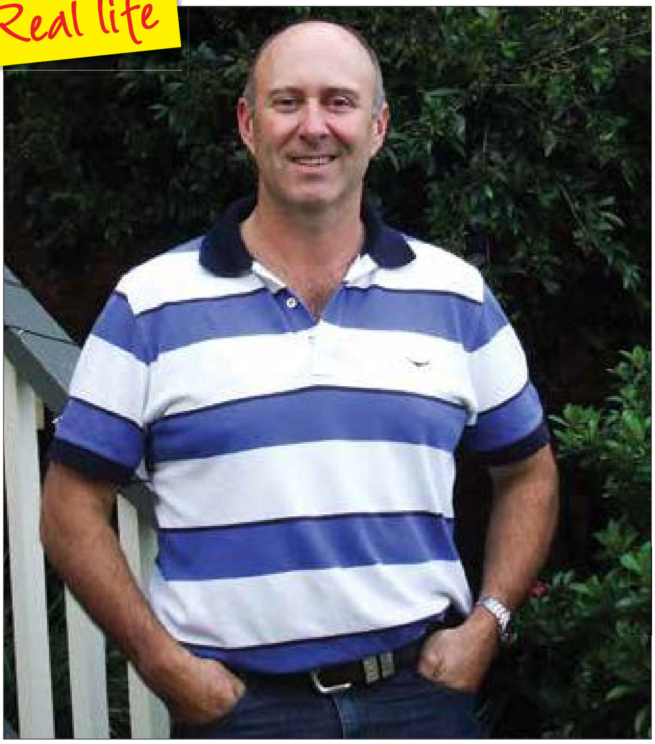
Real life



Michael Kelly

‘My little money-maker’

Having never invested in property before, Michael Kelly got his investing off to a bang with a unit that he purchased with almost no money down. The icing on the cake is that now it practically pays for itself

Michael Kelly never intended to start his property investing off on a little-money-down deal. The Mudgee, NSW, resident had first taken out a line of credit on the equity in his home last year, intending to use this to finance the deposit on a new investment property. As it turned out, he hasn't needed it and he can now use the money to finance his next deal.

"I had never invested in property before this," says Michael. "A few years back I had renovated my home and rented it out for about six months, but since then I had only been dabbling in shares. Then I started reading *Your Investment Property* and decided I needed to get into property investing. I started wondering what I could do and what my options were."

Not sure where to start, an old piece of investor wisdom kept running through Michael's head: If you want to be successful, do what successful investors are doing.

Michael had heard about Rocket Property's Ian Hosking Richards and the strategies he was using to purchase lots of properties. Michael decided it seemed better than the alternative, negatively geared property, and got in touch with Rocket Property to receive some mentoring.

He admits that it helped him see the light about where to buy. "I'd been working in mining for the last eight years and had been keeping track of how the industry was doing in different areas. I also had shares in a natural gas company that had gone up and could also see all the coal seam gas industries that were coming up in Gladstone. We agreed that the city was booming and thought it would be a great place to start with an investment property."

Michael had an appraisal done on his finances and concluded that he had enough equity in his home to get his investing off the ground. It just so happened that the best deal that came up was an off-the-plan unit.

The off-the-plan deal

Purchase price: $395,000
Lead time: 12 months
End valuation: $465,000
Money down: Borrowed against newly acquired equity to fund deposit
Rent: $800 a week (furnished), 10.5% yield

"The unit was two bedrooms, two bathrooms and was in a good location within Gladstone," says Michael.

"Even so, I got a much better result than I ever imagined. I purchased the property in mid-2011, and by the time it came to settle the value had increased $68,000," he says.

"It was great because I could now borrow against the new value of the property and use that as my deposit, instead of the line of credit I had on my home. This has freed me up to chase down other deals in Gladstone, and I am soon going to be purchasing there again.

"The other big surprise was the rent. I had a rental appraisal which said that the property could rent for

The Gladstone block of units

Michael's Gladstone unit

between $450 and $500 a week, but with the property furnished I was able to get $800 a week. In fact, the entire building ended up being rented by the same company, which meant that I had a 12-month rental agreement in place before I even settled. From day one, the property has been earning me money."

Though his purchase has been a success, Michael cautions that off-the-plan purchases have to be done right. "You have to understand where you are buying. It has to be a place with some kind of growth driver, something that will increase the value of your property. You also have to understand property cycles and ask yourself what stage of the cycle your property will be in when it is built." ■