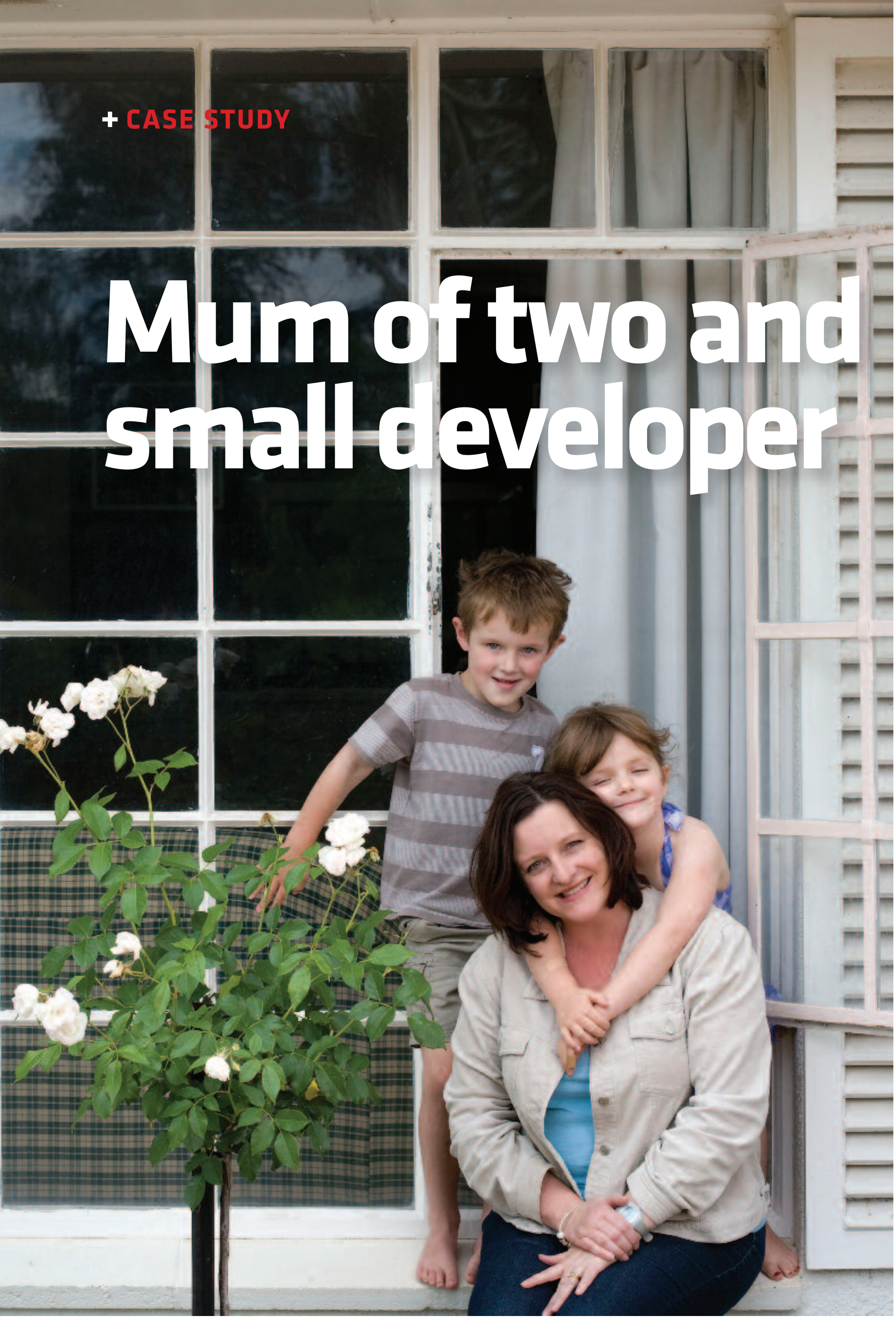
Mum of two and small developer



Manuela Benson describes herself as a "stay-at-home mum" but is overseeing several subdivision projects. She cut her teeth on this Geelong development.

GEOFF DOIDGE

MANUELA Benson bought her first property for $68,000 in 1994. It was a one-bedroom unit in Adelaide, where, a few years later, she met her future husband, Craig. In 2000, just before they married, they bought an investment property in East Geelong, Victoria, not far from where Craig's parents lived. It was a three-bedroom house, a deceased estate they picked up for $85,000.

"It was purely a rental," Manuela explains. "We didn't have any thoughts about subdividing back then."

Around that time, Craig was transferred to the Australian Capital Territory, so Manuela sold her first property in order for the couple to buy a three-bedroom home in the Canberra suburb of Curtin, for $190,000.

In 2002, Manuela and Craig were looking to purchase another investment property a little closer to home, as Manuela was pregnant with their first child.

They bought a block of land in the holiday town of Bateman's Bay on the southern New South Wales coast for $66,500.

Manuela's father is an architect, so they had him design a concept for two dwellings on the site in a bid to maximise its value.

"In the end, though, it didn't pan out," Manuela says. "At the time, I didn't think it was practical to build from a distance, and we sold the block in 2003 for $225,000."

Despite not doing anything with the site, that's a 238 per cent capital gain in just a year!

Another two years passed before Manuela set her sights on another investment property, again in Geelong, in the suburb of Newcomb. The three-bedroom weatherboard home, bought for $189,500, rented out for $175 per week, a 4.8 per cent yield.

"A year later, in 2005, we were inspecting the place as part of a tenant review and I was looking at what potential it might have to increase the value, adding another bedroom or extending the living area perhaps. It then struck me that this was a huge backyard – all that was on it was an apple tree and a shed – maybe big enough for another house. And I started making the calls."

In the meantime, Manuela and Craig traded up to a new four-bedroom home in Canberra, for $569,000, and sold their first for $400,000, a 102 per cent capital gain.

BRING ON THE SUBDIVISION

Manuela had a plan to have 10 properties in 10 years and subdivision was the key to making it a reality.

"I realised we weren't in a financial position to buy again in Geelong but subdividing would give us an extra rental property and increase the relative value of the existing house by deducting the land value, which we put at $60,000, from the initial costs."

Manuela started reading everything she could find about property and subdivision, focusing on small developments. The investment side of this partnership is definitely Manuela's call. She does all the research, negotiation, purchasing and project management, while Craig services the loans and has the properties in his name. Lucky Craig!

"Pretty much my first point of call was the local council, to find out about the process of putting together a development application (DA), and everyone was just so helpful," says Manuela, "especially the townplanner. I didn't know anything – and that was actually useful. The less you know, the more information people are generally willing to give. And I wasn't afraid to ask the same question twice if I didn't quite understand."

It took Manuela just over a year to pull together all the necessary information, submit her DA and have it approved, and get the

BELINDA MORGAN PRATTEN

building started. She decided on a project home from a local builder, choosing a three-bedroom brick veneer design, with open living areas tiled throughout.

IN THE HOTSEAT

What's your background?
I'm currently a stay-at-home mum, along with property development. I was previously a physiotherapist and ergonomist, BC (before children).

Why did you get started?
I'd just had my first child and stopped working after 14 years in my profession. I definitely wanted a career change. I decided to spend quality time with the kids, however I also wanted to contribute to the financial security of our family. I was always extremely interested in property and I thought that this was something I could do from home. It essentially involves research, communication, analysis, decision making and project management, all of which I could do with my computer and my phone.

What was your greatest fear?
That the whole process, from finding a suitable property, to building, to gaining separate titles, to securing a good tenant in each property, takes a full year at the very least. As the recent economic crisis demonstrates, a lot can happen over this timeframe. What I think end values and demand may be could easily change.

What was your greatest mistake?
I have learned from every mistake! I love a challenge or problem to solve, and there have been a few, but nothing too disastrous. I think buying at the peak of the market, when I was so eager to get "anything" is one of them. That property hasn't seen much capital movement, however it was the one that sparked the notion of building an investment property because of the ample land it contained. And this in turn has contributed to the evolution of my overall investment strategy. Also, like so many other investors before me, I seriously regret selling my very first purchase.

How would you describe your strategy?
Buying older homes on large residential blocks in areas that support urban infill. Then subdivide and build another dwelling to rent. This really increases the yield on the overall investment and minimises the amount of equity we need to inject.

What's your best renovating or money-making tip?
Making sure the expected return is good but the worst-case scenario is tolerable.

Any other tips for investors?
I've always found an enormous amount of information from local councils. I could spend hours trying to look things up on the internet but calling in person is the easiest way to get specific information. I really try to learn as much as possible about an area or about a process, and speak to locals – real estate agents, property managers, councils, planning officers, surveyors, builders, neighbours, tradesmen. Everyone has a story to tell and each will tell you one important thing. You can't possibly know everything about property but if you know who to ask, then you don't have to. Get inspiration from reading about what other people have done.

THE SITE

The total property is 750 sqm and Manuela planned a battleaxe block with a shared driveway. She built a new carport for the existing home between the two houses to provide some privacy, and the project home came with its own garage at the side.

"The most problematic aspect was how the two houses fitted together on the block and I'm still not entirely happy with it, but it gets by – as rental properties they're quite functional. And the current tenants have become good friends.

"There was meant to be a little more space between the two houses but an easement at the back was increased on the plans, moving the whole thing closer to the existing house than I'd wanted. I certainly look out for this factor now in potential purchases. Thankfully, though, we were able to preserve the beautiful old apple tree, which gave a more established feel to the newly built property."

Manuela had initially negotiated a reduced rental for the tenant of the existing house to stay on while the building took place but in the end it didn't suit the tenant and so the house lay vacant for the time it took to build.

"I realised this wasn't the best situation but took advantage to do a basic renovation on it during the construction period."

THE BUILD

"Building the new house was a very easy and smooth process," Manuela says. "The initial deposit of $1500 covered working drawings, soil tests and contract preparations. The builder was forthcoming with all the information I sought and the contract was a fixed price of $108,260, with the addition of provisional sums for a few items that couldn't be fixed at the time of signing, things like engineering and site costs."

The builder allowed $15,500 for these but they came to $18,458 (see Development Costs table on page 54 for a breakdown), with a bit of a blow-out in the sewerage connection costs.

"It was only the first week and already we had a call to say that the existing sewer point didn't pass inspection – it was an old house – and so had to be replaced and sealed off to ensure its integrity, adding an unexpected $1500. Most of the costs were actually less than allowed for but others were higher, including the sewerage connection. I began to worry what else was in store! But there were no other major surprises."

Being a project home, design costs were kept to a minimum, with Manuela choosing all the internal finishes in less than an hour.

"I wasn't as emotionally attached as I would have been if I was building for myself," she says.

"The site manager was happy to take me along through the process and it wasn't necessary to inspect any stages of the build. I trusted them with the building aspect, at least until the official completion inspection.

"The builder had estimated 14 to 18 weeks to completion and to my delight and relief completed the build in 14 weeks, starting on May 11 and finishing in mid-August."

THE FINISHES

"The house might have been finished but I still had a lot to do. There were so many different contractors to organise and each one depended on the completion of the work of the trade before it. In a nutshell, I had different contractors for concreting and driveway, fencing, landscape works, planting, painting and miscellaneous items."

But Manuela also learned that Geelong pretty much operated as a country town – everyone knows each other and when you find a good tradie, he'll more than likely recommend another good tradie – and that's how you build a good team.

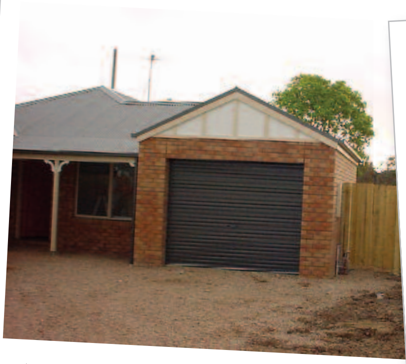
"The painter has since been a very useful contact and has repainted our other properties, including the existing house at Newcomb. I also took the opportunity to use his step-ladder and tools for some small repairs and installing venetian blinds in the older house. Carrying a step-ladder on the plane from Canberra wasn't really an option!

DEVELOPMENT COSTS

Purchase costs		
Purchase price	$189,500	
Purchase costs	$8,755	
Subtotal		**$198,255**
Existing 3br house		
Reno	$5,523	
Landscaping & plants	$3,933	
Fencing	$1,297	
Concreting/driveways	$3,776	
Subtotal		**$14,529**
Total cost		**$212,784**
Subdivision and infrastructure costs		
Designer	$650	
Engineer/soil tests*		
Subdivision application	$2,393	
Building permits*		
Shed demolition	$825	
Water & sewerage*	$1,701	
Surveyor	$3,014	
Electrical headworks	$2,156	
Subtotal		**$10,739**
Building costs, 3br house*		
Builder's deposit	$6,134	
Foundation stage	$12,268	
Frame stage	$18,402	
Lock-up stage	$42,938	
Fix stage	$30,670	
Completion	$16,306	
Subtotal		**$126,718**
Finishes		
Landscaping	$3,375	
Plants	$558	
Fencing	$1,297	
Concreting/driveways	$3,776	
Subtotal		**$9,006**
Total cost		**$146,463**
Total Development Cost		**$359,247**
Notes * Included in building costs:		
Engineer/soil tests	$3,894	
Site costs	$3,000	
Power supply	$1,990	
Sewerage connection	$7,210	
Water tapping	$2,364	
Total incl in building costs	**$18,458**	

The subdivision site

Construction



The new dwelling

The finished product

"We also still use the husband and wife team who are the draftsman and designer for the builder. They have their own business and they design the custom-builds we now do, as well as lodging development applications for us.

"It just took the courage to take this first step into development, learning as I go. I now have built up a strong team and many of them are from this original build."

There was one aspect of the finishes that really stemmed back to the planning process, and that was the landscaping.

"I thought I had to follow the plans exactly, and technically you must, so I dutifully laid the pre-grown turf in the areas on the planning permit that stipulated grass. The cost of landscaping was quite high in comparison with the total development costs. The plants alone cost $1115 for the two properties. I just knew it was all going to die – we were in the middle of a drought and there was no-one to water. The grass lasted two weeks.

"I was concerned we'd have to replace everything but some of the plants did survive. Lessons here... to ensure that planting is drought-hardy. And don't plan for too much in the DA to start with; try to get away with the minimum requirements. By driving around to see what other developers do, it's clear that they undertake very little in terms of landscaping. I had yet to discover that secret!

"I'd also missed a few of those little things, such as a clothesline, letterboxes and the small matter of installing a privacy screen outside one of the windows that faced a neighbour's window, light fittings and a flyscreen to the sliding door."

Manuela arranged a handyman for these final jobs. The extra costs associated with finishing the subdivision as a whole project totalled $18,012, split equally between the two properties, and took an additional six weeks to complete.

"I now try to include as many of these works in the building contract itself, rather than project managing them as separate items, as this extra time impacts on holding costs and increases the time it takes to secure tenants and begin taking in a return."

THE RENTAL

The new property was finally ready in mid-November and leased for $260 per week. New properties at a reasonable rental are highly desirable for tenants. The older property was leased in January 2008 for $200 per week. Both rentals have just increased to $265 and $215 respectively, taking the yields to 6.7 per cent and 7.8 per cent.

THE COOKIE CUTTER

After a combined spend of $359,249, including the initial 2004 purchase, the bank valuation on the two properties is currently $440,000, a 22 per cent gain in equity.

This success meant Manuela was now able to buy another two Geelong properties, specifically for subdivision. She's just received approval for both developments, which will begin early and mid-2009, and has also just completed the subdivision and construction of a new house on their first investment property in East Geelong.

"I now know exactly what type of property to look for, with site selection being the most important aspect – the position of the existing house with consideration to site cover and open space provision, setbacks and parking, orientation, easements and zoning."

She adds, "These developments are not your Gucci, modern townhouse sites; rather they are simple, contemporary houses integrated within residential suburbs, with convenient location to infrastructure, and intended as rentals for tenants who want low maintenance and affordable rental options.

"I've had enormous satisfaction in discovering the necessary skills and knowledge required to undertake this type of project. I look forward to refining my method and building a process that can be repeated over and over."

THE UPSHOT

When the current developments are completed, Manuela and Craig will have eight investment properties with a combined estimated value of just over $1.9 million and bringing in a weekly rental of $1935, an average yield of 7 per cent.

Manuela is planning to increase the portfolio by two subdividable properties per year.

"Using this strategy, we minimise the equity required to hold onto more property. Our portfolio grows quicker, aiming to get two rentals (in time) from the one purchase. We effectively get the land at a discount because we're re-establishing boundaries, and we plan to never sell.

"The yield on the portfolio is therefore increased by about 1 percentage point because we're not paying as much for the asset to start with. Importantly, this reduces our annual cash shortfall, which means they'll break even sooner. By selecting wisely and not demolishing the existing dwelling, we also reserve cash flow, and we get negative gearing benefits from depreciation of the new dwelling as well, to support our overall cash position."

And Manuela and Craig are about to spread their wings and investigate the Brisbane market.

"It's amazing how quickly you learn when you've got a lot at stake," says Manuela. "I'm not creating cash flow like a job does but the wealth-creation possibilities, say in 10 years' time, are quite spectacular." **api**

API CONNECT

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

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

For the Reno Kings report, 10 Steps to Development Success, *send a blank email to api95@renos.com.au*

CASE STUDY NEWCOMB VIC 2-LOT SUBDIVISON

Description	Existing 3br house	Subdivision, 3br house	Combined values
Purchased	Dec-04	Oct-07	
Purchase price*	$189,500	$60,000	$189,500
Purchase costs	$8,755		$8,755
Renovation costs	$14,529		$14,529
Development costs		$146,463	$146,463
Total costs	$212,784	$206,463	$419,247
less land value, 2nd block	$60,000		
Total expended	**$152,784**	**$206,463**	**$359,247**
Rent pw at purchase	$175	N/A	$175
Yield at purchase	4.8%	N/A	4.8%
Rent pw current	$215	$265	$480
Current yield	7.8%	6.7%	7.1%
Current value	$190,000	$250,000	$440,000
Equity gain	$37,216	$43,537	$80,753
Gain as percentage of cost	24%	21%	22%

Notes: *Purchase price for subdivision equals land value; Yield at purchase=rent/purchase price, excluding purchase costs; Current yield=rent/total expended, excluding purchase costs; Equity gain=current value-total cost