

THE INVESTMENT THAT PAID BIG DIVIDENDS

Full-time property investor Adam Jones recently made more than \$740,000 from one property project. Adding value by renovating and completing a development application, he achieved a 140 per cent equity gain in just five months. VANESSA DE GROOT

ADAM Jones used to spend his days holed up in an office, practising intellectual property law. But when he got a chance, behind closed doors at work he would covertly manage a couple of property developments he was doing on the side.

He was making more money from property and what's more he was enjoying it, so it didn't take long before Adam decided he wanted to start investing full time.

At that stage he'd only been a lawyer for three years and he went part time for another six months before giving the profession up completely.

With property investing his full-time job since the start of 2008, Adam has done many different projects in Queensland including renovating, strata titling and subdivision.

It's a family affair for the 28-year-old married father of four, with every project

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JOSH KELLY/LIME ET AU

done in conjunction with his mother and brother, and together they have a total of 29 properties.

There has only been one project Adam has tackled on his own so far; it involved a property at Narangba, about an hour north of Brisbane.

When the investment opportunity first presented itself, Adam confesses he wasn't really interested. But as time went on the property's potential became clear and, proving to be a more attractive investment, he decided to bite the bullet.

And it paid off, with the property becoming the most profitable and therefore the best investment he's made to date, "by far".

Adam settled on the property in August last year and after a renovation and the completion of a development application (DA), he made more than \$740,000 in just five months.

"That sort of dough in that period of time is unheard of," Adam says. "Usually you aim for a 20 per cent return and this one was 140 per cent."

WHEN OPPORTUNITY KNOCKS

The property that became Adam's best investment was right beside a vacant block of land his grandfather owned in Narangba.

The half-acre block had a seven-bedroom house on it and a one-bedroom granny flat and had been bought by a developer in 2006 who tried to get development approval (DA) for a unit development on the site.

Ending up in financial trouble, the developer didn't finish the DA and unsuccessfully tried to sell the property for \$1.5 million just before he went broke and the bank took possession of it.

Being the neighbouring property, the vacant acre lot owned by Adam's grandfather had paraphernalia advertising the mortgagee

auction deposited in the mail. Adam was involved in managing his grandfather's properties, so upon receiving the information about the sale of the adjacent house he thought he'd go and have a bit of a sticky beak.

Although he had an inclination it would be pretty run down, Adam says he was still keen to go and see firsthand what it looked like.

It wasn't a particularly appealing house and Adam notes there was a fairly big termite infestation that had left holes in the walls. But apart from that everything else was solid brick and therefore wasn't going anywhere.

His first inspection was in early April last year and although he was curious, at that stage he wasn't interested in buying the property.

The owner had paid \$800,000 for it in October of 2006 and Adam thought that was too much to pay; he thought it was worth more like \$600,000. But at the time he didn't bother asking the real estate agent what sort of price they were expecting at auction because he didn't want to buy it.

When it went to a mortgagee auction in May there were no particularly serious bidders, says Adam, and it was passed in.

Although he knew the owner's DA for the site was about 95 per cent complete, he says the development potential of the property didn't even rate a mention in the marketing material; the property was simply marketed as a rundown house on a large block.

After the auction the Narangba property went on the market for around \$650,000, says Adam, and from there the price kept dropping. When the agent started saying they'd look at offers in the \$400,000s, Adam became really interested in it.

He ended up signing a contract for \$456,000 in July subject to building and pest inspections – although he already knew there

THE NUMBERS – NARANGBA PROPERTY

Description	7-bed house renovated and converted into two units and a 1-bed granny flat renovated
Purchased	August 2009
Purchase price	\$456,000
Acquisition fees (including bank fees, conveyancing fees, stamp duty and inspections)	\$20,273
Development application fees (including council and consultant fees)	\$15,054
Renovation costs	\$40,205
Total costs	\$531,532
Rent per week	\$870
Yield	8.5%
Current value	\$1,275,000
Equity gain	\$743,468
Gain as percentage of cost	140%
Yield = annual rent/total cost; equity gain = current value – total cost	

were termites – as well as finance, and the property settled in August.

Due to his experience and knowledge, Adam points out that he knew the right questions to ask the right people and that's how he managed to snare a property with such potential for the right price.

He says it's important to be aware of the potential of a property and to know more than the agent.

"The agent obviously just treated it as a mortgagee sale; they knew they were guaranteed to get commission out of it and weren't interested in pushing the deve-

+ PROJECT PROFILE



lopment possibility," he says. "I'm not sure if they even knew about it."

COMPLETING THE DA

The owner of the Narangba property had applied for a DA to build 32 units on the block in early 2007. He initially wanted to build the units under the affordable housing scheme which would have allowed for reduced carparking, but when the council said no to that, the application was changed to 30 units to allow for the extra carparks.

Adam knew there was a partially completed DA on the property and when his interest in buying it started piquing – around the end of May and early June last year – he decided to really investigate the DA's progress.

By enlisting the services of a town planner he was able to find out that there were three issues preventing the DA from going through.

The first was that it didn't allow for appropriate vehicle movement for garbage trucks, which wasn't considered to be a big deal because it could be easily rectified.

The second issue was a much bigger problem; it related to council saying there wasn't enough capacity in the existing sewerage network to support 30 units.

To get around this Adam thought it was possible to put in alternative temporary measures such as onsite storage until council upgraded the network, which was scheduled for the 2012-13 financial year.

The third issue was that it was necessary to be recognised as the applicant of the existing DA in order to complete it.

"Until the DA is actually approved it belongs to the applicant and once it's approved it runs with the land," explains Adam. "I wanted to use all the previous owner's applications, like his engineer's reports and designs, which was at least \$100,000 worth of consultant's fees that he'd spent.

"We didn't want to go through all that again so we spoke to council and they said all they needed was a letter from the mortgagee bank that they consent to me taking over the DA and being recognised as an applicant."

After much to-ing and fro-ing, Adam got that letter during the conditional period of the contract so he was recognised as the applicant before he settled on the purchase of the property in August.

While the third issue had been solved, the second issue regarding sewerage was more complex. Despite being reluctant at first, council eventually agreed to give approval for the development in November, on the condition that it wasn't built until the capacity in the sewerage network was upgraded.

Typically a DA is good for four years, Adam notes, but council gave them an approval period of six years because of the waiting period for the upgrade.

Adam accepted that at first, but after the property settled he decided to go for straight out approval, without the condition that construction would have to wait until after the upgrade.

RENOVATION COSTS

Description	Cost
External paint	\$400
Internal paint	\$9,030
External cleaning	\$925
Building work	\$6,577
Kitchen (material)	\$1,200
Pest and termite treatment	\$990
Electrician	\$4,796
Plastering	\$750
Shower screens	\$880
Glass and mirror replacement	\$631
Plumber	\$2,706
Gardening labour and material	\$2,398
Floor coverings	\$2,890
Pool demo and fill in	\$1,320
Skip bins	\$857
Full internal clean	\$930
Carpet cleaning	\$109
Miscellaneous fixtures and fittings	\$2,816
Total	\$40,205

While he had no intention of developing it himself, Adam wanted to sell the property with the DA so a buyer could build it straight away. The conditional approval would be a turn-off for buyers, he notes.

"We gave council more arguments and evidence and to our unbelievable surprise, they replied and said 'we've relooked and there is capacity so we're going to give you a new condition that says you can connect immediately,'" he says.

"I don't understand how on earth that happened. For three years they thought there was no capacity and then they turned around and said there is capacity.

"So now we've got approval to build 30 two-bedroom units and there are no hairs in the approval conditions."

Council gave final approval for the development just before Christmas last year.

Adam describes it as the "world's cheapest approval" because he only had to fork out \$15,000 to complete it which included \$150 to photocopy the application, around \$3500 in outstanding application fees, around \$8000 to the town planner and \$3300 for a valuation.

RENOVATING THE PROPERTY

During the due diligence period the bank valued the Narangba property at \$550,000, so Adam points out he was already \$100,000 ahead.

Before the property settled, he also looked

at the possible rental returns he could get for it. Because the house was so big, he decided to turn it into two separate dwellings by shutting off one of the doorways.

That meant overall he'd have a five-bedroom flat, a two-bedroom flat and a one-bedroom granny flat he could rent out.

He got a rental manager to look at the property and she estimated the three separate dwellings could rent for somewhere between \$800 per week and \$900 per week in total.

"So at the end of the due diligence period basically I knew I was buying it for \$100,000 less than what the bank thought it was worth and I knew I could rent it for enough that it would be positively geared from day one," Adam recalls.

"I also knew I had a reasonable chance of getting the DA through so on that basis we went unconditional and settled.

"And the other factor was that it was next door to grandad's block, so there was always the potential to do something large down the track. It's one and a half acres in the centre of Narangba across the road from the train station."

The property settled at the beginning of August and the remainder of the month was spent renovating it. It took a total of three weeks and cost around \$40,000 to get the granny flat and house up to a liveable state, and to split the house into two separate units.

Adam says he was onsite, along with his 23-year-old brother Ben and a couple of chippies who helped complete the job.

While his brother has a couple of years experience as a builder's apprentice under

Adam's tips for successful property investing

1. Know more than the agent

Always look at the zoning and development potential of a site, as this has a big impact on the price you can pay. I'm constantly surprised at the number of residential agents selling development sites and they don't even know it.

2. Surround yourself with the right people

You can never know all of the answers yourself, but you should know the right people to ask. Build relationships with town planners and other consultants so you can get advice quickly when you need it.

3. Use a buyers agent that specialises in the type of property you're looking for

Although I now invest full-time, I still regularly call my buyers agent for advice. It's invaluable to have someone experienced and knowledgeable to bounce ideas off. Plus, if you get a good one, their negotiating skills more than pay for their fees.

4. Control your valuations

Don't let the bank order valuations for your property. Finance and valuations make a massive difference to your ability to regularly acquire property. Find out who is on your bank's panel and engage them directly yourself. If the first valuation isn't favourable, throw it out and get another one. Don't approach the bank about refinancing until you have a valuation you're happy with.

5. Renovate fast

Lost rent, holding costs and interest payments can add up quickly, so renovate as fast as possible. Prepare a detailed renovation schedule while the property is still under contract, clear it with your tradies and then stick to it.

his belt, Adam describes his own hands as being made for holding pens and writing on paper. But he says there were many odd jobs the two of them could do that saved substantial amounts of money in labour.

Together they put a flat pack kitchen into the two-bedroom flat and then did whatever else they could including just putting in some elbow grease, cleaning, packing away overgrown trees and putting up fencing, and

painting it, to improve the street appeal of the property.

One of the major things that needed to be done during the renovation was to get rid of all the termites.

Adam says a couple of rooms were particularly bad but others were affected to a lesser extent and it didn't cost all that much to fix it. The remedy involved replacing the sheeting, skirting boards and architraves

around the windows and doors in two rooms; the actual windows and doors were able to be used again.

A plasterer was enlisted to plaster up the walls, as well as the doorway between the two flats in the seven-bedroom house.

Because there were so many walls the painting was the biggest cost; all up it was \$9000. While Adam says he could have spent less money by doing some himself, he confesses he "loathes" painting and isn't very good at it, so it takes a long time.

"I do as much as I can, but there's a lot of value in getting people who know what they're doing," he says, adding that he's got good relationships with various tradespeople.

Adam says that was the next biggest cost was for the builders, adding up to \$6500, including materials. He says the two builders – a father and son team – charged the "incredibly cheap" rate of \$50 an hour.

There was also a lot of rewiring needed, Adam notes. He says the seven-bedroom house was on a separate circuit to the granny flat and it had to be split for the five-bedroom and two-bedroom flat.

Much of the other work required was cosmetic, including curtains or blinds that need to be washed or replaced, shower screens and mirrors that needed replacing and floor coverings and carpets that also needed to be replaced.

It was also necessary to put in new lights and door handles but apart from that, Adam says the existing kitchens and bathrooms were in pretty good shape.

With the granny flat having been used as a doctor's surgery by a previous owner, Adam says it was set up as a waiting room with a large kitchen, a consultation room and a bathroom.

In order to turn it into a home, the only thing that really needed to be done was to get rid of the vanity and sink in the consultation room, which would become the bedroom. The waiting room then became the lounge room and the kitchen and bathroom remained the same.

There were also a few bits and pieces to do on the outside of the Narangba property including taking care of what Adam describes as the "most horrible pool you've ever seen". It was horribly green, had a leak and the patio roofing had collapsed, so he decided it was best to just get rid of it by filling it in.

The timber fencing around it was pulled down and instead used to create individual courtyards for the units.

"We tore everything down, dug up the pavers around the pool with an earthmover and just used that as a dump during the

renovations," he says. "I spent a grand in skip bins before I figured out we could just dump it in the pool."

Once the pool was full of miscellaneous waste, Adam says they covered and levelled it with dirt and now you wouldn't even know there was ever a pool there.

To bring the pool back to a useable state would have cost thousands, says Adam, and it adds a lot of risk to a rental property – for example the liability if someone drowns in it – so he didn't think it was worth it.

"I don't think it adds anything to the rent and given that the real value-add was the DA, the pool was neither here nor there," he says.

When it came to fixing up the garden, Adam notes they basically just got rid of as much as they could because it was pretty badly overgrown.

"The value is in the land and the house will get knocked down, so I just wanted to make it rentable," he says. "We weren't worried about making it pretty."

WHAT NOW?

The three dwellings were advertised as rentals at the start of September last year and in two or three weeks they were all tenanted, with the rent totalling \$870 per week.

The granny flat is getting \$200 a week, the two-bedroom unit is returning \$280 a week and the five-bedroom flat is rented for \$390 per week. That means the Narangba property was positively geared to the tune of about \$150 a week, says Adam.

Not only is it bringing in income but Adam recently had it revalued and it came back at \$1.275 million, which means he made more than \$740,000 on the project.

Adam has no intention of actually building the unit development he has approval for on the Narangba property.

He plans to sell it, but will wait until next financial year to save around \$150,000 on costs like capital gains tax and in the meantime he's going to use the equity in the property to do another development.

Adam says the development is too big for him to do and if he sells the property as is he'll still make \$600,000 to \$700,000.

Even if it sells for a little bit less than what it's valued at Adam says he'll still have made a lot of money.

"There'll still be a lot of fat to play with if it doesn't sell for quite that much," he says. "The value has been added, so whether I sell it now or in a few years' time I don't think we'll get a lot more out of it." **api**

API CONNECT

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