

Special Edition

16th August 2012

Dear Owners and Investors,

I have set aside all day to write this Special Edition. I will look at what properties are available for sale, the positives of each and the negatives of each. Before I start I want to remind you all how the Buyers Agent Service works. If you see a property that you are interested in, please let us know. If you go directly to the agent initially, they are under no obligation to conjunct with us, and this means we get paid! More than this, we can tell you about the property, do research on what is in the area, what needs to be done maintenance wise, and what the true potential rent is.

For many years I have been saying this "What a property is worth, is not what it is selling for." We have two townhouses in Bentley Park that we are wanting to sell. To us they are worth around the \$200K mark. They will not sell for this, they may get \$120K if we are lucky. Sure there is one for sale in the complex for \$165K at the moment but will it sell for this price - probably not. In this period of time, what a property is worth is not what it will sell for - it is much less. If you look at it on a logical level, the cost of rebuilding this unit is actually more than the cost we can sell it for, so someone is essentially getting the land for free. This isn't just the case for body corporate, if you look hard enough it is across the entire property range.

It is interesting that in a fast rising market, this saying is equally as true. Many properties are actually worth less but due to the high demand and emotions they sell for more than they are worth. Let's hope that these times aren't too far away.

We are all aware of the issues that are facing body corporate at the moment. Until the insurance issue is resolved and these come back down to a more reasonable level, the investors will stay away. Does this mean that you should not invest in a body corporate? This is a tough one for me to answer, as it will vary depending on each person and their personal circumstances. Would Ramon and I buy a unit in a body corporate now - probably not. We have the equity to be able to buy something more expensive like a duplex pair, and in the current market that is better for us. For some one that can only afford to buy a cheaper property - a unit is a good option. Buying a property is better than not buying one - but you still have to do all your research and understand you are buying it for the long term. By this I mean 10 - 15 years. If you are looking at investing for less than this period of time then investing in property may not be the right choice for you.

Many investors don't fully grasp what a body corporate involves, and what their levies pay for. I have gone through this before, but I will do it again as it is important. It is not like you just send a cheque in and it goes into a black hole with nothing coming back. There are two components to your body corporate levies - Administration Fund and Sinking Fund.

The Administration Fund will budget to have the gardener come once a fortnight to mow and do the gardens, the pool man comes once a week to service the pool, the electricity for the lights in the common areas and pool pump, the insurance for the building, there is money set aside for things that will happen - repairs and maintenance for plumbing, electrical and general maintenance. The Administration Fund also pays the body corporate managers a fee to run all the meetings, and send out the levy notices as well as collecting the money and paying the invoices.

The Sinking Fund is a vital part of any body corporate. Each year, owners put aside some money for future works that will need to be done. This includes repainting the building, new gutters and roof - essentially anything that needs to be done to the building to keep it well maintained. I will use Tropic Gardens for this explanation.

When we bought into the complex there was a bit of money, and over the years we have collected more and spent this on improving the complex. We have had it repainted externally, the gardens upgraded and mulched each year, a new front fence, new internal fencing between each courtyard, the driveway has new bitumen, new pool sail and now we are about to have a lot of trees lopped from the courtyards. The next job we have planned is replacing the boundary fences we share with the neighbours. Each year a slow and steady stream of money has been coming in from all the owners, and this has been spent improving the complex. We still have a healthy sinking fund in place just in case something unexpected goes wrong.

Whenever you look at a body corporate, it is important to ensure there is a healthy sinking fund, or that all the work has been completed. To buy into a rundown property with no money in the sinking fund will mean that very soon you could be faced with a big special levy that you have to pay.

There are so many properties for sale in the body corporate environment, with so many of them being "cheap". When buying into a body corporate it is not just the cheap price tag you have to look at - as this doesn't always make for a good investment. Today I will just highlight a couple of properties that I would look to buy if we had a limited budget. For all the properties I will highlight, I will assume you are borrowing the full asking price, but pay for any settlement costs. I will also assume that it is being rented, but no maintenance has been allowed for on the body corporate ones.

I have not made any allowances for building depreciation or tax benefits if the property is negatively geared.

<http://www.realestate.com.au/property-unit-qld-bungalow-111105479>

This one I have included but I am not sure. Believe it or not we used to own one in this complex many years ago. It is a one bedroom unit at 5 Nelson Street, Bungalow. The asking price is \$85,000 which is fantastic. It is a true one bedroom unit but still under 50 square metres in size so therefore you would need to check on your banks lending. It is only 1.5 km to the city so it will be easy to rent out. From the pictures it looks like not much has been done to it for at least ten years. It looks like it needs to be repainted, and the air conditioner moved into the wall and out of the window. If it was repainted, new curtains and furnished it should rent for \$170 per week as a minimum. If it is nicely presented and the market is good then we could potentially get more. The location is great. It is within walking distance to the city, and Bungalow itself has a lot of small businesses so people are looking to live close to work.

There is no pool in the complex, which helps to keep the levies down.

Purchase Price: \$85,000

Interest @ 6.5% \$5525

Body Corporate Fees \$3000

Council Rates \$2200

Management Fees \$1166

Less Rent @ \$170pw \$8840

Total Outgoings \$3051

Cost per week \$58.70

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

This is a one bedroom unit at 71 Alfred Street, Manunda for \$69,500. This is a complex that we have looked at many times, but never bought in - there has always been something better on offer. This is one of the cheapest units that we would look to invest in. I would put this into the category of buy, hold until the market improves and sell using the capital gain to pay off any other investments. This isn't a keeper. It currently is being rented out for \$170 per week, which is good rent. The size of the unit isn't much bigger than a bedsit, but they have managed to configure it so it is a one bedroom.

Purchase Price: \$69,500
Interest @ 6.5% \$4518
Body Corporate Fees \$3000
Council Rates \$2200
Management Fees \$1166
Less Rent @ \$170pw \$8840
Total Outgoings \$2044
Cost per week \$39.30 per week

<http://www.realestate.com.au/property-unit-qld-manunda-110981883>

This is a bedsit that is available at City Park. There is another that is available at Scotsdale and both are listed at \$89,000. The internal of these units are open plan, so there is no defined bedroom area. The size is 40 square metres and this may cause an issue for some lenders. Both are at complexes we are involved with, so we know the body corporate is healthy and low compared to other options available. The rents were \$150 per week, but we have just rented one for \$160 per week. The demand for rentals has increased to such a level that the next one we will list at \$165 per week and see what happens.

Purchase Price: \$89,000
Interest @ 6.5% \$5785
Body Corporate Fees \$1300
Council Rates \$2200
Management Fees \$1100
Less Rent @ \$160pw \$8320
Total Outgoings \$2065
Cost per week \$39.70 per week

For this Special Edition I am not going to go into details on available two bedroom properties. The ones in the body corporate are now hovering somewhere between \$130 - \$165K for a nice unit. The core issue is that the body corporate are much higher in general for a two bedroom. The rents are starting to increase, and they are now around the \$220 per week mark.

Instead I am going to concentrate on duplexes.

The legislation says that you have to have insurance for the building, which is then shared equally between the two owners. On average the insurance for a duplex pair is between \$2000 - \$2200. Because it is two single owners, each will normally pay for the repairs and maintenance of their side so no real body corporate fees are payable. There are no duplex pairs that are being built that I know of, so for this reason they are going to increase in value.

The rents are slightly higher than a comparable two bedroom unit, mainly because they have a yard and this yard can have pets!!

The rents for duplexes have increased in the past twelve months, and depending on the location, the condition and the ability to have a pet the rent will vary between \$220 - \$260 per week.

A duplex half is priced higher than half of a pair - if that makes sense. You are paying a premium for someone already doing the strata titling of the property and then selling just half to you. I will do the numbers and allow for \$1100 for insurance and then \$1000 for repairs and maintenance. This will then make comparing them to a unit fairer.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-111204455>

This one is on Brooks Street, Whitfield. The owners originally tried to sell it as a duplex pair but have decided to try and sell it as two halves instead. The asking price is \$199,000. The location is fairly good, and although Brooks Street is a main road of sorts, it isn't busy. I would look to fence off the front area and make this a more useable area. The back yard looks like a good size. Internally is nice but not a lot of renovations have been completed as the bathroom and kitchen appear to be original. It is tiled throughout, but it looks like they have used three different sorts of tiles.

Purchase Price: \$199,000
Interest @ 6.5% \$12935
Insurance and Maintenance \$2100
Council Rates \$2200
Management Fees \$1716
Less Rent @ \$250pw \$13000
Total Outgoings \$5951
Cost per week \$114.44 per week

<http://www.realestate.com.au/property-duplex+semi+detached-qld-yorkeys+knob-107196583>

This one is at 34 Morgan Street, Yorkey's Knob. It is \$199,000 so the figures would be the same as the one above. We saw this back in February and the inside is nice, but I didn't like the outside at all. I think it is important to have an outside area to sit and use, and this one doesn't. It's nicely finished inside, but not one that I would look at.

<http://www.realestate.com.au/property-house-qld-holloways+beach-111223827>

This one is at Holloways Beach, which is actually a popular suburb. It is close to the airport and city, but still has that beach side community feel about it. This duplex has a fantastic outside area that is very usable. The inside looks like it is well presented, and nothing really needs to be done. It is rented at \$265 per week which is a good rental return. The catch is the price - \$240,000. When you consider for an extra \$20 -30K you can get a house in White Rock, you need to be sure. If it is an owner occupier, different story but the numbers and potential long term gain could be better on a house.

Purchase Price: \$240,000
Interest @ 6.5% \$15600
Insurance and Maintenance \$2100
Council Rates \$2200
Management Fees \$1818
Less Rent @ \$265pw \$13780
Total Outgoings \$7938
Cost per week \$152.65 per week

<http://www.realestate.com.au/property-house-qld-woree-110497565>

This is a three bedroom duplex at 22 Windarra Street, Woree. The asking price is offers over \$200,000. It is actually a three bedroom unit, although it is difficult to tell how big all the rooms are. It is nicely presented, and has a lovely yard from the photos. The area of Woree still has some stigma attached to it, and I don't know Windarra Street enough to say if it is a good street or not. It certainly looks very well presented and you wouldn't have to do much to it.

The rent would be higher as it is fully fenced and is three bedrooms. I would say it would be \$260 - 270 per week without seeing it.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-107558367>

This one is another three bedroom duplex. It is located on Holden Street, Whitfield. It has been for sale for a very long time. I haven't seen inside but I have been told it is pretty much original - the kitchens are in very poor condition and need to be replaced. To be honest from the photos you would need to repaint, new floor coverings and then the kitchen and bathrooms to bring it up to standard. You can tell this is a rental, where as the property above for the same asking price of \$200,000 is an owner occupied property. The location of Whitfield is probably a better area, but you would need to spend money on this property. On the upside you are getting a three bedroom duplex for the same price as a two bedroom.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-bentley+park-110883187>

This one is interesting. Unlike a traditional style of duplex, this is actually two small houses on the same block that are stand alone. If I were going to live in a duplex, I would aim for this style as it means no common walls. It is located at 23 Herald Street, Bentley Park with an asking price of \$208,000. It is currently rented for \$240 per week. The rents as you go further out tend to be just slightly less than in the city and Northern Beaches. This will change as the city expands southwards. This would have been built after 1987 so there would be more building depreciation allowance than some of the others. Much of it is original, and it is of a basic finish - tenant proof. There looks to be the potential to enclose the garage and room to add on a carport to the front - which is great for long term value adding.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-westcourt-110476741>

This one is at 10 Elmire Street, Westcourt for \$225,000. This is typical of many that are around this range. They are older, not a lot done to them, close to the city - but would I buy them? Probably not at this price. If they were under \$200K then I would think about it, but they don't grab me. You will need vision goggles to see what is possible, but to make this happen it will need money.

<http://www.realestate.com.au/property-other-qld-gordonvale-108096576>

This one is a newly built three bedroom duplex half. I would say there are two small houses on the one block and they have separate titles rather than the traditional duplex building. It is located in Gordonvale and the asking price is \$285,000. It is a beautifully built property, but it is in Gordonvale, and if it is to be a straight investment I would be looking closer into the city. You should be able to get a house for that in White Rock or even Manunda if you look hard enough. Granted it will be older and need more work where as this needs nothing. The rental return for Gordonvale is also lower than what you would expect close to the city.

Now I will move onto duplex pairs. If you have the ability to buy this over a unit or a duplex, I think they are a great option. You have two incomes coming in, you can look to value add to improve the capital value, if you want to sell half you can and still keep the other half - and best of all they are cheaper to buy as a pair than a half!!

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

This one is in Gordonvale and looks to be built in the mid 1990's so there will be building depreciation on it. The price of \$320K is very competitive. The photos aren't great but given the age it would be in fair condition I would say. The rents would be lower than what you could expect closer to the city. It is the end of the line for Cairns, so many people still think it is too far out. I would guess the rents would be closer to \$220 per side, where as closer to the city they are \$250 per side.

Purchase Price: \$320,000

Interest @ 6.5% \$20800

Insurance and Maintenance \$4200

Council Rates \$4200
Management Fees \$3020
Less Rent @ \$220 per side \$22880
Total Outgoings \$9340
Cost per week \$179.60 per week
This is for both sides, so it is actually costing you \$89.80 per unit to hold.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-woree-110981631>

This is one we have for sale, and I cannot believe it is still available. It is located at 7 Coral Close, Woree. The asking price is \$329K for the pair. It will need to have someone with vision goggles on three fronts. You need to be able to see past the interior that needs to be renovated. You need to be able to see the value adding potential this has - by enclosing the carport you could make this a third bedroom with a second bathroom very easily. There is plenty of room to add a new garage at the front or to the side of the property. The biggest one is seeing the potential the land has. There is a huge high voltage tower in the back, and we have been told that somewhere down the track it may come down. If it does and the easement to the rear of the property is removed then you have a huge parcel of land that you could easily put another dwelling on at the rear. The tower may be a visual issue, but it doesn't seem to be a problem for the tenants. They are currently paying \$250 per side and this looks like going up soon to \$260 per week.

It is older than the first property so there is less building depreciation. The upside is it is closer to the city and the rents are higher.

Purchase Price: \$329,000
Interest @ 6.5% \$21385
Insurance and Maintenance \$4200
Council Rates \$4200
Management Fees \$3432
Less Rent @ \$250 per side \$26000
Total Outgoings \$7217
Cost per week \$138.78 per week
This is for both sides, so it is actually costing you \$69.40 per unit to hold.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-gordonvale-111153435>

This is another one in Gordonvale at 5 Jacob Close. It is for sale at \$349,000. It is two stand alone houses, so no common walls. The rents are very low at the moment at \$190 and \$210. I would say these could come up slightly, but I wouldn't think any more than \$220 per week. I am not sure this is the best option for a few reasons. The price is higher than the first two options, the rents are low and will be lower than the city for some time, and it is fairly basic.

<http://www.realestate.com.au/property-house-qld-westcourt-109272986>

This one is for sale in Creedy Street, Westcourt. The asking price is \$360,000. I haven't been inside this one but have look around the outside. With the carports in the middle, it makes value adding much more difficult. It is an older property and there wouldn't be building depreciation as it would be before 1987. I am not a fan of this one.

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

I have a really good memory, and I would swear that this price has actually gone up. It is in Woree and it is now \$360K, I am sure it was \$350K before. I like the location, but the rents are low at \$220 per week. It is also older so the building depreciation isn't there. Compared to Coral Close, it is \$30,000 more with the rents much lower.

<http://www.realestate.com.au/property-duplex+semi+detached-gld-woree-105875169>

This one is at Varese Street, Woree and the asking price is \$380,000. I have just two words - Sorry no.

<http://www.realestate.com.au/property-house-gld-manunda-111189071>

This one is at 120 McCormack Street, Manunda and the asking price is high \$300's. It has three bedrooms in each duplex, and not your traditional duplex. I love the fact it has polished timber boards. For this one, I will use a different formula. I will assume that an owner occupier is going to buy it, and rent out the other side. It is currently rented for \$260 per week, and although I believe you could achieve higher than this, I will use this as the rental figure. I don't know what the owners will take, so I will do it on \$380,000 for this exercise. I will also do it on interest only, rather than Principal and Interest. This way I keep the comparisons to the other properties in perspective.

Purchase Price: \$380,000
Interest @ 6.5% \$24700
Insurance and Maintenance \$4200
Council Rates \$4200
Management Fees \$1785
Less Rent @ \$260 per side \$13520
Total Outgoings \$21365
Cost per week \$410.00 per week

Now if it was an owner occupier, there would be ways to reduce down this repayment. I have made an allowance of \$2000 for maintenance and if you lived there you could do this. I have also made an allowance of \$1785 for management fees. If you self managed then you could reduce this down. If we take of \$3785 off the figure above, this brings it down to \$17,580 per annum or \$388 per week. For this, you get not just a place to live in, but you also have an investment property that is paying you rent, giving you tax deductions and increasing in value.

This particular property if you could get it at \$380,000 works out to be \$190,000 per side.

Some will think, wow this is alot of money to fork out each week, but lets look at some one buying just a half duplex. Although there are a couple in the \$200K range, to be honest to have one that I would want to live in, I would have to increase the budget to \$240K. I will use the figures for the Holloways Beach half duplex above. I will assume interest only and take out the maintenance. There is no management fee as you are living there and there is no rental income.

Purchase Price: \$240,000
Interest @ 6.5% \$15600
Insurance and Maintenance \$1100
Council Rates \$2200
Management Fees \$0
Less Rent @ \$0pw \$0
Total Outgoings \$18900
Cost per week \$363.50 per week

When I look at these two options - \$388 per week for a full duplex with rental income, ability to sell off half later on or \$363.50 for the place I live in which is essentially the same as what I would have with Option One - not hard to decide which is better. Of course you have to have the equity to be able to borrow the money from the bank, and have the courage to take the step - but I think it is a far better option long term.

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

This duplex pair is on Brooks Street, Whitfield. It is listed at \$399,000 and is actually the one that I highlighted at the top that they are trying to sell the half. It is a good location, and has potential. It is a good price, but I think for me there are better option on the market right now. As these sell off, this one will become more attractive.

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

This one is on Deshon Street, Whitfield. It is listed at \$415,000. The rental return is good at \$530 per week. It is in a great area, we drive past it all the time as we go to Keith Street where our town houses are. It is a good size of land, and there is a three bedroom as well as a two bedroom. It is a great property but the price is probably on the high side for this market if you are just looking at it as a straight investment. It is difficult to say this property is 25% better value and has better long term capital gain than say Coral Close at \$329K. The rental return is the same, and the city is expanding southwards.

<http://www.realestate.com.au/property-house-qld-parramatta+park-110736117>

This one is a queenslander that has been converted into two flats essentially. You can call it a duplex but it isn't in the traditional sense. The price is \$415,000 which given it is in Parramatta Park which is inner city, it is a fair price. It would depend on the investor that would be looking at this. If you were to keep the lot, then it could be a good property. The beauty of duplex pairs is that you can strata title them off and sell half, keeping the other half. Given this is a timber home I don't know if it would be possible to do this.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-yorkeys+knob-109320536>

This one is on Varley Street, Yorkeys Knob and is listed at \$425K. We are now well over the \$400K mark, and at this point in the market I am not sure it is great value. I have included this and the next few to show you that the market is moving in the duplex pairs. Before we could find you plenty of good options for under \$350K. These options are few and far between now. Even since last time that I wrote, the options between \$350 - 400 are limited.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-manoora-110823291>

This one is at Conlan Street, Manoora for \$439K. It is a really nicely presented duplex. There is one bathroom that needs to be renovated but the other is done. The kitchens look like they have been updated, and it is tiled and painted nicely in both sides. It is a lovely property, but the price is on the high side for the market as it stands right now.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-trinity+beach-110655213>

This is at Simbai Close, Trinity Beach with offers over \$450,000. I don't like this one at all.

<http://www.realestate.com.au/property-house-qld-edmonton-111258863>

I have included this as I think it has potential. It is located on Cooktown Road, Edmonton with a list price of \$475,000. This isn't a duplex in any way. It really is two three bedroom homes on the same block. They have double lock up garages even. When you look at it you get a three bedroom home for \$237,500 which is new and nicely finished. If you were buying to live in - this would be a great option.

As you can see, although the prices for units aren't going anywhere, the duplex market is. As the rents continue to go up, these will become more attractive to investors and owner occupiers alike. If there is something you are interested in please let me know.

Well that wraps up the Special Edition. It has taken me all day to write this, in between my training for the phone Olympics. I can't believe how much I talk on the phone every single day.

I am off to court on Thursday for Ms P. We have a hearing for her, and that is going to be a part of the next Note to Self - Must Get a Life.

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

Linda