

Note to Self

25th May 2012

Dear Owners and Investors,

Before I start, there are many of you that are new to our emails. I hope you enjoy them and get something out of them. If there is a particular topic you would like me to write about, just let me know. I do understand that not everyone would like to receive them, so if at any time you would like to be removed from this list please let me know.

I haven't done the motivational part of my email for some time - today is the day. Many of you have been on the journey with us for over ten years now. When I look back (and I mean a long way back, where you have to squint your eyes to try and remember) never in a million years did I think that Ramon and I would be where we are today. Some days, I have to pinch myself to believe it. I know we work hard and long hours, but without this we couldn't have possibly achieved it.

I need to be clear, that the business Property Ladder Realty - although a very good business that brings in a good cash flow is not the way we have become financially wealthy. It has just brought in the cash flow that has allowed us to maintain and improve our property investments. I will look at it on another level, and hope that some of you will be able to relate it to your life.

We work in the business, and it takes up seven days a week and every waking minute to keep the flock of tenants happy, the investments for you as our clients working well, and always looking for ways to do things better. This brings us in a good income - but a lot of hard work that goes with this. When we do stop working the business - the income will stop, and there is no way we are going to be able to retire on the pension. Can you imagine me trying to live of a few hundred dollars a week?

Way back at the beginning we bought three bedsit units at Palm Tree Apartments. I know you aren't going to believe this but we bought all three for \$106,000. We have owned these for about ten years now. For 52 weeks of every year they have been rented. We have put furniture and white goods into each of them. Two we have done nothing extra to at all. One we have just repainted and put new curtains in. Sure the body corporate has gone up. Sure the Council Rates are ridiculous when you compare these to those in Sydney or Brisbane. The rents were \$120 per week, but now they are \$150 and the way things look in the rental market right now I wouldn't be surprised if they go to \$160 per week by the end of the year. At the price that we paid for these, they have essentially paid for themselves over the years. They have also given us depreciation that has kept the tax we pay very, very low.

At the moment there is still a huge issue with buyers shying away from buying anything in a body corporate environment. This will have to resolve itself, but once this does and if the rents continue to increase it will not be long before the buyers see great value for money these properties are and start buying again. I truly believe when things turn, it will not be long before prices for many of the unit go back up to where they were pre GFC. If we hang onto these until they reach the peak prices they achieved in 2007 which is \$115,000 and then sell, we will be looking to make a profit of \$239,000. Of course there will be capital gains etc, but for doing very little for ten years we have made a lot of money.

Now if we see a good rebound and the prices for bedsits go up to \$140,000 each - this could see us make over \$300,000. When you break this down into years we have held the properties, that is \$30,000 per year - for really doing nothing apart from helping to add to the profit for the National Bank.

Now if you just had these three units, it wouldn't make that big a difference to our financial position, but we have a lot more than this and all of these combined have given us financial independence and more importantly they will give us a passive income - one that we can really live on.

I guess what I am trying to say is that yes it is lovely to have a good income, but unless you actually do something with that income - you could be no better off than some of my "I collect old people". I have a feeling we will see a generation of people that simply will not take advantage of the high income they are earning. I hope that I give some of you the motivation to get out there and do something that could make a difference to your retirement.

On to the fun stuff - but today it isn't going to be about tenants it is going to be about renovations. We bought a block of units on Grafton Street many years ago. There are four, two bedroom units in the block and it is a long low set brick property. This is the one that I cried when I saw the vacant a few weeks ago. It wasn't the tenants fault, it is just an old property. When we bought it five years ago, it was already dated from the 1970's. We simply repainted the inside, put air conditioners in and new furniture. We left the kitchen, bathroom, carpets and lino all in place.

The decision was made to repaint, and now that the rental market is moving we are going to start to update our personal properties to attract better tenants and better rents. The plan - oh I love a plan, it was to repaint the ceilings and walls. We were going to just repaint the doors and door frames - until we opened up the back door which had been weathered so badly we had to replace it. Ok so we are only going to replace the back door, but keep the three internal doors. Then Ramon went to close the bathroom door and found a sticker - which he peeled off to find a hole in the door. These are just plain doors, and for a few dollars more you can have the nice moulded ones but you can't replace just one plain door! Now we have four new doors going in - of course it isn't that simple as nothing is the standard size or square for that matter.

Ok, the plan now is we are going to repaint the unit, replace the doors and repaint the frames. That is when Ramon starts to look at the actual frame on the back door. It is steel and I would say we have had a leak at some point in time in back of the shower and this has rusted out the bottom of the frame. It is so bad that we can't patch it - he has to rip out the entire metal frame, build a new one then hang the new door.

Ok, the plan now is we are going to repaint the unit, replace the doors, rip out the metal frame put a new one in, then repaint all the frames. Now for the floor coverings. The plan - oh I love a plan, is we get Carpet Bob in to measure up to put down lino throughout the property. The cost is far less than tiles, and it will be done in a day and by someone else so Ramon doesn't have to do it. Carpet Bob comes in and we get the price and are very happy with that. Ramon rips up the carpets and lino and what is under neath is not what we expected. Instead of a nice flat, smooth concrete slab we find that it is a rough slab and at some point in time they have put a slurry over the top but this is crumbling.

Carpet Bob comes back shaking his head saying putting lino down is just not possible - carpet maybe but not lino. I don't want carpets as they get dirty (and tenants put an iron on the floor and leave a burn mark, oh you are laughing now but it is true). We could put a new coating over the current slab, but this is going to take days to do. The decision is now made, Ramon is going to tile the unit. Ok, the plan now is we are going to repaint the unit, replace the doors, rip out the metal frame put a new one in, then repaint all the frames, put new floor tiles throughout the property.

Now if we are going to do the floor tiles, how can we possibly leave the kitchen in place? It would be the original one and although it doesn't have the lovely yellow or lime green laminated tops, it is pretty awful. When we take the kitchen out, we have two more problems that pop up. The fuse box is in the built in wall cupboard and this needs to be replaced, and the hot water system is actually inside the kitchen cupboards. We don't like having the hot water systems inside the unit for many reasons - if it leaks it leaks water all through the house, and it takes up valuable cupboard space. We have a new Ikea free standing kitchen in the store room but this will need the taps to come up from underneath, where as the taps are currently coming out from the wall.

Ok, the plan now is we are going to repaint the unit, replace the doors, rip out the metal frame put a new one in, then repaint all the frames, put new floor tiles throughout the property, remove the kitchen cupboards, move the hot water system outside and cut the concrete pathway to chase the pipes out so the hot water tank can sit on the other side of the pathway, cut the existing taps out and chase new pipes in, remove all the tile splash back, get the electrician in, put in the new kitchen and then tile a new splash back.

It is about this time I say well, seeing as we are doing all of this we may as well go and put in new fans, a new vanity, new toilet cistern and a new shaving mirror cabinet as well. Ramon drew the line at fully renovating the bathroom.

The good news is that it looks like we should be able to get \$260 per week for it, and when it is all done I will try for \$270 to see what response we get. This is the same prices we were getting prior to the GFC, and it will be a \$40 week increase over what the last tenants were paying. Things really feel like they are starting to change for the better, and if we can get this rent I will be a very happy little Vegemite!

I will send you lots of before and after photos when it is all done so you can see all of Ramons hard work. This type of investment isn't for everyone, and understanding this is key to finding the right property for you. There are some people that just don't have the skills, the time or simply don't live here so for them to pay for someone to do all this work would not be viable. I will write more about this in the next Special Edition.

I hope you have enjoyed this Note to Self. If you have any comments I would love to hear them. I hope you are all happy and well in your world.

Linda