 2.7m high ceilings, floor-to-ceiling tiles in the bathrooms, and 40mm benchtops as well as 900mm appliances in the kitchen.

The build came in within budget, all inclusive, and total time for the build to completion was eight months after the development approval (DA) came from council.

THE RESULTS

The units were then Torrens titled. The valuation of each unit at end of build was $1.1 million, or $2.2 million total. This, less the build costs, meant Alex and Sam had made $986 910 in instant equity.

Both units were rented out before handover for $880 per week per unit. This gave them a total cashflow of $1760 per week. The rental yield on the Lennox Head duplex development is 7.5 per cent.

Duplex development costs

- Land price: $400 000
- Construction price (inc. council and strata titling costs): $800 000
- Stamp duty (payable on land only): $12 735
- Other purchase costs and holding costs during construction: $30 000
- Total project costs: $ 1 242 735

Independent valuation (after strata titling)

- Unit 1: $1 100 000
- Unit 2: $1 100 000
- Total value: $2 200 000

Instant equity: $957 265

Current rental yield: 7.5 per cent

WHAT'S NEXT?

Alex and Sam are refinancing the equity in this project so they can repeat the process. In about five years they will sell these Lennox Head duplexes and one of their Sydney apartments to be able to buy their dream home. With growth the way it is currently, there is a chance they will more than double their equity during that time, leaving them with plenty of leverage. With this kind of equity and cashflow, they will not need to sell the next duplex development, but keep them rented out (to become assets for their child in the future).

Goal-setting

So let's get down to it. *Where do you want to be in five, 10 or 15 years' time* with your financial and lifestyle goals?

My clients come from many different backgrounds. Some are single young professionals; some have young families; some are older mums and dads looking to retire and downsize. Some don't want to sit on just one property; they're savvy enough to want to buy a second and a third property and move towards their goals.

Everyone is different, but most of my clients in their twenties or early thirties aspire to a change in career or lifestyle by the time they're 40. There might be kids on the horizon; they may want to get to the point where they and their partners don't need to work any more. If they're renting property, they may look forward to living in their own home — perhaps their dream home.

You may not have thought it through yet, but if I give you a bit of a nudge, you will probably have a fairly clear idea of what you want to achieve. You just might not know how to get there.

Let me start by asking what kind of work/life balance you want. Would you like to:

- have your home paid off?
- be able to retire on a comfortable income?
- semi-retire?
- work part-time?
- change jobs?
- work for yourself?

If you have a family, do you want to be able to:

- put your kids through private schools?
- live comfortably on one income?
- go on family holidays?
- build a property portfolio to secure your family's long-term future?

What else is on your wish list? Would you like to:

- buy your dream home?
- take a round-the-world cruise?
- buy a yacht?
- help underprivileged communities?

You get where I'm coming from! Start with your end goal in mind because once you know your goal, then you can turn that dream into a concrete number and begin working on your strategy and finance.

Buying your dream home

You may have bought this book because you've set your sights on buying your dream home. As part of a long-term strategy, owning a home of your own in a beautiful location is something most of us strive for.

Bad news first: if this is your goal — whether a waterfront mansion, a beach house or one next to a lovely park — and you don't have the funds to do that now, then you might need to build up to it.

The good news is you *can* actually build up to that, if you're patient. I can help you find a way to realise that dream. And you know I'm walking the talk, because Renee and I have done it ourselves only recently.

Living on the water had always been part of my plan for the future. When I lived all the way out at Ingleburn, I used to walk past waterfront properties in the eastern suburbs where I was teaching and think, I want to own a place like this one day. And yeah, it took me many years to get there.

When I was making good money as a senior teacher, and Renee was too as a chartered accountant, and I had cashflow coming in from Rockdale, Ingleburn, Blackwater and a house in Newcastle, we bought a nice house in Lewisham in Sydney's inner west. While it was nothing like the home we have now, it was still a good house, and back then we were all about that inner-city lifestyle. I paid Lewisham off while we were living there, and then sold it to help us get to where we are now.

You can see how all my homes have been stepping stones, building up to the dream. That was our strategy. This is why every property purchase needs a purpose and its own strategy.

A common issue with goal-setting is that people *kind of* want to buy a home, but they're not sure whether they should buy an investment property instead. I strongly suggest that building up a *property portfolio* is the best way to achieve that long-term goal — and acquire financial freedom at the same time. A bit of hard work and dedication now will help you to reap big rewards later on.

Planning to pay yourself

Finance plays an integral part in your investment strategy. Perhaps you've never had a financial goal. Maybe, so far, all your goals have been around career, relationships, family, travel and so on. You may have some doubts about creating a goal around wealth. Rather than coming up with a big number, as though you've won Lotto, the better way to set a monetary goal is to think of a salary you'd like to be drawing.

When I first started at Moriah I was on $51 000 a year. My salary rose incrementally, while my goal was to replace that salary with the passive income from properties.

Let's crunch the numbers and get an idea of how this works. Generally, $50 000 is not enough for people to retire and live comfortably on, while to achieve $200 000 a year in passive income you have to buy a lot of properties over a lot of years. You may be different, but $100 000 annually is what many of my clients strive for. So let's use $100 000 as our sample figure.

There are a few expenses involved in being a landlord — and yes, you will be a landlord if you become a property investor. Expenses such as rates, strata fees and repairs can account for 20 per cent of your rental income. And rent is a form of income, so it gets taxed like a regular job.

If you want to clear $100 000 passive income *after* tax and property expenses, you'll need around $180 000 in rental income before tax. Based on an average of 5 per cent rental returns on your properties, that means you're looking at a property portfolio worth about $3.6 million.

But if you have mortgages to pay off, you don't get to keep that money because you have to pay it back to the bank. If you want that $100k *in your pocket*, you'll have to pay off that $3.6 million property portfolio. And to do that, you'll need to double your portfolio value — which means you're looking at building up a portfolio that's valued at more than $7 million, and ensuring they are all in good locations ripe for growth (as well as adding value yourself when you can).

Here's the kicker. As part of what is called an 'exit strategy', you can then sell half of those properties to pay down your debt and create a *paid-off portfolio* worth $3.6 million that will pay you $180 000 per annum in rent, which will allow you to clear $100 000 in passive income every year for the rest of your life.

If you have dual-income properties or commercial properties, you may get a lot more than that, so you could clear $100k with fewer properties.

Each person's strategy, and what we achieve with each client, is different. *Your* goal might be to achieve $50 000 or $80 000 in passive income. I cannot overstate, you need to buy in good locations and also manufacture equity as this won't work if your properties do not increase in value. It's the increased equity that will allow you to pay down your debts and achieve your financial goals.

But if your current plan is to settle for second-best and buy a property without a strategy but that you can afford, and to pay it off from your nine-to-five salary for decades to come, let me stop you right there. I know you're going to want to hear more about my equity-creation strategies and think about what might work better for you.

So let's dig deeper into strategy.