

# 75 rentals in 64 months

If you counted all of Rachel and John's units and duplexes separately, they've bought 75 rentals over just five years! Combined, it's a more manageable 29. That's still a lot of buying! **Geoff Doidge**

**W**HEN Rachel Barnes and John Fowler met in 1991 they both had mortgages over their own Adelaide homes, John's with not too much left to pay off, Rachel's 'to the hilt' as a result of her recent divorce. But that was all to change. When they moved in together in 1995, they decided to do up John's house to sell and move into a new home purchased together (they had to rent it back to the vendors initially to

be able to afford it). Rachel rented hers out rather than selling, as a Plan B, just in case things didn't work out.

Then Rachel's mother died and she received a small inheritance from her grandfather that had been held in trust for her mother's lifetime.

"It was only \$40,000," says Rachel, "but it really got me thinking that I needed to do something more to secure a future – we were both in our early 40s. I looked at shares... but it just didn't seem worthwhile."

Rachel decided to check out property. "I'd worked in the finance industry for about 15 years by then and all that time I hadn't realised how easily you can use the equity in your own home to get started. It was sitting right under my nose."

So, putting the inheritance towards their own mortgage, in January 2000 they borrowed about \$30,000, enough to

purchase a modest three-bedroom maisonette (half a duplex) in the Adelaide suburb of Davoren Park. Next followed another maisonette in Elizabeth Grove, another Adelaide suburb, for \$40,000.

During 2001 she and John purchased two Elizabeth Grove duplexes for \$107,000 and \$116,000, a half duplex in Smithfield Plains for \$42,000 and another duplex pair in Davoren Park for \$85,000.

"These are all fairly low socio-economic suburbs with modest rents, but the numbers stack up," says Rachel. "When I first started I couldn't believe you could buy properties with such little money, and it was all done with the bank's money and our equity."

The current estimated valuation on that first \$29,000 property is \$120,000, a 317 per cent equity gain. The others are doing pretty well too, with increases of between 133 and 188 per cent, and the current yield from the rentals is between 13 and a massive 24.1 per cent! But read on.

## Case study 1: Snowtown

"Everybody's heard of Snowtown, haven't they? Well, we'd decided to move a little further afield from Adelaide – it was 2002, nearly a year since our last purchase – and we were looking for Housing Trust properties in the mid-north of South Australia. An agent from the area told us about a property in Snowtown, a couple of hours' drive north of Adelaide, so we decided to have a look," says Rachel.

What they found there was a tiny town of 250 people, and a block of four one-bedroom Housing Trust units that had sat vacant for 18 months. It was on the market for \$85,000. Risky?

"While the property was quite overgrown and neglected, the units had

been built in 1985 so weren't that old and they were very roomy. Still, we thought \$85,000 was too much, so we walked away.

"A few weeks later we checked it out again, after we'd attended one of those free seminars, on negotiating. We went back and found they'd reduced the price to \$69,000 so we offered \$65,000 – and we wanted the weeds chopped back. It was also close to the end of the financial year, so we figured the department wouldn't want the property still on their books for another 18 months. And they accepted our offer."

The beauty of this deal was that the local council then revalued the property at \$65,000 so the rates came down.

"The credit union approved us for a \$68,000 loan so this was a no-money-down deal as well. Shortly after settlement they valued the property at \$92,000, pushing up our equity."

"Although we'd talked to a few agents to manage the property before we settled, none of them actually would. The agent from the mid-north said they were too far away, the local agent for Wesfarmers had just retired, and another in Clare was too busy. We started to get a little nervous."

Rachel talked with her property manager in Salisbury, who agreed that, if Rachel and John did the inspections and showed tenants through, she'd manage the property, promptly arming them with tenancy forms.

"Again we just did a basic clean-up of carpets and so on; the paintwork was fine and there was nothing structurally wrong. This initially cost \$1200 but later we installed air-conditioning for \$3500 through a local handyman."

"The problem came when we agreed to let three of the units out to the first people who looked at them. We wanted tenants quickly. Within a few months the three had a major falling out, which included allegations of sexual impropriety, broken windows, obscene graffiti and damage caused by an axe. They all moved out within a week of each other not long afterwards."

The property sat vacant for about a month, until the Salisbury agent found more suitable tenants. The property is now returning consistently, with a

whopping gross yield of 22 per cent! The estimated valuation is now at \$155,000, giving an equity gain of 122 per cent.

"It was a challenge at first but all worthwhile in the end!" says Rachel. "And, following that negotiating workshop, we did another that looked at the benefits of ownership structures for asset protection, succession planning and tax benefits. From then on we purchased everything in three discretionary trusts."

## Interstate forays

Back in 2002 Broken Hill was in the news a little, particularly for its low housing prices. I even remember one being sold for \$7000, same as the First Home Owner's Grant at the time, so the buyer got it for nix! The town was going through a bit of a resurrection, through the arts of all things, when the mine closed. But things are getting better.

"Broken Hill is only six hours from Adelaide, so we thought we should check out the situation. The first two properties we bought there, though, were just in the wrong area," Rachel says.

Rachel and John picked them up for \$11,000 and \$13,000 each – both three-bedroom homes. They put in a little work, \$3000 and \$4000 respectively, to bring them up to scratch.

"The street they were on had private homes up one end, Housing Commission in the middle and burnt-out houses at the other end. Our properties were in the middle and we figured that if we had tenants in it was still worth the risk at the price. Both had been passed in at auction earlier."

Tenant problems brought an end to that, however, and they were sold in 2004 for \$25,000 and \$17,000, though an insurance payout of \$8000 for vandalism damage brought them both up to a modest profit.

Rachel and John made another two Broken Hill purchases later in 2002. The first was two two-bedroom units in a better part of town at \$79,500, no further outlay needed, and they're going fine. The valuation's up to \$125,000 and the rental yield's been a steady 13.7 per cent, increasing now to

1/3  
page  
ad

## IN THE HOTSEAT

### Geoff: What's your background?

Rachel: I emigrated from the UK 25 years ago and worked in the finance industry. I 'retired' at the peak of my career after 20 years in 2004 – thanks to our property portfolio. John worked as a computer technician and he was able to 'retire' mid-2002.

### Geoff: Why did you get started?

Rachel: In 1999 my mother died and I realised that I had a lot to achieve. A small inheritance held in trust for me was then available. I thought that gave me an opportunity. I didn't realise that the opportunity had always been there with the equity in our house – just didn't see it before!

### Geoff: What was your greatest fear?

Rachel: That I'd lose our home. In many ways we were comfortable – nice house and good careers.

### Geoff: What was your greatest mistake?

Rachel: Not starting to invest earlier, and not buying more when we first started.

### Geoff: What do you want to achieve?

Rachel: More property, more travel, more fun, more freedom, help more people.

### Geoff: How would you describe your strategy?

Rachel: As safe as houses! Accumulating as much positive cash flow property as practical, while preserving as much of our equity as possible. This often means that we purchase lower socioeconomic housing. Housing trusts are reducing their holdings so there's strong demand by these renters. We also like to buy 'nicer' properties but only where they meet our yield criteria and are below value.

### Geoff: Any memorable experiences along the way?

Rachel: We purchased a block of four two-bedroom units in Invercargill, which were later used in the film *World's Fastest Indian* with Anthony Hopkins. The film crew took down the satellite dish temporarily, with our permission, and apparently also wanted to store their equipment in one of the units that was empty at the time – the property manager said only if they paid rent!

### Geoff: How has your life changed since you began investing in property?

Rachel: Wow! From expecting to be an employee all my working life, making money for the corporation and basically living for work – work ran my life, now I'm an employer, an entrepreneur, co-author, coach, presenter and enjoying a wonderful lifestyle – although still a bit of a workaholic, but at least I'm making money for us now, rather than someone else.

### Geoff: How do you picture yourself five years down the track?

Rachel: Globetrotting, having even more fun, and helping hundreds or even thousands of people to develop themselves and their property portfolios.

15.7 per cent. The second was a two-bedroom house for \$47,000, now valued at \$90,000 and yielding 13.3 per cent.

Earlier in the year, though, John had noticed the upcoming launch of the two new Spirit of Tasmania car ferries, effectively an extension of the main highway from Melbourne right into Devonport, Tasmania. By then John had retired from his job as a computer technician, at the age of 47, and was doing a fair bit of the couple's property research. Rachel took four days off from her job and they travelled to Tasmania.

### Case study 2: the Apple Isle

Rachel and John didn't just look around Devonport, though that's where things were happening because of the new

ferries. They scouted Burnie, still on the coast but west of Devonport, where a lot of Tasmania's northern population works in the paper mill and other industries, and Ulverstone in between.

"Our first purchase was in Burnie, a three-bedroom brick house, which we like for its structural soundness. It was listed at around \$45,000 and we offered \$40,000. Lenders had increased their loan-to-value ratio to 95 per cent at the time, so we borrowed \$38,000 and used our ever-increasing equity to cover the remaining \$2000 and purchase costs."

Over the next few months Rachel and John bought another two properties in Burnie, two in Devonport and one in Ulverstone.

"The vendor of one of the Devonport

properties had decreased the rent when the house was put on the market, to encourage the tenant to stay on. The tenant was getting rental assistance and when we asked if we could increase the rent he offered to pay \$140 per week, as there would be no increase to him because of the subsidy. That picked up an already good yield of 14.3 per cent to 18 per cent."

They're all showing decent equity gain, between 145 and 233 per cent.

"Our first and last Tasmanian properties we bought sight-unseen," says Rachel. "Our property managers have all been really good there and tenancies have been steady."

### Case study 3: Bundaberg

By early 2003, Rachel and John had built up more than half of their current portfolio and thought they'd look around country Victoria for more properties.

"In the middle of it all an agent in Bundaberg emailed that she had a property delivering a 13.9 per cent yield available."

Although they turned the car north, by the time they got to Bundaberg the property had sold. So they visited every agent in town on the hunt for high yields.

"We spent a lot of time with one very experienced agent, who told us several times that we would be extremely lucky to get an 8 per cent gross return and had no chance of getting the 10 to 12 per cent we wanted.

"Eventually I asked her if there were any properties coming onto the market that weren't yet listed. She had a brainwave and phoned a woman she knew was thinking of selling. At the end of the conversation we had agreed to buy a block of eight two-bedroom units with an 11.3 per cent gross yield."

The power of asking the right question!

Rachel and John negotiated the price down from \$340,000 to \$320,000 to make the numbers work more in their favour, but this was the most they'd paid for a property so far and they were a little worried about their equity.

"The contract was still subject to finance and one lender said we didn't

meet their criteria. However we were referred to another who agreed to lend us 80 per cent – we thought we'd only get 70 per cent – and at a good fixed rate into the bargain."

All these units were tenanted and the block is close to the centre of town and in high demand, so they don't stay vacant for long.

"We initially spent about \$1000 to repair a flight of stairs, but we've since put in a new bathroom in one, a kitchen in another, some new carpets and a little more furniture here and there, as they're all partially furnished," says Rachel. "All up that has cost another \$10,000."

The property is managed by the selling agent.

"Queensland is the best state as far as management fees are concerned, at 7 per cent plus GST. Most other states are at least 8 per cent and can be a lot

higher when additional fees are charged for inspections, re-letting, postage and other expenses. One South Australian agent came out at close to 12 per cent once these were factored in."

### While we're at it ...

"We've purchased a few more Queensland properties – one we spotted on the way home from Bundaberg – again a block of eight two-bedroom units, in Goondiwindi. The beauty of buying whole blocks is that you have the control, no body-corporate fees, and the rates are generally lower. And there's a back-up plan here, too. If we get into strife, we can always strata title and sell off a couple – an exit strategy.

"Later in 2003 we were holidaying at Mission Beach, looking for cassowaries, actually, when we thought what a nice spot it was."

So of course they looked for property and bought the cheapest they could find – a one-bedroom timber-frame cottage built around 2000. The vendors were sea-changers who were "desperate to move back to the city". They were asking \$125,000 and accepted \$115,000. It's now worth an estimated \$265,000.

While on that trip they also bought a three-bedroom house in Cairns for \$95,000, now valued at an estimated \$215,000. Later purchases, in 2004, were a block of four units in Trebonne, just near Ingham (two sublet to staff of a local nursing home), and a studio apartment at Kooralbyn, near Beaudesert, southwest of Brisbane, and in April 2005 a six-bedroom townhouse at Robina.

"These last two are strata-titled, but they're both resort-style complexes, and the Robina property, especially, is

1/2 page ad

| PORTFOLIO                               |               |                 |                     |                    |                    |                      |                     |                           |                        |
|---|---------------|-----------------|---------------------|--------------------|--------------------|----------------------|---------------------|---------------------------|------------------------|
| Description                             | Purchase date | Purchase price* | Estimated reno cost | Total costs*       | Approx loan amount | Current rent, weekly | Year sold (if appl) | Sale price/ current value | Capital/ equity gain** |
| 3b maisonette Davoren Park SA           | Jan-00        | \$27,000        | \$1,800             | \$28,800           | \$93,000           | \$125                |                     | \$120,000                 | 317%                   |
| 2b maisonette Elizabeth Grove SA        | Mar-01        | \$40,000        | \$1,600             | \$41,600           | \$92,000           | \$120                |                     | \$120,000                 | 188%                   |
| 2x3b maisonettes Elizabeth Grove SA     | Apr-01        | \$107,000       | \$0                 | \$107,000          | \$198,000          | \$270                |                     | \$260,000                 | 143%                   |
| 2x3b maisonettes Elizabeth Grove SA     | Apr-01        | \$116,000       | \$0                 | \$116,000          | \$198,000          | \$295                |                     | \$270,000                 | 133%                   |
| 3b maisonette Smithfield Plains SA      | May-01        | \$42,000        | \$3,000             | \$45,000           | \$92,000           | \$130                |                     | \$115,000                 | 156%                   |
| Maisonettes (1x2b 1x3b) Davoren Park SA | Jun-01        | \$85,000        | \$2,000             | \$87,000           | \$152,000          | \$235                |                     | \$225,000                 | 159%                   |
| 4x1b units Snowtown SA                  | Jun-02        | \$65,000        | \$4,700             | \$69,700           | \$113,500          | \$295                |                     | \$155,000                 | 122%                   |
| 3b house Broken Hill NSW                | Jul-02        | \$11,000        | \$3,000             | \$14,000           | \$17,000           | \$0                  | 2004                | \$25,000                  | 79%                    |
| 3b house Broken Hill NSW                | Jul-02        | \$13,000        | \$4,000             | \$17,000           | \$17,000           | \$0                  | 2004                | \$17,000                  | 0%                     |
| 3b house Burnie Tas                     | Jul-02        | \$40,000        | \$500               | \$40,500           | \$96,500           | \$140                |                     | \$135,000                 | 233%                   |
| 2x2b units Broken Hill                  | Nov-02        | \$79,500        | \$0                 | \$79,500           | \$71,500           | \$240                |                     | \$125,000                 | 57%                    |
| 3b house Burnie Tas                     | Nov-02        | \$47,500        | \$500               | \$48,000           | \$96,500           | \$150                |                     | \$130,000                 | 171%                   |
| 3b house Devonport Tas                  | Nov-02        | \$52,000        | \$5,500             | \$57,500           | \$96,500           | \$135                |                     | \$140,000                 | 143%                   |
| 2b house Broken Hill NSW                | Dec-02        | \$47,000        | \$0                 | \$47,000           | \$42,300           | \$120                |                     | \$90,000                  | 91%                    |
| 3b house E Devonport Tas                | Dec-02        | \$54,000        | \$1,000             | \$55,000           | \$116,000          | \$140                |                     | \$135,000                 | 145%                   |
| 1x2b house + 1x1b unit Burnie Tas       | Dec-02        | \$47,000        | \$500               | \$47,500           | \$114,000          | \$170                |                     | \$130,000                 | 174%                   |
| 3b m'ette Ulverstone Tas                | Jan-03        | \$38,000        | \$1,000             | \$39,000           | \$40,800           | \$110                |                     | \$130,000                 | 233%                   |
| 8x2b units Bundaberg Qld                | Feb-03        | \$320,000       | \$11,000            | \$331,000          | \$376,000          | \$1,025              |                     | \$700,000                 | 111%                   |
| 8x2b units Goondiwindi Qld              | May-03        | \$265,000       | \$4,000             | \$269,000          | \$390,000          | \$1,030              |                     | \$700,000                 | 160%                   |
| 1b house Wongaling Beach N Qld          | Jul-03        | \$115,000       | \$500               | \$115,500          | \$160,000          | \$160                |                     | \$265,000                 | 129%                   |
| 3b house Cairns N Qld                   | Jul-03        | \$95,000        | \$500               | \$95,500           | \$132,000          |                      |                     | \$215,000                 | 125%                   |
| 2 units Maitland NZ†                    | Feb-04        | \$22,000        | \$1,200             | \$23,200           | \$22,000           | \$0                  | 2006                | \$33,000                  | 42%                    |
| 6x2b units Invercargill NZ†             | Mar-04        | \$260,000       | \$15,000            | \$275,000          | \$100,000          | \$509                |                     | \$375,000                 | 36%                    |
| 4x2b units Invercargill NZ†             | Apr-04        | \$163,000       | \$2,000             | \$165,000          | \$100,000          | \$370                |                     | \$215,000                 | 30%                    |
| 3b house Marton NZ†                     | Jul-04        | \$63,000        | \$2,000             | \$65,000           | \$63,000           | \$150                |                     | \$97,000                  | 49%                    |
| 4x2b units Trebonne (near Ingham) Qld   | Sep-04        | \$180,000       | \$3,000             | \$183,000          | \$117,000          | \$440                |                     | \$350,000                 | 91%                    |
| Studio apartment Kooralbyn Qld          | Nov-04        | \$55,950        | \$0                 | \$55,950           | \$0                | \$90                 |                     | \$59,500                  | 6%                     |
| 6b house Robina Qld                     | Apr-05        | \$466,000       | \$0                 | \$466,000          | \$368,000          | \$850                |                     | \$550,000                 | 18%                    |
| 13 units Narrabri NSW                   | May-05        | \$490,000       | \$6,000             | \$496,000          | \$500,000          | \$1,250              |                     | \$650,000                 | 31%                    |
| <b>Total</b>                            |               |                 | <b>\$74,300</b>     | <b>\$3,480,250</b> | <b>\$3,974,600</b> | <b>\$8,549</b>       |                     | <b>\$6,531,500</b>        |                        |
| LVR=original loan/current value         |               |                 |                     |                    | 60.9%              |                      |                     |                           |                        |
| Excluding sold properties               |               |                 |                     | \$3,426,050        | \$3,918,600        | \$8,549              |                     | \$6,456,500               |                        |

\* excluding purchase costs \*\*As percentage of total cost #Total excluding sold properties †NZ\$ converted to A\$

just fantastic, lots of facilities – there are about 120 townhouses in the complex. We rent it out by the room to students studying at the local Bond University campus.”

The Robina purchase price was \$466,000 and the rental income is currently \$850 per week, giving 9.5 per cent yield, but body corporate and management fees on the property are

high, the latter at around 12 per cent, due to the room-rental arrangement.

**Case study 4: New Zealand**

“After mum died we flew to the UK to see my father... earning many frequent-flyer points, which we didn’t seem to be able to use anywhere. Then they phoned the day before the points were to expire to tell us we qualified for

free flights to New Zealand! Well, we were planning to do another buying trip, so New Zealand it was.”

First buy, in February 2004, was a block of two units in Maitland. This was a cheapie, at A\$22,000, though it didn’t really perform and was sold in 2006 for A\$33,000. Next was another block of six two-bedroom units in Invercargill, also on the South Island.

“Locally they call Invercargill the ‘bum of New Zealand’, so it’s not exactly salubrious, but the figures worked, at least initially,” says Rachel. “They were asking around A\$250,000 but because the market was so hot we ended up paying more (A\$260,000) – but the yield was still good at the time. That was all fine. Then the local council decided to change their rating structure, which would have just about doubled the rates.”

The council eventually agreed to increase the rates gradually, rather than in one go, but the returns still decreased as a result. Then there were vacancy problems.

“The building inspection we’d carried out prior to purchase indicated some minor leaks, noting that the roof might need a repaint at some point in the future. But then it became evident there was mould creeping in, and tenants were moving out. We ended up having to replace the roof, putting an extra \$13,000 on the cost.

“We also had to decrease the rents to attract tenants back. And the car bodies on the block next door didn’t help. The yield dropped from the 10.9 per cent at purchase to the current 9.6 per cent.”

One of the big problems with holding property in another country, even interstate, is the fact you can’t whip over to check that property managers are doing their job.

“In New Zealand there also seems to be a ‘she’ll be right’ attitude. One

property was very overgrown – property manager’s solution? A goat to keep the grass down. Whatever works!”

However, the Invercargill property is now valued at \$375,000, 36 per cent equity gain, similar to all their New Zealand purchases. Over the next few months there were two more buys, another block of units in Invercargill and a three-bedroom house in Marton.

**Case study 5: Narrabri**

Rachel and John’s last purchase, in May 2005, was a block of 13 units in Narrabri, New South Wales.

“We offered \$450,000 but it was sold to a local for the asking price of \$490,000. However, as I thought, the purchasers had problems getting finance for this type of property. We had an opportunity to offer again – this time at the asking price – with the vendor, who lived there and managed the block, to continue to rent one of the units for six months and for formal leases to be put in place.

“This time the problem for us was finance. A new company had started promising interest-free loans for anything that would return more than 7 per cent.

“It seemed too good to be true! And of course it was. ASIC (Australian Securities and Investments Commission) investigated the company and subsequently they didn’t end up trading. By this stage our contracts had gone unconditional on both Robina and

Narrabri. We had to borrow the funds for Narrabri from a solicitor’s fund, at 9.75 per cent interest. Another broker had also let us down. Then a friend stepped up with a \$280,000 loan to help us with the deposit for Narrabri and Robina, and we did the right thing by them and paid 9.2 per cent interest.”

After renovating a unit used for storage, the property is now worth \$650,000, with a yield of 13.1 per cent.

“The next year was spent organising finance to repay our friends who’d helped us with deposits,” says Rachel.

“Poor John, when he met me he nearly had his mortgage paid off, and now we have debt of close to \$4 million, but we own nearly \$6.5 million of property, all kick-started from receiving that \$40,000 inheritance – but using our equity instead.

“I think either John or I could have done it on our own – but it’s much more enjoyable to do things together. When you do it on your own it’s too easy to talk yourself out of something!”

**Geoff Doidge** is one of the Reno Kings, visit [www.renos.com.au](http://www.renos.com.au). For a free copy of the Reno King’s report Positive Cash Flow Tips send a blank email to [api75@renos.com.au](mailto:api75@renos.com.au)

**API Interactive**

Do you have a question for Rachel and John? Send it (in 150 words or less) to [forum@apimagazine.com.au](mailto:forum@apimagazine.com.au) and we’ll do our best to have an answer for you in a future issue of API.

