

# STRATA BY NUMBERS

It's all about the numbers for this savvy couple whose strategy of sticking to the fundamentals resulted in a \$660,000 profit in just 12 months. DINAH LEWIS BOUCHER @DinahBoucher



**R**on and Coral Wheatley's portfolio consists of a mix of commercial and residential properties spanning the east coast, from Sawtell in New South Wales to Townsville in Queensland and almost everywhere in between. But Coffs Harbour is where Ron and Coral proudly call home.

"Its beaches are pristine (and) people can sell their houses in Sydney and retire in something gorgeous for half the price here," Coral says.

No stranger to API, Ron and Coral have been featured within our pages as expert investors before, and are back to share their latest most profitable development story with us.

## ■ START WITH THE END IN MIND

From spotting this unique property for sale in the paper one morning, Coral knew it would be a winner. The potential property was an ex holiday complex turned permanent accommodation consisting of 10 units.

The property, which had a swimming pool and barbecue area, also included:

- ▶ One three-bedroom, one-bathroom, two-car garage house (ex-residential manager's home).
- ▶ Three three-bedroom, two-bathroom, one-car garage units.
- ▶ Three two-bedroom, one-bathroom, one-car garage units.
- ▶ Two one-bedroom, one-bathroom, one-car garage townhouses with courtyards.
- ▶ One studio with one bathroom and one car garage.

The complex was ideally situated close to shops and local amenities, plus a convenient five-minute stroll to the beach. And while its large size may be daunting for some, for these seasoned pros this project was just another well planned and carefully thought-through equation for good buying.

"It's all to do with math for us,"

Coral says.

"We write it all down on paper and do the math on how much we can sell them for in the end. So really we look at the end part first."

It was a solid building with solid numbers that proved to be the dealmaker for this pair of savvy investors. The sellers were older, retiring and had owned the block for a long period of time, Coral says.

"The numbers added up for us. It had great rental returns, large units and a reduced buying price," she says.

These cash flow positive numbers were to the tune of an extra \$3771 in their pocket after paying the mortgage each month.

"The units had a 10 per cent net rental return when we purchased," Coral says.

### CORAL'S DUE DILIGENCE CHECKLIST

- ▶ Have finance in order.
- ▶ Complete building and pest inspections.
- ▶ Have extra finance for stamp duty, legal costs and any valuations on purchasing.
- ▶ Are you buying the property to hold or flip? Will it weigh you down or put money in your pocket?
- ▶ Who will manage the property and do repairs and maintenance on the property? We brought close to home for our first few. I'd suggest doing that if you can and the return is there. Although it's not always possible I know.
- ▶ Factor in ongoing fees, rates, insurances and body corporate fees if you purchase a unit.
- ▶ See an accountant about what entity to buy the property.
- ▶ Research if the property is in a flood or fire zone as this is always more expensive to insure. Check if any planned changes to local main roads or a new park etc. Infrastructure could add or deplete value.
- ▶ If you buy this property, work out how long before you can buy your next one.
- ▶ Before you start, work out what your strategy is and stick to it.
- ▶ Work hard, save hard, stay focused and you'll get there.

It was a classic case of being in the right place at the right time and this couple was ready to go.

The property was valued at \$1.37 million. By releasing equity from their other investment properties, Coral and her husband snapped up the complex for \$1.24 million, which they successfully secured in June 2013.

"We knew we could sell them individually by strata titling," she says.

Their plan post-purchase involved strata titling, completing a minor cosmetic refurbishment, holding for 12 months to reduce capital gains tax, before selling off each unit individually. And hey, who wouldn't mind sailing off into the sunset once you'd successfully pulled the project off too?

Fortunately the building really didn't require any major renovation or structural changes considering the size of the property.

"The complex was in excellent condition," Coral says.

Instead, the bulk of the project was focused on the strata process running smoothly, while any other jobs required were mainly cosmetic.

## ■ STRATA TITLING SUCCESS

Coral, who says her great working partnership with Ron is one of the secrets to their success, says the strata title process was a fairly straightforward procedure, which Ron oversaw.

"He's very good at building inspections and his knowledge in those matters is amazing," she says.

"We organised a surveyor, who surveyed the common areas and allotment sizes for each unit and the house, to then present to council.

"You must have every square metre accountable on an allotment."

They also had to make sure the building met fire safety standards and check the firewalls were in place, as well as ensuring the units were separately

metered for water and electricity.

It took a total of about five weeks for council to approve the strata plans.

One of the trickiest parts of the project, according to Coral, was completing the painting while still having tenants occupying the building.

“It’s always hard when you have tenants, but overall they were pretty good,” she says.

“As each tenant moved out, we painted if need be or did a really good clean.

“Painting and gardening were our major costs.”

Keeping the tenants in place while they renovated also meant the complex cost the Wheatleys nothing to hold. But if that wasn’t impressive enough, the rental income more than covered than the mortgage.

“And the good thing about it that people should know is this was a cash flow property,” she says.

“So the painting and all the gardening costs was actually completed from rental money. It didn’t come out of our pocket. Our current tenants were paying for it.”

■ STRATEGIC SECRETS

Before purchasing or even inspecting a property, the couple goes through the numbers of what a project is actually going to cost to buy, strata and then what they think they can sell it for.

“We look at the area and what properties are selling for at the time,” she says.

“You know how some people go and inspect 100 properties, well I just think that’s crazy. If I see an advertised property, if the numbers don’t work then I wouldn’t waste any more time with it.

“Property is just about the numbers. Emotions, yeah I think we’re past that.”

For this project, their numbers definitely stacked up with the bank valuation coming back at an impressive \$2,044,000 after strata titling.

This means the couple increased the property’s value by more than \$660,000 in less than 12 months after costs.

To reduce capital gains tax, Coral and Ron placed the newly strata-titled unit block back onto the market a year after purchase. Six of the 10 units sold for their asking prices within a few short weeks, while the remainder are on the market for sale at the time of writing.

“It’s one of our better projects,” Coral says smiling.

Not a bad result from a couple that left

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June 2013 – Purchase date.

June 2014 – Put back on the market by Ron and Coral (12 months after purchase to reduce capital gains tax)

THE NUMBERS

Property value	\$1.37 million
Purchase price	\$1.24 million
Purchase costs	\$58,670
Total Strata costs	\$34,000
Selling costs	\$44,704
Total costs	\$1,377,374
Bank valuation after strata titling	\$2,044,000
<b>TOTAL PROFIT</b>	<b>\$666,626</b>

RENTAL NUMBERS

Mortgage repayments (monthly)	\$6500
Renovation costs and outgoings (came out of rental income)	\$20,000 (annual figure)
Rental Income (monthly)	\$11,938
Balance after paying mortgage (monthly)	\$3771

9.94 per cent rental yield.

(Purchase price \$1.24 million. Rent \$143,256 per year. Less outgoings/ costs \$20,000 = \$123,256) Annual rental income \$123,256 / \$1.24 mill x 100 = 9.94%

RENOVATION COSTS BREAKDOWN

Garden	\$2000
Paint	\$8000
<b>Total</b>	<b>\$10,000</b>

their day jobs some 25 years ago to work on their property portfolio. And they’ve certainly done just, that with Coral adding they’ve purchased a property every year since.

“We started with residential. We investigated and educated ourselves in commercial. Then anything that showed positive return we brought it and educated ourselves on how to run it,” she says.

And that’s why the Wheatleys live and buy according to their cash flow positive rule.

“It must be cash flow so if a GFC hits again, or a personal situation arises, it’s putting cash in your pocket,” she says.

“If something happened and we couldn’t sell, we knew we’d be fine because the rental income would more than pay for it, plus put money in our pockets.



The complex



Kitchen

“So that’s how we did it. I believe people need to build their own strategy depending on their income and what they’re comfortable with.”

■ ACHIEVEMENT AFTER SACRIFICE

They may be crazy in love with property, but like anything in life, some form of compromise is a prerequisite if you want to excel.

“If you want to do all the fancy things, buy fancy clothes and have dinners right from the beginning, then it won’t work,” Coral says.

“The truth is you probably could go without a coffee every day and going out to dinner. I know that sounds awful but you’ve got to commit first.”

Her advice is to surround yourself with people who are going to support you.

“Especially a good bank manager and a good accountant,” she says.

Ron and Coral have wasted no time jumping straight into their next few projects. They’re simultaneously managing four unit developments.

“We love property and from our perspective it’s just like being in Disneyland every day,” Coral says with a laugh. API W



Hear from Coral by scanning here

Use your smartphone or tablet and your favourite QR scanner app to watch an interview with Coral and Kevin Turner and see photos of the project.

