DISCIPLINE'S ADVOCATE

Once a property investment sceptic, Christoph Schnelle is now a convert, having traded his way to million-dollar profits. CANDIDE MCDONALD

"IN 1997, I realised that I knew many details about investing and money but I simply didn't understand money itself," says Christoph Schnelle.

"Money is stored life energy and you're better off with money than without it. So I started learning about money and the value of it and a little fact finally got through to me – most Australians have made most of their money from property."

And so Christoph became a property investor. It's not his career. But it could be. He has been inordinately successful through every property market mood possible.

AN ACQUIRED TASTE

Christoph has an Advanced Diploma of Financial Services, Financial Planning.

Yes, he does understand investing. With a property portfolio that peaked in 2005 at 19 properties, he also understands property investing. He began to assimilate expertise when he married his wife, Nicky.

"For her, property investing was as normal as breathing," he says.

Christoph had grown up in Germany, where "only the rich and the crazy own their own property". He began from a low knowledge base.

His first taste of property investing was by proxy. Nicky bought and sold a beach shack south of Sydney.

Christoph decided to fast track his learning and studied from a set of audio tapes.

Almost immediately, he understood that buying property involved subliminal as well as conscious knowledge and processing knowledge from many sources.

A client recently asked him to view a property as a friend.

"He said that looking at the property through my eyes and seeing what I was seeing completely changed his mind about the property," Christoph reports. The client withdrew the offer he had made.

Christoph jumped into the property market with gusto.

In 1998, he bought six free-standing, Torrens title, Mount Druitt houses for under $100,000 each.

The surrounding suburbs had begun to increase and rental income covered the mortgages of each. It was $463,500 well spent on his property education, but managing bottom-end properties was arduous.

"I used agents to manage the properties but I still had a lot of troubles with tenants.

"In one house, I paid someone $800 just to take away all the rubbish the tenants had left behind."

He became exasperated and sold for a total of $634,000 after two years – too soon. In the three years after he sold, the properties rose substantially in value.

JOSH KELLY/LIME.NET.AU

Christoph's top 5 tips

What would a man who's crammed into 10 years more successful property investments than most make in a lifetime put forward as his top five tips?

- **Buy your home with your heart. Buy your investment properties with your head. "Mixing the two is like talking about nothing but money throughout a romantic dinner. It doesn't work."**
- **Ask for help and ask for advice. Don't think you should know. Don't pretend you do or that not knowing doesn't matter. "If you don't know how to distinguish between good and bad advice, that's something very important to learn and your doing so will help you for the rest of your life."**
- **Do all your homework. "When you buy in a suburb, walk or drive throughout it and the neighbouring suburbs. Look at comparable sales. Find out the history of market movements. How did the suburb perform during past booms and busts? Get top quality pest and building inspections. Ask these people all your questions. There's no such thing as a silly question. Silly is being too shy to ask."**
- **Good filing and record keeping is essential. "It's not enough to think you know where you stand. Crises come like flash floods to the blithe, and if your documentation isn't complete, you're at the mercy of the Tax Office, property agents, builders, insurers and tenants."**
- **Cut your losses. "If you made a mistake or the outlook for a property worsens, accept the consequences and be ready to sell." Conversely, have fun. "Property investing is satisfying, like any challenge with a cash prize at its end, and providing a home for your tenants is a nice thing to do."**

Christoph didn't own property for several years after that.

"I have to be honest – my first foray into property investing was exhausting.

"My business also received $5 million in venture capital at the time, so I had not very much (time or energy) to put into property investing or management."

Then in 2001, Nicky became enthusiastic about buying near Byron Bay. While on holidays, they bought two properties on the same afternoon in the pretty village of Burringbar. One was their dream home.

A week later, they also bought a house on a large block with subdivision potential in nearby Uki. They bought just ahead of a property boom. They correctly gauged that their timing was ideal.

SURE FEET AND GOOD MAPS

By 2002, Christoph had sufficient expertise to formalise his strategy. "We always buy properties that have not yet risen in value but are very similar to properties nearby that have gone up.

"We always look at properties with a high land component, good rental returns and in areas with finite supply," he explains.

"We like double rentals. We sell any properties that will not see further capital gains for a long time."

Christoph has become accomplished at choosing properties and his modus operandi is very disciplined. His success lies, he says, in doing what you're good at.

"We don't know how to do renovations,"

he expands. "We can't do them ourselves, which means we have to employ people.

"We only once knowingly bought a property that needed renovating and engaged a builder who quoted us $50,000. It cost $80,000 and we were not enthusiastic about the result.

"We have simply sold properties that needed renovating."

Because he has gained expertise in property selection, Christoph hasn't sacrificed profit due to his renovation veto. The four-bedroom house in Ocean Shores he bought for $332,000 in July 2002 was sold for $461,000 in December 2005 because it needed renovation.

The three-bedroom beach hemline house in North Ocean Shores bought for $375,000 in December 2002 sold exactly one year later for $435,000 even though it needed major building work.

"The decision to buy or reject is usually done via price. In many cases, we wouldn't be ready to pay anywhere near the asking price, so the property automatically excludes itself," Christoph explains.

Because of his background in finance, Christoph has dexterously managed a complex web of income and expenditure from and for very many properties, each with its own unique profile.

"The issue with property is cash flow. We're always very cautious with our cash flow and even sell at relatively unsuitable times – like right now – to make sure there is always a comfortable cash flow cushion."

He's still looking at properties to purchase but will only do so if he feels very optimistic about capital gains.

"If there's another property boom," he asserts, "we will do very well with what we have."

PROCEED WITH CAUTION

Christoph is a conservative property investor. He doesn't buy top-end properties with huge price tags. He doesn't overextend himself to buy. He doesn't undertake massive renovations or major rebuilds, whose big budgets could become even larger outlays by the time the bills are paid and make the properties yield no income far longer than anticipated because of missed building completion dates.

This has allowed him to drive ably (and without a major 'accident') along an investment highway, with metaphorical L and then P plates.

He owns a vast spread of properties across an array of suburbs. He spreads his risk. He has only ever lost money on one property, but if a large problem did occur with one property or property cluster, another could absorb the deficits.

THE NUMBERS | CHRISTOPH SCHNELLE

Property	Description	Purchase date	Purchase price	Sale price	Sale	Profit before expenses	Valuation	Unrealised profit	Weekly rent (original rent)
Burringbar, NSW	3-bed house	Jan 02	$145,000	–	–	–	$325,000	$180,000	$285 ($190)
Burringbar, NSW	3-bed house	Jan 02	$268,000	–	–	–	$610,000	$342,000	–
Uki, NSW	3-bed house	Jan 02	$160,000	–	–	–	$330,000	$170,000	$280 ($190)
Subdivision, Uki, NSW	Block of land	Jan 02	$0	$138,000	Feb 05	$138,000	–	–	–
Byron Bay, NSW	Industrial unit	Feb 02	$130,000	$270,000	Apr 04	$140,000	–	–	–
North Ocean Shores, NSW	3-bed house	Apr 02	$385,000	–	–	–	$550,000	$165,000	$380 ($370)
Mullumbimby, NSW	3-bed house	Apr 02	$215,000	$322,000	Oct 04	$107,000	–	–	–
Ocean Shores, NSW	4-bed house	Jul 02	$332,000	$461,000	Dec 05	$129,000	–	–	–
Ocean Shores, NSW	Block of land	Aug 02	$210,000	$280,000	Jan 04	$70,000	–	–	–
North Ocean Shores, NSW	3-bed house	Sep 02	$375,000	$435,000	Sep 03	$60,000	–	–	–
Burringbar, NSW	3-bed and 4-bed houses	Oct 02	$340,000	–	–	–	$650,000	$310,000	$550 ($425)
Koala Beach, Pottsville	Block of land	Feb 03	$175,000	$171,000	Sep 07	$4,000 Loss	–	–	–
Koala Beach, Pottsville	Block of land	Feb 03	$155,000	$215,000	Jun 09	$60,000	–	–	–
Koala Beach, Pottsville	Block of land	Feb 03	$175,000	$195,000	Nov 04	$20,000	–	–	–
Armstrong Beach, Qld	3-bed house	Sep 03	$135,000	$340,000	May 09	$205,000	–	–	–
Armstrong Beach, Qld	Block of land	Sep 03	$59,000	$145,000	Jun 09	$86,000	–	–	–
Armstrong Beach, Qld	2-bed house	Sep 03	$135,000	$296,000	Jun 09	$161,000	–	–	–
Billinudgel, NSW	Block of land	Feb 04	$45,000	$57,500	Jun 06	$12,500	–	–	–
Coonabarabran, NSW	3-bed house	May 04	$95,000	$128,000	Jun 06	$33,000	–	–	–
Ayr, Qld	3-bed house	Jul 04	$77,000	$112,000	Jan 06	$35,000	–	–	–
Home Hill, Qld	3-bed house	Jul 04	$72,500	$116,000	Dec 06	$43,500	–	–	–
Ayr, Qld	3-bed house	Jul 04	$82,000	$125,000	Nov 06	$43,000	–	–	–
Fishing village south of Townsville, Qld	Block of land	Nov 04	$22,000	–	–	–	$60,000	$38,000	–
Casuarina Beach, NSW	3-bed house	Dec 04	$535,000	–	–	–	$599,000	$64,000	$490 ($425)
Total			**$4,322,500**	**$3,806,500**		**$1,339,000**	**$3,124,000**	**$1,269,000**	**$1,985**

"THE BEST MONEY MAKERS FOR US WERE NONDESCRIPT, EVEN BORING PROPERTIES. ANYTHING EXCITING DID FAR LESS WELL, BECAUSE THERE IS MUCH MORE COMPETITION IN THAT LEAGUE."

Christoph clearly likes the accounting requisite of managing his portfolio properly. He has a lot of books to balance. A 19-property portfolio is not for everyone.

"You have to know where you stand. You just have to do the maths – all of it, regularly."

Christoph has always chosen only two major banks as lenders – Westpac and the Commonwealth Bank. He never borrowed beyond an 80 per cent loan-to-value ratio. He now borrows no more than 60 per cent.

"We refinanced some properties that had gone up and used that money as a deposit on the next purchase," he adds.

"For example, we had a $100,000 mortgage on a $135,000 property. When its value went to $340,000, we increased the mortgage to $200,000 and used the extra $100,000 to purchase other properties."

He's meticulous about his insurance. Well, Nicky is.

"Checking policies is a lot of unavoidable and important work," he warns. "There's a huge difference in quotes and items covered across different policies."

Christoph and Nicky found that Suncorp offered them the best landlord insurance and they assessed that the $1000 excess suited them best.

"Even if we have one claim a year where we have to pay $1000, we're still ahead as the premium is much cheaper. Mind you, this is true if you own 19 properties. With two or three, a smaller excess might be better."

Christoph also consolidated all his policies so they fall due for renewal on the same date. Again, this is a feature of his managing a large number of properties.

Christoph assesses every property on its own merits.

"Each property has its own story and we act on each one individually," he explains.

Every property has its own mortgage.

"That makes re-borrowing and selling easier," he notes. "It also allows us to pre-pay certain loans in June for 12 months in years where we realise large capital gains in order to reduce our income for that year. And we can fix the interest rate on parts of our loan."

Snaring fixed-rate loans at optimal times has been a profitable strategy for Christoph. He fixed as much as he could in April this year, for example, when rates were at their lowest. He doesn't have an immutable preference for negative or positive gearing.

"That depends on our cash needs and we don't like increasing our mortgages beyond what we need." At present his entire portfolio is what he calls 'nicely' cash flow positive.

Christoph buys in about-to-boom areas first and foremost. Nearby is not a factor. He has owned properties in suburban Sydney, northern New South Wales, the Burdekin area of north Queensland and the coastal region south of Mackay.

"Distant property investments are much harder because you're more dependent on your agents," he stresses.

"We have also had good and not-so-good property managers. Having a not-so-good property manager is very difficult. They make a lot of expensive mistakes and you have to live with that."

Christoph has learned that each property and its environs have their own profiles of patent, foreseeable, unpredictable and constant characteristics. How a property performs aligns only loosely with your appraisal on purchase.

"We did best south of Mackay," Christoph cites as an example, "because of a mining boom which turned a good investment into a great investment."

Success is never a given in an area or within a property type, even if you have experienced success before.

"In a mining area your costs are also a lot higher," Christoph warns.

"We needed to repaint a two-bedroom house two streets away from our most successful property investment.

"The quote was a shock. Eventually, I hired a friend who is a handyman and we shared what became an extensive repair and paint job.

"I did the easy things and he did all the rest.

"I profited most in terms of learning from this property, although we've now sold it for $296,000, a profit of $161,000 before expenses."

Never stop learning is Christoph's overriding maxim.

Some might call it a nest egg, but property isn't an investment you can just leave to incubate.

"You need to keep yourself informed so you can decide when to sell, if that becomes the right move.

"If the attraction of an area reduces and you wait too long to sell, that can be expensive."

DEVIL IN THE DETAILS

Every property investor makes mistakes, but Christoph uses too much discipline to make mistakes that destroy him.

"There have been numerous stuff-ups," he admits, "but none have really hurt us.

"We don't make cataclysmic errors because we don't take make-or-break risks.

"We really like lower-priced, unexciting, free-standing properties near good areas. They have gone up most in percentage terms."

For Christoph, each 'stuff up' has been a lesson learned.

"Things that go wrong are problems when you face them again and know you've made the same mistakes to get to there."

Christoph is happy to pass on the lessons he has learned.

"In February 2003, we bought three blocks of land in a new development in Koala Beach that doesn't allow dogs or cats.

"CASH FLOW IS KING, QUEEN, JACK, ACE AND 10 – IN FACT THE WHOLE PACK IN PROPERTY INVESTING."

In practice, that meant we could only sell to investors", who wouldn't allow tenants to have dogs or cats anyway.

The result was that prices stayed low far longer than Christoph and Nicky had calculated. Prices are now rising but the couple have sold their last block.

They sold the first after 18 months. They bought it for $175,000 in February 2003 and sold for $195,000 in November 2004.

"We saw that it was much nicer than the developer was pricing it and therefore made a small profit despite the bad timing."

They sold the second block in September 2007 for $171,000, a $4000 loss. The property they held has just sold for $215,000, $60,000 more than the $155,000 they paid for it.

Some errors cannot be foreseen. And some evade bad endings.

In August 2002, Christoph bought a very large block of land in Ocean Shores, NSW, intending to subdivide.

That possibility was reduced when new fire regulations came in.

They decided to sell the block for $220,000 and were prepared for the worst (a small loss).

During the sales process, they became aware that others were taking a more optimistic view and three bidders took the sale price to $280,000 in January 2004.

Controlling maintenance and renovation costs is a challenge most investors wrestle with.

Too much diminishes the profit when selling but, as Christoph now knows, too little diminishes the chance of a sale.

"Our two-bedroom house in Armstrong Beach needed a lot of very expensive maintenance.

"We didn't want to undertake that kind of outlay so we didn't do all of it.

"It was not a buy-and-hold property for us.

"We hoped a buyer would take the property and its needs off our hands. This didn't happen. The property didn't sell.

"Once we fixed all the issues, a buyer appeared within weeks. We then made $164,000 on the sale."

Most of Christoph's properties are managed from a distance.

He relies heavily on managing agents, which isn't always optimal.

"On one property, the managing agent

changed and we didn't realise how bad the new one was.

"So we ended up with bikies in one of our nicest homes.

"The next tenant was the suffer-in-silence type and a water leak became quite big before we knew that the situation was dire."

Christoph took over and fixed everything required.

He had minimised the problem by always doing his part of the property's management.

"Nicky keeps extremely good and perfectly filed records, so we were able to get the property repairs wholly financed by an insurance payout and an ex gratia compensation payment from the managing agent."

Christoph is not boasting. He's thankful.

"However, we were neglectful," he adds, "by not heeding the warning signs for too long.

"That time, only our record keeping and our business experience saved us."

AVERAGE REWARDS HIGHLY

Christoph has achieved impressive profits on many of his properties and sizeable capital gains on others (present market conditions notwithstanding).

He considers that his best investment was a commercial property in an industrial complex in Byron Bay.

He bought it without a tenant and sold it with one. This helped the sale price reach $270,000 in April 2004. He had bought the property in April 2002 for $130,000.

A 100 per cent profit after two years is a rare coup.

He also bought a three-bedroom house in Armstrong Beach, Queensland in September 2003 because it was so cheap. He bought two other properties in the same area at the same time for the same reason.

He expected that this alone would make the investments profitable in the long term.

The Queensland mining boom accelerated how soon the profit arrived and how much profit was available.

Then the property market shifted. Christoph knew it was time to sell.

He achieved a sale price of $340,000 and a sales profit of $205,000 in July 2009.

"We buy pretty ordinary properties," he admits. It's not an admission tinged with shame. It's an admission of cleverness.

"Even our few more expensive properties were ordinary-looking and considered generally within reach."

Both a three-bedroom house in Burringbar, NSW (bought for $268,000 in January 2002 and currently valued at $610,000) and a three-bedroom plus small four-bedroom house on magnificent grounds in Burringbar (bought for $340,000 in October 2003 and currently valued at $650,000) were on the market for more than 12 months before Christoph purchased.

The locals sniggered about his buying an Armstrong Beach block of land for $59,000 in September 2003. ("The out-of-towner paid way too much.") Its sale at $145,000 gave him a capital gain of $86,000 or 130 per cent.

In little more than a decade, Christoph has made a profit of $1,339,000 on $3,106,500 worth of sales.

He currently holds $3,124,000 worth of property with an unrealised profit of $1,269,000.

He knows exactly why he has done so well.

"Cash flow is king, queen, jack, ace and 10 – in fact the whole pack in property investing.

"Cash flow is the most difficult part of property investing and the one thing that can kill any strategy. If you borrow too much the cash flow will eventually break you."

If Christoph was beginning again, he would seek out an experienced property investor and pester him or her with questions.

Even better, he would try to take this adviser to inspections and view the properties through his or her eyes.

"If you buy the wrong property it can take you years to recover," he states.

"The best money makers for us were nondescript, even boring properties.

"Anything exciting did far less well, because there is much more competition in that league."

Christoph has taken himself from property investment sceptic to convert, and property investor ingénue to expert.

"Sometimes it's the best investment option, such as when a 40-year-old has a good income and no savings record. He or she may never save but will service a mortgage. And a non-working spouse who likes property and is well organised can amass a large portfolio that adds hugely to a couple's nest egg.

"Income, capital gain and borrowing power. Property gives you all of this." api

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Do you have a question for Christoph? Email it to forum@apimagazine.com.au and we'll do our best to publish the answer in a future issue.