

Special Edition

28th June 2012

Dear Owners and Investors,

Before I start I am going to remind you how our free buyer's agent service works.

We will work with you to locate a suitable property - be it for investment or to live in. Once we have your criteria, we will start to look for properties and tell you all about what is good about it, but more importantly what is not so good about it. We can tell you about historical sales so you know that the price you will be paying is good and not the most expensive in the street. We work on your behalf with the other agents, this is important as if you contact them they will not have to share the sales commission with us.

Many ask would this mean that we are working for the seller - absolutely not. We work on your behalf to find you the best property available.

When a property is then found, we then do the inspections and give you our honest opinion. For those of you that don't live locally I can video tape the inspection so you can see it as if you were there yourself. If it is then something you like, we can negotiate on your behalf to get the best possible deal.

Should you buy a property, there is no cost to you. We get a portion of the sales commission from the listing agent.

That is a very shortened version of what our Buyers Agent Service is about. If you have questions or would like more information please just ask.

This is a very difficult time economically, but it is also one of the best opportunities I have seen in Cairns for many years. All reports I am reading confirm that we are at the bottom of our cycle.

The question that no one has the answer to is how long we will remain along the bottom. There are so many outside influences, that we simply don't know. I can say that on the rental front things are definitely changing for the better for owners.

I am constantly asked what is a good buy. This is such a difficult one to answer as what is a good buy for one person, may be a terrible investment for someone else. You need to work out what sort of investor you are, where you are in your investment cycle, what you want from the investment and how long you plan to keep the property. Don't get me wrong, property is a long term investment but there is long term, and then there is really long term.

With the rises in insurance for the Far North, this has essentially stopped investors from buying in strata titled complexes. Fortunately we seem to have stopped dropping in price on these, but they are a long way below what they were being sold for in 2008. I get asked is buying in a strata environment still a good investment. This answer has many facets.

Body Corporates that are run well such as the ones we are involved with are still an option. Within the body corporate levies is your insurance, the gardener, the pool man, the handy man, the money to repaint and anything else that needs to be done. When a pipe bursts you don't have to cringe as the money has already been set aside.

One of the main reasons that a unit in a body corporate is still a good investment for some is the price. If you can only manage to buy a bedsit for \$89,000 - then one investment is better than no investment.

You still have to be very careful about what you buy in as many of the levies have been reduced by decreasing the general maintenance and the sinking fund contributions. This won't be sustainable, and you need to look very carefully at the building, what needs to be done, what is in the sinking fund and how the budget has been drafted.

Currently the rents haven't increased enough to be able to cover the increases we have seen for Council Rates and Body Corporate but if we keep going on this track, it won't be long.

We have been renting bedsit units for the past 12 years, and although some other agents may have achieved a slightly higher rent than us, we have always worked on the best rent possible but still have the property rented for 52 weeks of the year.

They started at \$120, then slowly increased up to \$150 at the peak. During the dark years, they did drop down to \$140 per week but since then we have slowly been increasing them back to \$150 per week. I am grinning as I type this - we have just rented out a bedsit at Scotsdale for \$155 per week - the highest rent we have ever achieved for a bedsit. Even better it was easy to rent at this figure.

The fact is we have had absolutely no construction of accommodation in Cairns for at least five years now. The population has naturally increased and as the economy picks up, the pressure on rentals will continue to increase. The upside is that the achievable rents will also go up.

I know I have said it in the past, but I really can't pick what is happening in Cairns but something is going on. The tourist numbers are still down, there is limited building activity in the housing market, there isn't a lot of Government projects - but still the people come

Each week I would get at least five people contact me that are moving to Cairns from somewhere else. Many of these are singles and couples that just want an affordable place, and a unit is ideal for them to get settled into initially. There are only so many units available, and although they are still slower to rent than houses, they are still moving much quicker than they were a year ago.

Prices are down considerable, but not everything that is cheap is a good investment. If I were looking at a unit these would be on my list:

<http://www.realestate.com.au/property-unit-qld-manunda-109942456> - This is at 71 Alfred Street for \$69,500. It is a one bedroom unit, but only small at just over 40 square metres. I have written about this one in the past and it would be in my debt reducer bracket. Ramon and I have looked at this complex for the past 12 years, and each time we have gone to buy one we just couldn't. It is one of those that make me cringe and I can't put my finger on why. This is the cheapest in the building by at least \$10K which is a big difference. I don't know the body corporate fees on this one. It would be one that you would buy, hold until the market starts to move and sell off for a profit. It wouldn't be one that would attract good long term tenants, and probably would be a head ache - but it is cheap.

<http://www.realestate.com.au/property-unit-qld-manunda-109130706> - This is a bedsit at 85 Birch Street for \$89,000. The reason the bedsits are good value is they are affordable to buy, the body corporate levies are fairly low at \$1200 and the rent is at \$145 per week. These were selling for up to \$115K in the peak, so there is room to make a good capital gain when the market turns around. We have six of these in our portfolio and they are always rented, to good long term tenants. If all your budget will allow is something under \$100K, then this is a good option.

<http://www.realestate.com.au/property-apartment-qld-manunda-110723825> This is a one bedroom unit at 1 Chester Court, Manunda. There are currently three for sale in this complex and you could pick one of them up for just over \$100K. I know the body corporate is well run here as we are part of it. These are renting now for around \$175 per week with the levies from memory around the \$1600 mark. The size is bigger than a bedsit, as they are 49 square metres in size. This small size can cause an issue with some lenders, so you need to find out from your bank if they will lend and at what LVR. At the peak of the market these were selling at \$160K so there is that little bit more potential capital gain if the market just returns to 2008 levels.

<http://www.realestate.com.au/property-apartment-qld-manunda-109318066> - I have highlighted this two bedroom unit at Scotsdale 93 Birch Street as a typical two bedroom that you can buy on the market right now. The asking price has dropped down to \$135K, but you just don't know what the owners will take. The body corporates at this property are now around \$2800 per annum and the rents have increased to \$220 per week for a nice fully furnished unit. The cost to hold this is much higher than say the one bedroom or even the bedsit. The difference is the potential capital gain long term. Back at the height the prices were \$240K for the same unit.

With all units in a body corporate environment, you need to know everything about the financials of the building. No point in buying one that has cheap levies only to find out that they don't have any money in the sinking fund and lots of work to be done! They can be a good option for someone that has limited lending capacity, and doesn't want to be involved in upgrading the outside.

We have been tracking the duplex market since September now, and although the Cairns market is generally flat, there is a definite shift in the values of duplex pairs. There are many reasons why I like duplex pairs at the moment

You can buy them fairly cheaply at the moment. You have to remember that at the peak of the market you couldn't get a duplex pair for under \$500K - even in the not so good areas and in really bad condition.

There are no body corporate fees. You still have insurance, and this is approximately \$2000 for the pair.

The rents are slightly higher than a unit

The quality of tenant is slightly higher than those applying for a unit

If you have the ability to allow pets, then the rents can be even higher

Buying one that you can value add to - will increase the value by doing no extra structural work. If you can enclose the carport to make a third bedroom, and put a carport at the front, it can easily go from a two bedroom, one bathroom duplex to a three bedroom - which is more valuable.

You can strata title them off later and again increase the capital value.

At the moment the duplex pairs are ranging from \$310K up to \$400K. The asking price for comparable duplex halves start at \$200K and go up to \$260K. There is nothing extra or special about the halves over the full pairs - except they have been strata titled.

I will go through the ones that are available and give you my two cents worth on each of them.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-manooora-110179501>

This one I haven't included before. It is at 46 Miles Street, Manooora. It has an asking price of offers over \$300K. I personally haven't seen inside this one, but a client that I trust has seen it.

The street is a great street that is centrally located, nice neighbours and a bit of a sleeping street.

When it booms again, this will be a character inner city area that will be in demand. The property from the front would allow for the carports to be enclosed in, to make a third bedroom or extra lounge room. As the carport doesn't go all the way through to the rear, it makes value adding far more difficult. I believe the internal lay out also makes it difficult to improve it easily.

The issue I have been told with this property is termite damage. I don't know how extensive the problem is, or even if it has been treated. The price is brilliant and the street itself is good - but you would want to get a good pest inspection to find out the issues.

The value adding potential is not there as it is with some of the other properties. Is the price at offers over \$300's low enough to offset this - could be for the right investor.

<http://www.realestate.com.au/property-house-qld-holloways+beach-109510016>

This is a duplex pair at Holloways Beach for \$368,000. It is old and not in great visual condition. You would need to repaint, new bathrooms, new kitchen and upgrading the fences and gardens. As it is a corner block, and the photos don't show it, I can't tell if the value adding potential is there. I think the price is very high for what it is, but it is at the beaches.

Before I go into the next two, I will talk about the southern corridor.

I believe that this will be where the next lot of building will happen. The Northern Beaches are filling up, where as there is still a fair amount of land on the southern corridor.

The development that is happening already in this area has started to show signs that the southern corridor is on the way up.

The Mount Sheridan Shopping Centre is going to be huge. They are looking to open later this year, and this will bring in a lot of jobs into the community. It will also change the way that many people live, in that there will be no reason to go all the way into the city. Currently many living in the southern suburbs will go into Stockland or even Cairns Central Shopping Centre as there aren't enough shops in the old Mount Sheridan Shopping Centre. Really there was only Coles there. With K-Mart going in and all the speciality stores, many will not need to go into the city as often.

The GP Super Clinic has opened in Edmonton, and this is starting to get really busy. This will take pressure off the Hospital and other medical services and start to provide the services that people living in this area need. There are still plans of a second hospital being built in Edmonton - but as the Queensland State Government is broke I don't know how long it will be before this happens.

The Edmonton Town Centre will happen, and this will become similar to Smithfield. It will be a satellite city and this will mean many won't go into Cairns City, there will be more jobs and it will become its own little community.

The main highway is being upgraded from Edmonton into the City. The work has already begun. One of the big complaints is the peak hour traffic coming in from Edmonton. You can't be thinking Sydney traffic, no it means a few delays here and there, but us Cairns people are used to no traffic jams at all. This is a massive injection into our community and it will help to boost the economy.

The reality is that suburbs that are not fashionable right now such as White Rock and Woree will be the big winners when the economy turns. They are so close to the city and still very affordable. It is less than a 10 minute drive into the city and people want to be close.

For those of you that live elsewhere just think back of the suburbs that were not great and now are posh and expensive. For me it is Balga which is now Westminster!

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

This is the one we have for sale at 7 Coral Close. We were there again today showing some clients through. The land size is huge, and with side access there is real possibilities down the track to be able to put another dwelling on at the rear. The issue with this property is the huge power tower to the rear. It does straddle the fence, so you can't hide it. There is talk of the high voltage line coming down in the future, but this is not for certain. With the tower in place, there is an easement that runs along the back boundary. This will stop any development of the block. One side is definitely better presented than the other, but not by much.

The current tenants pay \$250 per side and there is a very real chance that this rent will go up to \$260 very soon. The tenants want to stay and have no plans to move out. They do look after the property, as best they can give the condition it is in. This property actually reminds me a lot of our one on Bruce Highway. The same tenants are still there, and essentially they are just babysitting the property for us. We haven't done a single thing in the property. We don't get the rent these do, but ours is probably in far worse condition.

Coral Close just like our Bruce Highway has a hidden jackpot just waiting. For us it is that we are on the main highway and when the next boom comes the property will be ripe for someone looking for highway exposure to put a commercial development on. Coral Close it is the chance that the tower comes down and the easement is removed to free up the block.

The reason I like Coral Close is the potential to value add very easily. Converting it to three bedrooms and two bathrooms per side is very easy and would not require the structure to be altered. You could easily put in a carport on the front of each unit for parking, and if you really wanted to this could be double car parking. You won't do this until you were ready to strata title it and sell it off.

When it first listed, there were many others that were cheaper on the market. The market has now shifted and this is now one of the cheapest. At \$329K with potentially \$520 per week returns, that is pretty good. If it were listed at the top end with the others, then this wouldn't be a comparable property but now that all the cheap stock has been sold off, then this is now looking very attractive for the right investor.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-manunda-107380251>

This one is in Manunda, and it is in the category of NOOOOOO! The building itself is not great with a lot of work needing to be done. It is cheap at \$334K but the issue is where it is located. This is totally surrounding by Department of Housing and it is not the sort of place you would want to be on a dark night.

<http://www.realestate.com.au/property-house-qld-bungalow-107536188>

This one is on Wilks Street, Manunda. The asking price is \$335K which again is very cheap. I have been inside this one and there is a lot of work to be done. The street is great, the area is good and it is close to the city. I don't like this one at all.

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

This one is located at 22 Arizona Street, White Rock. Although it is listed at \$335K, I am sure that \$310K would secure this property. This is one of the cheapest ones around. This does have the potential to convert it to three bedrooms and two bathrooms, but it is far more difficult. They have put the building right at the back boundary and there is a massive front area that isn't currently being used. It isn't fenced and therefore allowing pets isn't an option.

For the right investor, this could be a good option. The inside is pretty much original and it will need some revamping. This combined with the fencing will mean someone should be hands on to do these things. To pay someone may not be cost effective. At a price of \$310K I probably would look at this one over the Miles Street one - just because it is block and no termites.

I also don't believe you will get the same rental returns as you would with Coral Close. You may get somewhere between \$230 - 240 per week in this rental market in the current condition it is in.

Again, if this were in the high \$300K range then there are better properties around. The price is what makes this attractive. It really is one of the cheapest ones around in this market.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-cairns-107361945>

This one is in Woree and I have been told that the price is \$350K. I haven't seen inside this one, but I have been told it is well presented. There is a bonus of side access apparently. I was surprised at the little pocket it is located in. The negative of this duplex is that it has a common wall down the middle. There are a lot of tenants that don't like this and are put off. Some months ago it was one of the higher priced ones, and now that the market has moved it is actually one of the cheaper ones. Until I have seen inside, it is difficult for me to give a real opinion on this one.

The other big negative is that these are only renting for \$220 per week.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-mount+sheridan-110423989>

This is a pair in Mount Sheridan. I have a feeling I have seen inside this one and it is on a busy street. It is also set back on the block with almost no back yard. I could be wrong. The price is \$370K which shows that the prices are starting to creep up. It doesn't mean they are selling at this price just yet, but it does show that things in the duplex market are starting to move.

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

This is one I highlighted last time. It is at 5 Brutus Street, Edmonton. It is very unusual in that it is pre built as a three bedroom and two bedroom duplex pair. There is a 5x5 metre work shop at the rear and it looks like a big yard. The price is \$379K. Edmonton traditionally gets lower quality tenants and lower rents. The three bedroom is currently owner occupier, and without seeing it I would think you should be able to get \$270 - 280 per week. The front they are about to relet at \$230 but I believe this could be increased as the rental market increases. This is as good as Coral Close, but it is also \$50K more in price.

This one has just been sold, and I did get to see it inside - WOW! What a fantastic place this is and with huge long term potential.

<http://www.realestate.com.au/property-unitblock-qld-woree-110757019>

This is one that has just listed. It says make an offer - so I really don't know what they are expecting. There are 4 x 2 bedroom town houses that have already been strata titled off, but are being sold as a set. They look like they would have been built prior to 1987 so building depreciation will probably not be available.

As it is on Mintaro Street, one needs to take into consideration that the quality of tenant will be lower than say Manunda. The rent you could achieve will also be lower. If I had to put a price on this, I would say that as a group you would want to be getting it for around the \$600K mark. If you compare this to say Coral Close at \$329K the cost per unit is slightly higher, but there is no way you would get \$250 per week for each of the units.

<http://www.realestate.com.au/property-unitblock-qld-whitfield-110661629>

This is another complex that is up for sale. It has four units in it, two with two bedrooms and two with three bedrooms. It is in far better area of older Whitfield. The issue here is the price they are asking for them. At \$199K for the two bedroom, and \$219K for the three bedroom they are far higher than the market is paying right now. At the right price they could be a good investment, but at \$780K for the group, they are well off the current market value. They may be good units, but the price they are asking just isn't good value for money in this market.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-gordonvale-110833063>

This is a new duplex pair that has just listed in Gordonvale for \$350K. It is a much newer build and the building depreciation will be higher. This look of the outside is very nice, but there are limited internal photos. I haven't seen this one. My only reservation is that the location. Gordonvale is still considered a long way from town, and attracting higher rents isn't easy. In ten or twenty years time it will be a part of suburbia for Cairns, but right now it is considered the outer edge. Still worth looking at, but not the best value for money.

Now this is where it starts to get interesting. The properties above are essentially up to the \$350K mark. Between \$350K to \$400K there is almost nothing listed. The new properties are all listing at \$400K plus as you will see. This doesn't mean that they are going to sell. It could be that these people are wanting to sell and are happy to sell for what they paid for but not less. It could be that that is what they want and will wait until the market moves up to this level. Either way, there is a big jump in the prices.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-110062437>

This is at 20 Turner Close, Whitfield. This is a lovely part of the city with nice established houses, close to Edge Hill and the City. The potential rent is good and I would think that you should be getting \$250 per week. There doesn't seem to be a lot you could value add to the property, but that could be different when I inspect it. The asking price is around \$400K. The back duplex has a nice patio area and this will help get you more rent. I don't believe you would get more than \$260 per week in the current market.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-108599816>

This one is on Jensen Street, Whitfield as well. This apparently has the ability to add a second dwelling on to the rear. The price for this one is \$395K. It is in a nice spot and close to everything.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-109700561>

This one is on Brooks Street, Whitfield. This street is slightly busier - again not to Sydney standards. It is a nice wide block, but the asking price is the low \$400K. As an investor, it is difficult to justify the extra \$70K over Coral Close or \$90K over Arizona when the rental return will be close to the same. Yes, it is in a nicer suburb, and yes it is probably much nicer inside but as an investor do the numbers stack up? More importantly will I get the same level of capital growth over the long term when I am buying one of the upper priced duplexes?

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-110788043>

It looks like all the duplexes in Whitfield must be for sale as this is yet another one. This is on Deshon Street, Whitfield for \$439K. It does have one that is three bedrooms and one that is two. The areas of Whitfield and Edge Hill are two of the nicer inner city suburbs and they do attract nicer tenants and slightly higher rents.

There are some things that you need to take into consideration if you are looking to buy a duplex. There is no body corporate so you will need to do the maintenance and upgrading yourself. It is easy not to do this, and before you know it have the place looking run down. You should try to put some money aside and slowly do things like the gardens. You will also need to budget to get the termite inspections done - vital in this part of the world.

Well that wraps up the Special Edition. Now to finish off with a tenant story...

It is hard to go past Ron at Sheridan Street. He has one glass eye and one lazy eye, so the poor love doesn't see very well. Combined that with the fact he doesn't move about much anymore the place is starting to get a bit dirty.

Some years ago during one of our hospital visits with him, I managed to get him home help to come out once a fortnight to do a simple clean for him. Simple is the word. Not like our fantastic cleaning lady Ms L.

Seeing as we are there five days a week, I get to see it up close and I will admit I have a fear now of being old and not being able to see the house dirty - I mean literally can't see it.

For a while now we have had a second cleaning person go in on the off week to do a proper clean up for him (of course we get to pay for that ourselves).

The last lady left so we had to find someone new to take over. We found a lady by the name of Dijon as in the mustard. I explained to Dijon that Ron is a miserable old bugger but good at the heart of him. She came over on Monday to do the cleaning. Ron introduced Sheila his dog to her saying "Sheila this is Tasha" of course Dijon just looked at him in wonder and he turned to her and said "I can't remember your real name so I am going to call you Tasha!" Love it!

It is hard to explain the different relationship we have with our tenants. We aren't their friends, but they know that we are there if they need us. They also appreciate that when something needs to be done it gets done - straight away not weeks later. They also appreciate of having a good place to live - it is their home and we treat it that way not just a rental property. We are always around and it isn't often that we have to schedule to do a formal inspection because we haven't been there for some time. If they call to say a tap is leaking, one of us is over there and whilst we are there we have a discreet look around to make sure it is clean and being looked after.

We have a block at Joan Street we look after for a client. There is a guy in one of the units that works away at sea and his girlfriend lives there. He has just sent a message to say he will be home this weekend and if I want to come over as they want to show off the unit. I know it is going to be cleaner than our house, and I will go just to have a cup of tea and catch up. It is hard to go past good tenants like these.

Hope all is well in your world.

Linda