

Special Edition

11th February 2012

Dear Owners and Investors,

I haven't written for a while about what the property market is doing here, so today is the day. I have attached the write up I did back in September 2011 on the duplexes that were available, and a new one for January 2012.

With the uncertainty in the strata insurance market, I can understand why investors are shying away from these investments. We have done everything we can to high light this issue, and I think the message has gotten through loud and clear to the Parliamentary Inquiry. I am heavily involved with this every day, and even I was a bit taken aback at just how this has affected so many people.

There were two ladies in particular that got up to speak at the end of the Cairns meeting that stick in my mind. Both would have been close to retirement age, and I would guess they would be widowed. They sold their homes and down sized to lovely units. They are now in a situation where they can't afford to live there, but can't afford to sell. It is very sad to see.

The report is due to be handed down in April and hopefully some workable solutions will come out of this. Right now, the unit market has stopped free falling. If I were to take a guess as to why, it would be that buyers simply aren't looking at anything in strata titled units right now and all the really desperate sellers have dropped so low they have sold. The stock that is coming onto the market is higher than it has been for a while but nowhere near the pre GFC prices.

I don't have a crystal ball, but here are my predictions:

If the world economy doesn't implode

If the interest rates drop (and the banks pass this on rather than increase the rates)

If the economies of the capital cities of Australia get going

If confidence of investors returns generally

If we get a change of State Government

If we get a change of Local Government

If the body corporate insurance comes back to a reasonable level

and if the rents continue to increase **then** Cairns property will start its way back up again.

I know there are alot of ifs and whens in this prediction but they will eventually fall in a line.

Right now you can buy an investment property for under \$90,000 that rents for \$145 per week - and you can't get a lot better than that anywhere else.

Since the beginning of January every single property we have rented has been for more. The increases have been between \$5 and \$25 per week.

I have to tell you about this young man I was showing around the city units we have available.

He had applied but missed out on a unit that was \$220 per week. I showed him one we have at Spence Street that I needed to repaint. I said we would repaint it but it would be \$220 or he could have it for \$190 per week if he took it as is (still \$10 per week more than the last tenant). I had one more at Sheridan Street that is nice but much smaller. He liked this one and asked how much - so I said \$220. He agreed and is going to take it as soon as the current tenant leaves. I had to hurry back to the office and take the listing down from the internet as I only had it for \$210 on the website!!! Very happy as the last tenant was only paying \$200 per week.

This weekend we had a unit in the paper in the city, as well as having it on the internet. I think it is too high, but we have four groups to go through on Monday afternoon. The tenant doesn't leave until next Sunday and if we get this one away, the owner gets another \$20 per week!

For the first time in many, many years I am having a choice of applicants. The quality has gone up and I can't tell you how good it feels not to be in the bottom of that barrel scraping the bottom for tenants. The plan for now will be to leave the existing tenants in place until the wet season is over. In April, if the rents are continuing to go up consistently and we are getting the properties filled with minimal vacancies then we will go through all the properties and assess what they are paying, and what we can increase the rents by. I will discuss this with each of you prior to making a decision. It is a fine balance between getting the tenant to stay and increasing the rents. At the end of the day we also need to get you 52 weeks rent each year but still have a good tenant in place that looks after the property.

The sales market certainly feels like it is changing. The duplex market has shifted substantially in the past four months. For clients we bought last year three duplex pairs. One for \$295, one for \$305 and one for \$325K. All of these were great pairs, in good locations with great value adding potential. Right now the best valued duplex in my opinion is the one we have listed at Coral Close for \$329K.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-woree-109130321>

It may not be the prettiest one available, it does need a lot of cosmetic work but this is the one with the most long term potential. The huge high voltage tower is in the middle of the back yard right now, but it will be coming down in the next few years. When this does, if the easement is removed then you are left with a huge block of land that you could potentially build another unit on the rear. The carports could easily be enclosed and converted to a third bedroom with an ensuite. Best of all, it is one of the cheapest ones currently available.

The important thing when looking at any investment, is working out if it is the right one for you. This duplex at Coral Close will probably not suit someone that lives in Sydney and has to pay for someone to do the work. You would be better off adjusting your budget and getting something that has just as much potential, but not as much work.

The other properties that catch my eye are

<http://www.realestate.com.au/property-unit-qld-manunda-108012481> This one isn't one of our listings, but it is identical to ours. It is in Scotsdale and is a bedsit. When you do the numbers, these are still good investments if you only have a small budget. For under \$90K they have good long term potential. The prices did go up as high as \$115K at the peak and as the rents start to go up this will almost pay for itself. The rents we are currently getting are between \$145 - 150 per week. When the rents dropped, they went as low as \$135. The last two units we have rented have been taken with no vacancies and at \$150 per week. I would hope that we can claw this up to \$160 per week by the end of this year.

<http://www.realestate.com.au/property-unit-qld-manunda-109130706> This is the listing we have at 85 Birch Street - City Park Apartments. It is a lovely unit with a fantastic garden area for the tenant to enjoy. City Park is just like Scotsdale in that it has a good committee and the gardens and grounds are well maintained.

<http://www.realestate.com.au/property-studio-qld-manooora-109199651> This is a bedsit that is on Miles Street for \$78,500 and on the surface it looks like a much better deal than Scotsdale and City Park. These are much smaller in size and are actually under 30 square metres in size which makes lending very difficult. Even if you can get the money, when it is time to sell you will have the same trouble because your buyers won't be able to get finance. It is also in a much smaller complex and the running costs would be higher - and therefore potentially the body corporate would be higher. It also isn't that appealing from the outside so the choice of tenant you will attract won't be as high. Although Scotsdale is big, it is presentable, close to the shops and TAFE and has nice gardens and grounds.

<http://www.realestate.com.au/property-unit-qld-cairns-109301716> This is at 71 Alfred Street and at \$80,000 it is well priced. I have to tell you that since the first time Ramon and I started to look at investment units way back in 2000, we have been looking at this complex. I can not tell you why we haven't bought, but each time there is something that stops us. I personally think that the bedsit units are a better long term bet. This complex is always lower than the rest of the one bedroom market - even when the market is rising. On paper it is a good investment, but would we personally buy it - no. My criteria when buying an investment is, if we were on the bones of our bum and had no choice but to live in this unit could we? If the answer is no, then how can I expect a good tenant to pay good rent for it?

<http://www.realestate.com.au/property-apartment-qld-westcourt-108994316> This is on Hector Close and is pretty much the same story as above. I have done the research on the duplexes and have it attached.

Now just to throw something unexpected look at this

<http://www.realestate.com.au/property-unitblock-qld-bungalow-107328559> This is opposite our office on Aumuller Street. It is four units within a Queenslander and it could be interesting for the right person. It has just been reduced down to \$385K. It is only a short walk into the city and when the rents start to creep up, this could be a huge cash cow. We used to rent our two bedroom units for \$280 per week when the travellers were around.

If you spot something of interest listed on the internet, send me a link and I will tell you what I think.

We are in the middle of packing - yes, the Queen Mary awaits us in Sydney. I am so looking forward to not having to deal with the tenants even if it is just for a few days.

This afternoon at 1.20pm I get a phone call from The Peaceful Lover - don't even ask. He called to tell me that the tap in the kitchen won't turn off. He noticed it last night and if we could send Bart over. It is now Saturday afternoon and I know it is a flick master tap. This means it isn't a simple case of just changing a tap washer. You can buy the parts but by the time you get them, it works out cheaper to buy a new tap as they have come down to \$29. I asked why he hadn't called earlier - he had only just woken up. Bart had finished for the day, so I had to talk him through where the turn off valve is, how to turn it off - and then whilst on the phone made him do it. I told him that he could turn it on as he needed water, but not to let it just run. Oh I love being a property manager some days.

I have to update you on "the cleaner". You have to acknowledge that things in Cairns are really tough when she tells you that "business has been so slow at the cleaning office, that I have decided to take a job as a bar maid". She is settling in, and I hope she doesn't clean for much longer.

Then there is my "I collect old people" tale. Miss P that we think has early dementia has convinced herself that the people next door are going to steal her car, and wanted to move. It is really difficult when she needs it to be on the ground floor, not steps of significance and affordable. Fortunately, one of our clients units just came up and fitted the bill.

On Friday we went over to meet her at the unit to show her through. I know I am a softie and that I am winning lots of gold stars with the man upstairs but some time even I shake my head at what I get into. We have now arranged to have her moved on Wednesday. She has her own mattress and fortunately this unit needs a new one - less the owner has to buy at change over. I have told her there is one condition, and if she didn't agree then she couldn't have the unit. When I get back to do all the paperwork, she has to allow me to hook her up with the Red Cross telephone service. I know I touched on this with Ron - another oldie I have collected. Each morning at a nominated time they call. If there is no answer, they call back in 10 minutes time. If there is still no answer, they call the nominated person who can go around to check on them. If it can't be established they are alright, then the ambulance is called.

Miss P is now happy that she will be moving. The owner gets a new tenant but doesn't have to buy a new mattress - and he gets \$20 per week more for doing not much. I get my unit back from where she is currently (and I have to buy a mattress as she had her own and the last one wasn't great) and I may get \$10 per week more. Everyone wins.

I had one of my tenants die a few years back of natural causes. He wasn't found for about two days, and it really affected me. I was sad that he died alone, and then not found. I don't want this to happen to Miss P. She has her payments automatically paid through Centrelink so I wouldn't notice via rent arrears. She has a habit of locking her self into the unit and drawing all the curtains and keeping the windows closed.

She doesn't socialise with the neighbours so it is not out of the possibilities that she wouldn't be found for months.

But to finish this email off I have a question. How do you know it is not going to be a good day being a property manager? You all know that I am definitely not a morning person so for me to get a call at 7am to say the tenant above just threw a flat screen television off the third floor balcony is not a good way to start the day!!!

I hope you have enjoyed this latest email and that all is well in your world.

Linda Tuck