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LOW-INCOME INVESTOR reveals how she built a $1.2m property portfolio

MATTHEW PAVLICH AFL giant scores with property investing

Achieving success despite initial setback

Elaine Chase and her partner Tania have built up a property portfolio of more than $1.2m in net worth, despite being low-income earners. Elaine tells *Danielle Chenery* how her deep passion for property has helped secure her future and even led to a complete career change

Elaine Chase had her light-bulb moment about property investment when she sold her first property for $175,000 although it only cost $80,000.

"I purchased my first property in 1989 when I was 21 years old. It cost $80,000 and was in Wyndham Vale, Melbourne. It had no carpets, curtains, fences or garden; in fact it was just a shell.

"Property prices were going through the roof at the time, and interest rates were 17.5%. As soon as something was on the market it was sold. Six months later the market crashed and my property was worth around $50,000.

"Ten years later I thought it was time to upgrade to a new property. The real estate agents told me to put the property on the market for $95,000 but to expect $85,000 – worst-case scenario $75,000. I rented it out instead for $165 a week and, two years later, sold it for $175,000," she explains.

It was meeting her partner Tania and sharing property successes that made the couple realise they could be successful again with property.

"We were both low-income earners with not much superannuation and decided we needed to do something to ensure for the future," Elaine explains. "My mother and father retired early 15 years ago and did not qualify for the pension as they had saved hard in super and term deposits. Within 10 years they qualified for the pension."

False start

Elaine describes her first purchase with Tania as a disaster. "We became involved with a property investment company that had all the brokers, solicitors and developers. They had a meeting with us and explained a very basic understanding of the property market. Their strategy was to buy a property by cross-securitising it on one's PPOR [principal place of

residence] with the understanding it would double every 10 years.

"With this strategy in mind, one could buy another property every 10 years. They had us believe the more negatively geared the property was, the better. I told them I wanted to buy in Point Cook as I thought it was a promising area. They said they had a developer building properties there at the time, and if we were to build in the area it would rent for $380 per week. That was in full height of the Melbourne property market.

"We ended up buying a property off the plan. By the time the house was ready there was such a large supply of other new properties available for rent that we could only rent it out for $300 per week. Furthermore, it took three months to find tenants as there was a 12% vacancy rate. Needless to say, the house had dropped around $50,000 in value."

So Elaine decided to get educated to avoid a similar disaster.

"I purchased *Your Investment Property* magazine, which had a CD in it by Positive Real Estate. I remember laughing and thinking there is no positive real estate – how stupid. I listened to Sam Saggers talk on that CD about positive real estate, and it changed the way I thought instantly. I realised I had no idea what I had been doing and I needed to educate myself," she says.

"If you want to be a doctor, you need someone to teach you those skills, so the first tool you should use is education. Educate yourself about yields, finance, areas to invest, property clock, etc. If you are going to be investing big money, consider getting a property mentor who has been there and done that. Don't lose $50,000 on that first property because you think you know what you're doing. It's a hard lesson to learn."

Path to property success

These days Elaine is very clear on her property selection criteria. This includes vacancy rates under 2%; areas with low supply but high demand, infrastructure developments, and that are close to transport and not too old.

Elaine spent $10,000 to secure her Tamworth property. "It is a four-bedroom brick house and about 20 years old. It cost us $125,000. I financed it at 95% and stamp duty was $2,885," she explains.

She says the Tamworth property has been the most lucrative to date.

"The house in Tamworth was on the market for $175,000 and was rented out for $220 per week. Early in 2011, we put in an offer for $120,000. We were told the owner was looking at selling it for at least $159,000. We replied we would think about it. Two weeks later, the agent contacted us to inform us that the owner would take $150,000, and asked if we were still interested. We informed him we would think

Elaine Chase's property list

VERIFIED

Location	Type	Purchased	Price paid	Loan amount	Current value	Weekly rent	Current yield
Burwood, VIC	4-bed house	Owned	$850,000	$230,000	$1,100,000	PPOR	
Werribee, VIC	3-bed house	Owned	$270,000	$250,000	$380,000	$300	6.2%
Point Cook, VIC	4-bed house	Feb 2011	$420,000	$335,000	$380,000	$300	4.6%
Tamworth, NSW	4-bed house	May 2011	$125,000	$121,500	$180,000	$230	9.8%
St Marys, NSW	3-bed townhouse	Dec 2011	$260,000	$237,250	$290,000	$350	7.7%
Gladstone, QLD	2-bed townhouse	Jun 2012	$305,000	$277,850	$340,000	$430	8%
Fairfield, QLD	3-bed townhouse	Sep 2012	$420,000	$384,000	$480,000	$510	6.9%
Quinns Rocks, WA	3-bed house	Apr 2013	$365,000	$352,700	$365,000	$450	6.6%
Total			$3,015,000	$2,188,300	$3,515,000	$2,570	

about it as we had placed other offers with various agents for other properties.

"Another fortnight passed before the agent contacted us again to inform us the owner would take $140,000 for the property. We thought more seriously about it and decided we would probably pay around $130,000 for the property but decided to wait some more weeks to see if anything further developed.

"Two weeks later the agent contacted us again. After some lengthy discussion, we put in an offer for $125,000. The next day the agent rang to inform us the owner accepted the offer. Coincidentally, also on this day, we had another offer accepted for another property by another agent, which we declined in favour of this one.

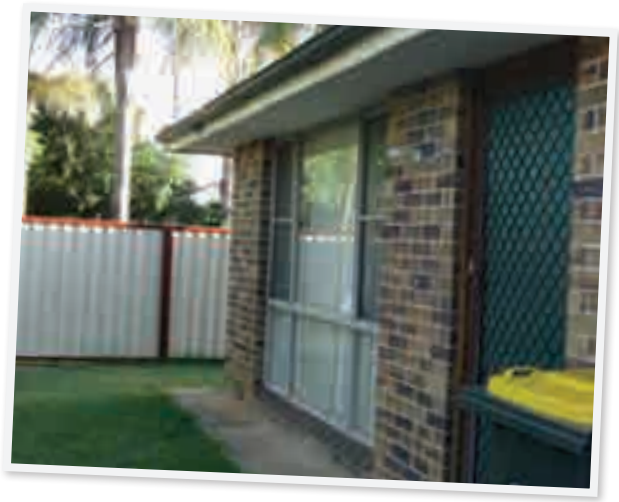
"Celebrations were not underway yet. Throughout the negotiation we learnt about 'gazumping' in NSW. Three days after our offer was accepted, and while we were organising inspections and solicitors, another offer was made for the property for $135,000. We learnt that, with the gazumping process in NSW, the owner had the right to take the higher offer even though he had verbally accepted ours.

"So, when the agent informed us of the other higher offer, we made him aware that $125,000 was our final offer and that we were intent on closing the deal at that. It was our belief there will always be another property deal and if this one didn't succeed another one would. The agent called us back some three hours later to inform us the vendor decided to go with our offer."

Around this stage, Elaine realised that property investment had a lot to do with combating fears.

"Fear is the four-letter word that stops you in your tracks," she says. "Property is a means to an end. I want to be successful so I can gain financial freedom and not follow the path of my parents. The challenge is always your mindset and your belief in yourself. You need to control your fears and not let them control your destiny.

"It did not cost much money as I financed [the Tamworth property] at 95%. Before you buy each property you need to have a strategy on where the finance will come from and have that organised before you start looking. A good mortgage broker that specialises in investment property portfolios is worth their weight in gold. It is the difference from owning four properties to owning eight properties," she says.



Lessons learned

Elaine's second property was a townhouse in St Marys, NSW, in December 2011. It was seven years old and she purchased it for $5,000 more than it sold for in 2004. Each investment since her first has taught her a new lesson. She says the Tamworth property, which she bought at a 30% discount, taught her that "you can get great discounts if you are persistent and patient". The St Marys townhouse showed her that "owners are motivated to sell when they don't have current tenants".

Her Gladstone townhouse, which she purchased in June 2012, had an owner motivated to sell because they had bought somewhere else. In September 2012, she bought another townhouse in Fairfield, where the owner was motivated to sell because of divorce. And in April 2013 she bought a three-bedroom house in Quinns Rocks, WA, from an owner motivated to sell because he was impatient his property had not gone up in value in two and a half years since purchase.

Elaine says she has purchased all her properties using equity. "The mortgage broker I have now has taken me from four properties to eight properties without any hassles, when previously I had been told I could not move forward any further," she adds.

As a low-income earner, Elaine's investment strategy includes buying a high-yielding property (9–10% yield) in a large regional city – a property not more than 20 years old, unless it has been fully renovated.

"The banks will look favourably upon this for future purchases as the positive yield will increase your annual income," she says.

Other options Elaine says she would consider include a high-yielding property (6.5–7.5% yield) less than 10 years old and as close to a capital city as possible. "Must be walking distance to a train station and close to employment areas," she adds. A high-yielding regional property (7%-plus yield) with good exposure to the mining industry would also meet her criteria.

But her biggest lesson has been the realisation that capital growth builds you a portfolio. "You still want good rental yields above 6%, but you need the capital growth. Without equity gained in your investment property you won't build a successful portfolio. If you have to wait 10 years for that equity, then you will not build a very large portfolio as time will work against you.

"If you can build equity in two to three years and refinance to release that equity, you can continue to grow your portfolio. Imagine saving $30,000 or more every year so you can purchase one property every year. It would be nearly impossible unless you were a very high-income earner," she adds.

When it comes to risk management, Elaine keeps money aside. "I have a large buffer for my investments and a LOC [line of credit]," she says. "I also have life insurance to cover half my debt and income protection insurance in my superannuation."

Future plans

Elaine's passion for property also led to a career change. "I have recently joined Positive Real Estate as a mentoring coach. I want to mentor and teach people how to build and control a successful property portfolio, what strategies to undertake," she says.

"I will continue to buy and sell property and review my portfolio every six months, and I also must continue to educate myself, for without that you are never open to new ideas or techniques."

As for an exit strategy, Elaine has a plan. "I intend to set up an SMSF [self-managed super fund] and retire with at least four good properties in it."