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February 2010

# property

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# How to make MILLIONS

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*from scratch!*



**Prue Muirhead**  
Amassed a \$3.5m portfolio in 4 years and retired at 39



**Mathew Cosgrove**  
From \$20k to \$3.7m in 3 years (and he's only 25)



**Anne Morelli**  
Low-income earner and single mum turned \$35k to \$2.6m

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# Winner

## Cash flow positive properties the key to Prue's early retirement

**Prue Muirhead accumulated \$3.5m worth of property and retired at 39 – not bad for someone who sees property as “just a hobby”.**  
*Mollie McGuigan reports*

**W**ith a positively geared portfolio worth \$3.5m and having already retired, it's no wonder Prue Muirhead's friends call her “a living example of what life's all about”.

Within one year, Prue accumulated five investment properties and profited \$364,000. In less than two years, she retired – the standout winner, then, for *Your Investment Property* and RUN Property's Investor of the Year Award.

The bubbly mother of two has enjoyed enviable success with her investments and, she says, it's down to a few simple factors. “Buy as early

as possible, borrow as much as possible, hold it forever and don't pay capital gains tax.”

However, life hasn't always been so easy. Until 2006, Prue, 40, and her husband, Andy, 41, were juggling their entertainment business in Adelaide and had yet to put away any savings for their retirement or build a nest egg for their children, Casey, 11, and Benson, 9.

### Out of the rat race

“I employed five staff and I had to go back to work the day I left hospital after the birth of both my children,” says Prue. “We had no super and I thought we would be in trouble if we didn't make some changes.”

The first investment property they bought was a two-bedroom house in Hove, Adelaide, as a base for Casey and Benson when they leave home.

“My sense of finance really hit home to me when I bought the property in Hove,” recalls Prue. “I worked out the rent, capital gain, rates, taxes and interest rates and I realised I was actually

making \$160 a week. The business was going well but we were making more money in capital growth than we were by turning up each day. I worked out that we were making nearly \$200,000 a year in capital growth and I thought: “Why would I work 40 hours a week and let my energy be zapped?” I want to spend time with my kids.”

That was the turning point for Prue and after 15 years in business, she sold it but retained the commercial premises. Four months after they sold the business and retired, Prue invested in four units in Mildura, Victoria. In May last year, she bought a renovation project – complete with a three-bedroom house and a one-bedroom unit – in Park Holme, South Australia. Altogether, the couple owns 13 properties – their family home in Brighton, Adelaide; the commercial premises, also in Adelaide; and 11 residential investment properties around Victoria and South Australia.

### Investment strategy

“I adopt a buy and hold strategy because it's not very risky,” says Prue. “I'm planning to never sell, so I never have to pay capital gains tax. I don't value the option of selling because I can generally access the money anyway.”

To enable Prue to hold on to her properties, she buys cash flow positive properties.

“I now only buy positively geared properties in strong locations with capital gain potential,” she explains. “I leverage these properties with a 100% lend. Generally, this will consist of a 20% borrowing from a previously purchased investment property (or our own home) and an 80% lend for the new investment property. I try to use as little of my own money unless it's for a renovation cost. When the renovation is complete, I get the lender/bank to re-visit the property and I take ‘cash out’ to bring the loan back to 100% lend including the renovation cost.”

Because the Muirheads' portfolio is positively geared, their borrowings are paid off by the rent and their own expenses are also covered. “Each of these properties is like a bank to me – at any time I can call on that bank to release some funds and buy another positively geared property,” she says. “Even if interest rates go up it will make

### Prue wins a \$28,890 prize pack consisting of:

- \$5,000 worth of RUN Property Management services
- A \$10,000 scholarship from RUN Property Management to a CCorp Property Development education course, including the live three-day course, home study kit and feasibility software
- A Property Velocity DVD Home Study course and manual and a Pulse Property Annual Property Research subscription courtesy of RUN Property Management
- A one-hour personal strategy session with Michael Yardney of Metropole
- ‘Real World’ workshop CD and notes pack from Metropole
- Placement in the Advanced Property Investing course from The Property School
- A selection of reports (sinking fund, insurance or cost plan) from Washington Brown
- A selection of myrpdata.com reports from RP Data

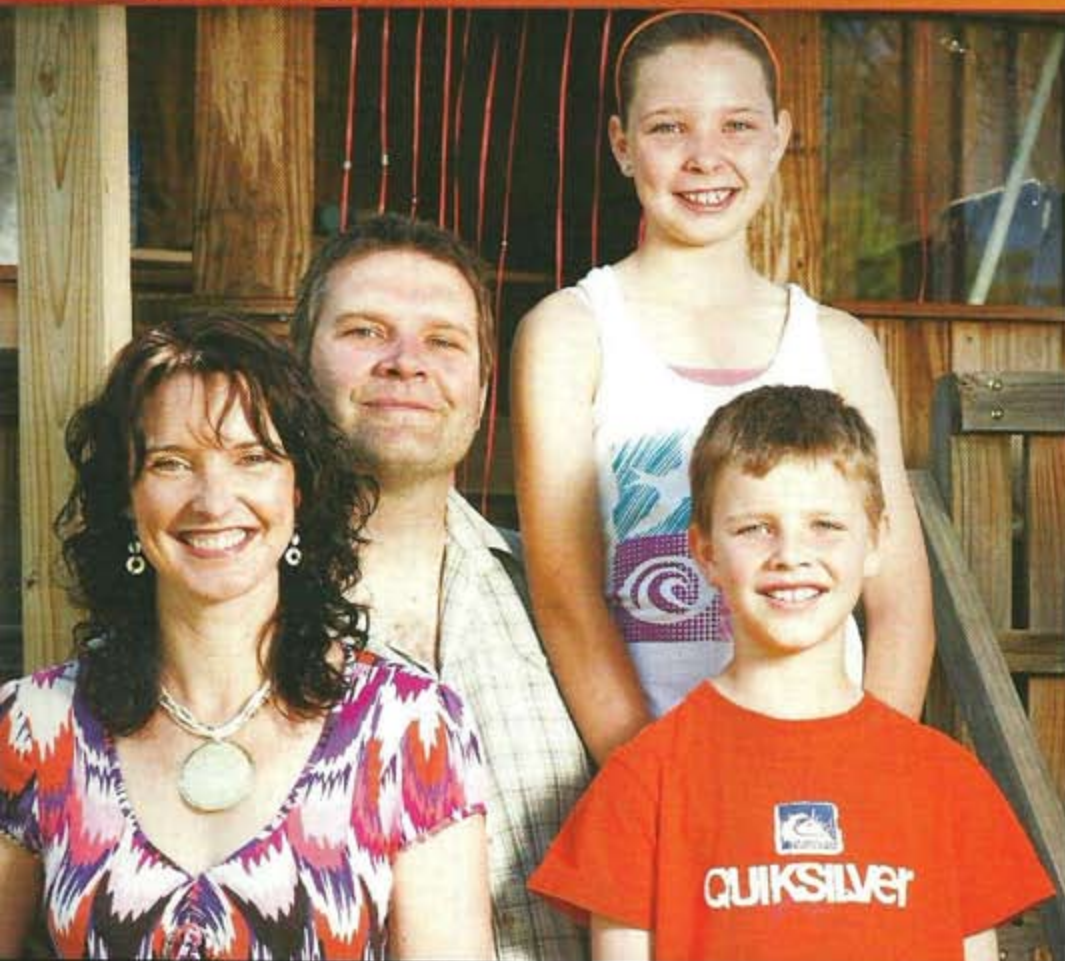


## JUDGE'S COMMENT

Rob Farmer,  
CEO, RUN Property

“Prue loves talking about property and sharing experiences and is prepared to step out of her comfort zone. She looks at different ways to maximise value and has learnt that property managers can help you focus on building on your portfolio rather than worrying about collecting the rent.”

”

**JUDGE'S COMMENTS**Tim Lawless,  
Research director, RP Data

“Prue has demonstrated a rational investment logic and maintains a long-term outlook on her investments. She has shown a solid understanding of investment fundamentals, buying in the ‘second best’ areas with the objective of capitalising on demand as it ripples away from the more popular areas. She has also demonstrated that she knows how to maintain a good professional relationship with her tenants and understands the necessity of ensuring her properties are well maintained. She has been very innovative in her investments as demonstrated through her commercial property acquisition that involved an exchange of access for additional land with her neighbour.”

financing easier to get.” Prue also looks for properties with a ‘twist’ – usually the ones that other investors/homebuyers would not consider. “I do always look for a property with an added bonus,” she says. “These can include changing the use of the land, turning a single property into a dual rent or adding value through renovations. This helps me buy under the true value. I would then rent it out under the median price for the area. If people lose their jobs, they will rent a cheaper property and that will benefit us. I don’t think we’ll ever have trouble getting tenants for these properties. In buying smaller properties you have smaller land value, so you will be paying less land tax as well.”

Through her understanding of property investment fundamentals, Prue has also been able to spot suburbs that are in line for good growth.

“I watch areas that have increased in value and try to buy in a neighbouring area that is yet to increase,” she explains. “I think if an area spikes up in value, the suburbs surrounding it are quite likely to follow soon after.”

**Keen business sense**

Prue’s investment nous was apparent early on when she bought a commercial property with a ‘right of way’ to the rear access. When a company next door wanted to expand and was blocked by her driveway, she offered to sell it to them. “They said no so I asked for land as payment instead, which they agreed to. I exchanged the ‘right of way’ (which my commercial property was unable to use anyway) for additional land from the commercial neighbour. This enabled the neighbours to develop their property and

**Prue’s portfolio**

Location	Type	Purchase date	Purchase price	Renovation costs	Current value	Rent per week	Rental yield	Profit
North Brighton SA	4-bed home PPOR	Apr 1997	\$147,000	\$20,000	\$600,000	*\$550	17.1%	\$433,000
Adelaide SA	Commercial	Jun 2002	\$225,000	\$20,000	\$750,000	\$716	15.2%	\$505,000
Hove SA	2-bed house	Jun 2006	\$220,000	\$2,000	\$330,000	\$280	6.6%	\$108,000
Mildura VIC	3-bed house	Nov 2006	\$148,000	-	\$190,000	\$190	6.7%	\$42,000
Mount Barker SA	3-bed house	Feb 2007	\$215,000	\$1,000	\$330,000	\$290	7.0%	\$114,000
Davoren Park SA	3-bed semi	Mar 2007	\$110,000	-	\$160,000	\$170	8.0%	\$50,000
Davoren Park SA	3-bed semi	Mar 2007	\$110,000	-	\$160,000	\$180	8.5%	\$50,000
Mildura VIC	2-bed unit	Oct 2008	\$82,500	-	\$125,000	\$130	8.2%	\$42,500
Mildura VIC	2-bed unit	Oct 2008	\$82,500	-	\$125,000	\$130	8.2%	\$42,500
Mildura VIC	2-bed unit	Oct 2008	\$82,500	-	\$125,000	\$135	8.5%	\$42,500
Mildura VIC	2-bed unit	Oct 2008	\$82,500	-	\$125,000	\$135	8.5%	\$42,500
Park Holme SA	4-bed house & 1-bed unit	May 2009	\$267,000	\$45,000	\$500,000	\$600	10.0%	\$188,000
<b>Totals</b>			<b>\$1,772,000</b>	<b>\$88,000</b>	<b>\$3,520,000</b>	<b>\$3,506</b>	<b>Av yld 9.4%</b>	<b>\$1,660,000</b>

\* Only rented out for a year while the Muirheads travel

gave me the opportunity to increase the size of my land hold by an extra 45%. This increase changed my options for development in the future. No money changed hands. The additional land has increased my property value by \$200,000.”

In October 2008, when the doom and gloom was at its peak, Prue bought a block of units that were positively geared. “Once I strata title the units, the capital value will increase by more than \$200,000. I also ensure that I purchase properties in a variety of locations. I always try to spread my investment locations to allow for varied market conditions.”

### **Good role models**

Prue’s success isn’t down to luck – far from it. The former disc jockey comes from a long line of property investors, including her real estate agent parents and her two property investing brothers.

“We all took a leaf out of my father’s book,” she reflects. “But it wasn’t given to us on a platter – he only gave us education, not money. My father was a real estate agent and he retired very young. My parents decided that if they purchased 13 freehold units they could retire. They retired in their mid-40s, which was well before they expected to.”

Along with her parents, Prue’s other inspirations come from property gurus Margaret Lomas and Robert Kiyosaki, and her husband, Andy. “He’s the one who encouraged me to enter this competition. When I saw it, I just turned the page! He put it in front of me two or three times before I entered.”

Prue is keen to pass her knowledge on to her children and uses the board game Monopoly to highlight the basics. “One day we’d like them to take over from us,” she says. “I made out my will a couple of years ago and we ensured they can’t sell any properties until they are 25, to protect the capital growth.”

### **Keeping tenants happy**

Prue has managing agents for eight of her investments and manages four herself, but she remains as generous to the tenants as she does to others in her life. “I give my tenants movie tickets or champagne because I want them to look after my property,” she says. “I’ve also picked up the excess water charges for

one of my loyal and reliable tenants. I view my tenants as my employer; they pay me my wage in the form of rent,” says Prue.

“I charge only market rent and I ensure this is regularly monitored. I believe a large jump in rent may encourage the tenant to move out. I ensure my properties are presented and maintained to an excellent standard. I do make sure the tenants know that I am looking after them and they need to do nothing more than pay their rent on time and look after the properties.”

Prue has a strong sense of community spirit, volunteering at Centrelink and doing the occasional work with property investment students at TAFE.

She also likes to mentor friends and most recently, she helped one of her friends buy a block of units in Mildura. Prue estimates that within 12 months, her friend will have made \$80,000 after costs. “There are opportunities out there, you just have to look,” she says. “I have a lot of people lean on me and ask ‘where should I buy?’ But often those people are working in the rat race, earning their money, working full time and they’re focusing so much on making someone else money that they don’t stop and think about property.”

However, she won’t be around to dish out presents for the next year as the whole family are heading off around Australia in their caravan to make up on the time lost while Andy and Prue were working flat out in their business.

“We’ve got an 18ft caravan – it’s not flash but it does the job,” laughs Prue. “We’re going to use Open Access Learning to school the kids and the rent on our Brighton home will pay us while we’re away.”

Prue won’t be putting her investing on hold, though – with help from the banks, she will have the purchase capacity of \$800,000 ready for the next deal. “I think my next purchase will be a block of units because there’s more opportunity to be positively geared, and I will probably pick up some little houses while we’re travelling,” she says. “I have no idea where I’ll be buying, but this trip will be the perfect opportunity to find out. Property has provided us with the freedom to do wonderful things, but the real drive is my husband and two young children.”