

Special Edition

4th October 2011

Dear Owners and Investors,

And then there were NONE!!! Yep, the day has arrived, bags are packed and I can tell you I am so excited. Yesterday when it dawned that we were down to the last few hours, it was just like Christmas Eve. OK, so I wouldn't be starting to pack at 10pm on Christmas Eve - but exciting none the less.

I have alot swirling around in my head, so I need to get it out. I have been a bit slack in not writing a newsletter for September, so here is a special edition to leave you with.

Right now the prices are continuing to tumble, more so in the unit environment. We are seeing prices fall to levels we haven't seen for many, many years. Is this because they are only worth this - not in my opinion. It is just what people are prepared to pay in this market. Instead of focusing on the doom and gloom, I am going to give you reasons why it is still a good idea to invest in body corporates.

If you can't afford to invest in a house for \$250K, you can still afford to invest in a unit. Some are as low as \$85,000 to buy.

The rental market is starting to tighten up in Cairns. This means that the vacancy levels are much lower than two years ago, and although not to the same level we are starting to claw back. A bedsit at the peak of the market would rent for \$150 per week. They did go down to \$140, but now I have been able to consistently rent them for \$145. The next one that comes up I will be trying to get \$150 per week.

There has been no building of "budget accommodation" since 1995 in Cairns. When building in the boom that went from 1989 to 1995 stopped, that was the last of the tenant proof, good sized, basic unit construction. The suburbs that had these unit complexes were Manunda, Manoora, Earlville, Woree and Whitfield. All of these suburbs are less than 5km to the city and normally close to shopping centres and public transport.

The complexes that were constructed in the last building boom from mid 2000 up to recently were the next level up. Many were in "resort" styled big complexes. This means pools, gyms, tennis courts, security gates and all the other things that costs lots of money to run. The units themselves were up market with stone bench tops, European appliances and very posh in deed. Great for owner occupiers but not quite so tenant proof as our Manunda units.

The population has naturally grown from 1995, and although we have lost alot of our transient population through the poor economy, we are now nearly at capacity. As the world economy turns, the Australian dollar goes down and hopefully more confidence comes back into the market, Cairns will start to flourish again. As this happens, and more people start to come to our beautiful city again - where are they going to live?

The reality is we have not had any rent increases for three years now. In this time Council rates, interest rates, body corporate and Insurance have all gone up. Every one knows it is just a matter of time before these increases in costs will start to get passed on to the tenants.

As we are at full house now, our plan is to review all the rents next year. Those tenants that have been with us for a while now have rents slightly lower than the market. If the pressure continues, we should be able to increase these slightly - even if it is only \$5 per week.

A lot of media attention is now on the Insurance issue. I would see at least one article per week in a paper about this issue. Before it was just a rumour that insurance premiums were going to go up, but now that we are a year down the track and these increases have come into reality, pressure is being applied in many different places, by many different people.

This issue is not restricted to body corporates in Cairns, this affects every body corporate from Rockhampton north. Although the increases have not been as severe in the main stream, they none the less have been increased across the board.

When most people generally think body corporate, they think high rise buildings, investment complexes like the ones we are in - but you have to remember that a retirement village is also a body corporate! It is not like you can sell up and go and rent something else at this point in your life - these facilities won't be found at City Park.

Australia, although a large country, doesn't have infinite amount of land to build housing on. Our traditional housing has been the big suburban house, on a big block, with a big house but now this has changed. The blocks are smaller, and they are fitting more people onto that same amount of dirt. To highlight this take Palm Tree Apartments. It used to have two suburban houses on the same area, now it has 44 units!

If the sales of existing units in a body corporate environment are not happening, or if they are they are selling below replacement cost - why on earth would someone go and start developing?

If the prices do return to some level of normality, this still does not mean that a developer will build. The cost of materials, labour and the insurance for the building once completed will make it such that there will be no profit - or if there is the body corporate levies will be so high that it won't be attractive to owner occupiers or investor. The mining boom will continue for many years to come and much of it will be in the northern part of Australia. This means more people will need to live and work in our region. This will put pressure on our existing accommodation - and the rents we can get for them.

For me, I need to put the increases into perspective. Yes the insurances have increased, but are these increases recoverable? Scotsdale Apartments is a 42 unit building and their insurance increase was 100% going from \$22K to \$44K. The body corporate levies in total went from \$920 per annum to \$1450. This is an increase overall of \$530 per annum or just over \$10 per week. At the moment we are down \$5 per week on the peak rents, but as the market continues to squeeze it could very well be possible to achieve \$160 consistently.

The prices have come down to such a level that they make investing without too much outlay possible. The key to it is to buy well, hang on to it for at least an entire property cycle and make sure you can afford it.

I have been scouring the internet and have found a few to look at. When suggesting properties, I look at where the other units are and if one is of similar price and in one of "our investor" buildings then I suggest it over a similar one. The reason is I have some control over the body corporate, the tenants, the finances and ability to limit increases. When we have just one in a block it makes this alot more difficult. Right now we have at least 30% in the six core complexes we are involved in and it is so much easier for me to control. I know within days of any tenant or maintenance issues - some times within hours.

Can the prices go down even further? I don't have the answer to this, but they may. What you need to focus on is the long term potential as they will have to go back up. I know there would have been people that thought the prices would never go back up after other events in history, but they do and the gloom passes - eventually. I do agree that these are extraordinary times with financial uncertainty but we still have to plan for our financial future or end up living on the aged pension.

The break up in costs is basic and you will need to clarify these costs with your accountant etc.

<http://www.realestate.com.au/property-unit-qld-manunda-108012481>

<http://www.realestate.com.au/property-unit-qld-cairns-107589573>

Both of these are in Scotsdale - 91 Birch Street. The prices have come down from the peak of \$115K. We personally have six of these units and they have been great reliable rentals. Because they are in a large body corporate it is easier to spread out the running costs and keep the levies at an affordable level.

Purchase Price \$85,000

Interest @ 7% = \$5950

Body Corporate = \$1450

Council Rates = \$2200

Landlords Insurance = \$300

Management Fee @ 13.2% = \$995

Rent @ \$145pw = \$7540

Outgoings \$3355 or \$64 per week.

There are some variables to the above. I have assumed the interest rate at 7% - at the moment you can get a better deal on this, with some as low as 6.5%. Although not a massive saving, it is still \$425 per year. If we get the rents back to \$150 per week, this adds another \$260 income. I haven't taken into consideration any tax benefits or depreciation on fixtures and fittings, or building allowance.

<http://www.realestate.com.au/property-unit-qld-manunda-107316002>

This is a typical one bedroom unit, it happens to be in Viewmont. The prices have come back on these and it is possible to buy them for just over \$100K. You do get slightly higher rents but the body corporate is slightly higher. I have assumed you can buy a similar one for \$105K

Purchase Price \$105,000

Interest @ 7% = \$7350

Body Corporate = \$1800

Council Rates = \$2200

Landlords Insurance = \$300

Management Fee @ 13.2% = \$1132

Rent @ \$165pw = \$8580

Outgoings \$4202 or \$80 per week.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-woree-108065911>

This is a duplex we have just listed. I have been watching the duplex market since for the past few months and it is interesting. Investors are starting to return back to these, probably because there are no body corporate fees. We have seen many sell, and the new ones that are listing are going on for higher prices - whether they sell or not is a different story. This duplex is located in Woree, but in a nice quiet cul de sac. It does have a huge block with alot of land at the side and rear of one of the units. At the moment there is a massive high voltage tower sitting in the back yard, but there are plans to have these taken down in the next five years - so we are told by Powerlink. If this tower goes, and with it the easement you then have a huge block with side access to build something at the back. The units themselves are pretty solid, but they are in need of a renovation. There are existing tenants in place with both sides paying \$250 per week and wanting to stay.

Purchase Price \$345000

Interest @ 7% = \$24150

Maintenance = \$3000

Council Rates = \$3800

Landlords Insurance = \$2000

Management Fee @ 13.2% = \$3432

Rent @ \$500pw = \$26000

Outgoings \$10382 or \$200 per week.

The potential with a duplex is to value add - build in the carport to make a third bedroom, add an extension, strata title and sell off. At the moment it appears that you can buy a duplex pair for between \$330 - \$450K. When you start to look at a duplex half most start at \$200K and go up to \$250K.

<http://www.realestate.com.au/property-unitblock-qld-woree-107446983>

This is the block I highlighted last time. It has huge long term potential, but it really needs some one that is hands on and has the equity behind them. Ramon and I inspected them inside, and with our vision goggles on we could see it possible to easily increase the rents. All you need to do is increase them by \$200 per week over 6 units to make them pay for themselves - not even counting depreciation!

<http://www.realestate.com.au/property-unitblock-qld-whitfield-107728291>

This is another whole complex that could be interesting. Good location and good price. I have to tell you my latest tenant stories - I love my tenants! I have a unit that is has just become vacant. The new tenant is moving up from Brisbane but doesn't arrive until Friday evening by the train - I won't be here - did I mention that I am going on a cruise? As he is arriving after hours and we aren't here, I couldn't work out what to do. I couldn't leave the key under the mat for a couple of days, so instead I asked one of my long term tenants if they would mind if I left the key with them to be collected. Not only were they happy with that, but they are going to pop up and open up the place during the day so it isn't stuffy when they arrive. The couple that are coming up are older, and it will be nice for them to realise that City Park isn't jut a big high rise complex, it is a nice place to live with good neighbours. This is part of the reason that many of our tenant stay so long, they are very happy where they are and know that if there is any trouble it gets resolved very quickly.

In the same complex is the Rocky Horror tenant who has been causing me some trouble lately. He is a nice young lad, but is for a want of a better word simple, he is very easily led astray. As he has his own place, his so called friends come and party at his house. It got to the point where I had to evict him, and if the rental market was slightly better and we weren't going on a cruise I would have pushed the issue. The only reason he is still there is he got in touch with Youth Link and now has been assigned a case worker. We have gone through the problems and faced with becoming homeless he has realised he can't go on the way he has or living in a card board box may be his next home. He was taken down to Centenary Lodge which is the Salvation Army hostel - once he saw where he would be living he soon realised that he had made a big mistake. I was speaking to the lady that lives next door, and at first she was intimidated by him and his friends. She is an older lady that has been around the block a few times, and now she knows that I will back her up and will move him on she speaks her mind to him. She sits out in her carport and has a cigarette. When he comes out to talk to her she tells him what for as well, and so far it seems to be keeping him in check. He is a good lad, and the honest truth is that a bedsit in City Park is the best living environment he is going to get on the small budget he has. Hopefully he will "get it" and learn there are consequences to actions.

I will still be able to check my emails whilst away, and if you have any questions or concerns please send me an email. I will do my best to answer it between cocktails. If you are interested in any of the properties above, or would like my two cents worth on another property you have spotted please let me know. Although Ramon and I will not physically be here, we do have a great team that will be looking after our flock of tenants.

I hope all is well in your world.

Linda
PS NO MORE SLEEPS!!!