

Tiny apartments, big profits

Marco and Federica Scannone have bought nine properties over the past four years, thanks to choosing a cash flow strategy using studio apartments. **LAUREN CROSS**



It took adversity and heartache for Italian-born Marco Scannone to dive into the world of investing. After his marriage ended, he left his home in Milan to follow his two young sons to Australia.

“I look back and it was a terrible experience, but what doesn’t kill you makes you stronger,” he says.

Wanting to be with his children, Marco gave up his life in Italy, resigning from his job, leaving his property, his family, friends and everything he knew for a new beginning in another country.

He met Federica, his wife of today, just before he left Australia but told her his priority was his boys and if she wanted him, she’d find him in Sydney.

THE COST OF LOVE

Forget investing – Marco couldn’t even find a place to rent! He arrived in Australia on a tourist visa and spent weeks hauled up in a motel room. He wasn’t allowed to stay in the country and had just three short months to figure out what to do.

“This was probably the saddest moment in my life,” he says.

Marco’s only hope was his former employer, which had a sister company in Australia. Just before Marco left Milan, they promised they’d find him a job if he could sort out his visa.

“I was about to be kicked out of the country because I couldn’t get the visa. I was so lucky they decided to sponsor me and it’s because of their help that I’m here today,” he says.

Marco eventually found a place to rent in Cherrybrook in Sydney and later bought a house in the same area using savings.

The Australian sun started to shine that little bit brighter when the Italian woman Marco never thought he’d see again ended up moving to Australia to be with him. They married a short time later and now have two boys together.

“This story isn’t about me, it’s about her,” Marco beams. “Without Federica’s support and endless love I would never have been able to go this far and achieve so much.

“In the second year something clicked. I was sitting at a table and I looked at my wife and said ‘you know what, this is a nice place... I think we should stay here.’”

TURNING A CORNER

During Marco’s countless hours spent at libraries while trying to get a visa, he came across two interesting books, first *From 0-135 properties in 3.5 years* and then *Rich Dad, Poor Dad*.

Suddenly a way to provide for his children later in life became obvious.

“I happened to find this book and I thought ‘wow, this is interesting,’” he says.

“Reading this book, it all just made sense.”

Even though Marco had a good life in Italy, he admits it’s much harder to invest there because any property investment is considered a luxury, with both houses and rental income taxed very heavily. There’s no such thing as depreciation schedules or negative gearing either.

“There’s no joy in investing in Italy, unless you’re a multimillionaire and you buy 15 properties with cash. All of this was completely new ground for me, but having made this big change to move to Australia, we were more open to new risk and adventures.”

Around the same time, Marco’s wife, Federica, started working 20 hours per week with international students and they noticed

NICK MOIR

an interesting trend – cashed up students were coming to Australia but couldn't find rental accommodation because they didn't have the references from previous landlords and all their records were different. For example, they didn't have drivers' licences and couldn't give examples or references from tenancies to property managers.

For real estate agents, it all seemed too hard so students were continually overlooked.

"This is why when students come, they have a hard time finding accommodation and dealing with the normal channels," Marco says.

"A lot of students were asking Federica if she knew about accommodation, they were making her aware it was really difficult and they could only flat with 15 people.

"What the majority of real estate agents were ignoring is that these international students were all cashed up and the majority of them come from very good backgrounds, with wealthy families supporting their university courses. Student visas also allow you to only work 20 hours a week, which isn't enough to support anyone's stay in Sydney. This is why the majority of students have money from their families supporting them."

Marco and Federica realised tapping into student accommodation could provide a good opportunity. They also became aware many students aren't the typical backpacker – they prefer their own space, yet don't want to fork out for a two or three-bedroom apartment for themselves. The older university students, aged between 25 and 30,

seem to prefer studios too. After all, it beats sharing a bathroom with five other people.

"I have a passion for numbers and analysis and I figured out it could turn into a good investment to buy a studio apartment. They were going for \$190,000 or so and renting for \$300 per week. The interest rates after mid-2008 were around five per cent so in a way they would pay for themselves."

"When a student is leaving they often have a friend who will come to live at the unit. We've never had our units vacant for one week in four years."

OPENING A NEW BOOK

Marco and Federica bought their first studio in Darlinghurst in 2008, using savings they had. They put down a 20 per cent deposit for the \$190,000 property and got a loan for the rest.

"We were very afraid. We were very scared and didn't know if we paid too much," he says. "But we rented it out immediately and we were lucky. As part of the deal, the vendors left all the furniture because they were too lazy to remove it."

Marco didn't know much about Australian laws, but met a friend through a cycling club he'd joined whose wife worked in conveyancing.

"She was able to guide us and give us information about the legal side of things. Although I never listen to her when it comes to the appropriate method of investing, because she's very conservative, from a legal point of view she's my guide."

Seeing as though Federica worked closely with international students, she found out the best place to advertise wasn't the typical real estate portals. Instead most students go to GumTree, accommodationforstudents.com or university websites.

"Every university gives you the possibility to advertise if you have units for rent. It's also word of mouth. When a student is leaving they often have a friend who will come to live at the unit. We meet that person and so we don't often need to do an open home. We've never had our units vacant for one week in four years."

STUCK ON STUDIOS

Marco and Federica were so happy with their first investment property they decided to repeat the process, buying up big in Sydney – two studios in Woolloomooloo, three in Potts Point and one in Manly from 2008 to 2010.

They used a 20 per cent deposit to pay for their next four investment properties, again using either savings or equity in the units. At the time, banks were reluctant to give finance for studio apartments or any property

INVESTOR PROFILE

less than 50 square metres in size. However Marco says it was possible as long as you had a good deposit.

By 2010 the first three properties had already grown in value and Marco and Federica were able to use some equity to buy property number six in Manly, knowing most students like to be based in either the CBD, Bondi or Manly.

"We paid \$224,000 for the Manly studio and it rented for \$340 per week," Marco says.

"We bought the furniture for all the properties either from secondhand furniture stores, eBay or GumTree, or sometimes just a friend who wanted to get rid of furniture. It always looks nice and is in a good state but in the end it's just a studio. It's more important to have a good sofa bed, a working microwave and oven. If we need something urgently, we go to Ikea and we can include all the furniture in a depreciation schedule."

Most of the studios are connected to wifi internet too, as students are always glued to their laptops and mobile phones.

"This has allowed us to make them very attractive to our target tenant, who is always looking for a six to 12-month lease and needs the apartment to be fully furnished."

ONE BAD APPLE

Even though they've never had vacancies and most students work out very well, Marco and Federica have had one incident where things didn't quite go according to plan. Their Potts Point studio became vacant last year and Federica conducted an open house, posting the notice on a university website. A cashed-up student arrived and offered to pay them six months' rent upfront.

"We didn't really trust our gut feeling, but decided to rent to him anyway," Marco says. "Before we knew it the police raided the apartment block, entered the unit, handcuffed him and took him to jail."

It turns out the student was part of a huge ATM scam across Sydney. Although Marco



Darlinghurst



Potts Point 1



Potts Point 2

says the experience was "a bit scary", he laughs about it now.

"We saw all this cash and we thought 'oh this is easy, we don't need another open house, this guy has now arrived'. We learnt a big lesson from that."

These days, they prefer students who can still provide a bond but pay directly into their

bank account each week. Along with looking after the children and managing her online cycling retail business, Federica deals with all of their investment studios, including any repairs, lease changes and phone calls.

"From time to time Federica receives a (maintenance) call and she immediately sorts it out or sends a plumber or handyman. This way the tenants respect the unit and keep it clean. Things have usually worked well."

The average rent for each studio is about \$330-plus per week and the focus is always on cash flow. They bought their latest studio in the popular student area of Potts Point but to date, their best investment has been one of the cheaper studios in Woolloomooloo. They paid \$133,000 for it and it's now renting for \$280 per week.

"Three years ago people were saying 'oh you're crazy, this is so small and not nice' but now that studio is worth \$180,000.

"The funny thing is our friends and family, when it comes to property investing, always focus on what can go wrong.

"It's not human nature to think 10 years ahead, the majority of people always think about the present and the past. That's why it's really important to force yourself to think and look ahead."

TIME TO GRAB LAND

Marco and Federica were living in Sydney's up and coming western suburb of Rouse Hill and had already accumulated a massive seven studios in just a few short years. They figured it might be time to diversify and buy property in the outskirts of the city. They also believed there'd be better opportunity for capital growth in Sydney's west, rather than studios in than the inner suburbs.

"These suburbs are either getting better transport lines or opening new shops and facilities."

Marco drove around and discovered the suburb of Riverstone. He and Federica ended up buying a three-bedroom house for

THE NUMBERS

Location	Property type	Purchase date	Purchase price	Purchase costs	Renovation costs	Current value/sold price	Loan on the property	Weekly rent
Darlinghurst, NSW	Studio apartment	May 2008	\$190,000	\$6,000		\$270,000	\$88,500	\$340
Potts Point, NSW	Studio apartment	October 2008	\$186,500	\$8,000	\$2,000	\$275,000	\$149,000	\$350
Potts Point, NSW	Studio apartment	August 2009	\$222,000	\$11,000	\$4,000	\$275,000	\$222,000	\$355
Potts Point, NSW	Studio apartment	July 2009	\$237,500	\$9,800		\$300,000	\$237,500	\$350
Woolloomooloo, NSW	Studio apartment	August 2008	\$140,000	\$5,600	\$1,000	\$180,000	\$112,000	\$280
Woolloomooloo, NSW	Studio apartment	February 2009	\$133,000	\$5,000	\$1,000	\$170,000	\$129,000	\$280
Manly, NSW	Studio apartment	September 2009	\$224,000	\$8,500		\$260,000	\$224,000	\$350
Riverstone, NSW	3-bed house	July 2010	\$374,650	\$15,600	\$2,000	\$436,000	\$299,000	\$405
Bidwill, NSW	3-bed house plus 2-bed cottage	March 2012	\$376,000	\$15,000		\$376,000	None	\$580
TOTAL			\$2,083,650	\$84,500	\$10,000	\$2,542,000	\$1,461,000	\$3,290

\$373,000, which now rents for \$405 per week. They had a 20 per cent deposit using cash from savings and a line of credit thanks to increasing equity in the studios.

Marco says Riverstone has potential because nearby Kellyville and Rouse Hill are already becoming too expensive.

They also discovered Bidwill, which isn't too far from Riverstone, and settled on a three-bedroom house for \$376,000. It had an added bonus of a two-bedroom cottage on the same title so the combined rent for both dwellings was \$580 per week. Marco and Federica actually paid for this outright, after deciding to sell their principal place of residence in Cherrybrook (bought for \$498,000 and sold for \$655,000).

"Currently you can (get) a fixed rate of around six per cent, making these properties cost neutral, and the suburb will grow in the next 10 years in my opinion."

Their latest properties means they now pay around \$5000 in land tax each year and this is a cost they now factor in, which means they'll probably invest interstate in future.

GIVING ITALY THE BOOT

Marco acknowledges things are tough in his home country right now, but economic troubles in Europe haven't stopped him buying as much as he can in Australia.

"I'm concerned for European countries and my friends, but at the same time I don't think this will affect things in Australia. More and more people are coming to Australia."

Having grown up in Italy, Marco appreciates just how easy it is to invest in Australia

and believes "Italy is a good example of what not to do".

"When you buy a property here, you need a solicitor or conveyancer. In Italy we have what's called a notaio and there's only a limited number of these in the country. If you buy and sell, the notaio will charge you tens of thousands of dollars just in fees on top of stamp duty and everything."

Marco also believes tenants have excessive rights in Italy. He recalls a situation where Federica had a rental property but the tenant did some "dodgy stuff" with the gas connection, so he didn't have to pay for gas for six months.

"The gas board realised and sealed the gas. Then they told Federica she had to pay for it as they couldn't do anything against the tenant. All the laws are in favour of the tenant."

"In Australia it's more flexible because it rewards entrepreneurship. If you want to be successful, you can."

A PLAN FOR THE FUTURE

Marco admits he knew next to nothing about property when he first arrived in Australia, but now he owns nine properties worth more than \$2.5 million. He and Federica also have more than \$1 million in equity. However the couple remains humble about their portfolio, advising beginner investors that they started small.

"We've targeted a very specific market in Sydney, which is giving us very strong yields. Our strategy is very simple. We don't expect 15 per cent growth each year; we plan

for a five to seven per cent growth each year and we plan for the next 10 years. Our aim is to buy at least one property every year for the next 10 years."

Marco has decided to stay in Australia, preferring to take advantage of the great buying opportunities in the country right now while also being able to see his eldest children more often.

"Family is the most important thing, it's all for our family," he says.

Seeing as though Marco and Federica run a very busy household on the weekends, they steer away from renovations, preferring to opt for simple, no fuss and low maintenance apartments.

What really makes a big difference is having a supportive partner too.

"Without Federica's support, I couldn't have done it. We feel so lucky we're able to live in this country – it's amazing. We absolutely love it here and we thank our good luck every morning when we wake up."

Marco has big plans for the future, aiming to give his sons a better life by financially supporting them now and when they're older.

"In six years I believe we'll have the option to keep working or stop working, but more importantly help our family and friends achieve their dreams." **api**

API Connect

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