CLIENT
DEBBIE ALISTE

Age: 40
Status: Single
Current income: High income earner ($110,000 – $114,000)
Car loans/personal loans/credit cards: NIL
Super: $200,000

Road Map

WITH
TODD POLKE
MENTOR AT POSITIVE REAL ESTATE NSW

Investors looking to build their 'road map' to a successful portfolio could seek expert advice to push them in the right direction. *Smart Property Investment* followed **Debbie Aliste's** first strategy meeting in which she is helped with the groundwork for her first purchase

DEBBIE ALISTE

"I love flying to different places as part of my job, but I also want to be able to just enjoy and take time out to travel at my own pace.

While I'm still young and able to work, I want to build financial security for when I retire. One of my goals for this year is to get an investment property and upgrade my home. Somewhere down the line, I also want to own a property near the water."

THE EXPERT

Debbie Aliste's initial meeting with Positive Real Estate's Todd Polke was at a property investment night, where he introduced the mentoring program and the importance of goal setting.

The team then arranged a meeting with Debbie to find out where she was and where she wanted to go. This involved looking at some of her goals, the time they could be achieved in, and running the numbers past a broker to understand her financial position.

By the initial strategy meeting, "we had all the information we needed to map out a strategy," Mr Polke says.

For starters, Debbie was asked to outline her goals in "bite-sized chunks".

SETTING GOALS

It is important not just to look at the property side of the equation, but also the investor's personal goals.

"Your goals should be completely emotional," Mr Polke tells her. "That's what you really connect to, and that's the only thing that is going to make you go for it."

He emphasises the importance of costing out each goal to estimate the amount of income that needs to be generated from her portfolio.

SNAPSHOT OF CURRENT INVESTMENT POSITION

PROPERTY TYPE	ESTIMATED VALUE	CURRENT LOAN	EQUITY AVAILABLE	PURPOSE
UNIT	$550,000	$85,000	$410,000	Home
HOLIDAY HOUSE	$350,000	$150,000	$188,000	Not rented out yet. Currently renovating the granny flat.

Other than setting some manageable targets, Mr Polke says she should also be aware of where she's up to on the wealth ladder:

THE WEALTH LADDER

1 GROUND ZERO: You will need to clear your personal debt before moving forward with your investment strategy.

2 SECURITY PHASE: You will have a buffer if something goes wrong, such as losing your job.

3 ACQUISITION PHASE: You will start building your leverage to create your portfolio. Mr Polke expects Ms Aliste to sit at this stage for five years and accumulate 10 to 12 properties during this time. However, he says this will depend on the properties purchased.

4 CASH FLOW PHASE: You will still have to maintain your primary source of income to support your lifestyle, but you may start to achieve some of the smaller goals you have.

5 FINANCIAL FREEDOM PHASE: You will no longer need to work to cover your living expenses.

While this figure is different for every investor, and is dependent on their income, Mr Polke says for Ms Aliste, it means achieving a passive income of $80,000 to $100,000 from her portfolio.

This does not necessarily mean owning a large amount of properties, but rather four good quality properties she owns outright.

6 ABUNDANCE PHASE: You are able to have abundance in income and live in your dream home.

7 ULTIMATE WEALTH PHASE: You will have excess wealth.

While Ms Aliste is currently sitting on stage three – the acquisition phase – Mr Polke tells her that they will be working to build her leverage and the foundation of her portfolio so she can start moving up the ladder.

Before the end of the year, she hopes to purchase a blue chip property in Brisbane, upgrade her current property to a cottage in an inner-Sydney suburb, and save up enough for a holiday to Cambodia.

FINANCIAL POSITION

Using the numbers provided, the broker calculated that Ms Aliste has a maximum borrowing capacity of $1.7 million, which Mr Polke says is more than enough to fund her investments.

The next step is for Ms Aliste to release the equity from her properties. Currently, she has $410,000 equity sitting in her Dolls Point apartment and $188,000 in her Sussex Inlet holiday house, both in NSW.

She agrees to pull $200,000 from her equity, which will allow her to pay for the deposits for two to three properties.

Mr Polke says that this amount does not have to be used at once, only made available to complete the first deal.

However, for Ms Aliste, her first step is to restructure her account and make sure that her loans are structured correctly.

BUFFER CONCEPT

Before purchasing the first property, the first step is to set up a buffer to ensure that Ms Aliste's portfolio is safe and protected.

Mr Polke explains that this is calculated on a time factor. This means setting away six months' mortgage payments to cover her portfolio, which comes to around $20,000 to $30,000.

With the remaining $170,000 in equity, she will have the ability to purchase $1.1 million worth of property at a 90 per cent loan to value ratio (LVR), which equates to three properties.

He suggests that she could even consider borrowing at a 95 per cent LVR for her first property to maximise her result using minimal cash.

In addition to a buffer for her portfolio, Ms Aliste also has a personal buffer, which she chooses to leave aside.

THREE PROPERTIES, THREE STRATEGIES

"I tend to have three different strategies going on at any point in time, and this will change depending on your position and what is needed in your portfolio," Mr Polke tells her.

First is the 'growth strategy', which is about the accumulation of quality properties over time.

"It's more your blue chip type of real estate. These are properties that tend to be in stronger growth areas and are always going to be in demand," he explains.

He adds that they will be targeting properties at the bottom of the market so she can ride the upswing over the next few years, and pull out the equity when the market hits a peak. Ms Aliste was then asked to choose a location.

She picks Brisbane, which he says could be good for an 'off-the-plan' strategy. With this strategy, Ms Aliste only needs to put down a deposit and can buy some time in the marketplace.

However, Mr Polke does not dismiss looking at existing properties. Instead, he stresses the importance of focusing on the deal and the result the property could achieve.

"I like to target [properties] within a five to six kilometre radius of the Brisbane CBD," he says, pointing to inner ring areas such as South Brisbane and Newstead, which are experiencing population growth and gentrification.

Mr Polke says that they will likely target a one-bedroom property in this type of area, priced around $400,000 to $500,000. While the property could achieve around a six per cent rental yield, for this property, the yield is not as important as its potential growth.

Next is the 'supporting strategy', which involves purchasing a positive cash flow investment to provide a consistent income steam.

While most people achieve their cash flow from their jobs, Mr Polke warns that basing the strategies 100 per cent on how much money you earn is always the limiting factor.

Therefore, Debbie's primary outcome is to remove her job from the equation so the portfolio is self-sustaining and "takes on a life of its own".

Major regional areas such as Queensland's Mackay, Townsville, the Surat Basin and Toowoomba with solid capital and rental growth potential could be good for this strategy.

"We have to choose the right product for the right marketplace," he says. "The price point is going to be around the $300,000 to $400,000 mark. The yield we want to be focusing on is around seven per cent."

The final strategy is the 'acceleration strategy', which involves creating "chunks of cash".

These are properties that you might not necessarily hold for the rest of your life he explains, "but in which we can see some value for the next few years."

He suggests that house and land packages are good for this strategy as they can achieve some good growth over a short period of time.

"We've got to be able to see where we're going to make our money on our way into the deal, and when we're going to pull our equity back out again," Mr Polke says.

"Once again, the yield is not the most important thing. It's more about where we're going to create our chunk of equity."

In addition to the strategy's growth potential, he also points to benefit of low maintenance. As house and land packages are managed through the investment agency, the investor will not need to be involved in the day-to-day process.

Once Ms Aliste accumulates some experience, Mr Polke suggests they can also take up some duplex strategies in a few years' time.

Markets that are good for this strategy include western Sydney and the Surat Basin.

Mr Polke advises that Ms Aliste should always ask herself if each property is serving a purpose in her portfolio, and if it's not, she may want to reassess. ■

If you want your details reviewed by an industry expert, contact us at **editor@spionline.com.au**