FULLY UPDATED AND REVISED EDITION

BECOME FINANCIALLY FREE WITH COMMERCIAL PROPERTY INVESTING

RETHINK PROPERTY INVESTING

BESTSELLER • BESTSELLER • BESTSELLER •
COMMERCIAL PROPERTY

SAMPLE CHAPTER

SCOTT O'NEILL
MINA O'NEILL

WILEY

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PREFACE

My wife Mina and I wrote the first edition of *Rethink Property Investing* in 2019 just before COVID-19 hit our shores. By the time the virus reached Australia, we were finishing up the book.

It was a very different market at the time. There was an incredible amount of fear around, causing a sharp decline in demand for property. Especially commercial property.

To illustrate this fear, I remember my buyer's agency business, Rethink Investing, had about 45 properties under contract at the time. However, only 16 ended up reaching settlement. People were using any excuse they could to exit contracts. In some cases, they even ran away at the cost of their deposit. Within a few months, though, this fear had subsided. Fast-forward a couple of years: we have seen commercial assets grow a staggering 50 per cent in many cases. The 16 clients who remained invested in their properties, as well as the numerous others who preceded and followed them, have seen remarkable returns.

As the property market has changed so much since the time of writing the first book, this updated version is more relevant to today's market. We hope you enjoy.

* * *

It was 31 degrees in late August, 2016. Life was pretty good as Mina and I lay on a beach on Kos, in the Greek islands. We were halfway through relishing a six-month break from Australia.

To be honest, I felt guilty not working — I had worked 60 to 70 hours a week since I could remember. As an engineer who was normally required to be onsite, this feeling of freedom was new to me. I knew now I was never going back to a normal life.

Skipping winter in Europe with no plan to go back to a certain job marked the point in my life where I had officially retired from my day job, age 28.

At that time we owned a total of 25 residential and commercial properties scattered across four different states. It hadn't come easily or by accident, though: we'd worked hard, saved for many years and obsessed over every property decision we made. Thousands of hours had gone into building this portfolio. But the result was that we had won back time in our pursuit of a lifelong ambition — to replace both of our incomes so we could do what we wanted on our own terms.

Now we had taken the brakes off and flown to Greece to eat, drink, visit family and travel around Europe, using the passive income we had earned from our properties. It was a humbling feeling.

A few months later, after some more travelling, we were back in Greece. The days were getting shorter and the summer heat was dissipating. As I sat by the water and watched the beach chairs being stacked away for winter (signalling it was nearly time to go home), I mentally reviewed our expenses over the past few months. After adding up all our accommodation, plane tickets, eating out and other expenses, our properties still produced more income than we spent. This was our 'aha' moment, when we knew life would be different forever.

Our property rental income was now enough for us to live off — and retire on. It was one of the most exciting moments I have ever felt, because I knew we had 'made it' financially. And there was no reason why we couldn't keep travelling indefinitely. I felt like we had none of the stresses normally triggered by having to go back to jobs neither of us enjoyed.

As a 28-year-old, there was a certain excitement that came from all of this. However, there was an empty feeling there too, like something was missing, which was strange considering we had reached such a long-held personal goal. It made me think, what's next? How had we got here? We had been offering some investing advice on the side; maybe we could take this to the next level and use our experience as a platform to teach others. And why not? We seemed to be the only people I knew at the time chasing this high-yielding commercial and residential investing strategy that worked so well for us. Many others in the industry were preaching outdated and slower ways to build wealth that we simply didn't agree with. We could see there was an opportunity to show people what to do and how to do it, and just what was achievable.

It struck me then that our success owed much to the fact that we have always looked beyond our own backyard—beyond our familiar territory in Sydney, and even beyond the traditional investment focus of residential property—to commercial property.

We like to do things differently, to challenge the status quo. We like to take calculated risks, and we soon realised that you *can* invest outside where you live. You *can* look to different asset classes to get you there, and discover that the local residential market is *not* the only way.

Each time the benefit was greater cash flow and better capital growth. Our long-term cash-on-cash return has been 35 per cent since 2010 for the capital we have put into properties. This return came from high average yields, strategic leveraging and never neglecting growth in any investment. Many of our deals had equity upside in them as well, which contributed to this very high return-on-equity figure. We will explain more of this later.

Our success has come from our move to invest in the commercial property market. It allowed us to build a much larger property portfolio than we ever could have with purely residential. Commercial property has held the key to our future wealth and underpinned why we set up our business, Rethink Investing, to help others on the same road. With that business we have helped more than 3500 investors purchase more than $3 billion worth of high-yielding commercial properties. This figure makes us easily the largest buyer of commercial property in Australia, outside the fund manager space.

As a result, we're part of a new generation of investors. We don't invest like our parents; we found a different path from the one they followed to create their wealth. We chose to focus on higher cash flow investments rather than the outdated negative gearing model, because it works for this decade!

Seven years after that 'aha' moment on the beach, life is very different. We have been hit by the coronavirus pandemic, as well as sharply rising inflation, asset values and interest rates. Although these have all provided challenges, they have also created opportunities that have allowed us to grow our portfolio from $12 million, back in 2016, to more than $75 million. We also have a couple of commercial developments underway, plus another purchase or two happening in the next 18 months, which should take us over the $100 million value.

We have learned new concepts such as 'lockdowns', 'social distancing', 'flattening the curve', 'energy crisis' and 'quantitative tightening'. And now, most people would know Kyiv is the name of the capital of Ukraine.

It's been a fascinating and daunting era for humanity, with a substantial influence on commercial property. Those who have been able to brave the uncertainty when it came to investing in commercial property have been significantly rewarded on their investments.

But we expect the times ahead to be no different. There are always going to be threats to the commercial market, but our job as investors is to weigh up whether opportunities outweigh the risk of investing. I think the more you understand how commercial property works, the more confidence you will gain in the asset class itself. Because every time you purchase a property, you are rewarded with cash flow each month you hold. With this in mind, the main thing you need to check is if the property will be re-let fast or if the current tenant is going to stay for a long time. Once you understand this concept, you're less interested in what the media has to say about the situation.

In recent times we have been lucky enough to create a new nationwide movement towards commercial property from educating tens of thousands of people in commercial property with the first edition of this book, which is the best-selling commercial property book of all time in Australia, and our monthly podcast *Inside commercial property*. Being part of this movement helping large numbers of new investors to move towards commercial property makes me pinch myself and be thankful. I see educating people on a commercial asset class as one of my last greatest missions over the next decade or two. There is so much out there for residential property yet so little on commercial property, which in my opinion is a superior asset class with greater returns in both cash flow and capital growth. So alerting people to this new investment option could set their families up for better financial futures.

Back to the last couple years. It's mind-blowing to think that, even among all this chaos, more people than ever have had the confidence to move towards this asset class. The reason? The numbers simply work. Investors, once enlightened on this asset class, see this as well. It's still an underutilised asset class that we judge will become more mainstream over the coming years. As residential property fails to help most people build a retirement-grade passive income for their future, they will be forced to consider higher-income asset classes like commercial property. Or they will be tied to their jobs supporting inefficient residential property portfolios longer than they would have anticipated.

We believe that investing now into commercial property is one of the greatest opportunities we will see. The fact is that the commercial property asset class is becoming more popular year by year. This is significant due to the short supply of commercial property. To illustrate this, according to the Australian Bureau of Statistics, there are more than 550 000 residential properties sold and/or purchased per year in Australia. With commercial property, there are only around 20 000 per annum. Just imagine if an extra 10 000 investors move from residential to commercial property. That would have effectively boosted demand by an incredible one-third, which will boost capital growth. Over time, as more people pour into this asset class, fighting over a limited supply of assets, the demand:supply ratio will favour those who own commercial property. Short supply in high demand is why I am confident in this asset class.

With our commercial properties, we're seeing net yields of 6, 7, 8 or even 9 per cent plus. Not to mention capital growth on top.

Our message is simple. Don't think of commercial property as a risky investment just because you don't fully understand the risks, myths and rewards. I have personally found in my early years when seeking guidance that most people who have an opinion on commercial property have never invested in it themselves.

My best advice would be to listen only to experts who personally have invested heavily into commercial property, not your random uncle at the Christmas barbecue or your mate who is a residential real estate agent. I have found in my own circles that non-commercial owners will always tell you there is nothing but risk in this asset class, mostly because they don't understand it and hence fear the unknown.

All good investors understand there is risk in any investment you make. Commercial property can punish you if you get it wrong, but the damage can be mitigated when you know what you're doing.

I am confident that commercial investing is a safer option for Mina and myself than residential investing. This might sound like a controversial statement, but let me explain why. You can control more, you can target specific subsectors of the economy that you know are sturdy, you can carry out higher levels of tangible due diligence, to the point where we can outperform the general market better than the homogeneous residential markets.

Just remember that commercial property will give you a higher return; however, if you get it wrong you can get punished more. So this is not a space to go into in half-measures. If you don't have the time, seek professional help using commercial solicitors, commercial insurance brokers, commercial buyer's agents and a great commercial accountant.

Mina and I target the most resilient types of businesses. As we've seen, our strategy of buying medical, logistics and other essential services–type investments with strong tenants has proven to be resilient in recent years. In our personal portfolio we have tenants such as ALDI, KFC, Hungry Jacks, IGA, Chemist Warehouse, childcare and medical centres, as well as dozens of other strong tenants.

We still own several residential properties that initially helped us build the capital required to purchase our first commercial property. For residential we always targeted higher-yielding properties that were relatively affordable for both tenants and first-home buyers while still being in good growth areas with strong yields. And tight vacancy rates are also a must.

I want to use these pages to explain how commercial and residential properties will perform differently over time. We will bust the famous myths for both asset classes so you will be more informed from an unbiased investor who has invested heavily in both commercial and residential property. We will also reference how these asset classes performed differently in our last two most significant economic black swan events, COVID-19 and the global financial crisis of 2008–09 (GFC). As I have always believed, to be a great investor you must study and understand how major economic events have affected property markets in the past. Without this understanding you will likely buy into the daily mainstream media sensationalism of 50 per cent crashes and the forever fear of the impending doom of the property market.

The GFC results

- *ASX:* 54.5 per cent fall — The ASX 200 hit a high in November 2007 of 6851.5 before tumbling 54.5 per cent to a low of 3120.8 in March 2009.
- *Residential property:* 7.6 per cent fall — According to CoreLogic data, the average capital city property price fell 7.6 per cent over 13 months from peak to trough (mid-2007 to early 2009) during the GFC.
- *Commercial property:* No reliable data for sub-$20 million assets. (Note — this is one of the biggest issues with commercial property in Australia. Reports are only available for large-scale assets that are mostly traded on the stock market, owned by fund management companies. For example, the Reserve Bank of Australia reported that prime office space fell 24.7 per cent in 12 months. Many well-known REITs fell by up to 40 per cent in value between 2008 and 2009.)

Although the data are weak for the types of commercial property we consider, it is still clear that the GFC was by far the worst economic event in recent history for commercial property. One reason is that lending practices pre-2007 were vastly more relaxed than what we see now in the

2020s. As this was a recession driven by a 'credit crisis', leveraged assets got hit the hardest. Developers and real estate investment trusts (REITs), where debt levels were at their highest percentages, were some of the most affected sectors in the GFC.

However, it's worth noting that REITs are the top end of town, the types of commercial properties we own in our super. For example, companies like Stockland, Goodman Group and AMP Capital. Since this book focuses on direct investments rather than multinational syndicates, we won't go too deep into this sector as it does behave differently to the $500 000 to $20 million investments we're focusing on.

First, how did the GFC affect the commercial market before and after the initial event? You may remember that Australia fared better than other developed countries at the time due to a booming resource export market to China. This softened the blow to the economy. However, there was still a great cost, particularly to the stock market, which ended up dropping almost 55 per cent in total.

Interestingly, residential fell only 7.6 per cent to trough before recovering. You will witness in all major economic events, such as the 2001 dot-com bubble, the 1989 'recession we had to have' and earlier examples, that the stock market always fell significantly more than the property market. We put this down to a number of factors, but most notable is that real estate is an illiquid asset during a financial crisis. You can't sell a property in a day.

However, to truly understand how the GFC impacted the commercial markets I would like to break it down into subsectors — office, retail and industrial — as they all varied greatly in investment performance.

Office

The Australian office market was significantly impacted by the GFC in 2008–09. The market experienced a sharp decline in demand for office space, resulting in a decrease in rental rates and a rise in vacancy rates. This was due to a combination of factors, including a decrease in business confidence, a decrease in consumer spending, and a decrease in foreign investment. The market also experienced a decrease in the number of new office developments, as developers were reluctant to invest in new projects due to the uncertain economic environment. As a result, the office market in Australia experienced a period of stagnation, with rental rates and vacancy rates remaining relatively flat until the market began to recover in 2011.

According to the Property Council of Australia (PCA), the office market in Australia experienced a total capital growth of 8.2 per cent in the five years following the GFC of 2008–09. This growth was driven by strong demand for office space in the major cities of Sydney, Melbourne, Brisbane and Perth.

Retail

The Australian retail market was significantly impacted by the GFC. The commercial property market saw a sharp decline in values, with retail property values falling by around 20 per cent. This was due to a combination of factors, including a decrease in consumer spending, a decrease in demand for retail space, and an increase in vacancy rates. The GFC also caused a decrease in the availability of credit, which further impacted the retail market. As a result, many retailers were forced to close their stores or reduce their operations.

The Australian retail market began to recover from the GFC in 2010, with the commercial property market seeing a gradual increase in values. Between 2009 and 2019, the retail market saw an average annual capital growth rate of 6.2 per cent, according to the PCA. This growth was driven by an increase in consumer spending, the improvement in the global economy and the introduction of government stimulus packages. The retail market also benefited from the increase in demand for retail space, as businesses began to expand and invest in new facilities. By 2013, the commercial property market had largely recovered from the GFC, with retail property values returning to pre-GFC levels.

Industrial

The commercial property market in Australia was significantly impacted by the GFC. The industrial market was particularly hard hit, with vacancy rates increasing and rents declining. The industrial market was particularly vulnerable to the GFC due to its reliance on the manufacturing and export industries, which were heavily impacted by the crisis. The industrial market was also affected by the decline in consumer spending, as well as the decrease in business investment. As a result, the industrial market saw a decline in demand, leading to a decrease in rents and an increase in vacancy rates.

The industrial market in Australia began to recover from the GFC in 2010. This recovery was driven by a number of factors, including the introduction of government stimulus packages, the improvement in the global economy, and the increase in consumer spending. The industrial market also benefited from the increase in demand for industrial space, as businesses began to expand and invest in new facilities. By 2012, the industrial market had largely recovered from the GFC, with vacancy rates decreasing and rents increasing. The PCA reported that the industrial market saw an average capital growth of 8.2 per cent per annum between 2010 and 2019.

In summary

During poor economic times, you normally see real-estate transaction volume drop, which means people effectively try to wait out the poor economic times with their properties, but they sell their liquid assets to make ends meet. You should also remember that a lot of real estate has no debt, so people are often not forced to sell their properties.

Property owners will always be stressed in economic downturns. However, they will generally rethink selling within a few months, realising that this is still an asset they wish to hold for the long term. This thought process is one of the reasons they don't all sell en masse. This is the same for both residential and commercial property. However, history shows the office market seems to have a greatest volatility compared to retail and industrial property in down terms.

I learned from the GFC that when it came to commercial real estate there was a lot of fear that seemed to peak for about two years, which felt like a long time when you were in the middle of it. There was effectively a deleveraging of the system and that affected all levels of the commercial markets. Anecdotally, I remember assets such as industrial properties were extremely difficult to sell at the right price. This is particularly interesting right now as industrial property is the current darling of the commercial world. Everyone wants it and it's viewed as a very strong asset class with very little downside. However, back in 2009–13 this was the opposite. So always remember that, although an asset class could be strong in today's market' that may change in the decades ahead. That's why it is always wise to diversify into different asset classes, rather than just focus on one pool of assets.

These are all important factors when you are building your own portfolio.

The COVID-19 results

ASX: 32.5 per cent fall—The ASX 200 hit a high of 7139 in February 2020 before tumbling 32.5 per cent to a low of 4816 in March 2020.

Residential property: 2.1 per cent fall—CoreLogic data shows that national home values declined by 2.1 per cent between April 2020 and September 2020, before soaring amid low interest rates, high household savings, government grants and a sharp reduction in the supply of housing.

Commercial property: 10–15 per cent fall but rapid recovery—The Property Council of Australia (PCA) estimated the commercial property market had fallen this much since the start of the pandemic. Despite the swift resurgence of the industrial and retail sectors beginning in September 2020, the office market has yet to fully recover and continues to experience difficulty in regaining its footing three years later.

Again, there is simply no mainstream commercial price data out there. We could reference some of the top end of town published reports, but they are not relevant to the sector of the market we are referring to. This lack of useful data is a shortcoming of commercial property, particularly in the sub-$20 000 000 price points where individual investors participate.

So, how has the coronavirus affected the commercial market before and after the initial event? This was an economic event like no other, unlike the GFC, which uncovered the weakness in the credit system. The pandemic was much less focused on punishing highly leveraged entities; it was more concerning for everyone's tenants' ability to pay rent. It was the most daunting period in modern history for investors in terms of income not being paid by tenants.

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In many cases, zero rent came in due to mandatory lockdowns that crippled businesses around the world. I remember this was one of the most nerve-racking periods as an investor. I had my buffers in place, but since I had never lived through a pandemic there was no telling how long this situation would last.

However, within a couple of months the Australian government announced the JobKeeper policy, where the government would pay businesses' staff costs if their revenue dropped by more than 30 per cent. This had a major positive impact on commercial tenants paying their rent on time and in full. At the same time the interest rates were reaching record low levels. For example, my commercial rates went from about 5 per cent to 2.5 per cent, on average. This increased our portfolio's income significantly and allowed us to get well ahead on our mortgages. Many investors were in a similar situation and this created confidence in the market.

As investors realised the sky was not falling in, they started investing heavily due to the low rates. Everyone was sitting at home with not much to do, so many turned their attention to investing. According to CoreLogic, this caused the commercial markets to jump around 30 per cent over the following two years. The residential markets performed similarly, with a 25.5 per cent increase since the pandemic low.

Again, to truly understand how COVID-19 impacted the commercial markets I would like to break it down into subsectors — office, retail and industrial — as they all varied greatly in investment performance.

Office

The exact amount of capital decline in the office market in Australia after the COVID-19 pandemic is difficult to quantify. However, according to the PCA's June 2020 *Office Market Report*, the capital values for office markets across Australia had fallen by 2.2 per cent in the 12 months to June 2020.

CBD office space has struggled the most, and will continue to do so. Fewer people will commute to our capital city centres on public transport in order to sit in an airconditioned office tower where the risk of infection is greater.

In fact, in Australia's capital cities the average office vacancy rate was circa 7 per cent. By July 2021 it was 12 per cent. All cities suffered except for Canberra, which was shielded by government jobs. However, as time passed, workers returned to normal life and the vacancy rates dropped. Interestingly, there were double-digit capital-growth rates for most CBD office markets over the two years that followed COVID-19's introduction to Australia. So even the most feared subsector of the commercial market made very good returns for those who participated in it.

Retail

The Australian retail market experienced a significant decline in capital growth in 2020 due to the COVID-19 pandemic. According to the PCA, the retail sector saw a 7.2 per cent decline in capital values in 2020, compared to a 5.2 per cent increase in 2019.

Another property type that faced harder times during the actual lockdowns was retail. Forced closures made it difficult for customers to visit their favourite stores, which led to more online purchasing. However, unlike offices which took longer to recover, strong essential-service retail assets rebounded with a vengeance, seeing some of the fastest capital-growth rates ever in commercial property. For example neighbourhood shopping centres had yields of 7.5 per cent pre COVID-19 and the same properties were selling two years later at 6 per cent yields. This represented a 25 per cent increase in price before the increase in rents had even been factored in.

People found comfort in assets that had supermarkets, pharmacies, bottle shops, fast food and many other nationally branded retailers. Mina and I targeted this asset class heavily as we found the fear caused by COVID-19 provided us with an opportunity to buy well. In fact, three out of four of our last purchases were shopping centres with the above types of tenants included in their mix.

However, one thing that the pandemic did expedite was the demise of weaker businesses. The media used the term 'zombie business' to describe this type of business. Once the JobKeeper payouts ceased, these businesses went under. We found often that these types of struggling tenants were poorly located retail shops that didn't have a competitive edge when it came to parking, age of building, location, etc. So, when you are doing your due diligence on a property, it's important to see how your tenant went through the COVID-19 period. You will gain some great insights into your tenant's potential for future success, as well as being able to recognise the higher risk nature of some retail properties.

Industrial

It is difficult to accurately measure the exact amount of capital growth in the industrial market in Australia since the onset of the COVID-19 pandemic. Nevertheless, the Property Council of Australia (PCA) has reported that the industrial market never fell in value. In fact, it experienced a capital growth rate of 8.2 per cent in 2020. This was at a time when many asset classes we still falling or just beginning to recover. This is indicative of the resilience of the industrial market in Australia.

One of the greatest beneficiaries of the changing human behaviour from COVID-19 was the industrial market. Most capital-city industrial markets jumped by more than 50 per cent in capital value over a two-year period from 2020. At the same time the industrial rent values jumped by up to 30 per cent. No other asset class performed better. A 2023 Saville's report has revealed that industrial property rent values are still showing strong growth, with an increase of 24 per cent nationally in 2022. This is indicative of the continued strength of the industrial property market, and is likely to be of great interest to investors and developers alike.

As more people purchase goods online, there is a greater need for logistics, storage and manufacturing, all of which reside under warehouse and industrial property roofs. This has meant that warehouses in many areas have been more in demand from tenants and owners alike. In fact, we have seen industrial properties reach vacancy rates as low as 0.8 per cent nationwide in 2022, making Australia the tightest industrial market in the developed world at this time.

What does that mean for industrial investors? Many things. Firstly, it's lower risk because vacancy periods will be shorter; secondly, this causes rental rates to grow faster than any other asset class. Thirdly, a combination of rental growth and a deemed lower risk to the public has turned this asset class to be viewed almost like a safe-haven-type investment. Rapid capital-growth rates have been driven by both investor and owner-occupier demand. So, if you purchased an industrial property anytime in the past, you would have done very well as a direct result of the change in consumer behaviour caused by the impact of COVID-19.

Medical properties and other specialist-type businesses such as childcare centres have also powered through the COVID-19 environment with greater ease, compared with the discretionary spending, retail-type businesses or office space. These types of businesses, often backed by government incentives, don't suffer the same volatility as private businesses.

The demand for medical real estate picked up during the COVID years. There was a predicable focus on health in our community and this was no different from an investment point of view. Low stock and high demand were common themes for this subsector. Given the country's growing and ageing population, as well as the growth of specialised health services such as mental health, aged care, cosmetics and other allied health industrials, one would expect medical properties to have strength in the coming years.

Childcare commercial properties have also become stronger investments over the years as they are underpinned by high occupancy, long leases and bipartisan government support. When you find a quality childcare centre with a good tenant in place you can have confidence as you know the tenant themselves had to meet stringent government requirements to be able to operate. The Department of Education and Training conducts mandatory assessments of childcare centres each year, which landlords consider as having an extra set of eyes looking over your investment.

However, there are two things that would worry an investor about this asset class:

1. Government incentives may be pulled back.
2. Competing childcare businesses may lead to overdevelopment.

You need to be comfortable with these two points before you invest.

I am confident that, upon reading my remarks, you will recognise that the various types of commercial real estate have distinct supply and demand dynamics. This is precisely why I am so passionate about this sector: there is no single market to focus on, which means that, with the right knowledge, you can make more informed investments.

When it comes to investing in property, it is important to take a long-term view and understand the fundamentals of how businesses operate. In the current climate, the performance of different types of businesses can vary significantly, and it is essential to consider the potential impacts of the COVID-19 pandemic. By taking a comprehensive approach to understanding the market, investors can make informed decisions that will help them to achieve their long-term goals. In relation to COVID-19, here's what we're seeing:

- *Interest rates*. After all-time lows for a couple of years, we have seen a normalising of the rates. A good commercial investor must plan for changes in rates. A rule of thumb is to make sure you can survive with two years of cash flow at a rate 2 per cent higher than what your current rates are. If you can get though that ugly situation, the chances you will be forced to sell will be very low. Each year you can hold the property, you will see a rising of your rent levels. This will soften the blow of the extra rate costs. If rates drop back down again, then you will most likely experience strong capital growth as well as improved cash flow. So it's always better to hold if you can rather than sell. Unless, of course, you find a better use for your money.
- *Due diligence*. Prior to the onset of the COVID-19 pandemic, it was much more difficult to accurately assess the strength of a tenant. However, the pandemic has provided a unique opportunity to gain a better understanding of a tenant's financial health. By requesting bank statements, we can gain insight into whether the tenant has paid their rent in full, if they have received any rental reductions or JobKeeper allowances, and if they have maintained the same number of employees throughout the pandemic. This information can provide us with a greater level of confidence when considering a property purchase.
- *Growth*. The value of commercial property has been steadily increasing due to a combination of falling interest rates and increased buyer demand. Although interest rates have recently started to rise, the shortage of available stock has meant that the value of commercial property has not been significantly affected. It is important to note, however, that when making a decision to

purchase a commercial property, you should not rely solely on the current interest rates, as these are subject to change.

In recent years I have seen owners reluctant to sell their assets while they see no better options out there for making a good return on their investment. Increased demand but lower supply is fuelling the growth equation. Of course, some sectors are suffering (such as the CBD office market, as noted), but others have never seen *such* great demand. This demand is largely from residential investors who have turned to commercial property in search of better returns. Increased demand over limited supply = capital growth, which is the central premise of this book.

All of the knowledge and experience we have built up over the years informs the way we help our clients through our business, Rethink Investing. In turn, this inspired us to write a book to offer guidance that will help you on your own journey to wealth and independence.

There's much to learn, but we were determined to keep it engaging and relevant, drawing on our blueprint we use every day with our clients, the '8 Steps'.

We'll share our own story too, so you can better understand our passion for commercial property investing. Our long-held passion is to help others on their investing journey and to reach out to more and more people by sharing a proven process that can be replicated again and again.

As we have grown, so has our portfolio — now valued at more than $75 million. At the time of writing we enjoy a passive income (after taking care of our home mortgage) more than we need to live off from 63 tenants spread over 29 properties. We have also decluttered our portfolio by selling down some of our lower-value residential properties to transition into higher-value commercial properties. This has made our portfolio more profitable by maximising the free cash flow it produces.

Except for 2020 and 2021 (constrained by COVID-19 travel restrictions), we still travel to Europe every year to visit family and escape Australia's winter for Greece's summer. After 'rentvesting' for nearly 10 years, we finally bought a family home to live in. Later we will explain why we decided to set up our investment portfolio before we purchased a principal place of residence (PPOR).

Back at the start of our journey, the option of investing in commercial property seemed like it was out of our reach, but now we embrace it, confident in its power as a tool for building passive wealth. We made it happen by taking risks and pivoting from the typical.

As you read this book you'll find that, with a few exceptions, we speak to you with one voice. We've always invested in property together and have shared the load in running our business, so rather than attributing every decision or action to one or the other of us, it made sense to simplify matters by using the first-person plural.

Of course, we bring different strengths to the business. Mina looks after the property management and running our portfolio. This includes managing the many insurances, tax matters, different rental managers and the general day to day of the portfolio. With 63 tenants, this is a big job that needs extremely good organisational skills, one of Mina's strengths. Mina has also helped build the Rethink Investing business with Scott. It's never easy working directly together in a start-up, but it's been a rewarding experience that has been one of our greatest achievements.

Scott's greatest skills include understanding the market, finding great commercial deals and negotiating purchases while following first principles—in a nutshell, buying the right property in the right market at the right price. He has negotiated thousands of property purchases for Rethink Investing's clients, totalling more than $3 billion in settled properties. This depth of experience is one of the reasons we have done so well.

See you on the other side of the backyard fence!

INTRODUCTION

Scott's story

Creating a $75 million-plus property portfolio doesn't happen overnight. It doesn't happen in your own backyard either. The path I took was shaped by a childhood and early adulthood spent obsessing over the Australian property market.

I learned the foundations of property investing a lot earlier than most, as a youngster growing up in Sydney, through patience, persistence and playing the market. I grew up in the Sutherland Shire with two younger sisters. My parents worked hard, Dad as an accountant and Mum as an engineer draughtsperson. They were also keen property investors. I learned a lot from them as investors, even though they followed a very different strategy from the one I ended up adopting.

Their strategy, which was a common one in the eighties, nineties and noughties, was to buy negatively geared properties and collect a larger-than-normal tax return in return for a cash-flow loss on property. What bothered me about this strategy was that generally it was effective only if you had a large PAYG taxable income that could be offset by a loss through property income. This meant you needed to show a cash-flow loss from your properties just so you could get some extra tax back in your tax return. To me this didn't seem like an avenue to retirement. How can you achieve your retirement goals if your properties don't provide positive cash flow? The answer is you can't, so it wasn't an approach I wanted to replicate, especially since house prices were getting so high compared with my income.

Rather than acquiring a property to generate a cash-flow loss in the name of a tax refund, I wanted to buy properties that made month-to-month cash flow–based profits, as any good business should. I viewed building an investment portfolio as just like building a business. I don't know any business that goes out there to deliberately make a cash-flow loss just to claw some extra tax back later.

Don't get me wrong. I do recognise the long-term benefits of capital growth with the negatively geared tax outcome on property investing. It's just that I want the instant profit that higher-cash-flow assets can offer. What I have found throughout my investment career is that some of my highest-yielding investments have also produced some of the highest growth rates. So I don't buy into the idea that you have to choose either cash flow or growth. The truth is, you probably want both. This realisation helped shift my investment mindset towards a positively geared one.

To better explain how I view property investing, I use the simple analogy of a café business. The way I see it, you wouldn't go and buy a café to lose $100 000 cash flow on the understanding that you'd be able to claim $30 000 back. I would prefer to make $100 000 cash flow and then pay 30 per cent tax. I have always thought that making money is better than saving money. It's remarkable how many people get this part of property investing wrong. Getting on the right side of this simple cash-flow equation was a vital part of my early investing journey.

At the age of 17, I already knew I wanted to get into the market. So I got together with a close mate and we pooled our modest savings from regular part-time and casual gigs: at McDonald's, at dealerships cleaning cars, and working as a surveyor field hand. Off we trotted to the bank with our hard-earned savings (which represented about a 5 per cent deposit on a unit we were looking at). As you would imagine, the bank said 'no deal' and to come back when we had more savings and full-time jobs. We felt rejected, but not deterred.

After I finished school I started studying for an engineering degree at Sydney University. While studying, I managed to secure an average of four shifts a week at the Sharks Leagues club and during the university summer breaks I took extended working holidays. One highlight was spending a ski season in Whistler, Canada, when I was 20. I worked as a cook in the Longhorn Saloon, which helped fund the trip, and even got to have an amazing heli-skiing adventure in the Rocky Mountains. A year later I moved to the Gold Coast for the surfing. I worked in a famous Gold Coast nightclub into the early hours of the morning and was clocking up some good travelling experiences too.

Possibly without realising it, I was laying the foundations for my future career in property. Working hard to earn money while studying was important, because it meant that instead of being flat broke I was thinking about buying a property.

These early experiences of working outside my hometown helped break down a lot of mental barriers when it came to investing. To me, all of Australia was my backyard. My growing familiarity with other areas meant I was not bound to certain locations. This mindset was extremely important in the grand scheme of things. It would later even help me purchase a property overseas.

After travelling and working, I somehow finished my university degree and took up a full-time role as an engineer building railway lines in Sydney. The hours were long, sometimes including weekend and night shift work; furthermore, the project had only two more years to run, and I wasn't sure where my next job would be.

This was when I became determined to not fall into the traditional trap of working until I was 65. I think it had a lot to do with my nostalgia for the good times I'd had when travelling and working different jobs, before being confined to my full-time engineering role.

I began to visualise what my life might look like in 40 years if I stayed this course. The fact that I didn't have a passion for engineering meant I wasn't that happy with my prospects. However, I was young and didn't have any other burning desires (except for travel), so for now I didn't really see any other option. I had also just met my future wife, Mina, and I was happy in my personal life. Why rock the boat?

Well, there'd be no book if I'd stuck with that way of thinking! Later that year I began sniffing around the property market again.

Taking the first step

A year later, in 2010, I was 23—and it was time. I wasn't going to let the bank reject me again, so I took in a hard-earned deposit of $60 000 and we finally got a loan approved by the bank.

Our first property was in Sutherland—yes, in my own Sydney backyard. It was a freestanding house with a granny flat and cost $480 000. We did a 90 per cent lend with ANZ. Because the granny flat and the house were rented separately, there were essentially two rental incomes on the property, producing a total rent of $660 a week. This income was enough to cover all the interest, maintenance, insurance, rates and other holding costs. In fact, after all those costs we were left with over $200 a week cash as a passive income. So, in a way, we had just bought ourselves a $10 000 per annum pay rise!

At the time, all the media outlets were producing regular doomsday articles predicting an imminent 30 to 40 per cent price drop for the Sydney property market. I won't lie: as a first-time investor I was spooked by these articles, but I decided to push on through as I knew the fundamentals of the property were strong. I was still getting a return on investment via cash flow, and this made me feel a lot better about entering the market for the first time. It also helped that I had a strong mindset around building a large portfolio, and I still do. Today, even with the recent falls, that Sutherland property is valued at more than $1.25 million, roughly $700 000 more than we paid for it. I'm glad I didn't listen to the media doomsayers, because had I bought into the property crash fear we would have lost a small fortune in opportunity costs.

At the time I didn't yet know how the media uses 'clickbait' articles to sell papers. One way around that was self-education. So I read thousands of property comments and opinions in web forums, and I devoured every property book I could find, though few of them discussed commercial property. The more I read, the more I realised that buying and holding for the long term was the true path to financial freedom. What helped me in

2010 was that most people were fearful of price falls and had a negative mindset, which meant we could buy property at a great price. It wasn't so very different from what we saw in 2020 with COVID-19.

We bought our second property in Maroubra in 2012 through ANZ with 85 per cent leverage and no lenders' mortgage insurance (LMI). It was a unit, and its value rose $300 000 in just four years. Admittedly, lending was a little easier back then, and at the time we were creating equity while maintaining cash flow. So Mina and I were quickly thinking about our third property.

A lightbulb moment

In the European summer of 2013, while we were in Greece, I was thinking about what was waiting for me back in Australia. Mainly a new job in Port Macquarie that required us to relocate. It was a large and potentially stressful role that encompassed responsibility for three separate business units (quarries, logistics and concrete production)—a very big role for someone my age. Sure, it was an exciting opportunity, but I was moving away from family and friends to progress my career—which, as I've said, I was never passionate about.

I've found that when I'm on holiday I can often think more clearly and deeply, and right then I knew something was wrong. Something was missing. My mind turned to our two investment properties: the highly positively geared dual-income house in Sutherland and the slightly negatively geared property in Maroubra, both in Sydney. Both had produced significant capital growth over the past few years. In fact, we had made more money from these two investments than from my entire salary over the same period. Even better was the cash flow we were receiving on top of the growth. At the time, the Sutherland property was producing a net income of nearly $300 a week. We'd owned it for three years and in that time we were able to increase the rent another $100 per week since we first purchased it.

As I was sitting on that Greek beach, it hit me. What if I could somehow purchase another five properties similar to the one in Sutherland, *but outside Sydney*? Sydney was getting expensive even for renters, and the numbers weren't stacking up to buy a big family home either. For our first two properties we had restricted our search to our own neighbourhood. What about investing further afield?

I worked out that I could earn more than $7500 a month clear plus capital growth if we bought another five properties elsewhere in Australia. This figure would constantly grow over time as well. And we'd have enough passive income to live for the rest of our lives in Greece, Bali or somewhere else with lower living costs. We could have a comfortable retirement, all achieved through property. Sounded like paradise compared with working in a mine until my late sixties!

It had taken me three years from buying that first property to reach this 'aha' moment, and it cemented forever my commitment to investing in property. Without a passive income, there can be no retirement *unless you sell off your assets*. And property investment in areas outside the familiar would be a great vehicle to create that passive income. Furthermore, by setting a solid goal, we would have something concrete to work towards. With that in mind, our first goal was to replace Mina's income, and the goal after that was to replace mine.

In 2013, Mina and I relocated to Port Macquarie for my demanding new job. Not long after the move we were able to buy another property for around $450 000, using an 80 per cent loan and 20 per cent cash we'd saved from working. This next purchase has always been one of my favourite properties: four units on one title with a price of $425 000. It was far from my familiar patch in Sydney, and almost everyone I talked to about the property at the time expressed concerns: it was too regional, it wasn't going to attract any capital growth, the banks wouldn't like it, and the tenants would give you too much trouble. And so on.

But the numbers worked. At the time, the average yield in this area was about 4 to 4.5 per cent, yet this small unit block was showing a gross yield of 9.8 per cent generated from four separate tenants each paying $200 a week! It was clear that the cash flow would be better than anything else in town. I also knew that the property would be easily relet, because it was one of the cheapest places to rent in the town and just 300 metres from the beach.

Finding tenants fast was always important for me, as income security was what I was investing for. So the length of time needed to find tenants is one of the most significant factors. This is particularly important in commercial investing, so all our experiences with residential properties were laying the foundations for our commercial property debut.

Our fourth property search started quickly. We had our Port Macquarie unit block (bought for $425 000) revalued at $500 000 six months later. This meant we had more equity to spend, on top of the savings we had put away.

This fourth purchase was almost a replica of that small unit block, but it was on the Gold Coast. Again, it was very high yielding (it had a gross yield of about 11 per cent). So once the outgoings and the mortgage were taken out, we were left with another $18 000 in passive income from the purchase. Adding this $18 000 to the other incomes generated from our other properties brought our total property passive income to around $65 000.

The fifth purchase was another unit block on the Gold Coast. For the deposit we used equity from our Maroubra property, which had grown in value. We bought this at roughly $40 000 below market value, which was another good source of equity down the track. This slightly older unit block was clearing $16 000 per annum in passive income between the three units.

You'll have noticed that I always look at the income *after* mortgage costs for these properties, as this gives me the actual workable income. For many others, the costs and the mortgage are a secondary part of the equation. We also started strata-titling the property, which would create more equity and free up another deposit for a rainy day.

Our sixth property was an undervalued, slightly older house in Brisbane. This was sitting on a good-sized block that could lend itself to upgrades down the track. We paid $270 000 for the house when all others on the street were selling for about $50 000 more. The yield was around 6 per cent. After all costs this left us with another $5000 per annum surplus in cash flow.

Our seventh property was another unit block in Port Macquarie: five units on one title that we strata-titled for a profit. We bought the Port Macquarie unit block using equity from one of our Gold Coast properties plus equity from our first property in Sutherland and some cash savings for stamp duty.

Finance was more difficult for this property. It was one of our more stressful purchases due simply to our running out of available funds for the purchase. We also had difficulty keeping the bank on time for settlement. It was a painfully slow process, and it felt like the bank was looking for reasons not to grant us the loan. Also, the agent had multiple backup buyers lined up, which meant we were going to lose the property if we couldn't get the loan approved in time. Fortunately, it all worked out. The bank wanted a larger deposit, so at the last minute I had to obtain a personal loan to cover a cash shortfall.

The purchase price was $710 000, and after strata-titling it the property was revalued at $1.2 million. Although it was more stressful than the others, it was one of our best deals. The equity we created by buying it at such a good price led to further purchases down the track.

Our eighth, ninth, tenth and eleventh properties were created by splitting up the seventh property into five units, all on separate titles. This freed up a lot of equity, which allowed us to go on a little shopping spree.

The twelfth purchase was another unit block, this time in the regional NSW town of Cooma. You can tell we were becoming a little obsessed with unit blocks! By now we had found it to be a winning formula, as commercial property has since become. It was four units on one title, for which we paid $195 000, and it would be revalued at $300 000 just two years later.

Using the profits from our capital growth, we then bought several houses in Queensland and South Australia, and at this point things started to move more quickly for us.

My approach has always been to study, study and study some more. I reviewed several hundred properties online every week, year after year, which added up to more than 100 000 properties over the years. I would enter the best of these properties with all their attributes and numbers in spreadsheets for comparison. When I was looking to buy, I would review them, assessing every cost and risk. When I was ready to purchase, I knew every unit block in the country that was for sale. To help the decision making, I'd list all the investment strengths and weaknesses along with all the numbers on the properties. This register would include outgoings, renovations required, potential rent, upsides, street quality and even appearance. It all helped me grade and compare properties faster. We now use a similar system at Rethink Investing, which allows us to compare every commercial property on the market. It takes a team of us to handle the workload, but we know we're identifying the best deals available around the country at each specific price point.

When I started to realise there weren't enough good deals advertised online, I began doing letterbox drops to prospective properties to let them know I was willing to put in an offer on their property without the need for a real estate agent. I was doing everything I could to increase my chances of getting a good deal.

While putting a lot of time into my investing, I was also consciously saving every dollar I could. I took on a lot of minor renovations myself; for example, I sanded floors and had a go at a kitchen. I was managing all our properties, which involved everything from advertising on Gumtree to tenant interviews to dealing with maintenance call-outs. Although it was time-consuming, it helped us save money faster and get to know our properties better.

Throughout this time I was also studying for an MBA and working full time. As I mentioned earlier, building our property portfolio didn't come easy. It took a lot of time and a *lot* of effort.

But back to the lightbulb moment. By concentrating on buying properties that produced good passive incomes and not being bound to any particular location, we made better investment decisions. It felt like we were growing a business, acquiring \$5000 to \$25 000 extra positive cash flow each time we bought a new property.

At just 26 years old, I was doing what it seemed like no-one else at the time was doing. I became obsessed! But I knew this was just the beginning. My goal was to create a passive income of \$150 000 before I was 28, at which point we could decide never to work again if we chose. We were well on our way to achieving our plans.

The big pivot

By 2015, with Mina's mum unwell, as she'll explain later, we had moved back to Sydney from Port Macquarie. We'd enjoyed five years of successfully generating great returns from our residential property portfolio, but we'd started to run up against an obstacle: the yields were getting lower and lower. The residential market was getting tougher by the year because rents were not keeping up with the growth, which meant that replicating the quality residential investment deals we had once relied on to create income from positive cash flow was getting increasingly difficult.

The unit blocks on the market were not as high yielding either. For example, our early unit blocks were producing gross yields of 10 per cent. Now the best I could find was 6 to 6.5 per cent. The falling yields were due to the significant amount of capital growth that the unit-block market had achieved over the previous few years. I guess this was to be expected as the yields couldn't stay that high forever. As more investors started targeting the same unit blocks I was, the prices grew. Over time the value was just not there anymore. So this effectively put an end to the unit-block strategy that had been going so well. Which meant cash flow had to be found somewhere else.

At the same time I was forced to accept lower yields than I wanted to in my searches, I was also faced with several tenancy-related issues in my residential properties. One of the drawbacks of owning many rental properties is there are always issues to deal with, especially if you are buying at the cheaper end of the rental spectrum. For example, drug addicts at our first property would drop syringes into the toilet, which kept blocking. Not surprisingly, no plumber wanted to go around to my place after a while!

In another we had to have the police intervene in a domestic violence situation. We also faced additional costs from property damage and unanticipated vacancies. Property investing isn't much fun when you're dealing with tenants coming and going all the time. But more about that later in the book.

At one point I was personally managing nine properties in two different states without using rental managers. This was consuming a considerable amount of my time, and I was completing it outside of regular work hours.

The way I saw it, we had two options. We could persevere in the residential property, where the cash flow was starting to head south. Or we could look again 'outside our own backyard' — to the commercial market.

In my search for numbers that stacked up, I had started to research commercial properties. To my surprise, the numbers and yields were far greater than anything I had seen in the residential markets. I couldn't believe it! To an obsessive number-cruncher like me, it was a potential goldmine. It was almost too good to be true. How and why was this possible? I needed to make sense of it all, because if it was true, we could surely fast-track our goals and retire even earlier than we'd first thought!

I became convinced that to achieve faster results, I needed to move into the commercial property market. To do so, I dedicated a year to researching all aspects of the sector, from office space to retail to industrial, and even the development side. I looked into the history of commercial property and how the different asset classes preferred in previous recessions. With a particular focus on the GFC, which was still front of mind at the time. My goal was to find a property that could withstand a recession, with a high yield, a long lease, and a solid trading history in a market that hadn't already boomed, preferably in an essential-service industry.

When I asked others for their opinions, to my surprise it seemed like everyone was against investing in commercial property. Everyone. Family, friends, brokers, advisers — none of them seemed to understand the commercial property market at all. I asked them if they personally owned commercial property, but all I got back was crickets! Disappointed but undeterred, I decided to back myself, as I was now convinced that commercial property was potentially a very profitable market to get into.

Up to this point, we had still only bought residential properties. You'll read about our first commercial purchase in Part I. It was the start of my obsession with commercial property.

Fast-forward a couple of years to 2016 and we had achieved our goal of replacing both of our salaries. As related in the preface, I was still only 28 at the time and we had grown our portfolio to 25 properties in both residential and commercial when we decided to take off on that six-month trip to Europe to celebrate our success. It was an exciting feeling, but it also made us think about taking what we had done to the next level.

We owned four commercial properties that yielded a net income of $207 000, a considerable amount that gave us the opportunity to have more autonomy. The mortgage cost was around $75 000 for the commercial loans. So our income had jumped $132 000 from these four commercial properties alone. This meant our passive income sat at just under $300 000 from our total portfolio. We realised that we wanted to spend our future helping others achieve their own wealth goals—and so our professional business, Rethink Investing, was born.

Today, through our business, we have helped clients purchase more than $3 billion of Australian real estate, most of it commercial property. And the numbers continue to grow every month. More and more people are realising the value of commercial property as a high-performing asset class. I strongly believe it’s where cash flow can still be found in today’s markets.

Mina’s story

My motto: I *want* to *want* to open my computer and work, not *have* to *have to* open my computer and work. The dream for me was a life where I had a choice of enjoying what is most important – to me that was time with family and doing things that bring most joy. But it took a long time and a lot of hard work to get to that point. And, like Scott, it all started with the positive cash flow mindset in my DNA.

While Scott and I share the same approach to money today, our property journeys to get there have been very different. I can narrow mine down to two key principles: sacrifice and saving.

Family values

My mother came to Australia when she was about 10 years old with her family from Egypt. She was a hard worker and saver. From a young age she would help her mum and dad with rent, groceries and bills, and however else she could. She was also an opportunist. She found work wherever she could, which gave her the skills to work in many fields, from admin to retail. Above all she was a fantastic writer. Nothing would stop my mum from getting where she needed to be.

My father came from a family of 12 from the small Greek island of Kos. He dropped out of school at 12 years old to work in the family business, becoming a butcher like his father and grandfather before him.

His family was very poor. All 12 children slept in one room in their small two-bedroom home. The aftermath of World War II was hard on Kos, and all members of the family had to work. Shoes, food and especially sweets (my father used to look at chocolates in a store window and rub his belly imagining he was eating them) were hard to come by in his village.

When he arrived in Australia he couldn't speak a word of English, but he was determined to make a better life. He found work as a butcher and sent the first few dollars he earned back to his parents in Greece. He worked day and night to earn a living in Australia, sending much of his hard-earned cash back to his family while also building his own nest.

The lure of property first surfaced after he met my mother, when he declared he wouldn't marry her until he could put a roof over her head. He made that happen in 1982, buying his first property, a three-bedroom unit in Kingsford, Sydney, where he lived.

When the recession hit in the early nineties, my father decided a change was needed. By 1992, with the economy recovering, he was presented with an opportunity to build his own unit block with shopfronts back home on Kos. He decided to move us all (my mum, my eight-month-old brother and me, then three years old) back to Greece while he pursued this business opportunity. The plan was for us to live there for five years then return to Australia.

He built the unit block and each of his three brothers took ownership of one shop and unit plus a block of land at the rear. He then took over the family butchery business with one of his brothers and worked day and night to create a comfortable life for his family. We ended up living in Greece for 10 years.

My father had approached investing by asking himself two key questions: What is the point of investing without purpose? Why not make your money work for you? From a young age, these ideas were embedded in me as I learned by watching my parents and taking note of my surrounding environment. This started my journey of understanding commercial and residential investing.

During the 1980s and 1990s, another global health crisis, mad cow disease, made its appearance in Europe, destroying many butchery businesses, and Dad was forced to pivot again. He decided to build more units and shops on the island and he also bought land. Today some of his properties still provide produce for the shop where he now works. My dad, the simple butcher, made a new life as a restaurant–café–bar owner changing what he knew for generations, taking a leap and doing something different to keep up with the evolving environment around him. Entrepreneurship was in his blood!

To a young girl, witnessing all this was hugely formative. Dad still tells me, ‘You should always have money in your pocket. If you don’t, then don’t go out until you have some you can spend and some you can leave for a rainy day!’ He would also say, ‘Why not invest your money but make a profit after costs? To be successful, your mind needs to be sharp to understand how money will work for you.’

I can see how his mindset came to influence me even back then. For example, I can remember at age 10 puzzling how I was to afford a chocolate bar I particularly wanted. I decided to sell my sticker collection one by one until I had enough to buy the chocolate bar with a little left over to set aside for a rainy day. To achieve this, I had to make sure I sold each sticker for a little more than I paid for it, which meant I made a small profit so I would have to work maybe only half as hard to get my second chocolate bar.

I loved the feeling of accomplishment when handing over my carefully earned cash, knowing I had also made a profit from the proceeds of my sticker collection. I loved the work side of it, but more than that I loved the reward!

Dad's business mind, his ability to teach me the value of family, and the importance of saving to achieve independence still inspire me every day. The way he rose above his humble beginnings to become an experienced businessman and property investor is something I've always admired and appreciated. Mind you, he did eventually come back to Australia and bought what he as a young man thought unimaginable—a property in Sydney.

My mother, too, gave me the opportunity for a better life in Australia with good schools and a secure roof over my head.

My parents were always looking for a good deal. When we moved to Randwick, after living with my grandmother, Dad wanted to upgrade to a larger home to accommodate our growing family. He'd bought it for about $450 000—we lived there for six years—and sold it for $660 000.

He found a larger home in Pagewood, in Sydney's southern suburbs, though it needed a lot of work. When we found out it was a distressed sale (the owner had left suddenly to go overseas and needed a quick sale), we realised what a goldmine it was! By then I was 18 and had started to see things through their investors' eyes. And I liked it! We could see the house wasn't worth much, but we could buy the land, knock it down and rebuild, then one day sell it for a good profit. I still remember as clear as day the moment of excitement when this offer landed on our doorstep. Doing the calculations in my head on the profit to be gained was my own standstill moment that has continued to grow to this day. I will never forget that feeling—a feeling that drives me today to diverge and expand horizons and investing arenas.

We ended up buying it for about $714 000 and living in a rental while building the new home for about $450 000. Five years later we resold it for $1.8 million. I'd learned my first lesson as a kid selling stickers, but now I was starting to think like a professional investor!

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A mother's love

Through my mother I learned to appreciate life in a different way. When I was 12 years old she contracted ovarian cancer. We moved back to Australia so she could receive the cancer treatment she needed through Australia's superior healthcare system.

Dad stayed on in Greece, so we moved into my grandmother's unit, all of us sleeping in one room. My brother had a mattress on the floor, while Mum and I shared the queen-size bed. Dad would visit for a few months every year then return to Greece to work. When Mum was well enough and I had started school, we moved into our own place, living in one of my parents' investment properties in Randwick, in Sydney's eastern suburbs. We'd also travel to Greece to visit Dad when we could.

Over the years I saw what cancer could do to a person. Mum was my rock, my inspiration, the heart of me and our family; her example always encouraged me to do better and to be strong. She battled her illness for 16 years, suffering eight recurrences, a full hysterectomy and multiple chemotherapy courses. She was only 39 when she was first diagnosed, which was unusually young for this disease. If it wasn't for her, I don't think I would have been the person I am today. A person who thinks outside the box and finds alternative ways to set themselves up for a future that they want to live. The simple act of breathing and living day to day was hard for me and I learned that simple things shouldn't be taken for granted and to make your work worth your time.

After Scott and I relocated to Port Macquarie, I travelled back to Sydney every weekend for two years to spend time with her. I could feel in my bones that every moment spent with her counted, because I didn't know how much longer her poor frail body could survive. When we found out she didn't have many more months to live, we decided to move back to Sydney to stay close to her. We quickly packed up our lives in Port Macquarie and I quit my job in financial planning. Back in Sydney, for a time Scott and I lived on a mattress on the floor. We only had a few cups, a mini fridge and basic necessities, but we were close to family.

By then we had 18 investment properties under our belt. Quite simply, if we hadn't had those properties, which were accruing enough passive income to replace our salaries, I would never have been able to spend as much time with my mum as I did, especially during those last few months.

I am so grateful that I was able to go every day to help her shower, to hold mini parties in the hospital and even host a mock wedding ceremony with my celebrant in the hospital. The staff knew Mum so well that we threw a separate party there in her honour, knowing she wasn't going to be able to make it to our wedding.

She passed away on 14 September 2015.

Mum taught me two of my biggest life lessons: that life is precious, and that it should never be taken for granted. Life's too short not to enjoy it, so I made a commitment to live it to the fullest.

Her courage and persistence taught me to never give up on what you want and what you believe in. When things get tough and hard I think to myself: if, in her sickness, my mum gave up on me and my brother, where would we be now? So I pick myself up and move forward! The most important thing is to stay true to yourself and to act with honesty and passion, without worrying what others do around you. My mum and dad had no time for lies and deceit. Honesty and humility, and always doing the right thing, can take you a long way. 'Patience is a virtue,' she always said. 'You'll see, good things will come your way.'

Investment lessons

From my parents I learned the value of clearly understanding what's important to you and doing what it takes to work towards it. That's what still drives me today.

I learned that the main purpose of earning money is to allow you to live life to the fullest, because you never know when it may end. So I said to myself, how can I do that? Again, it was Mum and Dad who prompted me to find the answer in property investing.

When our property investing journey began, we were like everyone else just starting out in the residential property market. We did our research, calculated our return and made sure we had a cash-flow profit after paying all our expenses. Dad's early lessons were always in my mind: Why not make your money work for you? What is the point of investing without purpose? No matter what I invested my money in, these ideas shaped my thought patterns.

Dad also taught me to think of investing like building a business. Whenever you spend money on a business, you expect a return via cash-flow profits in the short term. Investing in property should be no different. Another key idea was that while you should work ‘hard’, you should also work ‘smart’. Once again, I asked myself how I could get there.

As Scott mentioned, our first financial goal was to replace my income, which would enable me to spend time with my mum and to enjoy the time I wanted when I wanted with my family. Our ultimate plan was to replace both our salaries, giving us freedom and independence, and eliminating the need to work for a salary all our lives. I soon realised I needed a plan with set goals that would give me the fuel to accomplish them. A big part of this was making sure I had cash in my pocket each year after all costs. This is my ‘positive cash flow’ mindset.

Unlike my parents, I always struggled with the idea of buying an investment property that was negatively geared. If we purchased a property and found it hard to pay off, then how could we gain the flexibility of being able to travel each year? From very early on I knew the importance of prioritising good cash-flow investments over those that couldn’t produce a passive income.

All these lessons inspired our first property purchase in Sutherland. I remember when Scott came to me and asked me what I thought about it. It was a run-down dual-occupancy home, with lots of work and maintenance needed. If it was to be our principal place of interest, it was basically a knock-down rebuild.

But we saw what it was rented for, how much our lending capacity was and what the loan repayments would be after all costs. When we ran the numbers it offered a good return, and the location was booming.

Our second purchase, the Maroubra property, was partly based on emotion, mainly because it would be our primary residence. It was negatively geared and cost us more to live in than it returned financially, but at the time it was a place to live more than an investment.

Starting Rethink Investing

We moved to Port Macquarie for the job that Scott couldn't refuse, which would give us the kickstart we needed in investing. At the time my job prospects were limited, in Sydney, despite having a strong background in politics and journalism, specialising in advertising and national operations (working for large advertising agencies and television divisions), I went back to my roots in retail.

As a young girl, my go-to had been retail. I always wanted my mind to be active, I never stopped looking for challenges, and I was never afraid of hard work. My first job was at a store called GoLo. At the tender age of 14½, I was the youngest employee in the store, but in no time I rose from stacking the shelves to managing the tills and customer complaints and closing up shop. Within six months I was made supervisor.

Moving to Port Macquarie taught me some valuable lessons, among them to never forget where you're from — your roots. Eventually I had an opportunity to complete studies in human resources, which proved very helpful when establishing Rethink Investing. I also worked for a council in their communications department, and for a financial planner in administration and operations, and I even started to study financial planning. However, investing was always in the back of my mind and my focus remained on what jobs would get me to my final goal: a passive income.

Having to learn and juggle so many different roles due to the lack of job prospects in a regional town, and prior to that having to find a job during the Global Financial Crisis, had boosted my skill set and increased my knowledge of property investing. That's when we purchased our third property in Port Macquarie, the unit block with four two-bedroom units on one title. This was our highest yielding investment to date. It produced more than $18 000 per annum after all costs, including the mortgage.

When my mother passed away and we returned to Sydney, I had no job and Scott was already buying properties for friends and family on the side. I thought, why not help start to build a brand for our new business? I began working from a mattress on the floor. It was a new and interesting challenge. I shared everything I learned and wanted to help others do the same. I started to build the back-end and core of the business.

Based on my experience in operations, advertising, human resources and administration, I began to build what you physically see as Rethink Investing today. I started from scratch, having never done anything like it before, so it was a major learning experience. I knew it would change my life forever. While Scott was helping clients buy their properties to build their own portfolio, I was creating a database, building a website, designing marketing materials, introducing accounting software — you name it and I did it.

Over the next few years we had a lot of success buying high-yielding residential real estate. Our successes with the Port Macquarie unit block led us to chase similar high-yielding investments. Eventually, though, as Scott has described, it began to get much more difficult to achieve the yields we needed in residential. Ultimately this led us to look over the fence at commercial real estate.

As you'll read at the start of Part I, our first small commercial investment generated a whopping $46 800 passive income after all mortgage costs and outgoings. We were living in Sydney, where the cost of living was pretty high, but that one property paid our rent and we still had a surplus! That's the power of commercial property.

Purchasing properties with this level of cash-flow return, we were not relying solely on capital growth to profit. This took much of the risk out of the investments for us. For example, if we didn't get capital growth every year on a property, that was okay because we were getting our profits month to month from the cash flow. I know now that I could never have bought a property in any other way to facilitate what I wanted in my own life and for my family.

Today, as we strive to help others achieve their dreams and ambitions, just as we did when we started out, I never forget the freedom that property investing has provided for me and my family, and the lesson that as things change, you can change too.

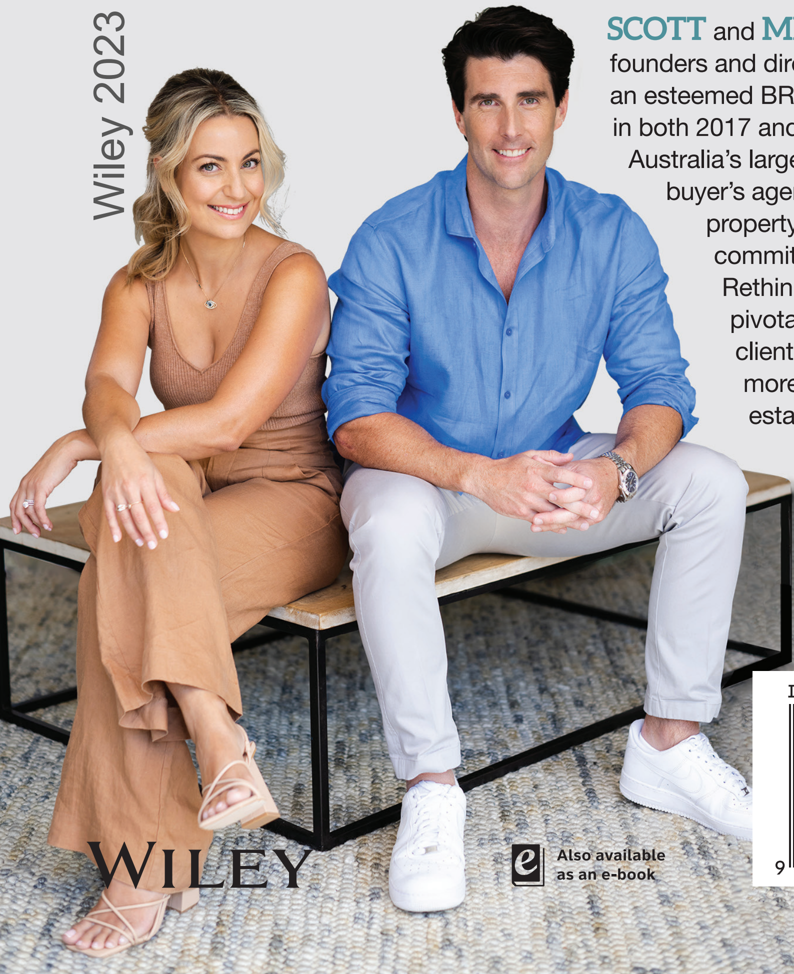
Now let's get started!

MAKE THE SMART MOVE TO COMMERCIAL PROPERTY INVESTING

Break free from the limitations of residential property investing and get the inside edge with commercial property. Fully revised and updated for the current market, this second edition of *Rethink Property Investing* reveals what you need to know to successfully invest with commercial property.

From corner stores to medical properties and even warehouses, commercial property can lead to considerable financial success, if you do it right. Filled with real-life examples, essential tips and success stories, this one-of-a-kind guide shares the proven strategies and techniques authors Scott and Mina O'Neill use to build and grow their $75 million dollar property portfolio and reveals how you can grow your wealth faster through commercial property investing.

Whether you're an established investor or just starting out, this bestselling guide to commercial property gives you the principles, tools and mindset you need to make your mark in commercial property investing.



SCOTT and **MINA O'NEILL** are the founders and directors of Rethink Investing, an esteemed BRW Fast 100 company in both 2017 and 2018, recognised as Australia's largest and most experienced buyer's agency catering to commercial property investors. With a resolute commitment to client success, Rethink Investing has provided pivotal assistance to over 3500 clients, enabling them to procure more than $3 billion in real estate since 2015.

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