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PMC President

Building Wealth Through Property

How does it happen? This is a very good question to ask yourself as a multiple property investor.

> "Since finding the support of The Investors Club in 1997, we have now accumulated 23 TIC properties since our first purchase settled in May 1998."

For John and I, the only reason we decided to build a property portfolio was the resulting capital growth that would be achieved. We had seen our parents retire on less money per week than when they were working and we did not want the same for ourselves, because we had a desire to travel and wanted to be able to fund other activities in our retirement. Working hard was not the solution.

Since finding the support of The Investors Club in 1997, we have now accumulated 23 TIC properties since our first purchase settled in May 1998. Coupled with our home and two investment properties purchased before the Club, we have a diverse property portfolio spread across property type and state location, with a current value of around $14 million.

As we purchased and built up our property portfolio over the last 12 years we have experienced ups and downs in our property values. We had set our sights on seeing our various properties double in seven to ten years. However as is the farmer's lot, there are some years with over abundant crops and others with hardly any crop where your finances may go backwards. However, over the longer term, just like the macadamia tree farmer that waits patiently seven to ten years for the crop to be commercially productive, our properties have doubled in this timeframe.

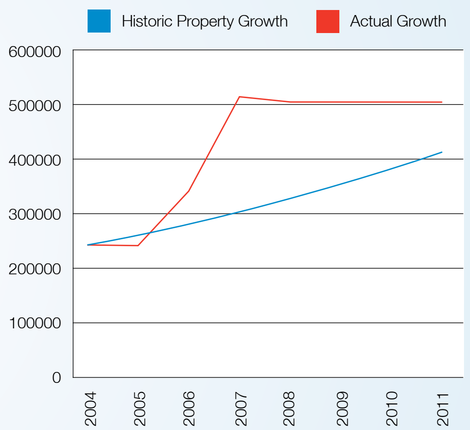
Here are a few examples from our portfolio to illustrate our experience:

Property 1 - Wattle Grove

Some properties have doubled in two to three years.

For example, two of our WA properties at Rockingham and Wattle Grove in Perth only took three years to double, but have been pretty flat and even declined in value for the following three to four years.

Growth indicators in Perth suggest that property growth is closely linked to resources growth. With resources now on the incline again, the oversupply of properties that existed to retard growth in recent years is moving to a stable and undersupplied position in the near future, with rental vacancy rates expected to tighten (AFR 15 December 2010). This comes as no surprise because property growth does not take the straight line of growing at 7.2% p.a. every single year; it has fits and starts.



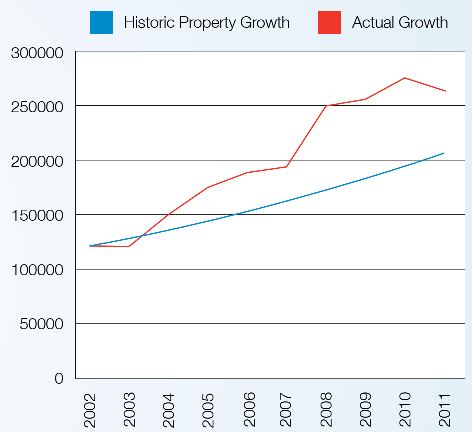
Property 2 - Acacia Ridge

Some of our properties have had much slower growth or remained at constant values for a few years after purchase, although over a seven to ten year period they have doubled.

These properties have been slow to start but have then raced ahead of the average growth rate for a few years.

Our Acacia Ridge property illustrates buying in before the growth spurt.

Our two bedroom townhouse at Acacia Ridge was purchased in 2002 at the right end of the street in a forgotten suburb. It was not until 2004 – 2005 that Brisbane City Council identified the area as a bulk storage and transport hub for employment and distribution. The area then underwent an urban renewal with young families moving to cheaper homes they could renovate and gain value from. Properties in our development then started to grow at a much greater rate and our townhouse has now outstripped the doubling in 10 years, so that in the past four years it has grown at a much more accelerated rate.



Property 3 - Paddington

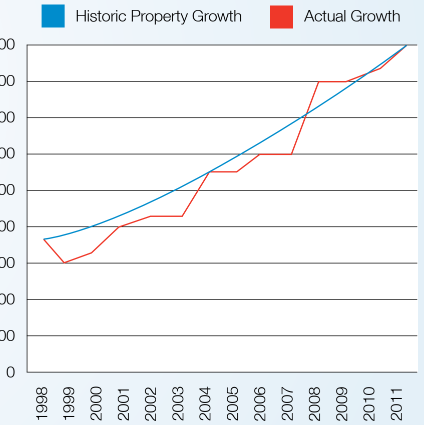
On a few occasions we have seen some of our property values fall dramatically, due to reasons outside of the general property movement.

While values are generally set by comparable sales in normal situations, from time to time sales of similar properties can fluctuate due to extraordinary events that are outside of the property trend. Our property at Paddington in Brisbane purchased in 1998 for $183,000 was such a case.

As part of the Body Corporate committee we were aware there was a problem with the tiling adhesive. An incorrect mixture had been used that was unsuitable for Brisbane's climate, and this caused the tiles to explode on the balconies, which of course did not make for happy tenants. The TIC owners approached TIC for assistance and were guided on how to make a claim on the Queensland Building Services Authority (QBSA). It took a few months, but the tiles were re-laid by the builder.

Other non-TIC owners did not wish to take the QBSA path; they were unhappy with the property and wanted to sell. So within 12 months we had two owners sell – the first for $156,000 and the second for $165,000. As you can understand this was showing as the selling price for the units in the development. We could not refinance, nor seek any equity growth.

It was not that the property had really gone down in value; it was external factors regarding property repairs that led to other owners selling their units at a desperation price. This lowered the value of all the units in the block for some years.



Property 4 - Kirribilli Heights

Our most recent property purchase of a townhouse at Kirribilli Heights on the Gold Coast is another such example.

We and other TIC members purchased a rather expensive property in this development. Unfortunately, there was another group who also sold property to their clients who were looking to make a quick turnover and re-sell their properties after settlement. The group told their clients not to put in tenants as this would make their property less saleable.

As the properties settled at the end of 2007, the GFC was making its mark on the Gold Coast and lending practices became very tight over the next year. There were no buyers for these properties and the owners had no tenants for over 12 months. The adjoining townhouse to our own had no tenant for over 14 months. This created a major cash flow problem for the owners and most of the properties in the development were sold as mortgagee-in-possession for less than construction price. The townhouse adjoining ours was sold for $510,000, and we had paid a discounted price just under $900,000 for our property.

This could be viewed as a major setback and that the property was overpriced. Yet our depreciation schedules clearly show that the total depreciation amount for the property is well over $800,000, not including the land value. The development is the last remaining approved development in the escarpment area of the hills behind the Gold Coast and therefore it is a very selective area.

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To us, it shows we own a valuable property that has been the object of poor decisions by uninformed buyers. They have affected the values of a very prestigious development that will recover when stages two and three are completed. The construction cost of the new stages are well over $800,000 for the smaller properties, which TIC members had purchased for around $600,000 three years before.

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