Audio #40: Tamara: NRAS and how to develop, finance and sell a 16 unit development

Dymphna: Welcome everyone to iloverealestate.tv and great to have you guys on board. Now today what we're going to be covering is a couple of topics. First of all, we're going to explain the NRAS process what that actually means for investors and from the developer's side as well. I will also be talking about funding and settlements on properties and how long things take to get things done and what you should be doing particularly from a build perspective and what the different is between building a house and getting the funding for it, versus building a duplex or a triplex or even 16 units.

Now the reason I say 16 units is because I actually have one of my students here and she is well-experienced in this because she's actually just completed a project of 16 units, which was rather challenging. So without further adieu, let me introduce one of my students, her name is Tamara. Hello Tamara, how are you?

Tamara: Hello Dymphna, very good, thank you.

Dymphna: Very good. Now Tamara, as I said, you just finished a block of 16 units. How would you describe the process?

Tamara: The process is not for the faint-hearted.

Basically. Yes, I think you've really got to be persistent and be prepared to follow everything through to the nth degree. You may assume that you're paying your solicitor and you're paying your town planners and surveyors and so forth, but you really need to be one that drives the whole process. You need to be prepared to be on the phone chasing every piece of paper because just even to get say final titles at the end which should be a weekend titles - can blowout to three weeks just because of this one piece of paper...

Dymphna: Is lost on somebody's desk.

Tamara: That's right and that person if you don't chase that up, he's probably on holidays and nobody knew he was on holidays, so it is very much – if you want to do it in a timely fashion, if you are prepare to do a project over two or three years then you can probably take a much more hands off process, but if you've got things already sold and you got to meet settlements, then yes you've got to prepared to do this.

Dymphna: Well I mean, nobody can say you haven't been diligent in the process and determined.

Tamara: And by starting something then I finish it.

Dymphna: Want to finish it, that's right, yes. Okay, let's go back a little bit first of all Tamara. Now I want to explain NRAS to people because it's something that I get asked about all the time. I traveled around Australia and people come up to me and say, "Oh what about NRAS? Do you think I should I buy NRAS." Let's just explain what it is first of all and how it came to be.

It's the National Rental Affordability Scheme and it was an incentive basically from the current government to get essential services in areas that they determined where areas of need. That meant that people who qualified on the essential services - we're talking fireman, police officers, and nurses, and teachers, and people like that, and they had certain salary brackets that they have to fit into as well and the low end was $40,000 for single, wasn't it?

Tamara: Yes.

Dymphna: So it's not really low. So $40,000 was the minimum single and I think it went up to $120,000 or something for a couple?

Tamara: Couples are about $76,000 but then once you throw in a child then you're starting to really get up there.

Dymphna: Okay, so if they are qualified from a salary perspective and essential services perspective, they were then able to rent these houses which all had to be new and with the new property, they were able to rent it at 80% of current market value. Now you might think, "Well that's sounds great for the person renting," but why on Earth would an investor want to invest in one of these things. The flipside of that is that they got tax-free cash back - not just rebate

- but cash back for 10 years and it increases every year for 10 years, is that right?

Tamara: Yes, that's it. So, at the moment, this year, as of May, it is $9,981 and it increases based on CPI adjustment of the rental rates, so it increased about $400 from the previous years, so that will continue to increase.

Dymphna: And the person gets that when they lodge their tax return?

Tamara: Yes, although you can actually do - I can't remember what forms are up to now - Form 27-D or something like that, which you could do with a normal rental property where you actually get the benefit of the tax deduction paid back to you every week.

Dymphna: So your employer takes out much less tax because you're covered under this scheme...

Tamara: Yes.

Dymphna: Okay, so you get this tax-free money back. Now you think "Why would I want to do that?" Obviously if you're buying a property in an area that has good growth which is the objective, you get this tax-free money back every year. Yes, you have got to rent it at 80% of current market value but that's assessed every year. There's a rent-to-market review every 12 months.

Tamara: It is actually built into your lease that it will increase annually and it's actually based on the rental increase in the closest capital city, so depending on your location, that's a benefit there.

Dymphna: Okay. So you get that money back, so by the time you add your tax-free money and the rent that you're actually getting, quite often after tax, you end up with more than you would have, had you just rented it normally in the normal market.

Tamara: Absolutely. So for a lot of properties, they would be negative geared previously, but with NRAS, depending on your income level, they were positive.

Dymphna: The higher the income obviously, the more they're suited to that person.

Tamara: Yes, and NRAS works because the government incentive of $9,981 a year is exactly the same dollar amount regardless of whether you're purchasing a four bedroom, house and land package that might be a $400,000 purchase price as opposed to buying a one-bedroom apartment for $250,000. You still get that $9,981.

Dymphna: Same amount.

Tamara: Yes. So when you do a quick calculation on the yield. When you're discounting the rent by 20%, on the smaller properties, they NRAS incentive is actually doubling the rent essentially.

Dymphna: So if you're after cash flow, you are better off to go for a lower price smaller one bedder as opposed to a larger house.

Tamara: Yes.

Dymphna: And you try and buy these properties in areas that will have good growth over to 10 years.

Tamara: Yes.

Dymphna: And the scheme lasts for 10 years but you don't actually have to leave your property in this scheme – you can pull it out anytime?

Tamara: Absolutely, so if you were looking to retire in five years time, you could leave it in the scheme for the first five years and via property that then you moved into if you wanted to be owner occupied, so there is definitely that flexibility.

Dymphna: And historically when properties have sold - because I hardly really had it around for the last few years - they can command a slightly higher price tag if they have got NRAS attached to them than otherwise?

Tamara: Yes. The other benefits really with the NRAS is from a rental perspective, you're getting quality tenants that are located close to their place of employment. For instance, they might be a nurse near the hospital and because they're getting a 20% reduction on their rent, then all of the tenants are going to generally look after the property much better because it's just like a normal rental - if they did anything that jeopardised their normal lease agreement, then they would be removed from the property but that removes them from the ability to enter into a future NRAS property. So you've got good tenants, everybody lives well together. If you've got a unit type project, there's multiple tenancies, yes everybody tends to live more amicably together.

Dymphna: You've actually been on the other side because you've been producing NRAS properties to the market and selling to investors and keeping some yourself. Now, let's back track a little bit. One of the early NRAS properties that you did was a little bit different because we say that the property has to be a new property which if you read all of the gaff, that's what's you read and that's what you expect. However, you actually created a new property by moving an old property onto a newly subdivided block and you actually got the approval for NRAS on that property.

Tamara: That's right. What you need to be able to demonstrate is that you're creating additional accommodation that wasn't previously there, so in a normal situation, that's building something. For us, we purchased an existing house on a larger block of land. We were able to subdivide that and move another house on there whilst the physical house wasn't new, we were spending enough money on the relocation and the renovation that it was essentially new at the end but it critically created an additional dwelling that wasn't previously in the rental market and so that's qualified, yes.

Dymphna: And you got the NRAS classification on that new one to actually to sell that property with NRAS attached to it.

Tamara: Yes.

Dymphna: Fabulous. Now let's go through one of your more recent ones, and that is the block of 16 units that you built, a big project obviously. If somebody is out there thinking, "Okay well, I'm building a block of whatever at the moment. How do I get NRAS qualifications to it?" It's actually little bit difficult now from a developer's perspective because they're all used up, are they not?

Tamara: That's right, so what you used to be able to do 12 to 18 months ago, there was actually a market for applying directly with the government and being able to receive an allocation or alternatively to developers that are already had allocations. If they weren't able to use them, they there was a market to buy an existing allocation and just have it assigned to your property

So that's was sort of 12 to 18 month ago. What has changed in between is that the government released their last round of allocations and that was well oversubscribed, so there are a lot of projects that never got approval and any developer or consortium that had allocations, they sort of almost became like gold and just been held and developer will go ahead with them whereas previously, there was actually a market to sell them.

The government may do another round. They certainly made you another round of NRAS, round five. It's just a wait and see, so until they announced it, then nobody really knows and when they announced it, it may be sort of some talk. Maybe that it's will only be released to the existing consortiums and to existing developers that have not got a proven track record for delivering the end product, so it's a little bit of a wait and see.

Dymphna: Wait and see. Okay, so that's out of the question now for the developing side of things. As an investor, we've explained how it works and it does have some advantages. I looked at it as being one of those things, as in passive investment and for passive investors, not opposed to NRAS at all. It turned something that would normally have been negative into something that is positive and that's always a good thing by my books but it's not a really aggressive strategy to get it and say, "Oh well, let's get some more of this and do that and whatever else." It doesn't rebound you into the next deal as quickly but then that's not everybody's style of investing either. You've used it the other ways because you've been using it to develop which is – as what I've pretty much off the table now.

Let's now talk though, not so much for NRAS but the process of actually building something because there are lots of styles of building and the most basic one I guess is a house and land package. With a house and a land package, you have got to ask yourself one question. You have got to ask yourself, "What am I paying Stamp Duty on?" Because if you're paying Stamp Duty on the land, then you're actually the developer because even though it might be sold as a house and land package, you're buying land, paying

Stamp Duty on the land, and then you're actually contracting a building to build 'X' house on the land. Now if you're building that for investment purposes, you must take into account GST and with selling that property, if you sell anytime within the five years rather than rent it for five years, then you're actually selling a new property for the first time and GST has to be taken into account. You have to pay GST to the Tax Office and the thing that most people kind of miss out on here is that the price of the house is the price of the house, so to say it's a $400,000 house, it's a $400,000 house.

The mum and dad that are going buy it and to live in it, don't have to pay$400,000 plus GST, it's a $400,000 house which means then that if you are the developer - and a lot of people miss the fact that they're actually the developer - you have to take that $400,000 divide it by 11 and remit that amount of money which comes in about $36,000 or something to the Tax Office. Now admittedly, yes you get credits against that because you get the credit for the GST that's been paid as part of the building and possibly on the land depending on whether it was sold to you with GST or not but most people don't realise that they have to be registered for GST and they actually have to do something with this property. Now all of that negated if they are building it as their own home but as soon as it becomes in investment property, that's exactly how it works and people really get tripped up on this and I can tell you now, there is major money set aside for audits in this area and they are crossed, this is the Tax Office and they're cross checking with the titling office on creation of new titles and buildings and those sort of things and there will be some major letters going out for audits in this area.

People don't realise, it's one of the most under recognised areas of GST is this creation of a new property, so watch that space on that one and when you are the developer effectively, just to reinforce that you have paid Stamp Duty on the land, not on the house and land value, then you are actually the developer and you've contracted a builder to build the house. If you paid Stamp Duty on the house and land value which is obviously going to be more, then they've already sold it to you for the first time so when you then on sell it, anytime in the future, there is no GST to take into account because residential property particularly is input taxed, so that's how that works.

Tamara: I think another thing that people miss on that GST calculation, is that if you're getting construction finance through a bank, a bank will actually work on the pre-GST figure, so they will only give construction finance on the excluding GST but when you pay the builder, you obviously you needs to get his including GST, so you're actually have to have to cash flows sitting to the side because what the bank is assuming is that you're remitting your BAS statement monthly

Dymphna: BAS statement.

Tamara: And that the ATO is giving you back the GST that you paid the builder but timeframe wise, you actually have to have that cash to cover as your form.

Dymphna: That's a little bit of a problem too because the Tax Office is renowned for being slow as wet weeks in giving you a refund but they're as sharp as the sharpest sword you can possibly have when you've got to pay them. I remember once I lodged a BAS statement of one of the developments once that I had and it mean that I was getting a refund because it's through the construction process of a $160,000, now that's obviously a decent refund but I purposely timed the settlement and everything else so that it settled on the 30th of September, so that was the end of the quarter which meant on the 1st of October, I lodged my BAS statement, so I can get my $160,000 back - big refund. Well of course, it got audited, and I didn't get assessed for three weeks, of course, it's got audited. I was so on the money with giving the every piece of paper work I could possibly, that they can possibly ask for. As soon as they asked for it, I had it there and I formed a friendship with the auditor and spoke to her at least every week about the progress and what was happening and everything she asked for I gave to her and I knew everything about this woman. I knew when she was going on holidays and I knew her family and her kid's names and everything, so I'm as polite as I can possibly be to everybody doing everything that they could possibly ask. I can tell you now, the only reason I got a refund before Christmas was because I made friends with that auditor. She was going on holidays, wasn't coming back until February. Had it just taken the normal course, then I would not have got my refund until March the following year.

So from the 1st of October into March is how long I would have had to wait and that's a lot of money – that's $160,000 out of your cash flow when you expect over let's just lodge BAS and then I get it back and this will happen and it was like, "No, don't rely on it." As soon as you start to have refunds from the Tax Office, they can take an incredible amount of time.

Tamara: Absolutely.

Dymphna: So just be aware of that one too. Okay, that's a normal construction. House and land, everyone talks about house and land packages and I think the whole process of whether you should or you shouldn't buy one of these for another time but when you start stepping up the construction process and it's not just a house that you're building but it's, let's say, a duplex. Duplex from a funding perspective is very similar to a house and typically what they will do when you go through the funding process is they'll look at your plans and they'll get a quantity surveyor to actually evaluate what your property will be worth when it's finish. They'll look at the value and they'll look at the cost that you're being quoted and what your building contract says and things like that and they will typically lend you between 70 to 80% of cost, whatever that is. This means you've got to have the other money or have the properties with built-in equity. That's pretty straightforward, it's residential lending. It's very similar in the assessment process of you and your assets and your income and everything else as a purchase of a house completely finished, so there's not much difference there really and even when you step up another step and you build a triplex depending on who are you taking to and which strategies you used and things like that, they can normally get that through on a residential loan.

Again it's not a big different from building a single house and the LVRs or loan ratios are going to be very similar to that of building a normal one house. With four - you are starting to step into some bigger stuff with four. If you know the right people and you talk to the right banks, they'll still give you residential lending on it but they're really looking at, "Okay, what are you going to do with it at the end?" They may be looking for pre-sales even on four where if the rent coming from the properties isn't sufficient to cover all of the mortgage and put some money back in your pockets and that obviously has to be backed up by rental statements, by the real estate agents and things like that as to what they're likely to be then. They're going to want some of them sold and they might if you're building a block of four as an example. They might want half of them sold as an example which means then you have got to go through the whole process of advertising the property and getting pre-sales on the property. Get up further than that and you're definitely into commercial territory. Aren't we Tamara with our 16?

Tamara: Yes.

Dymphna: That's a whole new ballgame and obviously the more units you have, the more stringent the scrutiny; the more capacity you've got to have behind you and the more difficult it is to actually get that kind of finance. Before we really look at your story there and the road that had to be taken to get there, let's step back a bit and talk about this pre-sale process because it's something that is probably foreign to most people but really, if you're planning on selling anything, you should be starting the marketing of it pretty much as you turn the ground - even before.

Tamara: Well before, well before, yes.

Dymphna: So let's talk about that. You are remarkable in what you've put together with your sales documentation and it's a shame this podcast can't actually show people what you've done but you really did a great sales presentation to real estate agents and to investors even before you got the funding to actually build them. Do you want to go through that process and what you did to produce that brochure?

Tamara: Yes. Obviously we're trying to sell something off the plan which is what you're doing with your pre-sales. Most people can't visualise something particularly if they're at the other end of the country and so we started off getting an artist's impression done.

Dymphna: How did you do that?

Tamara: We got prices locally with people in Australia for artist's impressions and was slightly horrified by the prices that we were getting back. Somebody suggested to me just to have a look at a website for freelancers, so...

Dymphna: Elance and Freelance are both huge websites that you do this sort of thing with.

Tamara: That's right. Having never been on these sites before, and then spending a couple of hours in one day and evening and I've since worked out that you can outsource everything.

I did very long arduous Ph.D. and I reckon now that I could have outsourced almost all of it!

Dymphna: Don't be telling everybody that.

Tamara: No. If you haven't been on these websites to see what you can outsource, it's quite unbelievable. I got in there have to look at some examples of other ads that had been put on there. Basically you're creating an ad for work that you want done and then you state what the end product is it that you want. I told them what format I wanted the images to be and how many images I wanted and I think I gave them their price range and that was it. It didn't cost anything to put the ad on there. Then 24 hours later was absolutely blown away by the fact that I had about a 100 email responses from all over the world.

It took me about two days just go through them all, so these are all people that are then submitting their application essentially to do your work, so from that I whittled it down to fantastic designer based in London. So we actually got the artist's impression done by a company in London and even the timeframe worked perfectly because he was working during the day while I'm sleeping through our night. I get up and we had a 24 hours sort of cycle going on.

We got fantastic artist's impressions which I'm quite happy to now put up against the actual projects and it is almost perfect. The coloring right down to the fence, even the builder used the artist's impressions to be able to see what the end product should look like.

Dymphna: I just want to say - you had a few talks with the builder and you pulled out the artist's impression and said, "No, this is what I want. This is the color. This is the way that has to look etc.," so even from builder's perspective, he can really see what was in your mind about how it's going to look.

Tamara: That's right and they were done in 3D, so with all of these, the more time and effort you can put in to the planning stage before you even start physically building anything, and the more detailed your specifications are, the more detailed your artist's impressions are, then the better the end products going to be.

Dymphna: Okay, so for $250, you got this beautiful brochure done but you were very instrumental in that because the artist's impressions are one thing but you really put in the whole story about where your property was and its location, the demographics and the tax benefit to the end user and what it meant to people. You really painted the picture of exactly what it was going to be like to own this property and how fabulous it was going to be for the person who is buying it.

Tamara: That's right. I mean you're essentially selling the sizzle I supposed.

Dymphna: You are.

Tamara: I mean it's a piece of paper really and you explain to them all the benefits and why your property is advantageous over the next property. You've really got to put yourself in the position of the investor and really articulate clearly and simply to them what this product is going to deliver to them and so we did that in a sort of very succinct brochure-type format. We branded it - we came up with a name for the project and a logo for the project. Every meeting and every conversation we had from then on, that brochure was key. If we were meeting with the bank anybody that we needed to talk about the project to, we had this brochure. Immediately they had a feel for what you're talking about rather just saying, "Oh, we're building 16 apartments." They can actually see and feel even just from your logo what you were trying to create.

Dymphna: Everything was professional from the day you started?

Tamara: Yes.

Dymphna: It should be too.

Tamara: That's right because it's very different investing and doing projects for yourself where you're holding it. As soon as you are relying on selling something, then the level of professionalism really absolutely has to be there and it takes it another step further if you're trying to sell off the plan because you're actually don't have the physical product. Talking to agents and valuers, there's actually not anything there at this point in time and yet people have to be confident enough that they're prepared to go unconditional on the contract, give you 10% deposit that is sitting in a trust account before you've even started to do anything on site.

Dymphna: That's right, so it is a big ask and I mean you really have to sell it to the agents because they're the ones that are then dealing with the people at the other end. From their perspective, if they've got two projects on the table and one is a bit of an email, listing the address of the property and other things - which is what most people do - versus you that's coming with this 21 page beautiful big chunky brochure in colour with logos, an artist's impression, the whole thing - yours is an easy sell. You had digital format and printed format. You had everything, so it was an easy sell to sell yours. Of course, yours got sold out in very short space of time, didn't it?

Tamara: That's right. You're disconnected from the actual end purchaser - unless I know my project intimately how can I expect the real estate agent to remember or even understand.

Some of the ideas, you really have to have it documented. They are really just a conjuent - they're just passing information on then and hopefully at the end, they're negotiating the contractors when you have enough of a plan. You're not usually negotiating on the price anyway, so really the more you can provide them to make the process easier for them and for them to work with their client to get a sale over the line, then yes, the whole system works.

Dymphna: Good, fabulous. How quickly did you sell those off?

Tamara: The majority sold within the first six to eight weeks.

Dymphna: That's amazing for 16 units - to sell that many. I know you didn't sell all of them – you are keeping a few, but just to be able to sell them off that quickly because some people, some developers wait four, five, six, eight to twelve months to be able to sell off enough to get their financing.

Tamara: That's right. We went to the bank. We already had all the 16. We had 10 pre-sells and that's what the bank needed because they want to make sure they've got their debts covered and if we weren't at that level then they would say, "Come back once you got those sales."

Dymphna: That's right. So you've gone through and basically the 10% deposit has been deposited into a trust account. They're signing saying, "Yes, I'm going to buy it at a point in time in the future when they finish etc., etc." Now you've got deadlines and you've got requirements to meet there because you have to have it delivered by certain timeframes that you said you would have it delivered by. How did you go with that? What was the emotional roller coaster with that stuff?

Tamara: The main deadline for us was the actual NRAS, so when you receive an NRAS allocation you've applied through the normal system, you actually have an end date to you would proposing, that you would have the apartments ready for tenant by and the government absolutely were sticking to that, so our time frame was very much governed on that. If you didn't have NRAS and you are just developing a project and then selling it off the plan, the solicitors will always write in a sunset clause. A sunset clause can often be a year or two, so when they're selling off the plan it has to be delivered by a certain date.

That date is usually a year or two beyond what you actually predict your finish build time to be anyway, so they're really making allowances for some major delays. But they don't want for that sunset clause to be too tight, because if you did have a delay, then that purchaser may actually be able to get out of the contract because you haven't met the timeframes. We had a great builder and he delivered it ahead of the schedule that he had set and so yes, we were able to do and bring everything in on time.

Dymphna: Good. Okay, so just talk about the process that you went through to get the bank funding because you knocked on a lot of doors.

Tamara: Yes, I suppose with ours, we had some interesting characteristics, one being NRAS. NRAS is certainly becoming more and more known, almost each month, for banks to actually finance an NRAS product. That certainly added a level of complexity to our project. As Dymphna highlighted, once you're doing 16 units, that limits the number of financiers that are prepared to do that on top of the project and really there is still the aftermath of the GFC. A lot of the financiers and some of the smaller financiers that may have been more open to these type of deals have closed their books, so yes I did have several conversations with Dymphna saying, "Okay…"

Dymphna: What else can we do? Who else can I talk to?

Tamara: That's right and we were just very fortunate that the bank that we ended up going with, and it was one of the majors, that they had recently changed their policy in terms of NRAS. They had a new general manager and he was very progressive and so it was just good timing for us but with that, we also did go through a commercial broker, so whilst that comes at a very hefty cost, they were basically able to equally present the projects to their contacts and their lenders, that you may not have access to, through the normal channels.

Dymphna: Because you went down the road of superannuation funds and private lending and…

Tamara: I had forgotten all of that.

Dymphna: You erased it as a bad memory, was it?

Tamara: I'm still working on the whole process to be little bit like child birth and then after 12 months, you forget that the labor was actually quite painful.

Dymphna: I take my hat off to you, it is about that determination and persistence and knocking on all those doors because it was the in the middle of GFC andyou are looking at joint ventures with superannuation funds and joint ventures with builders and private lenders and all of those sort of things which in any of that market, you've got to be prepared to knock on a lot of doors knowing that you're going to get a lot of no's and go down a lot of dead ends because that the nature of that market but it is a way of getting a lot of those more difficult projects (I wouldn't put yours into the really difficult, but more difficult projects), off the ground. Just be prepared to do that. It's not always, "Okay, I go to the bank," and then if they say no, you go, "Well, that's all I can do." You really do have to knock on a lot of doors and be prepared to do so.

Tamara: And I think also, I was having a conversation with my seven year old that sometimes you have to be uncomfortable. I was just walking out the door pretty much every day, uncomfortable at some level. More uncomfortable with whatever I'm having to do, so whether it's meeting another valuer and going through another valuation process, you really do have to be prepared to just have some level of confidence in the product that you're promoting. That's where, again, having a good brochure and all of that back up information then you have got some sort of ammunition. But yes, you just have to be prepared to go out there and back yourself and back the project and if it's a no, it's not personal, it's just that their lending criteria.

Dymphna: It's a 'no at this point in time'.

Tamara: Yes.

Dymphna: Actually you did spend a lot of time with that valuers and going backwards and forwards and arguing your point and because you were trailblazing to a lot of large degree creating a product which there was no precedence for - there was nothing like it around within like 300kms or something like that. You did a lot of trailblazing and that was a lot of educating that you had to do to valuers in order to get your valuation where you needed them to get the funding, to get the sales, to get the project off the ground.

Tamara: Even beyond that whilst you've got the initial valuations over the line then, of course you're going to revalue once it's closer to settlement, so when you've got everything presold and you've finished construction and you think everybody is saying to you, "Oh fantastic, you should be able to sit back and relax." Your job has only just begun because the banks want to refinance everything, so when you start the whole process again and again yes, you have to be prepared to be the one to make them on site, you should never let a valuer on your site without you being there

Dymphna: Not ever. And monitor who they talk on site.

Tamara: Absolutely, so yes, again it's where you really have to be committed to have that involvement. You can't just sort of allow a valuer to come in even if the first half a dozen have all gone through fine. You just can't assume anything, so you really need to be prepared to present to the valuers and again, the brochure comes back out and all of the more recent information you've got.

Dymphna: We are now talking about you doing a handover because you've just handed over a good percentage of them already to the end owner and their bank has sent out a valuer to go through, so this is the second lot of valuers that you're dealing with.

Tamara: We're actually up to three for some of them.

Dymphna: You're actually really making sure that the investor buying your end product is getting the best out of the process because they need the best possible valuation, so that they can get their funding, so they can buy your unit.

Tamara: Exactly. And then you have to be prepared to actually work with their broker or their bank.

Dymphna: Yes.

Tamara: By the end I knew every purchaser's broker, their solicitors, their banks. If they go directly with the banks, you actually have to again, be prepared to intervene and work with their brokers because it's very much a joint project to that point to get this sale across the line for their clients.

Dymphna: The other thing that you have been particular good with because I've seen the emails because you copied me in was all of the ongoing correspondence with each one of the purchasers between when they sign up to go; yes, I'll buy the property when it's finished right through to completion and after completion saying, "Congratulations, great job, dah dah dah dah dah," - you've been in constant contact with them with updates of photographs in where we're at and all that kinds of stuff, which is amazing.

Tamara: Again, these people that are purchasing off the plan, whilst a lot of projects, they would buy off the plan and they never heard about it until, a month before it's ready to settle. People sort of have faith in the project and have certainly put down their hard cash, their 10% deposit. So from my perspective, to maintain their level of confidence in the projects I would communicate by sending out a monthly update email to everybody. I would send it to their solicitors, the property managers, the banks - my emails are going direct to the bank - there was no separation between what I would tell them in private conversation while I was actually telling everybody else. They were given exactly the same information as everybody else, so with those monthly emails, a lot of purchasers also got the benefit of the building boost, or anything like that going on with our project along the way. I included in the update email about the tenanting - a lot of them prior to settlement and towards the end, we're talking about what we have in terms of advertising for tenanting and just basically keeping people up to speed with where the project is at. Again, it gives them confidence. If there was a slight delay or a hiccup along the way then the fact that they feel like they're part of the process and it's their project as much as mine then.

Dymphna: So someone who is marginal and perhaps want to pull out of the contract. They'll be less likely to pull out of yours because they've been emotionally and realistically involved in the project all the way through. It's kind of like they've had the experience along with you.

Tamara: Yes, absolutely. And I am pleased to hear when all of them have said how fantastic was that they were getting these updates and they really felt like they were part of the process even though a lot of them are on the other side of the country. I've got to meet quite a few of them. Those who have chosen to come and have to look at it before settlement and yes, it's nice that they're being part of the journey.

Dymphna: And you even sent out a little congratulations email etc., when they've actually settled and it's all finalised and I hear you had an interesting one last week.

Tamara: It settled on Tuesday and I sent an email to say congratulations on the settlement and thank you for settling on time and then, I've got an email come back to say, "Oh has it settled? Oh well, good on to the bank then."

I sent an email back to say, "I need to take a leaf out of your book," because he was very chilled about the whole process. He said, "Oh yeah," and then sent an email back to say, "I did talk to the bank a couple of months ago but, oh well, they must have dealt with it," - he was the one that we've tenanted. A lot of them we've tenanted in advance, so as far as he is concerned, he's got a tenant before it settled and it settled without him knowing.

Dymphna: Done and dusted.

Tamara: He's got rent coming in as of the day it settles.

Dymphna: I'd say it would be a fairly small component of this overall portfolio.

Tamara: Yes.

Dymphna: Very good. I guess my overall advice here is don't try and take on a larger project until you've cut your teeth on a few smaller ones because you've had a background in providing similar size projects to the market and things like that before, so it's not exactly your first one. But if you're starting out, try a duplex first - maybe or triplex - maybe fourplex - but let's not go too much bigger than that if you've never done it before. I like duplexes obviously because you get the double income and triplexes and the more multiple income stream properties you've got, the better the yield is going to be, the better the overall investment is going to be don't go too big too soon. Please stick with a smaller construction deal to start with. Maybe not a house, maybe a duplex, that's not too much of a stretch at all but just work out the GST issues and whether you have to pay GST or not because obviously, your project will definitely have GST on everything all the way through but I know for smaller investors just starting out there, they really get tripped up on this GST issue and there is a lot of audit that will go back literally years and start penalising on GST if the right amount of GST has been paid. As soon as it's not your own home that you're building. As soon as it's an investment property of any description. If you paid Stamp Duty on the lad, you're the developer, you're the one who has to take account of the GST when you ultimately sell it.

So Tamara having been somebody who has built quite bit over the years, what would be your parting advice to somebody starting out thinking and about doing one for the first time.

Tamara: I'm sort of attention to detail, so you need to take that into account but I really think that people need to be across the board their whole project, so whilst you're employing an engineer and you're employing your town planner and you're employing your surveyor and everybody else, and they should be doing their own field, you really need to be across the board for the whole project. This is because the engineer will make a decision and draw something on the plan but you would know because of your involvement that's actually that's going to impact on the hydraulics engineer who is doing his own plans that are separate and yes the builder should pick up on this but that can be quite a way through the process. So I really think if anything you need to be across the board through your whole project and don't be reluctant to put red pen on any plans or on any documents. My solicitor, my accountant - everybody - is prepared to see a lot of red pen. Just because you're paying these people good money, they are human, they do make mistakes and so you need to read everything and be confident that you're on top of all of the detail and do ask questions. I spend my whole time asking questions, so if there's something that I'm not sure about, just ask a question. I don't care whether it sounds a silly question or the answer is obvious. I think that that's the one thing that people don't do enough of and that to ask questions to of all of them, whether it's your engineers, your surveyors because you want to be educating yourself. I want to have the knowledge so that I can then use that in the next project rather than yes think in the dark with things.

Dymphna: Very good point. Don't be afraid of construction. I think construction is a great strategy but please keep it small and it's like when you have a smaller project and you make a mistake, it's only a small mistake. When you have a big project and make a mistake, it's a big mistake and can be very very costly.

So let's learn on the smaller ones. Get a few under your teeth before you start tackling anything too big.

So guys that's it for me this week. Thank you so much Tamara for coming on and sharing your stories with us and I'll be back again to talk to everybody very very soon and don't forget to check out all of the past copies on www.ilovereal estate.tv of all my other podcast because there's a huge amount of information there for you to jump on and listen while you're jogging or walking or whatever. Anyway bye for now guys, we'll catch you next time.