Education pays off

A $40,000 education helped this Melbourne couple to accumulate a net wealth of $2.5 million.

story **Michaela Ryan** photography **Patrick Rodriguez**

ED KOGTEVS AND HELEN Collier-Kogtevs met in the workplace and have been together for six years. In that time, a lot has changed. They went from being "pretty much broke" to having a net worth of about $2.5 million. They went from knowing very little about property investment to knowing about advanced finance and property development techniques.

"When I got divorced, my ex got the equity – that was the house, and I got the super," Ed explains. "So we started off with virtually nothing."

Helen adds, "I was earning a good wage, but I was paying rent, I had car payments, I had credit card debt. I was earning enough to cover the bills, but like most people, was living week to week. I didn't have a healthy savings account and neither did Ed."

So at the start of their relationship, they were renting a townhouse together. Their TV sat on a box. And their holidays were always camping trips.

Ed says, "We'd done a bit of soul searching and we realised that our super wasn't going to get us through in the retirement years. And we always had an inkling and desire for property, so we decided to get into that.

"We realised we needed to get a bit of an education first, so we did a property education course and it really opened our eyes as to what we could and couldn't do in terms of investing."

But that first course was just the tip of the iceberg. To date, Ed and Helen have spent around $40,000 educating themselves about property investment. That includes seminars, books, mentors and coaches.

"We're still spending on our education," says Helen, "because that $40,000 has allowed us the enjoyment of a $6 million portfolio.

"Some of the deals we have, we wouldn't have got sitting at home thinking, 'I must invest in real estate'. But because we've been out there networking with people and sharing knowledge and attending these seminars..."

Not only do Ed and Helen work on their investing knowledge, but they've also had an education in personal development.

"This is one thing that a lot of investors forget about," says Helen. "It's great to get an education about the theory of investing in real estate, but at the end of the day what actually holds people back is fear. People are afraid of losing their money. They're afraid of getting it wrong. They're afraid of people saying, 'I told you so'... You've got to have that shift in mindset before you can do it practically."

Starting out

This property investing tale begins like many others – with the purchase of a principal place of residence. Ed and Helen saved up enough for half a deposit and a family member lent them $12,000 to make up the rest.

"It was a bit by luck rather than good management that the home we bought was in Preston (Melbourne) which, at the time, was growing at about 20 per cent per year. So we were able to draw on that equity after six months of living here to buy our first investment property," Ed explains.

"We were equity-poor but had good borrowing power between the two of us. So the strategy we adopted was a growth strategy as distinct from a cash-flow strategy. We needed that to create the equity to buy more properties."

With this in mind, they bought a brand new three-bedroom townhouse in the most sought-after pocket of Reservoir. They bought it for $300,000 in 2001 and it's worth around $420,000 now.

The deposit was funded using an interest-only line of credit on their home. They have since extended this LOC to fund the deposits for other property purchases. Ed and Helen make regular repayments on their LOC. They're careful to use it only to fund tax deductible property expenses and not personal liabilities. They keep a separate amount of savings in an offset account which can cover any shortfall between their investment income and outgoings.

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Ed and Helen's first investment property set the tone for the next few. They were all brand new properties in high-growth areas of capital cities.

Helen says, "By buying brand new we could use depreciation schedules to offset against our tax.

"Jointly our incomes are quite good so we've been able to comfortably support the mortgages, even the shortfalls, as well as enjoy the benefits of paying minimal tax."

Their second investment property was also in Melbourne – this time in Richmond. It was a riverside apartment they purchased off the plan in 2002 for $337,000.

They settled on the property at the end of 2005, when it was valued at $350,000. They figure this isn't a bad return on a deposit bond premium which cost $5000. They used this instead of a cash deposit.

"It beats having your deposit in a trust account not earning you any interest. I'd rather have it sitting in our offset account saving on our mortgages," Helen says.

By mid-2002 Ed and Helen decided they should get into the Sydney market. Yields were very low at the time – around 3 per cent.

Would you believe they managed to find a four-bedroom house in Stanhope Gardens with a 7.5 per cent yield? It was a brand new home so they get full depreciation benefits, and they receive $2493 per month from a reliable tenant without paying any property management fees. Ed and Helen say it's also gone up in value, from $399,000 to around $560,000 in two and a half years.

How could it be done? Investing in a display home is the answer. The building company sold them the house with a lease-back arrangement.

The lease has been extended three times and there's now a month-by-month tenancy.

The tenant pays all the outgoings, apart from insurance.

On that note, Ed and Helen have landlords' insurance on all of their properties. However, insurance is only one part of their comprehensive risk management strategy.

They always perform a due diligence on any area they invest in. For example, they check the local vacancy rate. They don't rely on the rate quoted by agents. Instead, they ask the agent how many properties they have on their rental roll. Then they count how many are on the

Ed and Helen's strategy

- Have a mix of growth and cash-flow properties. Growth properties make you wealthy; cash-flow properties extend your borrowing capacity.
- Never use one property as security for another (cross-securitisation).
- Fall in love with the numbers before you fall in love with the property.
- Do a thorough due diligence. For example, check growth projections, vacancy rates, percentage of renters in the area.
- Research your target rental market and buy the type of property which will be in demand.
- Monitor properties in high-risk areas and be prepared to sell when necessary.
- The first question you ask an accountant, lawyer, quantity surveyor, mentor etc. should be "how many properties do you own?"
- Protect your assets through trusts.
- Use construction loans when there will be a period of time without rental income.
- Bargain with bank managers – ask them for the interest rate you want.

X-coll

Ed and Helen are very careful not to cross-securitise their properties. That is, they never use one property as security for a loan on another property. (This strategy is sometimes referred to as cross-collateralisation or X-coll).

"If something goes horribly wrong with one property we don't want the domino effect where it impacts on all the others. Having it stand alone means we can deal with it on its own," says Helen.

There are a few ways to avoid cross-securitisation. Ed and Helen have used a line of credit on their principal place of residence as well as their other investment properties in order to fund each new deposit.

Loan-to-value ratio

"The return on a 90 per cent LVR loan with mortgage insurance is greater than an 80 per cent LVR loan with no mortgage insurance," Ed argues.

rental list (available properties), and calculate the vacancy rate that way. Ideally they seek properties in areas with vacancies less than 5 per cent, which they estimate will lead to one or two weeks of vacancy per year.

As part of their due diligence, Ed and Helen also consider whether the area is popular with renters. They check the percentage of rental properties in the area on the Australian Bureau of Statistics website. They won't buy in an area with less than 30 per cent rental households.

Their Richmond purchase is a good example of their demographic research paying off. Ed and Helen discovered that while Richmond has a high proportion of rental properties, the majority of households were single-person. So they opted for a one-bedroom apartment rather than the two-bedder they were originally looking at.

Ed and Helen also have an asset protection strategy as part of their overall plan (that is, protection against litigation which could wipe out an entire portfolio). They have purchased all of their properties through trusts. They are currently putting together their fourth trust.

Continuing to chase growth

In late 2002 Ed and Helen were in Perth for a birthday celebration. A local friend took them to look at some properties, just for fun.

They came across a two-bedroom display unit in East Perth with park and river views. It had an asking price of $500,000 but the agent suggested that they make an offer – any offer.

Ed and Helen thought they'd put in a cheeky offer just for the hell of it. A valuer looked at the unit and placed a conservative value of $450,000 on it. So Ed and Helen put in an offer of $435,000, inclusive of the display furniture (worth around $20,000).

The offer was rejected, but the agent said they could have the unit plus furniture for $455,000. In truth, Ed and Helen didn't want the furniture. So they used it as a bargaining chip and said they'd take the apartment for $435,000 unfurnished. And so the deal was done.

In this case, the agent was desperate to get rid of this apartment, because she wasn't able to start selling units in a neighbouring complex until the final few in this building had sold.

Helen says, "We learnt this strategy from one of the courses we did. When you go into a development of many apartments... normally by the end of it the developer's had enough. He's made his profit. He just wants to get out and move on to the next deal. So often you can go in and put in a ridiculous offer and it might be accepted."

Ed and Helen couldn't have afforded to do this deal on their own, so they went into the purchase with an "equity partner", a family friend, on the basis that they'd split the capital growth benefits 50/50.

They thought, "It's better to have half of something than 100 per cent of nothing."

They had a legal agreement drawn up, outlining everyone's rights and obligations, as well as an exit strategy. The plan is to hold the property for at least five years. And if someone needs to bail out, the other party has first right of purchase.

At the end of 2002 Ed and Helen headed back to Sydney. They purchased another display home from the same company which sold them the Stanhope Gardens property. This time the house was in Homeworld 4 – an area of Kellyville made up of display homes from various building companies.

Knowing the reliability of the company, it was a case of "where do we sign?"

Again they didn't have quite enough equity to fund the purchase, so they entered another joint venture with the same friend they'd invested with in East Perth.

They arranged a six-year leaseback with three six-month options. The four-bedroom, double-garage home was purchased for $540,000 and is now worth $620,000.

The house is used as a work base for sales staff from the building company. At the end of the lease, the company will gut the house and rebuild it into a more family-friendly home.

"So the beautiful thing is, after six years we end up with a brand new home that has never been lived in and which has had six years of growth and depreciation," Helen says.

Time for cash flow

With seven properties, Ed and Helen found that they'd "hit a financial brick wall". Ed explains that once your portfolio is worth more than $2.2 million you enter a new risk category in the lenders' eyes.

However, this was the best thing that could have happened to Ed and Helen. They were forced to re-evaluate their overall strategy, learn about the impact of loan-to-value and debt-to-equity ratios on their lending capacity, and consider the importance of balancing their high-growth properties with some high cash-flow properties.

"Growth is the engine. And cash flow is the oil," says Helen.

The search for a cash-flow property took them to the mining town of Kalgoorlie in WA. There, in the middle of the desert, they learnt some big lessons. Helen admits that by this stage she'd become a bit cocky.

"But this (investment) brought me back down to earth," she adds. Lesson one: don't believe everything the agent tells you.

When buying subsequent properties sight-unseen Ed and Helen have organised independent rental appraisals, building and pest inspections and independent bank valuations.

The $173,000 property was being tenanted through the Government Employees' Housing Authority scheme. It had a rental of $330 per week. Helen asked the agent what rent they'd be likely to receive if the GEHA lease was to end. He told her it would still be worth $330 per week.

The GEHA lease did end and what do you know... the rent dropped to $260.

Ed and Helen would have loved to sell, but they couldn't – and here comes lesson number two. They fixed the interest rate on this loan for five years at 7.2 per cent. The loan's break cost was several thousand dollars, which meant they'd make a loss if they sold the property.

(Although a fixed interest rate was inappropriate for this higher-risk property, Ed and Helen are still pleased they fixed their first six investment loans at 5.99 per cent interest for five years).

The third lesson was the need for an extremely thorough due diligence when buying a property sight-unseen.

When buying subsequent properties sight-unseen Ed and Helen have organised independent rental appraisals, building and pest inspections and independent bank valuations. On top of that, they request oodles of photos from the agent. In most cases they would look at 50 or 60 photos of a property before they would look at a contract.

"Thank God for digital cameras," says Ed.

Luckily, Ed and Helen have had some capital growth on the Kalgoorlie property and it's now worth around $190,000.

The search for cash-flow properties continued. Helen learned from a mentor that one way to look for cash flow was to look at a map of Australia and draw a line 300 km inland from the coast. However, she wanted to avoid towns with a population less than 5000, as it can be difficult to borrow in these circumstances.

Using this technique, their next stop was a mining town only 200 km inland from Mackay in Queensland. Moranbah is the only town servicing about six mines in the area. Ed and Helen discovered there was a huge demand for rental properties. And there was land scarcity, due to the ground being rich in high

grade coking coal which the mining companies have mining rights over.

The coal from this area is supplied to the steel industry, which in turn is booming because of a huge demand from China and India.

In December 2003, using equity from their investment properties, they bought a house for $96,500, rented for $230 per week. It's now worth $220,000 and is rented for $400 per week.

It will come as no surprise then that Ed and Helen went back to Moranbah a year later to buy more properties. In that time there'd been a lot of growth, so they ended up buying five properties for between $194,000 and $240,000, all on rentals of $450 or higher.

Since then the properties have all grown to around $300,000 in value, and rents have also increased to as much as $600.

Helen is mindful that people reading this article might be inclined to rush out and buy Moranbah property, and she warns: "Wherever there is a high return, there's always a high risk. Mining towns don't last forever. They're not what we call a 'set and forget' – where you buy the property, you put a tenant in it, you walk away and it ticks over for the rest of its life… When you've got a one-industry town there are highs and there are lows.

"So every year we go through a due diligence process on Kalgoorlie and Moranbah. We always go back and revisit. Last year we went in May. We set up meetings with local real estate agents, developers, people from the mines… We also caught up with the council to get their views on the projections for the town. And we do this annually just to make sure those properties are still safe.

"If we get a sniff of anything going sour, by keeping an annual check on it we're hoping – and there's no guarantee here – that we'll get out."

With a few more cash-flow properties on their books, Ed and Helen thought they'd miss out on depreciation benefits. But they were wrong. A quantity surveying firm offered to look into the depreciation available on their older properties, saying they wouldn't charge a cent unless they came up with benefits worth double their fee. As it turns out there were benefits available because some of the properties had been renovated.

Construction loans

Before returning to Moranbah, Ed and Helen purchased a property in Pakenham – an area of Melbourne they saw as a growth corridor. The purchase was made prior to the house being built. So they took out a "construction loan". They were able to capitalise the interest payments for the construction period. In other words, they didn't need to pay interest during the period when there was no rental income from the property. The loan would ordinarily have been for $231,000, but it ended up as $237,000 once the interest for the construction period was included.

Ed and Helen also did some research into Townsville and decided to invest there.

They looked at the "Green Book" on the Defence Force website, which spells out defence capital expenditure and projects.

Seeing how much money was being poured into Townsville over the next decade, they figured that demand for housing would have to be strong.

After conducting a due diligence on the area, they purchased a property in an estate in April 2004. It was near the uni, the hospital and the army base. A lot of investors were buying four-bedroom houses, so they opted for a three-bedroom place – with air conditioning of course! There has been a 48 per cent increase in its value already.

This purchase was also made prior to the construction of the house, and they took out another construction loan.

Property development

Ed and Helen are constantly learning about more sophisticated investing strategies. Their latest foray has been into property development

First of all there's Cairns. Through a mentor they came across a waterfront block of land there. As part of a group of investors buying neighbouring blocks, the land was effectively purchased 'in bulk'.

Their block cost them $630,000 in May 2005. They believe it's now worth a staggering $900,000!

Ed and Helen are planning to build a house which will bring their total expenses to $1.4 million (for the house and land). However, they estimate it will be worth upwards of $2 million when they're finished – perhaps as much as $3 million.

Portfolio **ED KOGTEVS AND HELEN COLLIER-KOGTEVS**

PROPERTY	YEAR OF PURCHASE	PURCHASE PRICE	CURRENT VALUE ESTIMATE	CURRENT WEEKLY RENTAL
Preston	Apr-01	$247,500	$420,000	PPR
Reservoir	Oct-01	$300,000	$420,000	$280
Richmond	Apr-02	$337,000	$350,000	$290
Stanhope Gardens	Jun-02	$399,000	$560,000	$575
East Perth*	Nov-02	$435,000	$675,000	$420
Kellyville*	Mar-03	$540,000	$620,000	$727
Kalgoorlie	Oct-03	$173,000	$190,000	$260
Moranbah	Dec-03	$96,500	$220,000	$400
Pakenham	Mar-03	$237,000	$280,000	$240
Townsville	Apr-04	$216,500	$320,000	$310
Moranbah	Jul-04	$240,000	$290,000	$500
Moranbah	Sep-04	$240,000	$290,000	$600
Moranbah	Nov-04	$237,000	$300,000	$600
Moranbah	Dec-04	$240,000	$300,000	$600
Moranbah	Dec-04	$194,000	$300,000	$570
Cairns	May-05	$630,000	$900,000	N/A
Nhill*	Oct-05	$50,000	$50,000	N/A
TOTAL		**$4,812,500**	**$6,485,000**	**$6,372**

* Joint ventures; current equity is worth $2,539,000, with LVR of 61%; PPR = principal place of residence

They're also planning to redevelop two of their Moranbah properties which are on 800-sqm blocks. Ed and Helen want to subdivide and put two townhouses on each block. The architect drawings are currently being put together. They estimate the value of each townhouse will be around $300,000 by the time they finish. The townhouses will be sold off the plan, although Ed and Helen will possibly hold on to one or two of them as well. Ed and Helen also have plans for a development in regional Victoria.

Helen says, "There's a growing market for baby boomers who are retiring but there's not a lot of accommodation being built. There is for large regional towns but not for smaller ones."

Ed and Helen noticed that the available accommodation in these markets tended to be expensive.

"Some of these homes these old folk are living in are so old, they're falling down. They haven't got the resources to paint them even," Helen says.

"What we want to do is to be able to provide brand new, affordable housing for the retirees, but to do it so that we make a little profit as well. We're not looking at the Cairns deal, where we're making millions of profit… so it's a bit of 'giving back'."

Targeting small regional towns with hospitals, they came across Nhill.

They've acquired land and are planning to put three units on it. At the time of writing, Ed and Helen were just about to get their development approval.

Again they couldn't have done this deal without entering into a joint venture.

They partnered with someone who was "equity-poor but time-rich".

While they are providing the funds for the deal, he'll be doing a lot of the legwork, and the profits will be split at the end.

Helen is also planning to get her hands dirty. She's just resigned from her job so that she can oversee the developments full time.

The plan is to take on four projects per year.

How far they've come

To their credit, Ed and Helen still love camping holidays. But they can enjoy a much better lifestyle these days than when they first moved in together.

Suffice to say the box under the television set has been replaced with a custom-built unit. ■

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