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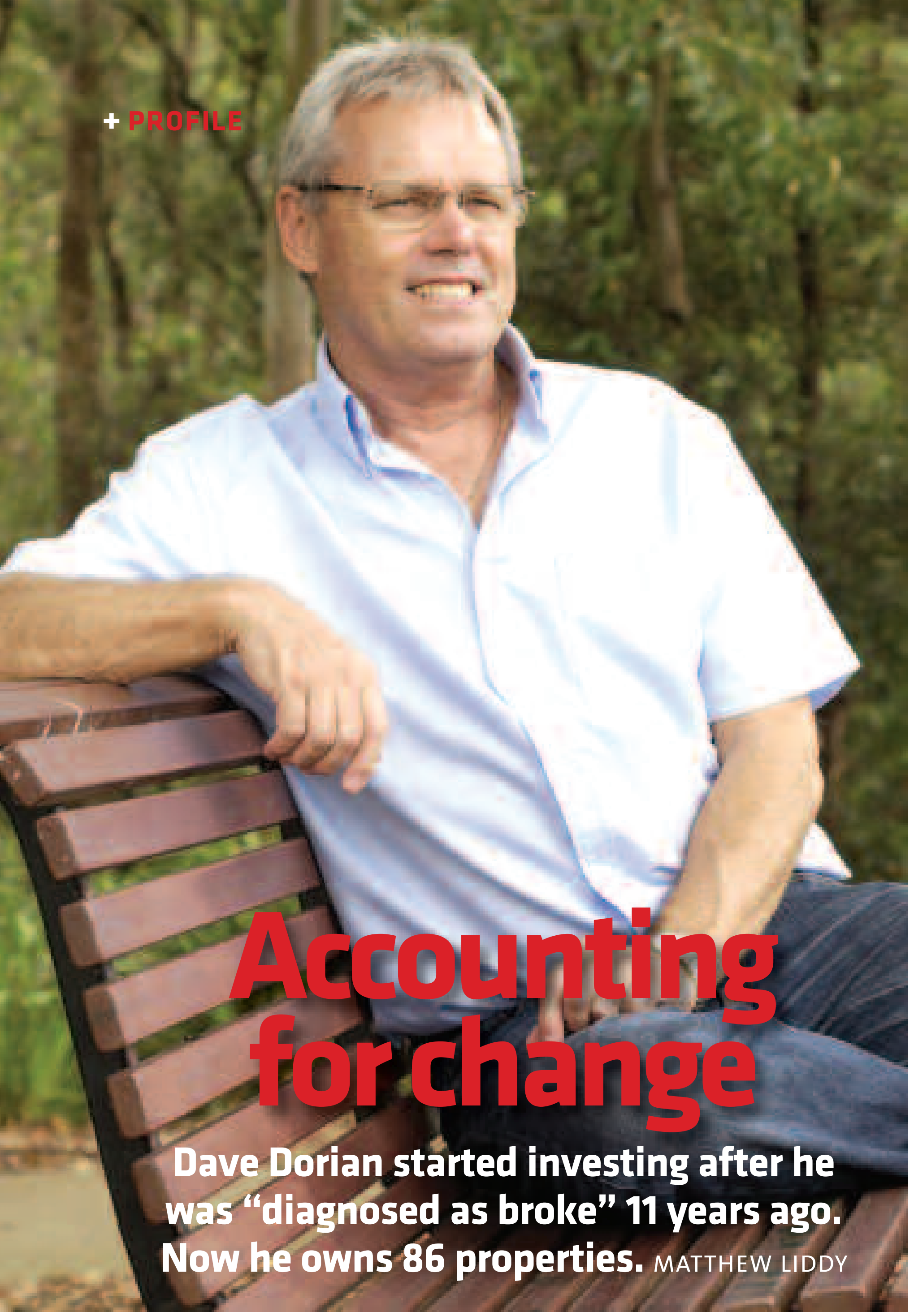

Accounting for change

Dave Dorian started investing after he was "diagnosed as broke" 11 years ago. Now he owns 86 properties. MATTHEW LIDDY

LIFE-CHANGING experiences come in many forms. For Dave Dorian, it was a discussion with his accountant in 1998.

"I was diagnosed as broke by my accountant," Dave recalls.

"I used to run a health snack food distribution business for 20 years. My plan was… to own my house and one investment property, and build my business up and sell my business and perhaps sell my house and live in the investment property."

But Dave's accountant had news for him – news that no business owner wants to hear. His accountant told him people didn't buy businesses like his any more.

"He said, 'you've got to find a new way of doing things'. That's what changed my life was that conversation with my accountant."

After reading books such as *Rich Dad, Poor Dad* by Robert Kiyosaki and *Creating Wealth* by Robert Allen, Dave, who was 56 at the time, had found his new way of doing things.

"Desperation was my motivation and I got started (investing in property). I just went head down, bum up and got started while I was still running my business," Dave explains.

"Then I restructured my business so I could spend more time specialising in property investing rather than the business."

In 11 years, Dave has built up a portfolio of 86 properties; he owns a small number of properties in Queensland and on the Central Coast of New South Wales, as well as eight in Thailand but the bullk of the portfolio is in the outer western suburbs of Sydney.

"The main suburb we started in is what I call the outer Mount Druitt area. It's not Mount Druitt itself; it's more the St Marys, Whalan, Tregear, Lethbridge Park – the cheaper, housing commission-type areas. Riverstone was another area and we've got a couple in Richmond and a couple in Windsor."

The portfolio's value sits between $26 million and $27 million, Dave says, with a loan to valuation ratio (LVR) of about 80 per cent.

BREAD AND BUTTER

Dave says his investment strategy relies largely on buying what author Robert Allen calls "bread and butter" properties – those towards the cheaper end of the market.

"You're buying a block of land with a house on it in an area where people will be able to rent it in good times and in bad… The rental return is higher than it is at the other end. So we buy cheap secondhand properties," Dave explains.

Within that market segment, Dave hunts out properties where he sees the potential to add value and have them revalued for a higher amount. From this point, some investors might look to capitalise on the higher values by selling but Dave takes a different approach. He accesses his newfound equity and uses it not just to help finance the shortfall between his rent and interest repayments but also to buy more properties and repeat the process.

"I focus on buying properties and getting them revalued to make profits. If I can buy a property cheap enough, I get it, I do it up a little bit, get it refinanced and create myself $30,000, $40,000 or $50,000.

"I bought one property just recently for $143,000. I spent $5000 on it and the valuation will come back around $220,000 or something like that."

Capital growth has helped along the way as well.

"I hit the up cycle in the market and my properties were all going up at one stage by 30 per cent and 40 per cent. So I just refinanced them and used the equity to pay for the shortfall – and the balance I used to buy a new property with it."

Another key part of Dave's "bread and butter" investing strategy is to buy property at the right price. These days, he relies on local experts with contacts in the real estate industry to tip him off to good opportunities before the properties are even officially on the market.

"You've got to make the money when you buy," he suggests.

To ensure he does just that, Dave has a specific way of deciding how much to pay for a property – and it has very little to do with looking at the advertised price.

"We look at what price we can revalue that property for and then work backwards," he says. "We take about 17 per cent to 20 per cent off that price…

"Say we could get a revalue for $250,000; it might be on the market for $200,000 or it might be on the market for $245,000, it doesn't matter to us.

"We just evaluate the property for what we think we can get a revalue for and then we come back, say, 15 per cent and then we take off the refurb costs, so that might be say $5000 for the refurb. So we'd be offering around $200,000 or $190,000 for the property."

Dave says one of the keys to getting a good deal is being ready to act immediately.

"If you want a good deal you've got to be ready and you've got to do it in four hours," he advises. "We had one the other day that was listed for $259,000; our offer was $210,000 and they've accepted the offer. The sale was made within a day."

ADDING VALUE

Dave's renovation motto might sound a little unconventional but it's worked for him so far. It's to do "as little as possible" while still boosting the property's value. He targets areas that he knows bank valuers pay attention to.

"We usually look at doing something to the kitchen, something to the bathroom and something to the floorboards. Polishing the floorboards costs $1000. You can fix up a bathroom for $1000 – you can't put a new bathroom in for $1000 but you can fix up a bathroom to look like new with tiles and everything like that. The kitchen, you can put a new benchtop in, paint the cupboards and things like that.

"For $5000 or $7000 we can do that sort of work. Sometimes we spend $1000, sometimes we spend $10,000."

The main aim of the renovations is to boost values, not rents, as Dave's happy to accept a slightly lower rent to keep his properties tenanted.

"If you spend $10,000 on (a renovation), you can probably get an extra $20 a week, which would bring you in a gross $1000, so on the numbers it doesn't quite work…

"I BOUGHT ONE PROPERTY JUST RECENTLY FOR $143,000. I SPENT $5000 ON IT AND THE VALUATION WILL COME BACK AROUND $220,000 OR SOMETHING LIKE THAT."

"We do this to get a revalue… Rent is not really of a great issue to us because if we're $20 a week below the guy next door… we can always find a tenant."

Despite the fact rents aren't his highest priority, Dave's seen plenty of rental rises in recent years, as the undersupply of property in Sydney has sent rental vacancy rates plummeting.

"When Sydney was sitting around 4.5 per cent or 5 per cent rental vacancies, our rental vacancies out there were sitting around 2 per cent to 2.5 per cent," he recalls. "I don't think they ever got up to 3 per cent. They're now probably sitting at 0.2 of a per cent. They're just full up. The demand's incredible.

"My original properties I was renting out at $150 a week and they stayed around $150, $160, $170 up until two years ago. Those same properties are getting $260, $270, $280, even up to $300 a week so there's been a massive rental increase in the last two years."

Those rental increases have helped slash the negative gearing shortfall across the portfolio; more recently, falling interest rates have helped too. If rates fall further, Dave's portfolio may even hit a neutral cash flow.

"At around 5.5 per cent (interest rates), our portfolio is neutral, so we're not quite there yet," Dave says. "We're paying about 6.33 per cent on most of our properties."

SPREADING HIS WINGS

Dave's initial forays into property focused on western Sydney, which he knew well because it was close to his home in Box Hill at the time, but after reading more about the importance of diversification he decided to purchase in other areas as well.

He bought property in Queensland, at Salamander Bay on the NSW Central Coast and even further afield in Thailand. He found investing from afar much more difficult than doing so close to home.

"You don't know the areas," he says. "You're not there on hand. In the areas we invest in down here, we know the suburbs, we know the streets, we know the little pockets in the suburbs – we know everything about the area, so we're in control. When it goes to Queensland, we're leaving it to somebody else.

"It's a little bit tougher in those areas for us to actually analyse the property correctly."

Thailand, unsurprisingly, was an even more foreign experience.

"The culture is totally different. You can't borrow money over there," Dave says.

He paid cash to buy 10 "condos" – units rented for tourism. Dave says they were all "very cheap", ranging from $12,000 up to $40,000. Despite the fact Dave felt he didn't know the market as well as he knows western Sydney, he's seen strong capital growth on

DAVE'S PROPERTY INVESTING TIPS

Select your growth area
Try to find somewhere close to home that stacks up. There are pockets within one hour's drive from almost anywhere. Learn close to home as it gives you more control – and control is essential, especially when starting out. Become an expert in one area first and you can easily duplicate anywhere.

Get knowledge first
Creating wealth is not a game of chance, so prepare yourself well. Watch for the property cycles and the property economic clock – in the boom years it's easy but trying to make it in a down cycle, you'll find out there is no free ride.

Treat property as a business
Buy wholesale, add value and it becomes retail. Property investing really is all about the numbers. Stick to investment-grade properties – these are the lower-priced, 'bread and butter' properties. Buy house-and-land as first choice because you'll find it's usually the land component that goes up in value.

Develop a wealthy mindset
Wealth really is a choice. Most people choose to work all day for five, six or seven days a week and earn a living, and they are limited by the hours they can work. Wealth is about getting your income form income-producing assets. When you realise this you can choose your own limits.

Take appropriate action
Ninety per cent of people learn the theory but they sit on the fence and fail to take action. You must learn the theory but that's only the first stage. Putting the theory into action is the second stage of wealth creation. Without action there are no results.

Get a mentor
The only mentors I had when I started out were the books I read and although I followed what they were telling me, it wasn't easy and I made mistakes. If you want to do it then you'll find it much easier, safer and quicker if you have a living mentor to guide you, someone who has already done it.

his Thai properties – and he's cashed in by selling two of them.

"They've gone up at least 50 per cent in three years," he says.

"The rental return is the scary one over there because the economy's driven by tourism, so you've got four months of the year where you've got maximum capacity in tourism and then you've got the other eight months where it's not as strong.

"It's hard to find rentals that you get for 52 weeks of the year like you do here."

Despite chalking his investments in Thailand up as a success, not all of Dave's long-distance endeavours have performed quite so well.

He bought five blocks of land in a golf course estate in Queensland in 1993, planning to tap into the holiday market with the goal of making a profit of $50,000 on each block.

"Unfortunately the market collapsed up there… so we actually lost money on those five purchases and we sold them all at a loss.

"It's not the properties that were bad – the market turned on me and I suppose you have to accept market forces."

That experience and the feeling of not having enough control over his interstate and overseas properties saw Dave return to his roots.

"It taught me to stay where I am and not try to venture into other markets because you perceive them to be popular and because you read media advice and all that sort of stuff. I just went back to my safe haven I suppose… From the learning experience side, it was a good experience but dollar-wise it was a bad experience."

He adds, "We ended up coming back again and saying, we're wasting time trying to expand when the honey pot's sort of here."

UPS AND DOWNS

Dave says the biggest challenge for property investors is to find the right sort of finance. He started out using a non-bank lender and low doc loans, because none of the big banks would come to the party.

However, over time, he's gradually migrated to the banks and now finds they're much more able to meet his needs, as he says the credit crisis has made it very difficult to get finance through non-bank lenders.

He always chooses variable interest rates, as they provide more flexibility than being locked into a fixed-rate loan for a given period. In other words, Dave wants to be able to refinance at any time.

"If there's $30,000 in a property for us, we either want a revaluation from the bank or if they can't we'll take it to another bank. We're totally open and upfront with the banks about that." Dave explains that if he receives a higher valuation for one of his properties from a different bank, he'll ask his current lender to match that valuation; if they refuse, he'll look to refinance with the other bank.

Cross-collateralisation is a big no-no in Dave's book, again because it cuts down on his flexibility.

"I don't mind paying a little bit higher interest rate for the flexibility," he explains.

"I did cross-collateralise when I first started and it cost me money to get the loans out and it was restrictive. I had three properties cross-collateralised and to get a revalue they wanted to revalue all three properties.

"Two of them would come in increased and one of them would be decreased, so they wouldn't lend me much money. So I ended up having to go to another bank and undoing it all so I could take the equity out of the two properties."

Dave admits some of his properties in outer Sydney have suffered a hit to their values in recent years, which has "decimated" his LVR, which had previously been much lower than its current 80 per cent.

Although some of his properties have fallen back from their latest bank valuations, Dave says none of the loans against that equity have been called in and he's still been able to buy new properties, renovate them and get them revalued at higher levels.

Though some might describe Dave's investing strategy as high risk, he doesn't see it that way.

"I call it 'as safe as houses'," he says, adding that he believes the only risk is managing his cash flow sufficiently.

"We work off a spreadsheet that's six months ahead… so we stay six months ahead of the game. We have to create income from properties, so that's what we do."

Dave says he's "absolutely, totally, 100 per cent confident" that the market in his chosen area will recover despite the current gloomy economic conditions. He says that like the sharemarket, the property market has always recovered from down times in the past, and the current down cycle will be no exception.

He's just holding and waiting for capital growth to return.

Dave, who now spends much of his time coaching others in property investment, says he doesn't have problems with his tenants because it's not his job to deal with any problems that do crop up.

"There are two people who look after problems with tenants and one's the property manager and the other's the insurance company, so personally I haven't had any problems with tenants," he says. "I always get insured and always make sure I've got a property manager in place."

He says he runs his portfolio like a business and expects his property managers to do their job.

"When there's something wrong you have to speak to the property manager and make sure they fix it up or you change property managers. It's not hard… Sometimes they're not quite up to scratch and you just have to tell them that if you want to continue with my business, I need action." api

API CONNECT

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