

Special Edition

7th June 2012

Dear Owners and Investors,

The Cairns rental market certainly is moving. I still can't put my finger on what is driving it, but just this morning I have received two phone calls from people that aren't living in Cairns looking at rentals, one moving here from Melbourne!

We seem to be able to increase the rents with each change of tenant, and now it this message seems to be spreading through to the general population.

This morning I had a tenant call me to give notice. He and his wife have been the best tenants and this is the third rental he has had with us over many years. They are going back to the Philippines for a few months and then will return. For the past few months we have been looking to move him into a ground floor unit as his knees are now 74 and don't like to climb up to the third story. His rent has been at \$160 per week, and we didn't give him an increase this round as I knew he was going to move on very soon - didn't think it would be to the Philippines!

He told me on the phone that this was a very good unit, on the top floor with an end window, lovely balcony and good complex and that we should be renting it out for lots more - at least \$180 per week. Now I appreciate that the message is out there and the tenants are realising the rents are going up! I will list it at \$185 per week and see what happens.

There recently was an article in the Cairns Post on a development that may go ahead. This is the first big development I have heard in a very long time. It is on the old drive in theatre site, which was ear marked for a Glencorp development. The GFC came along and this was moth balled, then Glencorp went broke. The link is

http://www.cairns.com.au/article/2012/05/22/220335_local-news.html

The question was asked recently if this is a bad thing given the awful market we are currently in. Many may see it differently, but here are some of the reasons I think it isn't a bad thing.

There has been almost no building of any description in Cairns for at least six years

The rental market has turned, and this will start to see rental prices increase

As the rental market increases, it will in turn increase the return for investors

As the returns increase, we will see more investors come to Cairns looking for bargains

As more investors come, and the rents increase the prices for our properties will start to go up

When the investors come, there will be increased pressure on the rentals and this in turn will attract the developers.

I don't believe developers will come and build unless they believe they can make a profit.

No investor is going to buy in a new development if there is continued uncertainty in the strata insurance market.

If the insurance issue is resolved, we may even see a decrease in our body corporate levies.

If this happens and our rents go up - then we are in an even better position

If the developers do build, then there will lots of construction jobs - this will put even more pressure on the rentals as there are none currently vacant

I don't believe that plans have even been approved, so it will take at least a few years before this even starts to happen.

No developer is going to build a unit and try to sell it off in this current market, if you can buy a comparable apartment for 40% less than new prices.

The question is what is defined as "large numbers of development" In the boom we were only looking at 1583 lots in 2007.

This development is the only one that I have heard about. It only has 520 in the complex. If we assume that each unit will house 4 people, then this is only housing 2080 people. If we are at near capacity currently, it won't take much to have 2080 new people come into the city.

Our city is growing, and our population will need homes and units to live in. We are starting to see rentals at 2007 levels, and in some cases slightly higher. If the pressure continues, it will not be long before we see rents increase to higher than GFC levels - and we are only at the start of our recovery. Building is a core part of our economy, it needs to happen to create jobs and places for people to live.

There is one complex that I know of on Ishmael Road that was completed just prior to the GFC. At the height these were being advertised at \$300K plus. The last of them have just been sold off at \$199K and let me tell you this has been many years of constant advertising to try and off load them.

Right now we are seeing opportunities like we haven't seen for at least seven years. I will go through a couple that I have picked out on the internet and give you my thoughts. It is important that you find the right property for you, and the right type of investment for your current needs. I know I have said it before but what Ramon and I would look at buying now certainly isn't what we would have bought ten years ago. I am also going to put in a few that I wouldn't invest in and explain why.

<http://www.realestate.com.au/property-unit-qld-woree-110095249>

Located at 1 Anderson Street, Woree, this is essentially a strata titled motel that is now permanently rented out at \$150 per week. The asking price is just \$39,000 - sounds great doesn't it. I wouldn't buy this if it were \$20,000 as it is going to be a huge issue to try and get finance. Even if you could get finance, the body corporate is high as there is an onsite manager. When you go to sell, the next buyer will have the same issue with finance. Cheap isn't always the best option. I feel incredibly sorry for those that bought them prior to the GFC at over \$100K.

<http://www.realestate.com.au/property-unit-qld-manunda-109942456>

I think I have highlighted this one previously. It is at 71 Alfred Street, Manunda. At \$69,500 it is a brilliant price. It is actually a one bedroom, where some of the others in this price bracket are studios or bedsit units. Ramon and I remember looking at this property way back in 2000 when we were buying our first unit. We have continued to look at it since then, and for some reason we just could never bring ourselves to buy it. When compared to other one bedroom units, it has always been lower in price - no matter where we were in the cycle. This is still a very good price - even compared to others in the same complex. This would be a debt reducer - and not a keeper. You would look to buy and hold until the market gets better and sell to make a profit. Even with this possibility, it isn't one that I would look to buy personally.

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

This is a bedsit located in Scotsdale Apartments. It has been reduced to \$83,000. Ramon and I have 6 of these styled apartments and we have been very happy with them. They are consistently rented for 52 weeks a year. The last ones we rented at \$150 but the next one that comes up I will try for \$160 and see what happens.

As they are in a large body corporate, the fees are much more affordable. They have increased, but not to the extent that some of the others have. These are currently at \$1400 approximately per annum.

<http://www.realestate.com.au/property-unit-qld-manunda-109130706>

This is one we have for sale and it is located at 85 Birch Street - City Park. The owner is keen to sell it, and although listed at \$89,000 will look to take offers. It is very similar to the one above at Scotsdale. The body corporate here is slightly lower at \$1200, and this one has a lovely back garden area. When looking at the cost to hold the property it is less than \$50 per week - without taking into account any tax deductions available to you. These were selling for up to \$115,000 in the peak.

<http://www.realestate.com.au/property-unit-qld-cairns+north-110611765>

Now this isn't a cheapie. It is a one bedroom at 211 Lake Street. It is in the City area and you can see the hospital from the front of the property. Inside very little has been done, and if you were to do a very simple renovation it would make it a very desirable property - close to the city, Esplanade and hospital. We rent one out in the complex for \$190, but I did see one being advertised for rent for \$290. I think it would easily achieve \$250 if it was renovated and fully furnished. The complex was revamped externally some time ago and it presents very well. The asking price is \$120,000 and although slightly more than those in Manunda, the potential for higher rent is there.

<http://www.realestate.com.au/property-apartment-qld-manunda-109318066>

This is another I have highlighted in the past. It is a two bedroom unit at 91-93 Birch Street, Scotsdale Apartments. It is now \$135,000!! These were selling for up to \$240,000 in the peak of the market. The body corporate is high at \$2800, but we are just starting to see the rents increase. I just heard of one being rented for \$230 per week. I haven't had one for a while, but I am going to give it a try at \$240 when the next one comes up. I know there are other two bedroom units around that are similar, but I know Scotsdale inside out. This is in a good location, with lots of money in the sinking fund. It is a big complex so the costs are spread out over 43 units. It may not be a long term keeper, but the potential to make a good capital gain quickly is there when the market turns.

One of the key issues that needs to be resolved is insurance. Until this is resolved effectively, I don't believe we will see any improvement in the sale prices - particularly for body corporate units.

Most investors just aren't looking at properties if they are in a body corporate. I consider the levies at City Park and Scotsdale for the bedsits reasonable at under \$1500, but there are others that are closer to \$10,000 and just not viable.

This issue is now starting to spread to all insurance here in the Far North. I hear about cases each and every day of renewals that have increased by a minimum of 200%. This just isn't sustainable. I will continue to put pressure on the Government. You can help by sending me copies of any insurance increases you receive. The more evidence we can provide the better.

When the insurance issue is resolved, and if the premiums come back to a normal level that is comparable to insurance premiums in other areas, and if the rents continue to climb this will help to make the lower priced properties very attractive.

There are many that are holding on, waiting for this to happen, and even if we see a return to prices in 2007, this will be a relief for many owners.

What will happen is any ones guess, but I believe that the issue of insurance is such a burden not to just Cairns but the entire Far North that something will have to happen.

Many investors simply do not want to buy in body corporates, and the alternates are a house or a duplex. If you have a good base behind you, an entire complex is also a great investment. What many investors do not take into consideration is the actual cost to keep these properties as well maintained as a property in body corporate.

For a duplex pair, just the insurance alone is \$1000 per side. You then have maintenance and upgrading that should be budgeted for. I think that duplex pairs are a better option just because the numbers are better.

<http://www.realestate.com.au/property-house-qld-manoora-109545056>

This is a three bedroom house in Manoora. From the outside I will guess it used to be a Housing Commission property that has since been sold off. The price of \$199,000 is brilliant, but it will really depend on the exact location. Some of the streets aren't that great, and I would be wary of many in Manoora.

<http://www.realestate.com.au/property-house-qld-white+rock-110292397>

This is a four bedroom, one bathroom house with a pool in White Rock. The asking price is \$229,000. When you consider this back in 2007 would have only just bought you a two bedroom unit in a complex, it is incredible to see how far back the prices have gone. The photos are limited, but I do love the blue bedroom. As a first home, it represents incredible value.

<http://www.realestate.com.au/property-house-qld-white+rock-110087161>

This one is a three bedroom one bathroom home and I would say by the size of the kitchen it is a small home. It is in White Rock again, which seems to have a great majority of the cheaper homes at the moment. The block is 854 square metres in size, with side access. One would have to look at the potential to sub divide the block to the rear, and either build another dwelling on the rear or sell it off.

At the moment White Rock and Woree still have stigmas attached to them. When the economy picks up, and other factors fall into place such as the opening of the extended Mount Sheridan Shopping Centre, the Edmonton town centre and even the hospital at Edmonton - these suburbs will come into their own. They are centrally located, and very close to city. The blocks are a big size, and just as has happened in other cities, we will see a lot more development such as subdividing blocks to put another dwelling.

I grew up in Perth, and I can't believe the amount of houses that have been demolished to make way for villas and townhouses. In Cairns we tend to build high density housing, with the minimum normally being 8 and cheaper. In Perth they have essentially three huge homes on the same block, just no yard space. It will be interesting to see what direction the next lot of building in Cairns is.

We went through the budget accommodation and mass size in the boom between 1989 - 1995. The boom of 2003 - 2007 saw high rise building in the city and northern beaches, as well as massive developments of hundreds such as the Cairns One development.

<http://www.realestate.com.au/property-house-qld-white+rock-110547013>

This is another three bedroom, one bathroom house in White Rock. It looks very neat inside with a new kitchen and floor tiles. From the look of the outside it used to be Department of Housing and depending on where it is located, this could be interesting. It is priced at \$211,000.

<http://www.realestate.com.au/property-house-qld-bungalow-110305353>

Now this is an interesting one. It is on Spence Street very close to our office. For those that don't know Spence Street it is one of the main streets in Cairns city. The city has developed to the north along Sheridan Street, but as yet it hasn't developed much along Spence Street. This would be approximately 1.7km from the City Centre and you could easily walk into the city. It is a Queenslander and although it has been raised, it isn't legal height underneath. If you did raise it and enclosed underneath you would potentially have a huge two story house within walking distance to the city. The added bonus is that this area is slowly transforming from heavy industrial, to light industrial with a mix of business and homes. If the right person was looking, this could be an office down stairs and dwelling upstairs. To make this work, it would have to be someone hands on with vision.

<http://www.realestate.com.au/property-house-qld-cairns-109637056>

This one is in White Rock again and priced at \$249,000. It has an even bigger block at 901 square metres - I can't tell if side access is possible from the photos. It has a new kitchen that looks to be of a good size and quality. There are three bedrooms and one bathroom. The rent isn't great, and I would guess that in this area you would get somewhere between \$250 - \$300 per week.

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

Now I know I have highlighted this property before. It is a duplex pair at 7 Coral Close, Woree at \$329,000. We have been tracking the duplex pairs for some time now, and we are definitely starting to see a shift in the prices. Before this was in amongst the general pricing, but now just about everything under \$350,000 has sold. I have just noticed that the one at Idaho which was just over \$300K has sold, as has the Sperring Street one. This leaves very little under \$350K. All the new listings are over \$350K with most being close to \$400K.

The current tenants are paying \$250 per side, and I imagine that it won't be long before these rents will go up to \$260 per side. There is the huge power tower in the rear of the block, but if this does get removed one day, this will hopefully remove the easement along the back as well. This will then give the property 1136 square metres of land - with side access. If planning allows it, the property could have another dwelling to the rear.

Internally they are very basic and need to be totally renovated. This would not be required until the current tenants leave, and from what I have been told this is a long term rental for these two tenants. This property also has the ability to value add when you do decide to sell. It would be relatively easy to enclose the current garage and convert it to a third bedroom, with a second bathroom. The configuration will allow a carport to be put at the front, and once strata titling occurs you would have a three bedroom, two bathroom duplex half to sell - which would be much more valuable than a two bedroom, one bathroom.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-edmonton-110697365>

This is a new listing. It is a three bedroom, and two bedroom duplex pair in Edmonton. The list price is \$379,000. There is also a 5 x 5 metre work shed in the rear and the block is 1083 square metres in size. Edmonton still is slightly lower in rent than the suburbs closer to town, but the rents are still \$230 as a minimum. The three bedroom with the work shed will be higher, until I see it I can't judge the possible rent. This one could be interesting, depending on the achievable rents. This is still \$50,000 more than the Coral Close property, and you would need to work out what is best for you as an investor.

<http://www.realestate.com.au/property-unitblock-qld-woree-109581631>

I am going to guess this is in the not so good part of Woree. There are four x two bedroom units in the block for \$390,000! This is one that we at Property Ladder probably wouldn't manage - can you imagine the Note to Self if I did. You would make sure they are tenant proof and collect the money. When the market turns and rents are getting good enough to justify renovating, you would but always keep tenant proof in mind.

<http://www.realestate.com.au/property-unit-qld-white+rock-106877183>

This is another one I have highlighted in the past. It is a block of 4 x 2 bedroom units on Tiffany Street, White Rock. These are in a good location, but the asking price of \$730K is probably a bit on the high side. If it were to come down to \$650K it could be a good buy. These are nice units internally and a good size. The configuration will allow you the option of rear yards so you can rent it out to people with pets. We had one very similar and we rented it out quickly and for a good weekly rate - if my memory is good this late at night it was \$210 per week.

To finish off this Special Edition, it will not be a tenant story, but hopefully something to get you motivated to invest for your future.

Cairns may not be for everyone, and the reason I write about Cairns is because this is where we live, invest and know it like the back of our hand. I write these emails to try and convince you to do something for your future - even the smallest investment could make a difference in your retirement.

We have just put on a new cleaner at our home. I barely have enough time to do the grocery shopping, so I caved some years ago and admitted I couldn't keep up with the house work. We had a team that did our house for a year or so, but they broke so many things and didn't really clean the house that in the end we had to let them go.

We found Ms L after putting an advert in the paper and although she actually charges more per hour - oh my goodness can this woman clean. Each week, the house is actually getting cleaner - I can see clean windows everywhere. We normally are gone by the time she gets here, so we don't get to see her much. This week I was chained to the computer and got to chat before she left. She is an older woman, and I would guess she would be in her sixties. I would say she never married, or if she did she has no children except the four legged furry ones like we do. She works incredibly hard, and flat out for the three hours plus that she is here. Physically she struggles a bit, but that doesn't stop her.

Four years ago she got the all clear from the bowel cancer, although she still has a bag. The chemo and radiation has affected her health and she has difficulty with her breathing and now heart trouble. Before the cancer, she had a job, bought a house and a few weeks before bought a second hand four wheel drive. During her treatment she went through all of her savings, including her superannuation. She has a part pension now, but still works as much as she physically can. I asked her why? The mortgage repayments, the car repayments and all the other bills still have to be paid.

This lady never planned to get sick. If things had gone differently, she may have retired with a bit of a nest egg - not a lot but something. It appears now she will retire one day on the aged pension and try to live on that. It is when things like this happen that I realise just how lucky I am. I can't say being an investor - especially during a GFC has been easy and there are definitely days that I think I would be better off throwing it all in and going to work on the mines. I soon realise that I am unemployable and have to soldier on as your property manager!

After visiting Perth last week, I have also realised just how far behind we are in rentals, and prices of real estate. What you can buy for \$700,000 in Cairns is a whole lot different to what you can buy in Perth for that money. When our economy gets moving again, things will get better. I know for many of you, the end is nowhere in sight but no one could have predicted the GFC and how long it is going to last.

Now to finish on a brighter note, yesterday I went to Sheridan Street to drop off our dogs at Ron's. I walked in and could smell the lovely lunch he was having - Mongolian Lamb with noodles. He had Mango Mousse for desert - and he wasn't sharing any of it! Seeing as it took me years of trying to convince him to get Meals on Wheels, it seems he is really enjoying it. I also have a meeting at 1pm on Friday with the Occupational Therapist at Ms Ps unit. She is still in hospital and the probability is that she won't be coming home again. The OT is bringing Ms P to the unit to get some of her clothes and make up so she is more comfortable in hospital. I will let you know if she recognises me.

Hope you are all happy and well in your world.

Linda