

## The Lazy Developer

**Dymphna:** Hey everybody, it's Dymphna here and welcome to [www.iloverealestate.tv](http://www.iloverealestate.tv). Great to have you guys back on board and great to have all of your messages coming in and telling me how much you like the podcasts we've been doing. I've been hearing from all of you from some of the most unusual places, that you've been listening to these podcasts, so thank you very much for the feedback guys. It's great to hear.

Now today, I'm going to talk about a strategy that really permeates a lot of real estate strategies at some time every real estate investor if they're going to really start to power ahead, will do this strategy. But it's not a strategy that you go into lightly and it's certainly something you need quite a bit of background on and it's a strategy that really gives you the opportunity to manufacture growth and to really force the value of properties. It also gives you the flexibility to be able to hold or partially hold assets.

Now the strategy I'm talking about is developing and there are very few developers in Australia in my opinion who get it right and who have a methodology of developing that has substance and longevity.

A lot of developers throw absolutely everything into their next project, next project and each project, gets bigger and bigger and bigger and the risk is bigger and bigger and bigger. The money management strategy around the developing process is actually fundamentally flawed because there's not enough of a safety net -there's not enough buffers - in there to enable you to always have enough in reserve to continue to live and have income replacement and lots other things. But as a strategy, it is something that I believe everybody should know about and everybody should have in their arsenal.

Now this morning, I've actually invited along a very dear friend of mine who is one of those developers that has got it right. That does have the ability to be able to look back over years of experience and watch

that model unfold over the years. Now the gentleman I've got to come along and speak with you today is Mr. Bob Andersen.

Are you there Bob?

**Bob:** I'm here and I can't believe I'm on TV.

**Dymphna:** Well not quite. You're on audio.

Now Bob, give us a little bit about your background. First of all, how did you get into developing?

**Bob:** Well, I had a passion for real estate even as a young fellow and particularly building, so back in the very early '80's, I had to make a decision if I was going to do it. I had just come out of a bad car accident, which is a good thing, because it gave me some time to think about my life and where I was going and where I wanted to go, so I actually started off getting a job at a real estate agency. Actually, it was selling a land subdivision, so that was my first taste.

**Dymphna:** Okay. So what happened then?

**Bob:** Well I found out I can sell which is a good thing but more importantly, I started to realise that my interest was probably on the production end. We were selling about 5 or 6 different land estates at that time. It was a land marketing company and I used to get great buzz out of watching the scrapers and the excavators working on site and watching things.

**Dymphna:** Typical boys.

**Bob:** Yes, boys and toys. I still do, I still love watching it and that gave me a bit of feel for what I wanted to do and actually approached a common surveying company and a civil engineering company that was involved in most of these developments and I got to know those people a little bit. I asked the directors if they'd be willing to basically give me a few tips on how to get involved, teach, how to crunch the

numbers and work out the yields on these things and with a bit of luck, I'm about re-employ them or at least get some deals together where they can get some extra work down the track. They took pity on me.

**Dymphna:** Well at least you had the gumption to ask.

**Bob:** That's a good start.

**Dymphna:** Okay, so you learned the financial side of the developing while you are still doing the sales. How did you get your first deal?

**Bob:** First deal actually popped up at a real estate agency before I left there. A fellow bought a parcel of land, some months earlier and he had gotten development approved lot to cut it into 4 lots but he was quite busy.

He ended up not having enough time to do it himself, so re-listed it and was for sale. After a couple of weeks, he dropped in one day and I saw him in there and he said, "How is it going? Are you getting any lookers?" And I said, "Well I tell you, I wouldn't mind developing that myself, but I just don't have enough money."

And he said, "Well guess what? There's way of doing it." What I didn't realise is that this was going to turn into what is commonly called the 'vendor finance deal'. He actually showed me...

**Dymphna:** You didn't even know what the terminology was back then?

**Bob:** I didn't have a clue; I barely knew what a subdivision was.

You know, people might say that was a lucky stroke. It probably was, but if I hadn't said, "Gee, I would really like to develop this, but I don't have enough money, I don't know how," it would not have happened.

What I didn't realise is that he was involved pretty heavily in property himself. This was at the Gold Coast actually. In those days when I moved there, and he was amalgamating property development sites

on the beach around Surfers, and doing very well for himself. It was back early 80s when it really took off and so, he had quite a lot of development experience and obviously he had to put together creative deals. So in essence he showed me how I could settle on the land paying half the money and paying the other half at the end when I sold the four lots plus some interest.

That actually got me into that deal with virtually no money of my own because I used half of the land value that I didn't give him as the deposit and that was the deal. It was a vendor finance deal but I didn't know what it was and I thought, "Well how long has this been going on."

**Dymphna:** Very good. So how did that deal work out?

**Bob:** Well it worked out fine. It was a four lot rural, so I didn't need to put in sewerage which happened to be on the coast. The bank lent me 80% but only had to settle on 50% of the land, so there is enough to pay cash in there for me to get the four blocks cut up and get a bit of civil works on there and get the title. So I came into that, I can't remember the exact dollars. I wouldn't have been much in current terms back then but it was a good kick start for me.

**Dymphna:** Where did you go from there? Because I mean you made a little bit of money out of that and that's one of the things with developing. You have either got to do a joint venture deal with seller like you did or joint venture with someone else or actually have a little bit of equity or capital to be able to get that leg in.

**Bob:** That's right. If you got the capital, that's a great start. If you don't, then you have got to be a bit creative.

My next one was, you might say was accidental again but if you're lucky, you're lucky.

**Dymphna:** So you're the lucky lucky developer, are you?

**Bob:** Accidental one.

But as it turned out, my eldest sister, she was 9 years older than me had a boyfriend at that time. He was in earthmoving at the time. He had some capital and some reasonable cash flow and he had seen me kick a goal and he was in the business of property and he said, "Look, if you can find something. Let's do it together and I'll put in the money."

I wouldn't have known it was called a 'joint venture' or a 'money partner', anything like that then of course – I was barely out of nappies and no one to teach me. There were no books, no magazines, no courses, and definitely no Dymphna, so what do you do, you sort of bounce around, so that sounded like a good thing and I found another little subdivision and he put the money in and it came out the other end and it went okay as well.

At that point, out of the two deals, paid a bit of tax but I had a little bit of nest egg then that could kick me on, so that sort of got me going and that was a joint venture.

**Dymphna:** When did you kick the sales job?

**Bob:** Almost immediately after that second deal.

**Dymphna:** Okay.

**Bob:** And so I got good contacts as well at that time. I was still doing a bit of marketing but more directly, so you might remember back in the old days, you're only a youngster yourself but it's Custom Credit and AGC...

**Dymphna:** Oh yes.

**Bob:** They were the hard finance companies, of NAB and Westpac, and they had a couple land subdivisions down there that apparently the developer got into bit of trouble and at that time, I actually setup a bit of a building company, although I wasn't a licensed builder. I had 2 builders, one of them carried a license and also got a real estate

agent's license and I was probably one of the first brokers. I'm putting everything down there because, it's just so keen and if it looked like there was money to be made, then I would be there. Before Divine or any of those companies, I was packaging up land, doing the building on it. That's how we did the land sales, the building contract, and the finance...

So that was going pretty well and then I started to do a few little multi unit / little town house projects, little twos and threes.

**Dymphna:** See that really gave you a broad spectrum experience from the sales, to the doing of the small deals to start with which is the way where people really should start and right through to the financing of it as well, so you really got a great grounding in those early days of how well the pieces fit together?

**Bob:** I did. Once again, it would have been easier with the education which wasn't there but you can think on your feet and if you're hungry and keen enough, you'll get there.

**Dymphna:** So you actually went on then and you worked for some of the big boys, didn't you? Like they needed you to come on and run some very large projects.

**Bob:** Yes, that was some years later, probably 6 to 7 years later. I actually moved back to Brisbane when I started a family.

And I got a little bit bolder I suppose. I wanted to do big projects. I wanted to get involved in larger scale projects that I could afford to do.

So why start off at the bottom - I approached the biggest development company in Australia at that time which...

**Dymphna:** Why not go big?

**Bob:** Why not go big? It was Hooker Projects but she was the gem of the Hooker Corporation, the development arm. That was bigger than Lend Lease and Mirvac put together.

I approached the stock manager there and he said, "Well, give us a look of what you've been doing?" He was sort of impressed with my entrepreneurship. He said, "Well you're not a typical sort of corporate guy," but he said, "I can see you have done quite a bit. You can think." He said, "How about we do a little bit of consultancy on the side."

So I actually did that and looked at some deals, put some reports together, and so forth for them on the side. I didn't realise it was a test really to see if I knew what I was about. Then one day, I got a phone call which was one of those phone call that changes your life in a way. The state commercial development manager at that time, he was doing high-rise office blocks around the city, left in a hurry and I was called in there and basically offered that position the same day which was pretty amazing because normally in those days, probably you had to be 50 years old to get a job like that.

And I said, "Are you sure that I am the man you want?"

**Dymphna:** Well you can't talk him out of it, talk him out of employing you!

**Bob:** He said, "Look I can sort of teach you some of the corporate angles," he said, "But I like the fact that you have got a lot of go. You're entrepreneurial." He said, "It doesn't quite gel with the corporate side but I won't ruin you because I'd actually like some of my corporate guys to be a bit more like you," he said, "You might be a good mix."

And there you go. So I went on there. I did probably stay longer in the corporate world than I was planning to and ended up working for three major development companies. I worked my way up to either state or national development manager on some of them but there reaches a time where you just don't want to see any more boardrooms

and if you have got that entrepreneurial sort of spirit, you're going to go back out on your own again. That's what I did.

**Dymphna:** Okay, so then you had really broad spectrum. I guess you made a lot of contacts during those early days as well.

**Bob:** Yes, very valuable. Look, you might agree I'm sure so much of the business when you get out there and really start doing business is networking. That's all what's about.

**Dymphna:** That's gives us an understanding of how you've gone through the ranks if you like but if someone is sitting out there thinking, "Oh developing, I don't know. There's so much involved - there's a lot of money." What advice would you give them?

**Bob:** Well, look there's all sorts of property development. It's a funny thing when people think about property development they normally think of construction.

**Dymphna:** I normally think the high rise that you just came out of.

**Bob:** Yes, exactly I think, cranes and big buildings and also people running around, doing things which is the case on a big project but I think you got to look at where this property development started and you could start with something as simple as just splitting a block in half. It could be an 800 meter block that we just split in half and make it two 400's.

What do we do with those two 400s? Well, we might sell them. We might build on both of them. We might build on one and sell one. If we need to sell one, get a bit of capital to use that to tip that back into the house and build that.

The beauty of a property development, of course, is that you might sell it and make a cash profit. Or you can hold what you build and becomes a long-term investment, so lots of flexibility in there even on just a little thing like splitting a block in half.

**Dymphna:** Okay, so I guess the message there for everyone listening is, if you've never done any developing before, start small.

**Bob:** Start small. Start safe.

**Dymphna:** Don't overcapitalise and don't go in too big.

**Bob:** Absolutely and always recommend people keep a little bit of a buffer.

Even if you have got a bit more capital and you can, say financially do four town houses, well I said, "Look, do three. Keep a bit of a buffer."

I might sound funny saying that as a property developer but I'm by nature conservative. I'm may have been able to make more money in my life or had been more gung-ho but when I say conservative, that's not flying in the face of being an entrepreneur. It's just about understanding where the risks are and mitigating their goals, so I'm not a big risk taker.

**Dymphna:** No.

**Bob:** As a result, I built systems around what I want to do and always do it with eyes wide open. It's feels through you have to know where the risks fly and then how to mitigate against them.

**Dymphna:** That's right. I've got mates who are in the developing industry and they take some major risks and it's not the way to build a sound model, I mean they have the attitude of 'you win some, you lose some' but one of them during the last couple of years lost over \$70 million, so you know, he lost some.

But he's out there, starting all over again. But most people can't handle that kind of roller coaster which is why I particularly liked the way that you structure your education around developing with students of yours because you build in those safety nets. Most people don't have that roller coaster mentality and I think it's the wrong mentality

personally because slow and steady wins the race too sometimes or at least having those buffers in place helps.

Let's talk a little bit about some of the people you've been able to help along the way and some of their stories because when I say slow and steady, that might be \$200,000, \$300,000, \$400,000, \$500,000 to throw around which is still pretty good money.

**Bob:** Yes it is. I guess one of the reasons I work in the property development sphere or that area is because potentially there are some big chunks of money to be made and also good cash flow if you're going to hold, so one of the flexible opportunities here is to sell and make a chunk or to hold and it's long-term growth.

**Dymphna:** Tell us about some of your students and then we'll come back to the models that worked.

**Bob:** We talked about a joint venture with a money partner before. One of my current students I have just helped a bit, put a deal together in Woollongong actually or just down the road a bit at Kiama, at the beach down there.

They're in the position where they needed to do a creative sort of deal because they really didn't have enough equity. They got good cash flow from their jobs but didn't have enough equity to actually finance something in its own right. So they've been looking at some creative deals, and the possibility of doing maybe a joint venture with the land owner or maybe another partner with some money, maybe even a vendor-finance deal but anyway, these sorts of deal don't grow on trees. They've actually picked a deal probably about the fifth one they've looked at in either about three or four months but to come off, I've actually found a money partner who can come in, so this is a good little deal where they'll put in the work – the hard yards. They have already found a site. It's a bit bigger than your average one. It will actually do 12 units.

**Dymphna:** Okay.

**Bob:** Now fortunately, they are students I am personally mentoring, so the 12 units won't be an issue because I'll help them with that, but they found a money partner who can put in the required amount of equity and they'll borrow the money together and do that deal. Profit on that deal will be about \$1.3 million to be shared between the two of them. So it was a bigger deal than you normally do in the first one but then if you have got a money partner that's got some capital, it can go that way but that's where the education and the help is a big thing when you're starting off that one at that size.

**Dymphna:** How long will that deal take?

**Bob:** Well I was a bit shocked to find out from council how short the development application takes to go through – it's about 10 weeks.

**Dymphna:** New South Wales is so much better than Queensland.

**Bob:** And Queensland is a lot better than Victoria.

**Dymphna:** And WA, WA you'd be waiting a year. Sorry we won't bag the states.

**Bob:** So looks like they'll lodge in about two or three weeks, so I actually get it out at 10. They've already had pre-DA lodgement meeting with the council and everything looks favorable there, so we don't see any impediments. So say 13 weeks at DA, they'll have a construction certificate or a building permit or a building license (wherever you come from).

Probably another 3 weeks later and in the mean time, we'll sort out the builder and get going there. It's probably about a 9 month build on that one. So which will be about probably, say 18 months, that they should be realising their profits.

**Dymphna:** And realistically, you know, what did you say \$1.3 million, did you say? Profit?

**Bob:** Profit, yes.

**Dymphna:** \$1.3 million for 18 months - a bit of under a \$100,000 a month. Even, if you have got to split it between two – a bit under \$50,000 a month. How much work has actually gone into that by this student of yours?

**Bob:** By the student, it's bit hard to work out the hours but...

**Dymphna:** Because most of the hours are upfront, aren't they?

**Bob:** Yes, I upset builders sometimes when I say this, but I always say that the smart work is done before the builder ever sets foot on the site.

**Dymphna:** Well it's very true.

**Bob:** Finding the deal. Negotiating the deal. Crunching the numbers with due diligence. Maybe in this case structuring a creative deal with a money partner.

**Dymphna:** Yes.

**Bob:** That's where all the smart work is.

**Dymphna:** That's right.

**Bob:** The other part of the smart work is with the architect - the smart design. All these sort of things, but that's a different sort of smart, that's where your leveraging on somebody else's smarts.

So really, I guess since they've found that deal, they probably put in to get it to the point where it is now or they put in 30, 40, 50 years' work consistently. When the building construct...

**Dymphna:** And some of that doesn't yield fruit either.

**Bob:** No.

**Dymphna:** A lot of that early searching and finding and talking to people before going into deal. They'll say yes, and then they'll say no and there are dead end, starts and paying money and solicitor's fees and search fees

and things like that perhaps all that pre stuffs can come without any profit at all.

**Bob:** That's right particularly when you're trying to do one of these creative deals.

**Dymphna:** That's right.

**Bob:** If they had, you know, \$600,000 to \$800,000 in their pocket. They might have done the first deal they found because they could afford it but they have to try and do creative things. They don't fall off trees, you have just got to be prepared to get in there and do the hard yards.

**Dymphna:** That's right and meanwhile they're still doing what they do they're still out there working, however they used to work before they decided to be a developer.

**Bob:** Absolutely he works for New South Wales public service and his wife is a business consultant.

**Dymphna:** Good, so they know their numbers then.

**Bob:** They do. She's the analytical one. Well it makes a great mix - husband and wife. In this case, she's the analytical one and he's the more flamboyant talker.

**Dymphna:** It's a matter of blending that mix and if you don't have the mix with their skills then you have to go and pay for it. It's like a lot of the contracts I seem to be involved with lately. They seem to be done on the golf course or the old boys' rugby league club. Well, I'm not an old boy and I never played rugby league, so I don't kind of fit in into those leagues and I don't play golf either.

**Bob:** I have to send you a tie - one of the old school ties.

**Dymphna:** So I what I did is I brought somebody in who is in that mould and I just send them off to go and play a round of golf or win at golf - whichever one needs to be done.

**Bob:** Or lose mostly, I think.

**Dymphna:** Drink with the boys. He thinks he's got the best job in the world.

**Bob:** Sounds alright to me. If he tosses it in, would you keep me mind? I'll dig out my old tie.

**Dymphna:** So there you go. If you've got that mix of talents, it really helps. If you haven't got it, well go and buy it.

That's my point there really. Okay, the feasibilities and the upfront work, there's a little bit of strategy in that and I really feel the best way to get that strategy is to see lots of people's deals. Well this happened and that happened and the good, the bad, and the ugly really, because not every deal you start comes off, but then seeing how difficulties can be overcome to really make that deal get over the line.

**Bob:** Absolutely and that's why it's good not only to do a course of some sort, but to get involved with those sorts of people do the courses. If there are any boot camps on and that sort of thing, that's where so much is learnt by listening to other people and things they have done, mistakes they have made. I'm quite happy to tell people as well of mistake I've made and we still make the odd mistake. Not just because you didn't know something - I made a mistake recently because I broke one of my own rules, and that happens sometimes at any age.

**Dymphna:** That's right and that's where I really take my hat off to you Bob, because how many years have you been doing this?

**Bob:** Oh, around 30?

**Dymphna:** So 30 odd years and yet you're still prepared to spend the time and share the knowledge and create the environment for learning because as you said, just having the opportunity to hang with other people that are doing the same kind of thing and hearing from them and what's happened here and there and it's great when you kick a few goals to be able to give back to the industry that served you, if you like.

**Bob:** Yes, well I didn't get involved in any education part until probably about 3 years ago, so I was 27, 28 years in the development area before I did this.

I did write a book earlier on and ran a few little boot camps but I didn't get serious about it until about 3 years ago.

I love it because it's a different environment from basically being a raw developer and I still do that. I still got my development company. We've probably got \$45-50 million worth of projects at any one time, so that's still running there. But it's just a satisfaction and interaction on getting together with a lot of people and some my own ages even, and a lot younger and just a satisfaction to bring in through watching them develop.

**Dymphna:** Seeing that journey. See the faces and the journey that goes with it.

**Bob:** Well, you know all about that more than I do, of course - I'm relative newbie - but yes, I just derive so much satisfaction out of it I am almost like a mother hen in a way, I get there.

**Dymphna:** You get like that.

**Bob:** Yes, and all developer being a mother hen is a bit of an experience, I tell you.

**Dymphna:** Let's talk about a little about the formula. I mean 12 units is probably a little bit bigger than most people are able to start with. Even the process of finding a joint venture or a money partner to come in on a deal like that. There's a lot more money required to do blocks of 12 than there is to do duplex or block of four. Financing is also another scaled thing, I mean financing on a block of 12 would be a little bit harder than perhaps financing on a duplex.

**Bob:** That's right. When we're down to those entry-level type projects things like, as you mentioned a duplex, they can be financed off normal, what I call retail finance or normal residential finance, that's

what finance people are used to when we go into a house or whatever. It's only when it gets a little bit bigger and sort of threes and fours up we made to look at a different type of finance - commercial finance.

**Dymphna:** Well actually, up to 4 these days with some banks, you can still squeeze in under, I guess residential finance for want of a better word but threes and fours is about the limit it goes to. This is definitely commercial, you're going to have to jump through some hoops here and it's not just a matter of proving that the deal works. You're going to kind of prove yourself as well and your consultants and who you're using so the banks have got some confidence in who you working on the deal.

**Bob:** That's right and that's why I'm trying to teach my students to operate as a business. Treat it like a business that can make more money than most businesses even if you're just doing it part time and to be professional, to have the right sort even if something like a finance application, even if you're using a broker for that matter because I have templates for making a very professional-looking presentation and it's the story that's put across to the bank that's very important.

**Dymphna:** That's right. Okay, so let's look at some of the smaller deals because a lot of my listeners will just be starting out and thinking about, "Okay, well where do I start? What could I do?" Where do you see the biggest opportunities in the market right now in the developing game at smaller end of the scale?

**Bob:** Look at the smaller end, they still – if you get out and have a look, there are still splitters, I'm just ready to do a little one myself. I don't normally do a block split in two houses but I'm going to do one now because I found one that works and quite simply managed to pick up a pretty ugly old house on a 800 meter lot and what I'm doing is just getting the approval, just coming out now to split that into lots, that would be two 400 meter lots. I'm going to build a new house on each

of those two lots. New houses in that area are coming out about \$650,000.

It's a bay side suburb and I've done the numbers on it. Obviously, or I wouldn't be doing it. Again, the profit in a span of \$158,000 but what's important to me is that the amount of time that's involved or not involved in it.

I'm going to leverage the expertise of my planner/surveyor. The planner I've used has in-house surveying skill as well, so I've handed it over to them, they've already done the survey, they're going to basically lodge the application, track it through, get the approval out to cutting the two lots and then basically get it off to the title's office for want of a better term and deliver it to me in two lots; two separate titles. That will cost all of \$11,000 but basically I will be just sitting back, waiting for that to happen. I've already lined a project builder up in this case to build a project home on each of the two lots.

I have used him before, and he is very reliable. Biggest time in cost there will be choosing colours and different things.

**Dymphna:** And you can get somebody else to do that if you want to.

**Bob:** I actually do. Karen does all that for me, so...

**Dymphna:** I've seen you in ties so that might not be such bad idea.

**Bob:** Thanks very much. Did I have shorts on, and long socks that day, I can't remember?

So, really, not a lot of hours, I actually worked out, I'm going to put about 17 hours work into that because I've got the experts doing a lot of the smart work in there.

**Dymphna:** Okay.

**Bob:** But it's a good little deal now. Pretty simple - just a split lot. I could sell the two lots of land off without building but not much of a profit there - a little bit.

**Dymphna:** What would you call a little bit?

**Bob:** Look I could build one house and sell it and make the profit and then go down to second lot, that way we're working the cash flow a bit better, but I managed to put a few cents aside, so I can actually do the two houses at once and that's the way I'll do that one.

But there's a little deal now, better than I do. What's the average full-time Australian wage these days?

**Dymphna:** Oh I think it's actually up around the \$50,000, I think it used to be around \$40,000 but it's around \$50,000 now.

**Bob:** But there's about 3 years salary if you want to look at it that way.

**Dymphna:** Well your hourly rate, if it took you 17 hours would be \$9,294 an hour.

**Bob:** Any cents in there - I feel like I need to sell myself up.

**Dymphna:** Oh yes, 11¢ if you like.

**Bob:** Oh good, thanks very much. Don't forget the 11¢. Can we round that up or down? I am sounding like an accountant.

**Dymphna:** You are.

**Bob:** That is, I suppose, a smallish sort of deal. It's on the entry level end, but a very good profit, compared to normal 48 weeks a year work. That's something that a fulltime person could do in their spare time.

**Dymphna:** What timeframe did you say?

**Bob:** On that time frame, it's going to be about 9 months.

**Dymphna:** Okay, so less than a year?

**Bob:** Yes.

**Dymphna:** Okay, so for somebody who wanted to do that alongside whatever else they were doing and then get the next one lined up, they could basically do that and then sort of quit their job because they've got a year to earn the next \$150,000 odd.

**Bob:** That's right. If you're going to do that, the best time to quit is when the profit is just coming in off one deal.

**Dymphna:** And you have lined the next one up for finance.

**Bob:** And you line the next one up, it's like a sort of bank rolling yourself.

**Dymphna:** That's right.

**Bob:** Time is important.

**Dymphna:** Absolutely, time is important. Okay, if you're building a block of four we'll say or go the other way. How many do you have to build to get one for free?

**Bob:** I think it's around six.

**Dymphna:** Block of units?

**Bob:** Probably around six. I mean it's a tax thing and I'm more about tax than I do but some people think that if they build, they can just keep pushing their profit into the last one that they don't sell, but the ATO likes you to pay profit as you go.

**Dymphna:** They tend to like that, yes.

**Bob:** So I actually thought it was the other way many years ago. I thought, this is good, I'll just build four and sell three and hold all my costs. I put all my tax deductions in the last one but it doesn't work that way but I think it depends on the profit margin for a town house but probably about six is where you get an unencumbered one at the back end.

**Dymphna:** Okay and obviously tax and cash flow and all the rest but even if you're doing four, sell three, keep one.

**Bob:** Yes.

**Dymphna:** After taxes. Your loan on it would be so low. It would be very nicely positively cash flow even if it is in the primest location in Australia.

**Bob:** Absolutely and I actually used a similar structure to get one of my children into the market and going one on a four town houses project when they came for one.

Got theirs at cost and then actually bank rolled the deal but sold the other three, paid the tax, and usually after tax profit on the next one to reduce the mortgage on the fourth one, the offspring held and then it ended up with a \$500,000 town house, on a mortgage of about \$180,000.

The good thing about that is that while I put a little bit of money into the deal and I took it back out again, I've got none of my own money in that deal at all. So you have got a child that's got \$180,000 mortgage on a \$500,000 property but mum and dad didn't leave the money in there or guarantee the loan.

**Dymphna:** You just utilised some of your money for a short period of time and on a \$180,000, it's probably getting \$500 a week rent, \$450 something?

**Bob:** Yes.

**Dymphna:** On that, he or she would be roughly \$12,000 positive cash flow, just in rough figures in my head.

**Bob:** Very good head. You got a good head.

**Dymphna:** Something like that. That's a pretty good start for a child setting out and seeing the process, learning the process, so it's a great succession plan or wealth building plan for the next generation.

**Bob:** Absolutely and the good thing is I haven't had to leave any money in this. Some of the parents help their children by taking a chunk of capital, or a line of credit and giving it to them.

**Dymphna:** And then they don't get it back.

**Bob:** No, it never comes back.

**Dymphna:** Sure it's a loan...

**Bob:** But then you have got to go to the trouble of adjusting the wills.

**Dymphna:** There you go. How many kids have you got Bob?

**Bob:** I have got all of three.

**Dymphna:** Three.

**Bob:** Ranging in age 29 to 11. There's a bit of a gap.

**Dymphna:** Oh goodness.

**Bob:** I took a holiday there for a while and anyway, my youngest is 11 which is great, keeps me going I can tell you.

**Dymphna:** So now we're coming up through the ranks very shortly. So when we start looking at these early start deals for people to be able to use some of their line or credit for instance to help a child out or to have a development going on the side. I mean that's one of the things that I like about developing is that, you really can just run it on the side part time because you're not really doing much of the work.

The consultants are doing the work, it's you being an organiser and just on that, I think anybody, any parent that's organised running around after netball and soccer and tuckshop lunches and work and everything else has a PhD in project management. What do you recommend?

**Bob:** Absolutely, I say the same thing myself and in fact, I got this great desire to get more ladies out there in the property development area. I'm pleased to say that my student's intakes some more and more ladies and they...

**Dymphna:** You must be wearing better ties Bob?

**Bob:** Well I don't think they are really because of my clothing sense.

**Dymphna:** I don't think so either.

**Bob:** Thank goodness. Pretty dry argument or I'll be talking to myself but I got a little thing in my course where I talk about some of the attributes of the property developer.

I think it's like multitasking, problem solving, being proactive, and decisive and when I got through them all I keep thinking, women just about beat us on everyone of these - they have got a lot.

**Dymphna:** Well it's really on that organisation and that's what it comes down and knowing the numbers. You've got to have a hand along the numbers or at least have somebody on your team that's got a good handle on the numbers.

**Bob:** The numbers say, the economist says that numbers never lie. That's one of the first things I really push is to understand how to crunch the numbers? What the numbers are and yes, how to do them? How to make them work?

**Dymphna:** Very good, so for guys just starting out there who is thinking they don't know whether it's time to be doing it right now, you know, it's a flat market or it's a whatever market, what would you say to them?

**Bob:** I'd say, I've been doing it consistently for four and a half property cycles I guess. The different things pop up in different properties cycles sometimes the market is expensive to get, sometimes it's cheap. Sometimes it's readily available, other times it's hard sometimes,

sometimes there is plenty of sites out there, other time, there's is not so many. Sometimes there's lot of buyers in the markets, sometimes it's not. It's all these variables going on around out there and there's always, different, if you like, there's like bottleneck, there's the slow thing.

At the moment, it might be a bit reticent still but they are slowly getting better but it's how you deal with them - you just need to be very flexible, so really – to me most markets are good markets. The only market I don't watch is right on top of the boom, I take my foot off the accelerator little bit on that 12, 15, 18 months period at the peak.

Not totally out of it, but just back off a bit.

**Dymphna:** That's really where education comes into play that you start to realise those things but where the uneducated, that's where they are jumping and then it's like, "Oh the property market is bad. It's this, it's whatever." It's not the property market at all, it's lack of education.

**Bob:** Absolutely, and that's what I didn't have when I started off but I got plenty now.

I love getting your emails too. First thing I do is, I want to know what's Dymphna got now? What else can I learn - so you never stop learning.

**Dymphna:** That's right. You never stop learning and it's ongoing growth and that's why I take my hat off to you Bob, I mean, you've done a fabulous job with the students and the results and what they're doing and regardless of whether they have got a lot of capital behind them or not too much to rub together, you've shown the ways to get out there and really start in this game of manufactured growth which it needs to be part of everybody's strategy regardless of what their ultimate desired outcome is.

**Bob:** Particularly in times of low-organic growth which we seem to have at present -if you don't want to just sit there and spin tyres, then you

have got to be proactive. You have got to create this growth upfront, produce it.

**Dymphna:** That's right. That's exactly right. Okay Bob, well thank you so much. Any parting words for my listeners.

**Bob:** Any parting words? Look all I can say is, you just have got to do it, get out there and do it, make a decision, be decisive, get educated though. Don't just head out there like I did and hope for the best, plenty have failed. Get yourself some education but get interaction. You just have to eventually do it yourself.

**Dymphna:** Yes, that's right. It's a great strategy to add on to other strategies or just stand a alone strategy itself. So thank you very much Bob for coming along and sharing some wisdom with us this morning, so that everyone can benefit and think about developing as a solution and as something that you can do alongside another job because it's not particularly time consuming. You know, there's some work to be done but it can fitted in around a career or a business or a j-o-b and it's great way to really get that momentum behind you to be able to do other strategies like income replacement or whatever else. I mean developing fits into all of that.

**Bob:** It does. It's a great part-time job for a while.

**Dymphna:** It's certainly is. Okay Bob, thanks heaps for coming along and bye for now for everybody. I'll back again to talk to you very soon on the next podcast on something completely different, so bye for now guys. See you on the [www.iloverealestate.tv](http://www.iloverealestate.tv). Talk to you soon. Bye.