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SEPTEMBER 2006
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Tree change coming

Property investing has allowed Andrew and Julie Short to buy back a piece of family history. It's also going to pay for their 'tree change' in retirement. That's if they can tear themselves away from the property game.

story **Matthew Liddy**
photography **Steve Keough**

NINE YEARS AFTER a chance introduction to the benefits of property investing, Canberrans Andrew and Julie Short own nine investment properties sprinkled down the east coast of Australia. Some were made after painstaking deliberation and research but the one that stands out as the best performer is the one that pulled on their heartstrings, the emotional purchase – 67 acres just outside Bellingen on the mid-north coast of New South Wales.

The property was bought with an eye to the future – Andrew and Julie plan to retire there – but also an eye to the past, for several generations of Julie's family had farmed that very land for more than 100 years.

Julie's great-grandparents were among the first European settlers to move into the mid-north coast area near Coffs Harbour and in 1885 they settled on a 100-acre selection on the Kalang River near Bellingen. Initially timber and fruit were their main sources of income, before the area switched to dairying about 80 years ago.

"Sadly Julie's parents, who were the last family custodians of the farm, became seriously ill and the farm was sold in 1988 to a developer who then subdivided the property into four lots," reveals Andrew, who is an engineer by training but now runs a consultancy firm.

In 2002, the Shorts were holidaying in Coffs Harbour and learned, quite by chance, that the largest of those subdivisions – and the one with the most sentimental value – was on the market.

It's not often you get a chance to buy back a piece of your history. Faced with that chance, Andrew and Julie leapt on it. They bought the property, which included a four-bedroom house built on the site of the original farmhouse and a rundown milking shed, for $275,000. It was their fourth foray into property investing but the first time that the heart ruled the head.

"We bought it purely for emotional reasons, didn't do any research at all," Andrew says. "The fact that it used to be the family property was motivation enough."

In securing the property, they also ignored the advice of armchair experts who tried to tell them they'd regret buying semi-rural property. And they're sure glad they did.

"In terms of capital growth it's probably almost outstripped most of our others put together," Andrew says.

The Shorts have spent about $20,000 renovating the house – retiling and installing new carpets, curtains, ceiling fans and air-conditioning – and about $30,000 converting the milking shed into a habitable studio. Andrew says the projects would have been daunting but for the help of a member of Julie's extended family, a retired builder who provided both guidance and hands-on expertise.

The property is now conservatively valued at $675,000, Andrew reveals. It rents for $300 a week – $120 more than before the renovation – and the usable farm land is agisted to a neighbour for running beef cattle, bringing in an extra $40 a week.

In addition, the Shorts use the studio for weekend getaways, though they're often spent maintaining the property, which has been largely taken over by privet, lantana and camphor laurel.

The Bellingen property is the jewel in the crown of the Shorts' expanding property portfolio.

Making a start

A Gold Coast real estate agent introduced Andrew and Julie to the concepts of property investing on a visit to Canberra in 1997.

"To me it was a completely new concept and I must admit I was quite impressed with the idea," recalls Andrew.

"Almost the next day we happened to be holidaying on the Sunshine Coast and because we were there and motivated to look, that's how we came across our first property.

"We looked at several (properties) in the Noosa area and picked one up in Noosaville which has turned out to be quite a good buy."

The Shorts paid $145,000 for the then-new townhouse, which now rents for $240 a week and is valued at $395,000.

Though the property has performed well for them, looking back Andrew and Julie believe they made some mistakes.

"The first error was that we didn't shop around for finance, as we only went to one bank to look at loan options," says Julie.

Andrew adds that they weren't aware of depreciation benefits and used an accountant who didn't really appreciate the tax advantages of gearing, so largely missed out on those tax savings in the early years.

Three years after their initial purchase, the Shorts settled on their next investment, a unit at Hornsby in Sydney's northern suburbs. They thought the property had all the boxes ticked: a modern complex with a pool, gym, sauna and security guard; views; easy walking distance to the train station; and close to a major shopping centre.

However, it's been the poorest performer in their portfolio. The capital gain has been comparatively sluggish and the rents have stagnated, Andrew says.

"Because they've put on so many apartments in that area it seems to have kept the rental and the capital value down," he says. "I think the market's just been completely flooded for many years."

With the benefit of a few more years of

Andrew & Julie's tips

- Familiarise yourself with the basics and educate yourself in the principles of property investment – read books by authors such as Jan Somers.
- Overcome your fears and get out there, perform some due diligence and look for a bargain – they can be found at any point in the property cycle.
- Surround yourself with a good team (a broker, a solicitor and an accountant) and make sure they all understand investing in property and that they each own investment properties.
- Make sure you're not locked into any one bank or building society and avoid cross-collateralisation where possible.
- It's important that naysayers, particularly financial advisors and stock brokers, don't talk you out of a good deal when the market has been flat for many years as a boom won't be too far away.
- Try to avoid buying capital city apartments (unless you can buy the entire block) as these have a body corporate which can be troublesome and tend to have high tenant turnover and provide little opportunity for adding value via extension or renovation.
- Buy homes with good land content and look for future improvement opportunities via renovation, subdivision or redevelopment, and never, ever sell.
- Network with like-minded property investors; there are plenty of very good special interest groups and discussion forums that can provide a wealth of excellent information.
- Keep your properties well maintained at all times as this will assist in retaining tenants, or make it easier to attract new ones. Also, do a periodic review of your managing agents' performance. They can sometimes take their eye off the ball.
- Ensure that you use appropriate structures (i.e. pick the right trust) when purchasing property. This will provide many benefits, including offering some protection for your assets. Also be sure to address family succession issues.

investing under their belts, the Shorts see a number of disadvantages to investing in large unit complexes in capital cities. For instance, Andrew says there's little opportunity to increase the capital gain of a single unit, such as by renovation.

"A few years ago, there were some unpleasant issues with the body corporate, and due to the resort-style facilities and the security guard, the body corporate fees are extremely high," Julie adds.

The Shorts also believe units see a higher turnover of tenants, which they put down to the fact that it's relatively easy for people who live in units to move whereas a family living in a four-bedroom house is more likely to put down some roots. Andrew says losing a tenant becomes costly quickly.

"We normally lose around $1200, consisting of a couple of weeks' vacancy and the managing agent's leasing fees."

Before the Shorts had had a chance to start learning the lessons of their Hornsby purchase, however, they bought another unit at St Kilda in Melbourne. Again, it was a modern apartment in a spectacular and well-located complex. And again, they've faced similar problems as in Hornsby. For example, in five years, they've had six different tenants.

"Whilst we do know of a few investors who have done very well from apartments, we're now a little more cautious and would rather look for houses with good land content that provide an opportunity to increase value through renovation or via limited development," Andrew says.

Nonetheless, the Shorts will keep the units in their portfolio and wait for better returns, as Andrew believes the costs of transferring from one property to another are greater than any benefits he'd see from reinvesting that money.

"We'll hang onto them and hopefully their day will come," Andrew says.

There are some positive signs, with the rent in St Kilda increasing in the past year and the Shorts' property manager in Hornsby indicating rents may jump soon.

"The developers have pretty much stopped there now so hopefully we'll see an improvement in both rents and capital value in the next few years," Andrew says.

Superannuation

In 1999, the Shorts established a personally managed superannuation scheme and engaged a large stockbroking firm to administer it.

After a few years of seeing the value of their super plummet, even as they forked out the broker's management fees, Andrew and Julie decided to take things into their own hands. They took control of the fund and decided to invest in what they knew best, property.

Given that their fund had taken quite a hammering, they only had a limited amount of money to use to purchase a property. Also, the super fund couldn't borrow money, so they had to find a house that was cheap enough to buy outright. Their research quickly pointed them towards Tasmania, where they could buy a house much cheaper than in mainland cities.

And so, in 2002, the same year as their Bellingen purchase, Andrew flew down to Tasmania, scouted around Launceston and they picked up a two-storey, four-bedroom house in the suburb of Newnham with views across the Tamar Valley.

"This property, like most in Tasmania, has now seen some spectacular growth over the last few years and the rental return has been excellent and continues to grow each year," Andrew says.

The rent from this property goes directly back into Andrew and Julie's super fund. While they pay fees to a property manager, they no longer pay high management fees to poorly performing stockbrokers.

Getting serious

Around this time, the Shorts started to see the value of their houses increase significantly and they also realised that they should start taking their property investing far more seriously if they wanted to retire within the next five to ten years.

"We undertook to better educate ourselves and started looking for resources that could assist us in becoming smarter and more effective investors," Julie says. "(We) quickly came to the realisation that we needed to change our thinking on several fronts.

"Firstly we realised that we needed to find a good mortgage broker as our loans were so clumsily cross-collateralised that

we couldn't see how we could finance any future purchases."

Andrew says, "We ended up going to a broker here in Canberra who's been brilliant and he's dismantled the quite constraining loan structure that we had in order to make the loans all standalone."

It's taken a couple of years to unravel the cross-securitisation on the loans, Andrew says, but it's been worth the effort.

"We're looking at moving security around to get titles back for property, refinance them, then set up line of credit loans to then use as deposits on other places. That tends to have been how we've done it. The way the loans were structured before, there was no way we could have done that."

For instance, because the Bellingen property has increased in value substantially, the Shorts have moved the security of their Noosa property from the Bellingen loan, meaning they've now got the title back for the Noosa property.

"Whilst we've never paid off any principle, we own it outright so that's quite exciting," Andrew says.

The Shorts' accountant has helped them start investing through a hybrid discretionary trust with a corporate trustee, providing their assets with greater protection from litigation.

Andrew and Julie use agents to manage all their properties, though Andrew says it's worth keeping an eye on how they're performing. He switched agencies in Noosa after the one he was using "dropped the ball".

"We actually had a tenant break the lease there and the new tenants came in," he explains.

"In Queensland, I think when a tenant breaks a lease then they're responsible for paying for any vacancy period and for the leasing fee for the new tenant to come in.

"In fact, that's what the agent told me would be the case and then they billed me for those costs as well as billing the outgoing tenant, and it took me about four months to recover that money. The manager wouldn't return my phone calls – it was an extraordinary way to do business actually. So eventually I got fed up with it and found another agent that I'm very happy with."

IT'S NOT OFTEN YOU GET A CHANCE TO BUY BACK A PIECE OF YOUR HISTORY. FACED WITH THAT CHANCE, ANDREW AND JULIE LEAPT ON IT.

All of the Shorts' loans are now interest-only; most are on variable rates, though they've opted to fix a couple of their loans. Across their portfolio, the loan to value ratio sits around 50 per cent. Andrew says a couple of the properties are negatively geared, while the rest are neutral or positive.

"I've always been a bit nervous about having a negative portfolio in that we'll need cash flow to support any negative outgoings," he says.

"We've been reasonably keen, particularly in more recent times, to buy properties that tend to be closer to neutral or positive if we can do it, with a view to once I retire the properties won't actually be a burden."

Andrew says the mortgage broker who helped untangle the knot of cross-securitisation is just one of the members of the all-important support team he's put together, which also includes a solicitor and an accountant experienced in property investing.

Time to buy

With their finances in order, Andrew and Julie figured it was again time to buy. Since 2003, they've bought four more investment properties, spread from Rockhampton in Queensland to Scottsdale in Tasmania. Clearly the Shorts have no qualms about investing away from home, though Andrew says either he or Julie always flies out to inspect properties in person before making a purchase. Andrew and Julie selected Rockhampton as an investment target to deliberately chase both capital growth and good rental yield.

"My wife flew up and spent a weekend up there looking around and ended up looking at two places," Andrew says. "In fact, it's a pity we didn't buy both. The one we did buy has proven to be extremely good, with a massive jump in rent and big capital growth as well."

PORTFOLIO

LOCATION	PURCHASE DATE	PURCHASE PRICE	CURRENT VALUE	WEEKLY RENT
Kambah, ACT	1992	$165,000	$470,000	PPOR*
Noosaville, QLD	1997	$145,000	$395,000	$240
Hornsby, NSW	2000	$253,000	$325,000	$310
St Kilda, VIC	2001	$285,000	$355,000	$370
Bellingen, NSW	2002	$275,000	$675,000	$340
Newnham, TAS	2002	$135,000	$265,000	$260
Rockhampton, QLD	2003	$187,000	$335,000	$320
Fisher, ACT	2005	$350,000	$360,000	$415
Coffs Harbour, NSW	2006	$330,000	$330,000	$340
Scottsdale, TAS	2006	$70,000	$90,000	$75

* PPOR = principal place of residence


Kambah, ACT

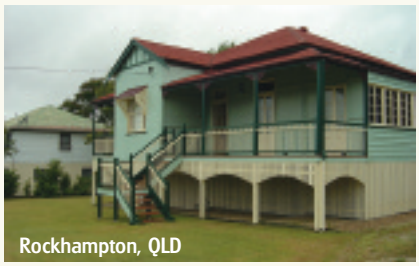

Noosaville, QLD


Hornsby, NSW

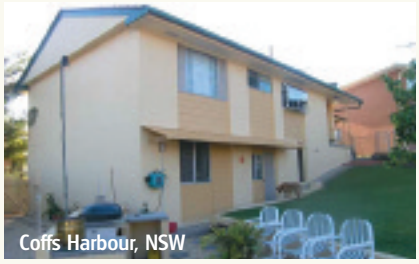

St Kilda, VIC


Bellingen, NSW


Newnham, TAS


Rockhampton, QLD


Fisher, ACT


Coffs Harbour, NSW


Scottsdale, TAS

The 100-year-old Queenslander purchased for $187,000 rents for $320 a week and is now valued at $335,000. That's a value increase of almost 80 per cent in three years, along with a gross rental return of 8.9 per cent.

The next purchase was closer to home, a duplex in the Canberra suburb of Fisher. Bought for $350,000, it returns $415 a week in rent, meaning it's returning a modest positive cash flow. It's an easy to maintain property in strong rental demand, Andrew says.

"We received four rental applications on the first weekend the property was advertised for rent," he reveals.

This year, the Shorts have added two more properties to their portfolio. In March, they paid $330,000 for a four-bedroom house in Coffs Harbour, an area they believe will experience strong population growth. Then in June, they bought a 10-acre block of land in Tasmania for their super fund, with an eye to possibly building on the block down the track.

"In the meanwhile, we're quite happy to agist the land to local growers and to wait and see what happens with future development opportunities," Andrew says. The $75 a week agistment income more than covers the property's holding costs.

Moving ahead

Acquiring nine investment properties in nine years might sound impressive but the Shorts aren't about to stop. Andrew says they'd like to expand their portfolio further. Down the track, one option might be to enter the property game with their two high school-aged sons, who Andrew says have expressed an interest in doing trades, such as electrical or carpentry.

"As a family we could have a family business of buying and renovating properties, increasing the value of those properties, refinancing, using that new equity as deposits on other places. The boys have expressed an interest in that," Andrew says. "Time will tell of course. They also want to be rock stars because they've got a rock band."

If the boys do decide to take a different tack – or make it big in the rock world – Andrew says he and Julie may still go it alone in the property field. The pair plan to live off their equity when they retire.

"Once the portfolio reaches a certain point it develops a momentum of its own," Andrew says, explaining that it increases in value by more than the amount withdrawn each year to supplement the rental income and fund a retirement lifestyle.

"So, if on average, the portfolio increases in value by, say, $300,000 each year and an amount of $100,000 is withdrawn each year for living expenses, then the equity will continue to grow over time rather than decreasing."

He continues, "We've heard several views on this but for us once our portfolio is valued at over $4,000,000 with a debt to equity ratio of around 50 per cent, then this should provide for a very reasonable equity and rent funded retirement income.

"These figures are probably fairly conservative and are intended to allow for spikes in interest rates, modest declines in capital value and for a situation where there could be several concurrent rental vacancies."

"A FEW YEARS AGO, THERE WERE SOME UNPLEASANT ISSUES WITH THE BODY CORPORATE, AND DUE TO THE RESORT-STYLE FACILITIES AND THE SECURITY GUARD, THE BODY CORPORATE FEES ARE EXTREMELY HIGH."

And of course, there's that green change to make one day. It might happen as soon as 2009, when the youngest of the Shorts' sons will finish school. However, Andrew says the move might not happen overnight.

"We might be able to go up there and spend a lot more time there and come back to Canberra every now and again," he says, adding that their dual-occupancy place at Fisher might provide a home for their two boys and a Canberra base for them to return to.

"Having properties in multiple locations certainly gives us some options for how we manage a retirement.

"Ultimately we see ourselves living up there (in Bellingen) full-time but it might not be an immediate move. It might be a transitional move."

The Shorts' 10-year-old daughter has also indicated she's happy to move to the family farm, Andrew says, "so long as we buy her a puppy and a horse".

He adds, "The farm always used to be a focal point for family. I can imagine it becoming that focal point again in the future and that would be nice." ■

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