

Special Edition

26th March 2012

Dear Owners and Investors,

Before I start, if anyone else is interested in the table and chairs I wrote about last email from Amart, please let me know so I can do the order for them. We personally are going to slowly start renovating the units we are planning to keep for the next five years. This will just be painting and upgrading the furniture where required. It will mean better rents and better tenants so we are happy to upgrade. We have a bedsit in Palm Trees that we are coming available in a week. I will take the before and after pictures to show you the difference.

Last week the report from the Parliamentary Inquiry into Strata Titled Insurance was released. I have attached a summary of the report to this email. This doesn't provide a simple solution, but I never expected this to be the case. This will however start the ball rolling. Even if we had an exception on the stamp duty on the policy, this would save us thousands of dollars. I will keep you informed as any real changes are announced. We are all hoping that there will be a new State Government Insurance Office created, will have to wait and see.

I am not a big one on Politics, but for the past few years in the state of Queensland it has been let go - if Ramon and I ran our business the way the State and Local Governments have, we would have been out of business a long time ago. With the clean sweep that occurred in the State election it has brought a bit of confidence back to most people that I speak to. The comment I loved the most the other day on the radio was "If Queensland is in the biggest resource boom it has ever had - where is all the money?"

The local Council elections are due to be held in April, and hopefully we will see someone with business leadership skills take over office and get this town back on track soon. I know that Townsville has a different economic base, but they are miles ahead of us in so many ways. It would be nice to see a thriving Cairns again very soon.

From where I sit, there definitely has been a change since early January. I can't pin point why, but the rentals have definitely tightened up. We rented a two bedroom in City Park for \$220 which is higher than pre GFC levels. On the weekend we rented out on in Cairns One for \$320 - an increase of \$30 over what the last tenant was paying. This last ten days has put a dampener on the rentals - only because of the rain, and I mean rain. I have never seen it rain like this since we have been here - not going to whinge because it is just rain and no wind so there has been very little damage. That is except for the mould that is taking over everything.

Around the town we are starting to see projects big and small start to take shape. On the drive into the city, I smile every time I drive past the Mount Sheridan Shopping Centre extension. That builders car park full of tradies vehicles makes me smile every time. There is the Holy Spirit Retirement Estate in Westcourt that is also starting to crank up. The Cairns Base Hospital extensions are in full swing and that will be going for the next two years. The Home Maker Centre on Draper Street is up and being built with Masters being the main attraction. There are others, but this is a sample of the bigger projects.

Today I am going to highlight just one property that we have come across. It is not a property for every investor, as each one of us needs a different type of investment. It is a duplex pair located

at 22 Arizona Street, White Rock. It was listed with another agent and they still have it up on the internet

<http://www.realestate.com.au/property-duplex+semi+detached-qld-white+rock-107188137>

The original asking price was \$335K but it will now go for \$310K. I have already done all the negotiating and this is pretty much the price the owners will take. Before going into the property itself I will talk about the area. White Rock and Woree are the first real suburbs out of the 5km City range on the southern corridor. Originally there was a lot of Queensland Housing in both areas. Much of this has been sold off. They both have bits that aren't good, but then there are areas where first home buyers and families have bought and they are great. These still hold a stigma and as such the prices are much lower than what you could get in other more popular areas. The rentals may be slightly lower, but by only a few dollars. The rent achievable will depend on the property as much as the location.

I think that the southern corridor of Cairns will be the next boom suburbs. Some of the reasons are

They are already much cheaper than the northern beaches suburbs.

As the market picks up and confidence returns, people will be looking at price as much as property.

As the values go up, many will have to look at lower priced properties as they simply can't afford what they want.

To drive in to the city from White Rock or Woree is fairly simple, even with peak hour traffic.

There are plans to widen the road and do fly overs which will make it even quicker.

The Mount Sheridan Shopping Centre will be a big draw card for employment as well as shopping in general.

There is a town centre planned for Edmonton. This is a huge development and will be the same as Smithfield.

We have inspected the property and without going into full details, this is what we found

It is a better block construction duplex with a tin roof.

At a guess it would have been constructed in the late 1980's and would be eligible for building depreciation.

The two carports are in middle with the units themselves on the outer edges.

This configuration should make it easier to do what is necessary to get the building strata titled if required.

The placement of the building on the block is not the best, but it is still possible to value add to this property.

The two carports could be enclosed to create a third bedroom and second bathroom.

With some creative thinking you could have a new carport installed for each unit which would then make these 3 bedroom, 2 bathroom and carport - for very little investment

With a high boundary fence along the front and to the side of the front unit, you could create a very usable private and secure area.

With a fence and sliding gate for the back unit, you could create another usable private and secure area.

The inside has had very little done since it was built.

The rear unit looks like it has been painted, but not in a good rental colour.

The floor coverings to both units are in fair condition but long term would need to be upgraded.

The kitchens are original and for now would be suitable as a rental.

The bathrooms are original and for now would be suitable as a rental.

The rear yard of the back unit is not very visually inviting. I would look to brick pave this area and make it a bit nicer so someone could use it. Not a big cost item.

There are no fences for pets. This could be done fairly easily.

To allow pets will get you better tenants and more rent generally.

To the rear of the block is a large parcel of land that was a nursery. This has been up for sale and will be redeveloped in the next boom.

The next thing to consider is what type of investor that should be looking at this property. It does need some work, but much of it for the first five years could be done fairly cheaply by a handy man. If you didn't live locally then it could be done with a budget in mind. If your budget is only at \$300K and could stretch to \$310K plus buying expense, then this is the best of the duplexes that are on the market.

We are starting to see the price of duplexes go up, and quickly. Many are up in the high \$300K's and some in the \$400K range. There is only one property that has been listed really low recently, and it isn't a property I would want to see any of our investors buy. The fact is that if the economy starts to pick up, the rentals start to increase and the rest of the market picks up then this may be one of the last chances to buy a duplex for close to \$300K.

If you were an investor and could afford to pay \$350K and it was going to be your nest egg to keep you in retirement then this may not be the duplex for you. There are better duplexes around but then again they do cost more.

If I had to put this duplex into one of our categories it would be a "debt reducer". This is a great property with good value adding potential. It could be upgraded to a three bedroom, two bathroom with carport where as many other duplexes on the market can't. If we were to look to add it to our portfolio, we would do only what is necessary to keep it rented with good tenants for the next 3 - 5 years. When the market has started to turn, and things are selling well then we would start to make the exit plan. By this time the stigma attached to White Rock and Woree would have lessened and it would be a suburb that is attractive. Just prior to the GFC you could not pick up a duplex pair in any suburb for under \$440K - and that was a run down one at that. Our exit strategy on this property would be to remove the tenants, renovate the inside and out of each property, create the extra bedroom, bathroom and carports just prior to putting it on the market, strata title off the two duplexes and then sell them as individual units. At the moment the average price of a two bedroom, one bathroom strata titled duplex is \$200 to \$250K.

Of course in an ideal world where money was no object, you would buy this property for \$310K as well as a "keeper" duplex at \$350K. You would sit on the two as straight rentals for the next few years until the market turns. At this point in time you would renovate, strata title and sell of the "debt reducer" and pay down the mortgage on the "keeper". If all the planets align as they should, it would not be far fetched to think you could sell the two strata titled halves for \$300 - \$350K each. You would then be able to pay the two mortgages and get to have the "keeper" debt free as your retirement income. I would also like to think that by this stage we should be getting \$300 per week for the duplex half - which could mean a gross income of \$600 per week for you.

I know many of you are going to think - why don't Ramon and I buy it for our own portfolio. The truth is we have enough debt reducers and keepers already - we now need more "time" to enjoy our life.

If you would like more specific information on this property, please let me know.

To finish off I will tell a tenant story. I recently had to do an inspection on a unit that we have just taken over. The owner was flying up to see the property and it was all arranged to meet at the property. I got there early and went to greet the tenant, the glass door was open with just the security screen door closed. There was no car in the carport. I called out through the screen door - very loudly just in case they were sleeping but no answer. I waited for the owner and then we went in. I have been caught out a few times where I have assumed that something was locked on the way in, and locked it on the way out only to have the tenant call me later that night to say I had locked them out.

I checked the security door, and couldn't believe it wasn't locked. We went in - calling very loudly as we went in - just in case. The place was lovely and clean. They had nice furniture and they really had settled in well into the property. We went upstairs - I hate walking into bedrooms but luckily no one was around. Just at that moment a car pulls into the carport. I hurried outside to meet the tenant - who had just got out of his pimped out Chrysler. He was a young mining lad - plain and simple. I introduced him to the owner, and nearly fell over when the first F word tumbled out of his mouth. That was quickly followed by another, and another. He then went inside and opened the fridge to get a beer - what can I say? He is a tenant that so far pays his rent regular, he is paying fair market rent, he looks after the place, it is clean and is a classic example of why some people will be tenants for ever and not owners.

I do have lots more to write about in the next few weeks. I just have to find the time to get it onto the email for you. On Tuesday we are taking the day off. We don't take days off very often, and to be honest it is only Christmas to New Year (with the phone still going, but luckily the tenants are normally too busy to annoy me), Ramon's birthday, my birthday, Anzac Day and our anniversary. Yes, tomorrow will make it 19 years of wedded bliss. Never a cross word has been spoken in our marriage - and if you believe that then we also have the tooth fairy, Santa and Elvis living in our back yard. Not sure what we will be doing, we were going to go to dinner but if the rain keeps up we may have to take the dinghy in rather than the car.

I hope you are all happy and well in your world.

Linda