



# Investment game plan: The next level

**In the property investment game, a carefully considered plan is crucial. We ask a property expert to devise an investment strategy for a couple who are looking to rebuild their portfolio following a setback**

**J**uggling family, work and trying to get a foot on the investment ladder will be a challenge that many YIP readers will be familiar with – and that’s exactly what Mick and Sandy Greenway are facing.

Townsville-based couple Mick, 35, and Sandy, 42, met through the Army Reserves in 1996. They have been married for nine years and have a 14-month-old daughter, Alexandra.

Mick was a security guard for 15 years before joining the fire service, where he’s

been an aviation firefighter for three years. While Sandy has been a school teacher for the last 20 years, she currently spends most of her time at home looking after Alexandra, and picks up occasional relief teaching work to supplement the family income. She tries to get two days a week, depending on Mick’s working patterns.

The couple are no strangers to building and renovating properties, and have owned four properties over the last 10 years, with the end goal of building their ‘dream home’. The first home they owned was an older property, and Mick also had a half share in another property, in which his mother owned the other half. Following a six-month stint in East Timor with the Defence Force in 2000, they used the money they saved from their deployment to buy land, on which they built a new home. Once they’d moved in there, they sold their first property, while continuing to rent out the property in which Mick had the half share.

However, they had their eye on a particular plot of land for their dream home – in Mick’s words, “we annoyed the developer until he agreed to release it to us” – and sold the house they built in order to buy the land, while moving into

the half-share house and building. Once their current home was built, they also sold the half-share house – although the couple have regrets about selling all of their previous properties.

“We’d just had Alexandra, and we were worried about what would happen as we’d gone back down to one wage,” says Sandy. “We were especially concerned about being in so much debt, especially as interest rates were rising.

“I suppose we panicked a bit,” she continues, “and decided to sell – in hindsight, if we had sought some advice on how to manage our finances, we probably could have managed.”

So, Mick and Sandy’s aim is to now get back on the horse, and build a portfolio with the aim of holding onto the properties in the long term for capital growth, in order to generate a healthy retirement income over and above their superannuation fund. They’re open about the fact they’ve never really sought financial guidance before, and are still unsure about exactly how large their portfolio will need to be or how much income they’re looking to generate in retirement: that’s something they’re hoping our coach will be able to shed some light on.

Even so, they’re feeling secure financially – Mick’s recently received a pay rise, plus they’ve got around \$400,000 in equity in their home and \$80,000 in savings from the sale of the two properties earlier this year. Sandy is also looking to return to work full-time in March 2011.

## Players’ stats:

### Mick and Sandy Greenway



**Ages:** 35 and 42

**Occupations:** Aviation firefighter and teacher

**Combined salaries pre-tax:** \$100,000 pa

**Combined salaries after tax:** \$83,500 pa

**Estimated combined expenses:** \$98,200 pa

**Combined savings:** \$80,000

**Equity available in home:** \$400,000

**Super fund:** \$326,000

MONTHLY BUDGET	INCOME	EXPENSES
Salary (after-tax)	\$6,952	
Food and household		\$900
Living and lifestyle		\$945
Saving and emergency		\$457
Bills		\$2,452
Loan and bank fees		\$3,428
<b>Total monthly expenses</b>		<b>\$8,182</b>
<b>Total monthly income</b>	<b>\$6,952</b>	
<b>Monthly disposable income</b>		<b>-\$1,230</b>

## Investment goals

- To rebuild an investment portfolio to provide a long-term retirement income of \$120,000 per year
- Pay off mortgage on PPOR as soon as possible
- Retire early if at all possible

### Current cash flow position

	Annual	Monthly
Total income	\$83,429	\$6,952
Total expenses	\$57,049	\$4,754
Loan repayments/fees	\$41,136	\$3,428
<b>Cash flow deficit</b>	<b>-\$14,756</b>	<b>-\$1,230</b>

## The coach: Ben Kingsley



Ben Kingsley is the founder of Empower Wealth, a specialist wealth advisory practice helping clients build wealth through residential property. He is a qualified property investment advisor (QPIA) and a qualified mortgage broker. Empower Wealth is an accredited member of Property Investment Professionals of Australia (PIPA).

Ben has over 16 years' experience in purchasing residential property and has built his own multi-million dollar property portfolio, buying his first property when he was just 23. Ben and his team of specialists have provided educational workshops to thousands of potential property buyers, as Empower Wealth helps hundreds of people invest into millions of dollars worth of residential property for both owner-occupied or investment purposes.

## The game plan

### The goal

**What:** Retire on a passive income of \$120,000 per year

**When:** 2030

**How:** Buy two investment properties, the first in March 2011, and the second in September 2014

**Plan:** Buy and hold strategy focused on capital growth

### The first hurdle

The first part of the process is for Ben to go through all aspects of Mick and Sandy's finances in detail with them in order to work out their current financial position, and then put together a money analysis and wealth projection report.

He calculates that they currently have available equity in their home of around \$480,000. Based on their current situation, and if they spend all their surplus income, they'll pay off the mortgage on their home in a little over 14 years – bearing in mind they want to retire in 19 years – and based on their desired income, will probably have enough in superannuation to last them around five years. Once their super income runs out, however, Mick and Sandy will be reliant on government pensions or will have to take out a reverse mortgage.

Ben is open about the fact that Sandy and Mick have high expectations. After all, once 3% indexation is factored in, \$120,000 in today's income terms will be the equivalent of an income of \$210,421 in 19 years' time.

"The aim of \$120,000 a year in today's money is a high bar to set – it would put them in the highest bracket of retirement earnings," says Ben. "However, it could be done at relatively low risk, with minimal impact, on their current standard of living, as long as Sandy and Mick are diligent about managing their money correctly and go about purchasing wisely."

However, before addressing this, the first problem Mick and Sandy have to surmount is that, going by the figures given to Ben, they don't have a surplus cash flow – in fact, they're about \$1,200 a month in the red.

The shortfall is essentially due to the fact that Sandy is not working full-time at the moment. She is currently planning to return to work on a full-time basis in March 2011: it's at this point – when they will have a cash flow surplus again – that Ben is confident that they should start investing.

### The overall strategy

Ben recommends that the couple buy two properties: a \$350,000 property in either Sydney, Melbourne or Brisbane in March 2011, followed by a second property for \$460,000 in 2014. Ben's projections have the couple paying off their mortgage debt within 22 years, after peaking at around \$1.2m after the second purchase.

Based on conservative growth projections of 7% – a prediction which Ben is confident that properties in his suggested locations will exceed – the capital growth on these two properties would see Sandy and Mick retire within their 19-year time frame with a projected asset base of \$6.3m (including superannuation and the family home). This would provide the level of passive income they are looking for at least 20 years after retirement, while still generating capital value increases.

### The first property

**When:** March 2011

**Where:** Inner-city rim, Sydney, Melbourne or Brisbane

**Why:** To buy and hold based on capital growth

**How:** \$350,000 property (\$70,000 deposit from equity in their PPOR, and a \$280,000 loan)

**Plan:** Buy and hold strategy focused on capital growth

The gameplan continued

Ben suggests buying the following types of property in the following areas:

CITY AND SUBURB	PROPERTY TYPE	PRICE GUIDE	PROS AND CONS
<b>BRISBANE</b> Ascot, New Farm or Bulimba 	Existing older-style two-bedroom apartment or large one-bedroom apartment	\$350,000	<ul style="list-style-type: none"> <li>• High net worth residential location</li> <li>• Professional demographic with high incomes and further upside on income growth</li> <li>• Highly desirable address</li> <li>• Higher mix of houses than units</li> <li>• Vibrant lifestyle villages with restaurants, cafés and lifestyle amenities</li> <li>• Convenience of close proximity to CBD – major employment centre</li> <li>• Older-style apartments built on larger land allocations – superior land-to-asset ratio should improve capital growth outcomes</li> <li>• Easy transport access to city via river cat, car or cycling to work</li> <li>• High rental demand from young, higher income earning professionals</li> <li>• Low maintenance holding costs as it comes without high operating extras, such as pools, lift/s gyms, etc</li> <li>• Ability to improve internal living areas to add value</li> <li>• Hard to find suitable property, but rewards will be strong long term</li> </ul>
<b>SYDNEY</b> Newtown, Enmore or Stanmore 	Can only afford a one-bedroom apartment in these locations	\$350,000	<ul style="list-style-type: none"> <li>• Younger demographic with strong prospects of higher incomes</li> <li>• Transport – well serviced by train line, road system with bus access</li> <li>• Not an over-supply of one accommodation style</li> <li>• Highly-vibrant lifestyle villages and shopping strips with restaurants, cafés, entertainment and lifestyle amenities</li> <li>• Easy access to developing larger apartment stores in Alexandria area</li> <li>• Close proximity to airport</li> <li>• Convenience of close proximity to CBD – major employment centre</li> <li>• Strong rental demand from young higher income earning professionals</li> <li>• Low maintenance holding costs as it comes without high operating extras, such as pools, lift/s gyms, etc</li> <li>• Lower price in superior location should deliver above average rent</li> <li>• Hard to find suitable property, but rewards will be strong long term</li> </ul>
<b>MELBOURNE</b> Flemington, Kensington, Ascot Vale, Moonee Ponds or Essendon 	It is possible to secure a two-bedroom apartment or a large one-bedroom apartment	\$350,000	<ul style="list-style-type: none"> <li>• Changing socio-demographics with increase in younger age residents; these new residents are professionally qualified with prospects of higher incomes</li> <li>• Transport – well serviced by train line, trams and road systems</li> <li>• No over-supply of one accommodation style – ie, good mix of houses and units, plus very limited number of high density accommodation</li> <li>• Strip shops transforming into new cafés, health clubs, restaurants and bar areas</li> <li>• Plenty of parks and recreational areas to enjoy</li> <li>• Right side of town for airport access</li> <li>• Convenience of close proximity to CBD – major employment centre</li> <li>• Attracting tenants and buyer demand from the eastern side of Melbourne who have been priced out of those markets</li> <li>• Low maintenance holding costs as it comes without high operating extras, such as pools, lift/s gyms, etc</li> <li>• Longer-term high and consistent capital growth prospects</li> <li>• Hard to find suitable property, but rewards will be strong long term</li> </ul>

Ben says there are pros and cons to both one-bedroom and two-bedroom apartments.

“The advantage of a one-bedroom unit is that it is generally easier to lease out, given a lower rent is being asked for – however, you’re limiting your audience to either a single person or a couple.

“A two-bedroom place, on the other hand, gives you more options in terms of types of tenant you can attract: two singles flatsharing, a couple and a single person flatsharing, a couple who can use the second room as a study or storage space, for example, or even a couple with a child or two.”

“Obviously, cost is a question once you add a second bedroom, but the further you move out from the CBD,

the higher the chance of securing a two-bedroom apartment,” adds Ben.

He also comments that, for Sydney and Melbourne in particular, older-style apartments in a basic condition are where Mick and Sandy’s price range sits. This means there’s also scope for further improvement, which will reap good capital growth outcomes and make use of the couple’s renovation experience.

Ben also recommends buying under median value, as this will accommodate a ‘drag-up value’ outcome due to higher prices for fancier, newer apartments: effectively, values are likely to balance out over the longer term, meaning the older properties may outperform newer apartments within the suburb.

## Financing

Rearrange the P&I loan on their PPOR back to a 30-year term, with a \$90,000 line of credit facility, probably with the couple's current loan provider, NAB. The line of credit facility will be used to put down the \$70,000 deposit on the first investment property, as well as accounting for buying costs of around \$17,500 – a total of \$87,500. Both the PPOR and the investment property will be limited to a maximum LVR of 80%, meaning that the couple won't need to move into riskier territory with a higher LVR or take out lenders mortgage insurance.

PROPOSED MONTHLY BUDGET	INCOME	EXPENSES
Salary (after-tax)	\$10,558	
Rental income	\$1,665	
Food and household		\$900
Living and lifestyle		\$945
Saving and emergency		\$457
Bills		\$2,979
Loan and bank fees		\$4,878
Total monthly expenses		\$10,158
Total monthly income	\$12,223	
Monthly disposable income		\$2,065

The mortgage on the investment property will be an interest-only loan, again probably with NAB, under a professional package set-up.

Ben explains that the benefit of rearranging the mortgage on their home to a longer term is that monthly payments are reduced from \$3,400 a month to \$2,633, thus releasing further cash flow surplus. This, combined with Sandy's full-time income will help offset the mortgage payments of \$2,220 per month on the first investment property.

This results in a revised monthly cash flow in which the couple is in surplus by more than \$1,000 a month.

PROPOSED CASH FLOW POSITION	ANNUAL	MONTHLY
Total income	\$146,677	\$12,223
Total expenses	\$63,372	\$5,281
Loan repayments and fees	\$58,538	\$4,878
<b>Cash flow surplus/deficit</b>	<b>\$24,780</b>	<b>\$2,065</b>

### The key changes to their cash flow are:

- Sandy's increased income adds \$3,606pm (\$43,271 pa) to after-tax income
- Refinancing mortgage to 30 years – reduces repayments by \$770pm (\$9,240 pa)

## Kick-off time

**B**en's strategy has given Mick and Sandy plenty of food for thought.

"It's been a really interesting process, and it's really opened our eyes about the need to plan for the future," says Sandy. "The projections Ben came up with have made it clear that if you do the right things, it makes a huge difference to just how much more profitable your investments can be."

Sandy also comments that the process has really made her and Mick think about the importance of budgeting and how helpful professional advice can be.

"I still think that, had we sought professional advice before selling our previous houses, I am sure we would still have them," she comments. "Saying that, we are now in the position to enjoy our dream home, grow into it and begin to plan for a comfortable retirement down the track."

That's what they're planning to do: assuming Sandy does return to work in a full-time capacity next year, the couple are keen to embark down the route suggested by Ben. They're also impressed with the city centre locations: while they admit they initially would have chosen something closer to home, there are also tax benefits to investing further afield – not least in terms of travel costs.

"The projection report and wealth analysis were pivotal in showing us exactly what directions we could take," she adds. "It's also great having a few scenarios so you can see the results of different investment options." ■



## Want to kickstart your portfolio?

Are you a hopeful investor but don't know where to start? Do you have a few properties under your belt but don't know where to step next? Have you accrued a serious portfolio but are financed to the hilt? If you're in need of some expert guidance and would like to be profiled for this regular feature, email your contact details and a brief overview to [editor@yipmag.com.au](mailto:editor@yipmag.com.au)

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