

Turning negatives to positives

When we last spoke to North Queensland property investor Ralf Sommers, he had an eye on the market with a view to buying. The fallout of the GFC derailed those plans somewhat – but that didn't stop Ralf from moving ahead with a new plan



Ralf's portfolio

Location	Type	Purchase date	Purchase price	Current value	Rent 2008	Rent 2010
Speewah	3-bedroom house	1996	\$175,000	\$450,000	PPOR	PPOR
Kuranda	2-bedroom house	2000	\$87,000	\$260,000	\$220 pw	\$240 pw
Mareeba	3-bedroom timber house	2002	\$112,000	\$240,000	\$250 pw	\$250 pw
Mareeba	2-bedroom house, converted into a 3-bedroom house	2003	\$138,000	\$225,000	\$210 pw	\$230 pw
Mareeba	3-bedroom house	2004	\$160,000	\$225,000	\$250 pw	\$250 pw
Speewah	2-bedroom house – under construction	2010	\$35,000	-	-	-
Total			\$707,000	\$1,455,000	\$930 pw	\$930 pw

Technically, Ralf's portfolio hasn't changed much in the last 18 months. "We haven't bought any more properties," he clarifies, "but in February we started building a studio in steel-kit form."

This new property, which will be a two-bedroom, 90m² studio, is being constructed in Ralf's backyard.

"Our home is on a five-acre block and we have a fairly long driveway, so this is going to be a completely separate structure," he says.

"It's taken us a while to get it off the ground because we've experienced a bit of a downturn in profit in our painting business, so we had to make some adjustments."

Challenges and opportunities

Ralf's portfolio is currently leveraged very sensibly at around 60%, so he hasn't faced any challenges with loan serviceability.

All of his investment loans are locked into fixed rates of around 7.5%, so he hasn't experienced the wild mortgage repayment fluctuations that millions of variable rate mortgage holders have had.

"Of course, we didn't benefit when rates dropped to 5%, but in the long term I think it'll work out," Ralf says.

This attitude has helped Ralf weather recent challenging situations, as his investment strategy – which is built around long-term wealth creation goals – helped him focus on the big picture.

"I haven't been tempted to sell, except for brief moments when our tenants defaulted on the rent," he says.

"We were impacted by the GFC primarily through our tenants, because several of them lost their jobs and fell

behind on the rent as a consequence." One tenant even left a property in a state of disrepair, before packing up and doing a runner. "I thankfully, our landlord's insurance paid up to three months' rent, as the place was empty for two and a half months," Ralf explains.

"We were looking at a loss of rent and a damage bill of around \$4,000 for this one property, so insurance is a good thing to have, even though it always hurts to pay the premiums."

While the property was empty, Ralf took the opportunity to renovate. He installed a new kitchen, as the existing one "was beyond repair", and also re-tiled the bathroom. "The kitchen came from Bunnings and cost about \$3,000 all up, plus we spent another \$800 on tiles, the vanity and bathroom accessories," he explains.

The renovations served to boost the overall value of the property, and they also helped to attract better quality tenants when the property was listed back on the rental market.

After several negative landlord experiences, Ralf says he values good quality tenants above all else, to the point where he's willing to discount the weekly rent in order to attract stable, reliable long-term renters.

"Most of our tenants are great now – in two of our places they've been there for three years, and so far we've not had any problems," he says. "We probably charge \$20 to \$30 less per week than we could, but it's worth it to have tenants that look after the property and want to stick around."

A new project

As a professional painter, Ralf is fairly handy when it comes to renovation and repairs. He's put his skills to the test with the construction of a brand new home being built in his own backyard.

"We decided to build on our block because we already own the land, and we thought our kids could live there until they manage to buy a place of their own," Ralf explains. "We wanted a decent sized dwelling and decided to buy a pre-engineered steel kit."

First things first: before you begin pouring concrete or planning colour schemes, you need to seek the appropriate permissions from the council. Ralf says the process of obtaining approval was

surprisingly hassle-free, although there were a few minor hiccups.

"Since the plan was engineered already, we only submitted it to a private building-certifier, along with a site plan to show the location on our block," Ralf says. "We had a big surprise there, as I assumed it would be okay to build a couple of metres away from the fence line, between the neighbour and the street front. But, since our block is zoned rural residential, it needed to be 20–25 metres away from the fence line. Luckily we hadn't started with site preparation yet, and we relocated to a suitable space."

After locking down the location and finalising the floor plan, Ralf had the concrete slab poured to meet the specifications of the home.

» "I think, overall, you have to learn not to panic and stick with your game plan"

"The steel-brackets were cast into the concrete, and it was ready to go. The slab was one of the only things that we contracted someone to do for us, at a cost of \$5,000 including site preparation," he says.

"I'm basically constructing the whole thing myself, apart from the plumbing and electrical work, and laying the slab"

For several months, Ralf has been steadily working on his DIY property, erecting walls and installing flooring. It's taken some time, but he has his eye on the prize, and he hopes the home will be ready for tenants to move in by July this year.

Onwards and upwards

Embarking on a DIY construction project allowed Ralf to progress the project at his own pace, but best of all, Ralf estimates he's saved tens of thousands of dollars by doing it himself.

"Ordinarily, the average construction cost per square metre is around \$1,100 to \$1,200, and we've done it for about \$400, so we've saved a bit of money doing it this way," he says. "The only

downside is that obviously, it takes a lot longer as you have to find the time to do it yourself."

He hopes to rent it out for several years before handing the keys over to his children. "When the girls grow up they can move into it so they have their own space, but still be close by. Currently, the oldest one is 13, so it's still a few years away," Ralf says.

"It's hard to put a value on a studio that complements the main house and is not a stand-alone investment as such, but the thought of being able to park the kids there and enjoy your house, free from PlayStations and techno-music, must be worth something!"

Once construction of the new house is complete, Ralf may look at investing in another established property in Cairns, as he likes to buy real estate that is situated locally.

In Ralf's opinion, the biggest risk for property investors in far north Queensland is currently the unemployment rate, as it can affect your tenant's ability to pay the rent, and thus the investor's ability to pay the mortgage.

"Most of the time, the unemployment rate is up around 9% because Cairns is such a transient location where people go on holiday for a few months and just get the dole," he says.

"It was in double figures for a while, and vacancy rates weren't much better. In Edmonton and Gordon, the vacancy rate went up from around 2% to 6–7%, and a similar thing happened in the northern beaches, which is ordinarily quite sought after. A lot of tradies left Cairns to chase the work elsewhere, so we've definitely experienced a downturn in demand."

Still, it's not enough to deter Ralf from growing his portfolio further.

"There are a lot of good deals about at the moment, which has been tempting," he admits.

"The indicators are pretty good, so we're hoping to buy again next year. Once the balance sheets from the business improve we'll approach the bank and go from there." He adds, "I think, overall, you have to learn not to panic and stick with your game plan. Investors rarely regret buying anything, but most of them regret selling something. My motto is buy and forget about it, and hold it forever!" ■