THE PROPERTY MILLIONAIRES ISSUE

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your investment property

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Australia's leading property investment magazine

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How we made our MILLIONS from scratch

Australia's successful investors reveal their top tips for building multimillion-dollar property portfolios

47 FASTEST GROWING RENTAL SUBURBS

- ✔ Cash flow up to $252 pw
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Investor of the Year Award 2013

Your Investment Property's **annual nod to the country's sharpest property investors has returned for its sixth year as we reveal 2013's most inspiring property heroes and how they got their start**

2013 was a cracker, that's for sure. Interest rates dropped to their lowest levels in years and much of the Australian buying market went into a frenzy. Property markets returned to life in most capital cities and many investors got some phenomenal results. Of course, some did better than others – and that's where it gets interesting. Among 2013's victors, who accomplished the most with their investments?

That's a question *Your Investment Property* has sought to answer every year in our annual Investor of the Year competition.

This year it has returned with full force as we honour Australia's finest property investor and four other investors who have also done some amazing things with property.

These are ordinary, everyday Australians who have taken action. They've shown a proactive streak can deliver just about anything they set their minds to with property.

After receiving a wealth of entries, we're proud to announce this year's award winner as Gordon Thorpe.

Gordon wowed our judges with his clever negotiation tactics and low-risk investment strategy. This approach has allowed him to build a mega property portfolio that nets him a substantial passive income stream.

Congratulations also go out to the award's runners-up: Ryan Crawford and Glenn Trainor. Ryan, as first runner-up, has shown just how powerful a tool property development can be in an investor's arsenal, while second runner-up Glenn shows that investors don't have to spend all that much money to create wealth.

Special acknowledgement has also been extended to Elaine Chase and Peter McRae, whose property smarts have merited them a "highly commended" mention among 2013's winners, along with some great prizes.

Measuring up the entries

How applicants were assessed and compared and how the winner was eventually chosen

Because every investor starts off with different goals, income and available funds, Investor of the Year candidates were not assessed merely by the size of their portfolio. Several key factors were taken into consideration. These included:

- Strategy and property selection criteria
- Entrepreneurship and contribution to other people
- Risk management
- Innovation, especially with finance
- The ability to overcome investment challenges

Who entered?

Your Investment Property received loads of competition entries, from investors with just one property to real estate professionals. They entered from around the country by filling out our online entry form at yourinvestmentpropertymag.com.au. The form asked questions such as "What's your most successful deal?" and "What's your overall property strategy?"

The entries revealed some interesting things about the people who decided to enter:

- The average number of years investors had been in the property market was seven
- One investor had been investing for more than 30 years
- Most entries were investors with a total portfolio value of between $600,000 and $1m
- The average number of properties in a portfolio was four
- The most common way to start a portfolio for people below age 35 was with savings. For those older, it was through equity in their home

The judges

Assisting *Your Investment Property* in nominating 2013's winner were:

Tyron Hyde, director, Washington Brown
Tyron Hyde is a veteran of the construction and development industry and is a leading expert in property tax depreciation. Visit washingtonbrown.com.au

Tim Lawless, head of property research, RP Data
Tim Lawless is a leading expert on property trends and the Australian property market. Visit myrpdata.com

John Kovacs, managing director, NMD Data
Former real estate agent John Kovacs started NMD Data, which provides a database listing mortgagee foreclosures, deceased estates and housing authority properties. Visit nmddata.com.au

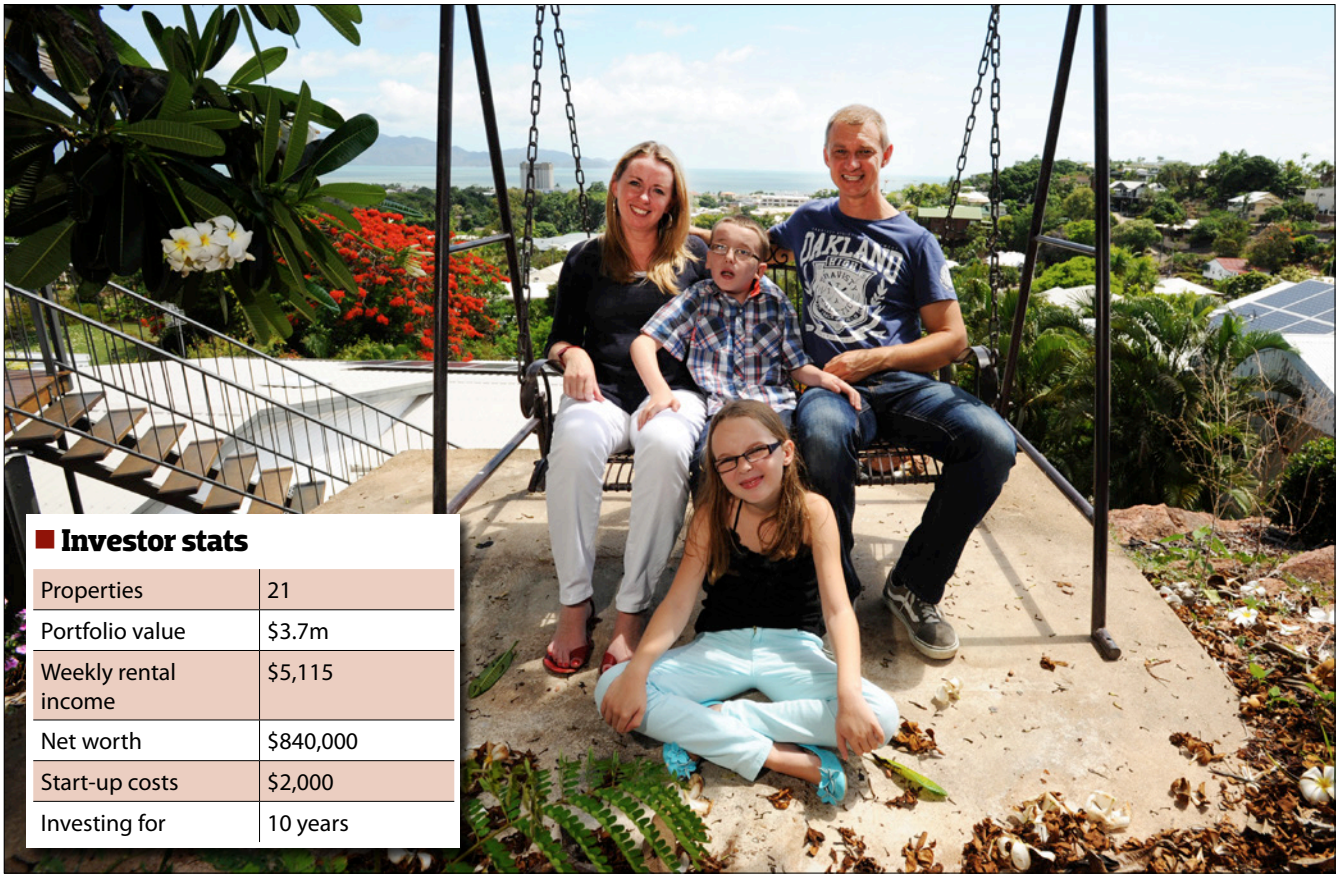
David Hows, managing director, Real Estate Investar
David Hows is the founder of Real Estate Investar, which aims to empower investors with data to make smarter decisions. Visit realestateinvestar.com.au

Investor of the Year Award 2013

HIGHLY COMMENDED

Peter McRae

Peter McRae did not buy his first investment property until he was 34. He is now 44 and together with his wife owns 21 properties spread throughout Australia and the US. How did they build his massive portfolio in just 10 years? *John Hilton* finds out



Investor stats

Properties	21
Portfolio value	$3.7m
Weekly rental income	$5,115
Net worth	$840,000
Start-up costs	$2,000
Investing for	10 years

Peter McRae must be the busiest man in Australia. Between family, work, property, travel and Ironman triathlons, it's a wonder he has time to sleep.

But up until 10 years ago, his life was nothing like what it is now. Peter was working as a clinical psychologist with the mental health services in Newcastle when he realised the time had come to focus on his financial future.

"My son was born with global developmental delay and has now developed autism. So there was the fear of not being able to afford all the help we needed," he says.

"I began the investing journey not long after he was born. It acted as a trigger to jolt me into securing my financial future."

Peter set himself a goal. By age 50 he wanted financial independence, not so much because he wanted to retire but so that he could at least have the freedom to do so at that age.

Consequently, he turned his attention towards property investing, which he saw as the safest investment class.

"For me, shares are a bit too volatile. And with property I like the sense that there's a stable income from rent," he says. "In fact, I see rent as more stable than your wage because you can lose your job any day and it might take a while to find another one, but rent consistently flows in."

Starting strong

The year was 2003 and Peter had just made up his mind that he wanted to be a property investor. Next he had to work out where he would buy, what he would buy and how he would buy.

Given his financial circumstances at the time, Peter went on the hunt for a cheap property with good rental returns. This led him to Launceston in Tasmania

Peter wins

A prize pack worth $500 including:

- 2 Special Report packs from RP Data
- 12-month 'Platinum' membership of NMD Data
- 12-month membership of HomeSource Access

Timeline

2003: Peter purchases his first two investment properties in George Town and Launceston in Tasmania

2005: He makes his most successful purchase, a unit in Kalgoorlie, WA. It has more than doubled in value since then and currently boasts a 16.17% yield

2006: Peter changes his strategy from buy and hold to developing a way to pay off his PPOR

2012: He uses the equity in his portfolio to purchase a new PPOR, which is his dream home

2013: Peter purchases nine properties in the US

Judge's comment

"Peter has a great story to tell of setting goals to protect the future of his family. By choosing property as a stable asset class he has sought to ensure long-term financial security. He has diversified the locations of his purchases around Australia and now the USA, and he is well aware of the risks involved. Additionally, he has started investing in cash flow positive properties to increase his equity. Well done on the Launceston purchase; it's good to see family working together and achieving their goals."

– Tyron Hyde, Washington Brown

and it was there that he met professional investor Paul Wilson.

"Paul became my mentor and helped me get my initial properties up and running," says Peter. "He was a godsend to me and is still a good friend today."

Peter bought two houses in Tasmania, one in George Town and one in Launceston, for $100,000 and $123,500 respectively. "The Launceston one was an old 1969 property and when I bought it the house was pink," he says. "It was pretty ugly."

Peter purchased them by using the equity in his PPOR (principal place of residence), with separate loans for each of the purchases.

"It was a bit daunting because I had a reasonable debt on my own home and I had to think about going into further debt," he says. "I was scared to an extent but I told myself that this is good debt which helps you along the way."

He still owns both properties today. The house at George Town has increased in value to $157,000 and has a healthy yield of 10.4%, while his Launceston property is now valued at $200,000, thanks partly to a $25,000 renovation in 2008.

Rapid expansion

Once Peter had two properties and his PPOR to leverage from, he had the borrowing power to expand even further. And that's exactly what he planned to do.

In 2005, he added four more properties to his portfolio, one of which was a three-bedroom, two-bathroom unit in Kalgoorlie, WA.

Peter bought the property for $119,000, and it is now worth $250,000. For this reason, he cites this transaction as his most successful to date, not to mention the fact that it has a whopping rental return of 16.2%. "That property has been cash flow positive from day one, with high depreciation benefits. I have had that eight years and I still haven't seen it."

Indeed, buying sight unseen has become one of Peter's secrets to success. He still hasn't seen any of his properties in the US and a lot of his purchases in Australia.

"You can get emotionally involved when you see it," says Peter. "If you don't like something about the kitchen, you might start to think that you don't want to buy the house.

"But at the end of the day, the only thing that's important is the numbers. So being a bit detached from it has actually helped me quite a bit, I think."

Strategy detour

In 2006, Peter decided it was time for a change of direction. Having amassed a portfolio of eight properties, he decided to change from a buy-and-hold strategy to one that could see him pay off his PPOR in Newcastle, NSW.

It was then that Peter discovered that a buyer's agent had a block of four conjoined units in Launceston on his books. He liked the idea, but he couldn't afford them. But luckily for Peter, he realised he could pay for them by setting up a joint venture with his brother.

So they bought the properties for $407,250 and began strata tiling and renovation. When the renovation was complete within two months, the rental figure increased from $120 to $185 per week for each unit.

"The strata tiling process was not straightforward," says Peter. "It took 18 months to complete the process to have the properties fulfil council requirements."

When the process was finally complete, the properties were valued at $170,000 each, which added up to $680,000 in total – an equity gain of $270,000, with just $100,000 spent on renovation and strata tiling costs. In 2007, Peter sold two of the units for $170,000 each and consequently was able to pay off his PPOR.

"We had done some diligent paying

A dream come true

Despite acknowledging that he won't be able to realise the full benefits of property until he retires, it has made one of Peter's dreams come true. In 2012, the equity in his portfolio allowed him to purchase a beautiful three-bedroom home in Townsville, with a magical view of Magnetic Island.

"This is something we would not normally have been able to afford," says Peter. "However, with the freedom to sell some properties and draw on equity from others, we were able to realise our dream. Without it we would have found ourselves in a position of selling our previous residence below market value or being unable to move."

down of our home loan prior to this, but to pay out the final $120k on what turned out to be an 18-month project was well worth the work that was put in," says Peter. "It also gave us further equity to invest, boosting our leverage into further properties."

American ambitions

As Peter's portfolio continued to grow, he started becoming more aware of the importance of cash flow and that this was starting to drop off. Accordingly, he made it his goal to not buy any properties with a yield below 6%.

Peter's solution was to turn his attention to the US and the higher yields available there. In 2013 alone, he has bought nine properties in the US, including six in Detroit.

"Some of those places, particularly those in Detroit, have got around 25% return on them," says Peter. "There is a lot of negative press about Detroit, but I have researched it enough to know that it is still a good investment area for the long term."

Peter has been able to link in to Section 8 Tenants, who are people on a waiting list for housing. But it has not always been a smooth run.

"I have really had to stretch to get some of these purchases done," he says. "I've had to set up a super fund and be resourceful in finding a company that would do loans in the USA."

Peter has also bought properties in Kansas City, Atlanta and North Dakota. The latter, he says, he got into because they have just found oil there.

"I missed out a lot on the northwest Western Australia stuff too, so I thought I would have a bit of a crack at that one."

All of Peter's properties in the US range from A$39,000 to $95,000, and the rental returns go as high as 45.38%. And if there is one thing he has learnt from his experience there, it has been the importance of buying under a company structure.

"In purchasing in the USA recently, the point was rammed home how important it is not to purchase an investment in your own name," Peter says. "All purchases

Peter's portfolio (All prices in A$)

Location	Type	Purchased	Price	Current value	Current weekly rent	Current yield
Newcastle, NSW	4-bed house	Sep-02	$427,000	Sold for $585,000 in 2011	n.a.	n.a.
George Town, Tas	3-bed house	Sep-03	$100,000	$157,000	$200	10.40%
Launceston, Tas	3-bed house	Sep-03	$123,500	$200,000	$300	12.63%
Launceston, Tas	2-bed house	Oct-04	$101,000	$130,000	$210	10.81%
Cairns, Qld	2-bed unit	Nov-04	$82,000	Sold for $100,000 in 2006	n.a.	n.a.
Kalgoorlie, WA	3-bed unit	Feb-05	$119,000	$250,000	$370	16.17%
Whyalla, SA	3-bed house	May-05	$75,000	$150,000	$190	13.17%
Ayr, Qld	3-bed house	Jun-05	$88,000	Sold for $160,000 in 2008	n.a.	n.a.
Brisbane, Qld	3-bed house	Aug-05	$160,000	$250,000	$320	10.40%
Launceston, Tas	Block of four 2-bed units	Apr-06	$407,250	2 sold for $340,000 in 2007; 2 left – value $380,000	$430	7.17%
Adelaide, SA	3-bed house	Mar-07	$145,000	$190,000	$255	9.14%
Adelaide, SA	3-bed house	Mar-07	$145,000	$180,000	$230	8.25%
Hervey Bay, Qld	Duplex	Oct-07	$540,000	Sold for $474,000 in 2012	n.a.	n.a.
Townsville, Qld	3-bed house	May-08	$350,000	Sold for $330,000 in 2012	n.a.	n.a.
Townsville, Qld	3-bed unit	Jul-08	$620,000 (loan $132.5k)	$510,000	$550	22%
Townsville, Qld	5-bed house	Sep-12	$812,000	$830,000	PPOR	n.a.
Kansas City, US	3-bed house	Feb-13	$66,000	$66,000	$210	16.55%
Atlanta, US	3-bed house	Mar-13	$85,000	$95,000	$200	12.24%
Detroit, US	3-bed house	Mar-13	$45,000	$45,000	$190	21.96%
Detroit, US	3-bed house	Apr-13	$44,500	$45,000	$200	23.37%
Detroit, US	3-bed house	Apr-13	$45,000	$45,000	$215	24.84%
Detroit, US	3-bed house	Jun-13	$42,000	$42,000	$200	24.76%
Watford City, US	Studio unit	Aug-13	$55,000	$60,000	$480	45.38%
Detroit, US	3-bed house	Sep-13	$40,000	$40,000	$200	26%
Detroit, US	3-bed house	Oct-13	$39,000	$39,000	$165	22%

Peter's strategy

- Buy sight unseen. You can get emotionally involved when you see the property
- Buy properties with high cash flow and high yield. These days, Peter doesn't buy properties with a yield below 6%
- More is more. Having lots of properties means you will always have rent coming through
- Purchase cheap properties, generally below $300,000
- Buy in strong regional centres, as opposed to tiny rural towns or capital cities
- Take a hotspotting approach rather than just buying in popular areas
- Purchase houses. Units are restricted by body corporates

made overseas have been part of a company structure as a result, so the portfolio now feels more protected."

Looking back

Over 10 years of intensive property investing, Peter has learnt many things. "I probably shouldn't have gone as negatively geared as I did," he says. "I was buying cheap properties with high yields and I probably got a bit too confident and began buying more expensive ones."

Peter says that when he bought a duplex pair in Hervey Bay, Queensland, for $540,000, it was highly negatively geared and had a massive impact on his whole cash flow. "I guess you have to treat it like a business and realise what impact each purchase will have on your business."

Despite passing on his advice to many people, he says a lot of them tell him, "Wow, I have to do this!" – but they never do.

"I see so many dedicated employees out there who do such a wonderful job in their chosen professions. Most, however, leave their financial situation to chance and focus entirely on their jobs to provide this," he says.

"The trick as I see it is to be the best you can in your chosen profession; however, don't let that focus you away from securing your financial future."

Looking forward

Despite having so many properties, Peter has no intention of stopping, but he acknowledges that it might be time to slow down. "I have run out of equity to continue what I have been doing this year. But my philosophy is that the best time to buy is when I am ready to buy."

As far as buying in Australia is concerned, Peter says it all depends on what the market does. In the meantime, he will have more time for another one of his passions – staying fit. "My brother has got me interested in CrossFit lately. I have done Ironman triathlons and seven marathons as well."

He also loves to travel, particularly around the US, but doesn't use these trips for looking at properties. He uses Google Earth instead. "Sometimes it's difficult when I can't make out exactly how the place is laid out. But in the end it doesn't really matter because, again, it's all about the numbers."