23 rentals in 23 months

From left: Matt Dawson and Mark Vasudeva.

ESTELLE JUDAH

Matt Dawson and Mark Vasudeva are business partners and good mates. In early 2006 they decided to join forces to build a property portfolio. In just 23 months they've bought 18 units and 5 houses and the portfolio's now worth $5.1 million.

Geoff Doidge

LIKE many people, Matt and Mark had talked about investing in real estate for quite a while before they actually did anything about it.

"We were simply caught up in everyday business," says Matt. "But, even when we did put some thinking into it, I thought I'd be happy with a portfolio of about $1 million. That's just ridiculous when you think about it now."

Their IT business, based in Melbourne where they both live, was doing pretty well, then a former employee's move to Brisbane prompted a decision to set up a branch office there to support their Queensland clients.

"We had the chance then to check out the Brisbane property market and realised this was the perfect opportunity to make our move," says Mark. "Brisbane really is an amazing city, easily the calibre of Sydney and Melbourne, but in my experience the property prices are still low.

"And the growth rate here has substance – it's based on lifestyle choices – so, even if the property prices keep going up, the demand for rental property will remain solid."

Mark and Matt jumped on the internet and identified several suburbs to keep a watch on, including Greenslopes on the city's southside and Nundah on the northside.

Case study 1: Greenslopes units

Early in 2006 Matt and Mark flew into Brisbane to check things out.

"We were quite keen on a block of units in Greenslopes we'd spotted on the net but we just watched that first one," says Mark. "Another Greenslopes block sparked our interest. It was asking $1.2 million and had gone to contract but the deal fell through, so we offered $865,000."

Mark is definitely a hard-nosed negotiator – and he often gets what he wants, at close to the price he wants.

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The vendor countered with $895,000 and a few days later they agreed on $890,000. This is a block of seven units, five two-bedroom and two single-bedroom.

"We like the set-up of buying whole blocks of units – there are more on the market here than in the southern capitals," says Matt. "And the prices are generally lower than buying individual units. The restructure of super pushed a lot onto the market."

They financed the purchase through equity on Mark's house.

"Using the equity kept the loan below 80 per cent of the purchase price so we didn't have to pay lenders' mortgage insurance," says Mark.

"We've kept with the same lender for all our purchases, one of the big four banks, and have our loans on fixed interest."

Matt and Mark purchased the property under a unit trust with 50 per cent equity each. In fact they've bought all their properties under either unit or hybrid trusts, which enable small investors to pool their funds for a greater return. Check with your financial adviser for more information.

The block is a two-storey brick veneer built in the early 1960s – "neat but dated" – on 825 sqm. All units were tenanted when they bought and turnover is low.

"A change in tenant gives us the opportunity to do any needed maintenance – and our maintenance usually entails updates, not just a quick fix," says Mark. "If a toilet cistern is leaking, for instance, we'd rather replace the whole toilet, not just fix the leak. We probably spend about $3000 per year on maintenance but this also ensures we can increase rents regularly."

"I thought I'd be happy with a portfolio of about $1 million. That's just ridiculous when you think about it now."

Total rent on the block when they purchased was $1190 per week, ranging between $165 and $180 per unit, delivering a yield of 7 per cent. The yield is now 9.2 per cent overall, with income of $1580 per week, between $190 and $265 per unit.

"The block was already under the rental management of the agent we bought it from, so we left it that way, and this has also worked out beautifully," says Matt.

The property is now conservatively valued at $1,360,000, a 53 per cent equity gain, but Mark and Matt reckon it's probably more like $1.4 million.

Pushing the boundary

Though Mark and Matt had decided to keep to within Brisbane's metropolitan area, in June 2006 they spotted a three-bedroom house in Deception Bay, a northern bayside suburb just past Redcliffe, that was asking $215,000 – of course Mark negotiated them down to $196,000.

"We were just bowled over that you could still purchase a house for under $200,000 in Brisbane," says Mark, "and Deception Bay's just within the metro area – though that's probably pushing it a little."

This property, a 1980s brick veneer, needed a good clean-out, tidy-up and basic reno, so Matt and Mark set to it, having had a quantity surveyor itemise everything first for depreciation purposes, as well as the renovation work. Unfortunately the house was built prior to the cut-off of July 18, 1985, so didn't qualify for the building allowance write-off against tax.

"We totally trashed the kitchen," Matt says, "but luckily a local store was having a kitchen sale – spend $3000 and get 25 per cent discount. In fact we'd gathered together what we wanted and the total only came to $2750. The guy just about insisted we buy another overhead cupboard, which we didn't need, to get us over the line for our discount, so we'd end up paying only $2250. 'Buy this $250 cupboard for nothing and we'll give you $500' was virtually how it went!"

PORTFOLIO COMBINED

Description:	Month, year purch	Purchase price*	Reno costs	Total costs*	Loan amount	Current value	Equity gain**	Rent pw current	Current yield
Greenslopes 5x2b, 2x1b units	Mar-06	$890,000		$890,000	$800,000	$1,360,000	53%	$1,580	9.2%
Deception Bay 3b house	Jun-06	$196,000	$15,000	$211,000	$100,000	$280,000	33%	$240	5.9%
Deception Bay 4b house	Jun-06	$199,000	$6,000	$205,000	$100,000	$270,000	32%	$260	6.6%
Stafford 4b house	Nov-06	$292,500	$9,700	$302,200	$270,000	$440,000	46%	$325	5.6%
Gordon Park 3b house	Feb-07	$303,000		$303,000	$267,000	$400,000	32%	$285	4.9%
Hamilton 1x3b, 2x2b, 1x1b units	Apr-07	$730,000		$730,000	$690,000	$900,000	23%	$905	6.4%
Greenslopes 3x2b, 4x1b units	May-07	$1,010,000		$1,010,000	$980,000	$1,010,000	0%	$1,480	7.6%
Greenslopes 2b house	Jul-07	$440,000	$1,500	$441,500	$415,000	$440,000	0%	$250	2.9%
Total		**$4,060,500**	**$32,200**	**$4,092,700**	**$3,622,000**	**$5,100,000**	**25%**	**$5,325**	**6.8%**
LVR = original loan / current value					71.0%				

* Excluding purchase costs; ** As percentage of total cost; Current yield = rent / total cost

They also brought in a painter for a total internal repaint in antique white, costing $2000, and put in new blinds, front and internal doors, a few bathroom fittings, and new carpets and tiles throughout, as well as getting an electrical check and installing smoke detectors. Total cost was around $15,000.

"We went to another local dealer for the floor coverings and I must admit I really did bargain hard to keep the prices down," says Mark. "The total came to $1980. We were taking a colleague to lunch that afternoon so I haggled him down a bit further to $1900 – to cover lunch. It was really for the satisfaction though!"

The house had been owner-occupied and again Matt and Mark appointed the agent they'd bought from as rental manager. It was tenanted as soon as the work was finished for $240 per week, and the valuation is now at $280,000. The agent had warned these go-getters that they wouldn't get another house under $200,000. But, remember, Mark likes a challenge – so when the same agent presented them with another Deception Bay house the same month, with an asking price of $220,000, it was almost a matter of professional pride that Mark negotiated them down to $199,000.

"This one was a high-set timber home, also owner-occupied, with three bedrooms up and one downstairs – almost a self-contained flat underneath," says Matt. "And the place is within walking distance of the water."

This property also needed a tidy-up, though not as extensive as the first house, and they spent $6000, again giving the rental management to the selling agent. It's rented at $260 per week, a yield of 6.6 per cent, and the value is now at $270,000.

CASE STUDIES

	Case study 1	Case study 2	Case study 3	
Description	Greenslopes 5x2b, 2x1b units	Stafford 3b house	Hamilton 1x3b, 2x2b, 1x1b units	
Date purchased	Mar-06	Nov-06	Apr-07	
Purchase price	$890,000	$292,500	$730,000	
Renovation costs		$9,700		
Total costs	**$890,000**	**$302,200**	**$730,000**	
Rent pw at purchase	$1,190	$270	$785	
Yield at purchase	7.0%	4.8%	5.6%	
Rent pw current	$1,580	$325	$905	
Current yield	9.2%	5.6%	6.4%	
Current value	$1,360,000	$440,000	$900,000	
Equity gain	$470,000	$137,800	$170,000	
Gain as percentage of cost	53%	46%	23%	

Comments: Yield at purchase = rent / purchase price; Current yield = rent / total cost; Equity gain = current value - total cost

Case study 3 breakdown	**Hamilton units, 1x3b, 2x2b, 1x1b**			
Description	3 br	2 br	2 br	1 br
Date purchased	Apr-07	Apr-07	Apr-07	Apr-07
Purchase price	$210,000	$180,000	$180,000	$160,000
Renovation costs				
Total costs	**$210,000**	**$180,000**	**$180,000**	**$160,000**
Rent pw at purchase	$190	$215	$210	$170
Yield at purchase	4.7%	6.2%	6.1%	5.5%
Rent pw current	$300	$215	$210	$180
Current yield	7.4%	6.2%	6.1%	5.9%
Current value	$260,000	$220,000	$220,000	$200,000
Equity gain	$50,000	$40,000	$40,000	$40,000
Gain as percentage of cost	24%	22%	22%	25%

Comments: Yield at purchase = rent / purchase price; Current yield = rent / total cost; Equity gain = current value - total cost

Case study 2: Stafford

By November 2006 Mark and Matt had an internet alert set up for half a dozen Brisbane suburbs – so they got an automatic message when these suburbs came up on the radar. Stafford, not too far from their earlier target of Nundah, was one of them. The alert displayed a three-bedroom brick veneer house on the main road that ticked a couple of boxes on their list of criteria.

"For one, buying on a main road, which decreases the cost a little and gives good exposure for rental, as well as rezoning possibilities for development at a later stage," Mark says.

Mark was also looking for the opportunity to add value, so he flew up to check it out in person (Matt was overseas at the time).

"When I walked around the place I couldn't help notice the very large dining area, situated just where a fourth bedroom could be installed with the simple addition of two internal walls. Just the twist I was looking for!"

The deal was done for $292,500 so there was a little room for some reno work. Mark and Matt's colleague, who was running their Brisbane IT office, also helps out now and then with their property purchases, taking photos, making the odd call and so on. They asked if he'd oversee the renovation.

"He was happy to do it," says Mark, "but every time he brought someone in to quote on the work needed for the extra room, they threw up obstacles and gave a different reason each time... and the place sat vacant for two months."

By this stage they were negotiating another northside deal and that agent

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put them onto a semi-retired carpenter who had a look and took on the job, as well as a few other bits and pieces, for $2100. No more mucking about.

When you want something done ...

"We decided not to lose any more time so we flew up to do much of the remaining work ourselves, mostly the painting," says Matt with a grimace. "I hate painting. We tossed up using a spray gun but were too worried about getting paint everywhere. We didn't really understand the marvels of the airless spray gun but if we ever do it again we'll investigate that option."

Mark's plans originally included an extra bathroom, but the space wasn't right so they replaced the existing two toilets and installed an extra hand basin. They also relocated the laundry to the old garage and had a plumber connect it up.

"A friend who could handle a pneumatic drill came to the party and levelled the concrete floor for the laundry and did a few other heavy-duty jobs, like ripping off iron bars from windows," says Matt.

They also installed smoke detectors, new blinds and internal doors, paid another friend to clean the kitchen, which took two days, and had an electrician check all the wiring. The total renovation cost just over $9700 (check the reno costs summary table for a breakdown).

This property was a rental property when purchased, though vacant at possession, and the selling agent again took over the rental management. It had been rented at $270 per week, a yield of just 4.8 per cent. Once the reno work was completed, in February 2007, it was tenanted straight away for $325 per week, increasing the yield to 5.6 per cent. The property's now valued at $440,000, a terrific 46 per cent gain in equity in just over a year.

Just down the road

Just as they were finishing the renovation, the agent called with another three-bedroom house, on the same main road but the next suburb along, Gordon Park.

"It was basically staring the agent in the face, being just across the road from their office," says Mark. "The asking price was $330,000 and we ended up paying $303,000. And this one's already earmarked for potential development, with a low-to-medium residential (LMR) zoning."

Another bonus was that this property needed no work. It had been owned by a couple who were going through a divorce and had been well maintained, and now the wife was going to stay on to rent it – no better person to care for it.

Case study 3: Hamilton

Soon after, in April 2007, Matt and Mark settled on another multi-dwelling property, this time in the lower end of Hamilton, down by the Ascot racecourse and only a stone's throw from the new Portside development.

"This is a post-war timber home that's been raised and built in underneath," says Mark, "delivering two two-bedroom units upstairs and a massive three-bedroom unit downstairs, along with a smaller single-bedroom unit."

Again an earlier contract on the property had fallen through and the asking price was $760,000, although the valuation placed it at $850,000. Matt and Mark picked it up for $730,000, again using equity from Mark's home and the first unit block to keep the loan-to-value ratio (LVR) below 80 per cent (see the 'case study 3 breakdown' table for details on each unit).

"This one is also on a main road and has that LMR zoning, and we've been informed it could easily take a three-storey development," says Matt. "But we're inclined to keep the existing building, because of its unique character, and build some separate townhouses or villas on the rest of the property."

It's 820 sqm, two blocks joined together, with the existing building bang in the middle, so there's some room to move here.

"The downstairs unit for a start could easily be split into two or three separate units," adds Mark. "And we're considering getting these units strata titled, as this would increase the value of each unit and the rental income from the whole property."

The original rents here were odd – $190 for the large downstairs unit, $215 and $210 for the two upstairs units and $170 for the one-bedroom unit. All units were tenanted at purchase, and they stayed on, but Mark and Matt decided to change agents, and here's where Mark's superb haggling skills come into play.

"We were approached by an internet-based agent who wanted to manage our whole portfolio at a discounted fee of 5 per cent." says Mark. "But we were already on low fees with our existing agents – the most we pay is 7 per cent plus GST and rental fees. I've always kept the fees down, simply by saying no to higher fees. The agents under-

STAFFORD RENO COSTS SUMMARY

	Item cost	Subtotal
Cleaning & miscellaneous repairs		
Skip	$120	
Misc (cleaning, repair)	$300	$420
Materials		
Hardware	$749	
Blinds	$1,300	$2,049
Carpentry		
Additional bedroom	$1,700	
Internal doors	$400	$2,100
Painting		
Paint	$1,680	
Miscellaneous	$15	$1,695
Flooring		
Pneumatic drill hire	$65	$65
Plumbing		
Fittings (new toilets)	$1,155	
Hand basin for 2nd toilet	$605	
Hot water connection (laundry)	$429	$2,189
Electrical		
Electricity use	$68	
Contractor	$920	$988
Yard		
Tree lopping	$240	$240
Total		**$9,746**

IN THE HOTSEAT

Why did you get started?
Mark: Matt and I kept talking about creating more passive wealth and income. Residential real estate just kept coming up as a great way to go.
Matt: I always wanted to sell products, something that didn't require billable hours and would create a passive income and ultimately wealth – something that didn't require my constant involvement and management. Property fitted the mould perfectly.
What was your greatest fear?
Mark: Waiting too long to get into the property market and having prices run away from us.
Matt: The risk of failure – which would have a huge impact on our business, and also my personal lifestyle. Another was taking too long to get started and enter the market, and property prices passing us by.
Did your parents show you how to get started or get ahead?
Mark: Not really, but they did provide me with a first-rate academic education.
Matt: My parents had various negatively geared properties when I was younger, but I never really understood how it all worked or what structure or vehicle to use. They've always been financially smart, which I've certainly benefited from.
What was your greatest mistake?
Mark: Leaving the supervision of a house renovation to an associate of ours. Four months after it settled the renovations were barely started and the house was still empty. Once we took control ourselves and coordinated the tradespeople properly, the house was finished and rented out in four weeks.
Matt: Having a renovation take too long taught us a number of valuable lessons for future projects (including the costs involved, loss of rent and so on). Ensure you have a set schedule of events and the right people managing.
What do you want to achieve?
Mark: I enjoy inspiring others. I'd like to talk to as many people as possible and tell them our story. It's great when you see people's eyes light up as they start to understand what you're telling them.
Matt: Ideally, to own my own time, create an income that will allow me to step back from such active involvement in IT and continue to have the same lifestyle and focus more on property.
How would you describe your strategy?
Mark: Buy well in good areas for capital growth, do a quick cosmetic renovation, hold the property for the long term.
Matt: Conservative – buy, cosmetic renovation (to improve rental return) and hold. We also have strict guidelines we've developed that help to identify the correct property or area.
Any memorable experiences along the way?
Mark: While I was on a flight from Melbourne to Brisbane, the passenger next to me was asking me questions about property investing. While I was answering his questions, I noticed that the passenger on the other side of me was also listening to the discussion. After the plane landed and we stood up from our seats, two other people in the row in front of me turned around and said that they too had been listening and thanked me for what I had said! An unscheduled mini property seminar in the air… well it made the time go quickly!
Matt: One renovation took too long, so Mark and I and a good friend, Dean, flew to Brisbane and spent the weekend painting. We got the job done (and earned a sense of satisfaction), but it certainly wasn't an ideal situation. I hate painting!
What's your best renovating or money-making tip?
Mark: Get educated about property investing. Go to good quality seminars, buy property books, talk to as many people as you can who are already investing in the market.
Matt: Cheap cosmetic renovations improve rental and resale value. Ensure it's turned around in a set timeframe. Always look outside the square for improvements – such as adding an extra bedroom without extending. It's not as expensive as you think, and adds enormous value.
Any other tips for investors?
Mark: Do your homework thoroughly, surround yourself with professionals you can trust and start acting! Don't take advice from everyone who offers it. I always ask these people: "So how many investment properties do you have?" If they don't have any investment properties, I have to remind myself that they're just giving me their opinion, which may have nothing to do with property investing knowledge or facts.
Matt: Make sure you have the right team around you (including finance and financial advice) before you start, and be careful who you take advice from. Having a team of tradies to use for repeat work is also a must. Lastly, ensure you have sufficient insurance to cover replacement costs and landlord's insurance to cover any rental shortfalls.

Matt and I kept talking about creating more passive wealth and income. Residential real estate just kept coming up as a great way to go.

What would you do differently?
Mark: We've done a lot of things right, but I wish we'd entered the market earlier – say five years ago.
Matt: Looking back, I would've liked to have started earlier. We talked about property, but we took a while to get started – which cost us, as prices moved drastically. Every day you delay certainly costs, in one way or another.
How has your life changed since you began your property investment?
Mark: Big gains in the personal development area. I now travel more and have met some fantastic people who are also property investors. Have made a ton of new friends and contacts. I have learned so much new property stuff… it's exciting!
Matt: These days, people are always coming up to me and asking me how we achieved so much so quickly. It's nice to realise that people are inspired by our property investing story.
How do you picture yourself five years down the track?
Mark: I'd like to own more of my time. I want to be free of routines and be able to have that two-hour breakfast and coffee if I need to. It's too easy to fall into the trap of getting caught up in day-to-day dramas and forgetting what we set out to do. Better to be a motivated person who can make a positive difference in the world than a distracted one who is too bogged down to be effective.
Matt: Owning my time, and working because I want to. Focusing more heavily on our portfolio – both improving existing properties to maximise return and acquiring new.

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stand that we're building a portfolio, so they want our business. In the end we gave the Hamilton property over to the new agent as a trial, but still at 5 per cent, and we have three other agents, one for each area – Greenslopes, Deception Bay and Stafford. It's a hard one, because we do remain loyal to the local agents – they treat us well."

With the new agent in place, Matt and Mark rationalised the rentals, increasing the three-bedder to a more reasonable $300, and keeping the two-bedders as they were, with a slight increase to the smallest unit. All up the rental is now $905 per week, a yield of 6.4 per cent. The current value is $900,000, an equity gain of 23 per cent on costs in less than a year.

Back to the 'slopes

In May 2007 Matt and Mark purchased another block of units in Greenslopes – three two-bedroom and four one-bedroom units.

"It had been on the market for a while and was then withdrawn from sale but was re-listed six months later," says Mark. "We paid just over $1 million for it – of course I'd beaten them down a little!"

It was already tenanted, with rents bringing in $1480 per week. The plan is to simply hold onto it. But then came an opportunity both Matt and Mark are still shaking their heads over.

"We were standing on the verandah of one of our earlier Greenslopes units," says Matt, "eyeing off the next-door property, a two-bedroom house on a corner block. 'Wouldn't it be great to get that one,' we said. Well next thing we saw a listing for it on the internet, and as we looked at the photos we could see our own property in the background. Google Earth zoomed us right onto the street!"

With this property there had also been a contract to buy, on the condition of getting council approval to change the configuration of the block in order to develop the land, within 60 days.

"We knew that was entirely unrealistic," says Mark. "No wonder that one fell through. But we brought in someone to look at it – we'd been told the land was too low-lying for unit development – and the bloke said 'What about a suspended slab?' This keeps the slab above the overland water flow. We jumped at it."

The vendor was looking for $500,000-plus so Mark offered $430,000 and the deal was clinched at $440,000. And the block has that all-important LMR zoning, allowing for development.

"Now, the beauty here, of course, is in the combined potential of our original unit block next door with the corner house block.

"We've done a bit of minor repair and renovation so we can rent out the house in the meantime, but the combined value is monumental. It even has a two-street frontage!"

Watch this space

For the moment Mark and Matt are well pleased with themselves. The total portfolio is worth $5.1 million – and that's without including the real potential their latest purchase produces.

"When I leave Melbourne to come up to Brisbane these days it sometimes seems like an alternative universe.

"We've got all these properties here, yet our 'real' lives are elsewhere!" says Mark. "We set ourselves targets back when we started but we've absolutely thrashed them."

These blokes have a positive cash flow from their own business; they've also got good income from their rentals and a solid relationship with their bank manager – and they have an almighty development job coming up.

That's also a huge learning curve – and these guys have got the goods to deliver. ■

API Interactive

Do you have a question for Mark and Matt? Email it to forum@apimagazine.com.au and we'll do our best to publish the answer in a future issue of API.

For the Reno Kings Report, "*Sample Joint Venture Management Plan*", send a blank email to api84@renos.com.au

Geoff Doidge is one half of the Reno Kings, visit www.renos.com.au