

Specail Edition

14<sup>th</sup> April 2013

Dear Owners and Investors,

Before I start, there are many of you on this list now. If you would like to be removed at any time please just send me an email and I will remove you. Remember if you are interested in any of these properties for me to act as your Buyer Agent I have to contact the selling agent on your behalf. If you contact them directly then essentially they don't need to deal with me, and I don't get paid. There is no cost to you as the fee is paid via the sellers commission to the selling agent - you get my expertise for free.

Today is all about duplex pairs. Each investor has a different strategy, much of this will depend upon the equity they have to invest, the plan they have for the property and where they are in their retirement strategy. Many of you ask why Ramon and I don't buy these properties that I suggest - the simple truth is that we are at the end of our retirement strategy and are now waiting for the market to increase so we can sell off and reduce the debt to the bank - and then it is cocktails on deck chairs on a cruise ship for us. There is a saying "Bite off more than you can chew, then chew like hell" and that is what we did. We never planned to have this amount of property - or debt, it just happened along the way.

If we were to look at investing in the market and did have the equity and cash flow to be able to buy and hold a property, then duplex pairs really are the way we would go at this point of the market. When we first started to look at duplex pairs nearly 18 months ago, you had a huge range to choose from under \$350,000. Many are saying that the market isn't moving, and this to a degree is true, but in some sectors it is and duplex pairs is one of those sectors.

The question is why? There have been almost no new duplexes built in Cairns to my knowledge after 1990 with most either being built in the 1970's or mid 1980's. The parcels of land being released were either for houses, or for complexes. Houses on large blocks have been demolished to create a large block to redevelop into units, but not duplex pairs. This means there are very few of them really in the big scheme of things. The properties below are being sold on one title, as yet they have not been strata titled and put on to two different titles.

I don't know the exact things that need to be done to strata title off a pair, but it will include getting a surveyor, having a fire wall between the two and it may even involve getting individual water meters. All of this is possible as there are many duplexes that have had it done - and from a Council point of view it is extra income as two single rates is more than the rates for a pair on one title.

If you look at the duplexes that have been strata titled off, there are about 30 halves for sale. The cheapest is \$185,000 up to \$300,000 for the new builds which aren't anything like the duplex pairs below. The average duplex half is now around the \$250,000. These people are paying a premium for having the work already done to strata title them off.

Our thinking would be that as the sales market increases, we will see the bottom end houses go back to close to where they were. Pre GFC you could not find a house, in any area, in any condition for under \$300,000. As the market moves back to this level, people will start to look at other cheaper options. If you can strata title the duplex pair, and sell each side for \$250K at a minimum then there is the potential for good capital gains.

We would be trying to make improvements to the property with not a tenant in mind but an owner occupier. We would spend the money on fencing to make it private, gardens that are simple but manageable, creating outdoor areas and ensuring that parking is secure. Just before we were to look to strata title, we would redo the bathroom and kitchens so visually someone walks in and can see nothing to be done. There will be people looking to down size from their current home, but don't want to go to a unit environment. There will be people that can't afford to buy a house but still want a yard. These are the people we would be looking at as our target market.

The only thing that I need to stress to people that are doing their numbers on this style of investment, you need to make allowances to maintain and improve the property each and every year. We live in the wet tropics and things need to be pressure cleaned to remove the mould. The gardens need to be cut back and mulched, the external and internal maintenance needs to be done or before you know it you have a rundown property. I know many complain about body corporate levies, but in some ways they are great as all of this is budgeted and done for you.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-woree-112888667>

This is the cheapest duplex pair that I can find. Located on Sandown Close, it is a pretty ordinary looking duplex, on a really big block of 1093 square metres. These would have been built in the early 1970's by the internal look and feel of the place. I will guess that the second bedroom doesn't have a built in robe, where as the main room has had one put in. It is located in Woree, which will be one of the next boom suburbs of Cairns. It really is inner city as it is about 10 minutes driving at peak hour to get into the city.

The issue is that this street and some of the other select streets in Woree have had "lower socio economic tenants" in them for a very long time. This will change as new owners take over and improve their properties. It will also change as the rents go up and these tenants move further out of the city or to cheaper accommodation. At \$299,000 it is a great long term buy but you would need to acknowledge for the first few years you won't be able to achieve as high a rents as you may with another property. This one also needs some work on it from what I could see. The potential for this one, it that it is sold to a developer and knocked down to rebuild more units. I don't believe it will happen this property cycle, but it may in the next.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-manunda-112060587>

This duplex pair is located at Hunt Street, Manunda and is listed at \$329,500. Wow this one is still for sale!! It was on the original duplex comparison list that I started over 18 months ago. I personally don't like this one for many different reasons. The street is full of Department of Housing - not just one or two but complexes of just Housing. The configuration of the duplex pair on the block makes it impossible to value add. It just doesn't have the right feel about it, so for me this isn't a duplex pair we would look at buying.

<http://www.realestate.com.au/property-house-qld-white+rock-113217647>

This is the duplex pair I have been writing about for 18 months now. It is located at 22 Arizona Street, White Rock and it is listed at \$309,000 for the pair. If this were the same price as some of the others further down this list, then I wouldn't look at this one. The reality is that this is THE CHEAPEST duplex pair that I would look to invest in. It may not be the best, but it is the cheapest. The configuration of the building on the block does make it a little more difficult to value add - but not impossible as the one above on Hunt Street. If Ramon and I were looking at this investment, it would probably fall into our debt reducer category. It is a good buy that should be close to paying for itself and with some work we can increase its value relatively easily.

The issue at the moment is that there is no real defined and fenced area for the front or rear duplex. The front one is fairly easy as you could fence off the front area and make this exclusive for that unit. The back of the building is pretty much up against the back fence. For this reason you can't have much of an outside area there. The back unit has a huge area at the front but this isn't fenced - therefore someone can't have a pet. Believe it or not, you can get a better tenant, paying a better rent if you allow pets - and from my personal point of view a well behaved, spoilt dog can do a lot less damage than a child.

With this one, I would look to put a fence with a sliding or opening gate across it. This way the back tenant can come in, open the gate, park the care and then they have a huge private yard to enjoy.

If Ramon and I were value adding, we would do it with an owner occupier in mind. We we enclose the current carport and make this a third bedroom, change the laundry to a second bathroom and then move the laundry to somewhere else. This way you have a three bedroom, two bathroom duplex rather than a two bedroom, one bathroom. Both of the duplexes have the ability to do this, plus the land area to put a carport/garage on - parking is just as important so you must have this.

Long term we would look to strata title the property and put them on to separate titles - then sell them off to pay down the debt. To get the best returns on your investment, you may have to wait for the next cycle but it won't be out of the ball park to be able to sell each of them for \$300K at that point.

Right now White Rock and Woree have a bit of a stigma attached to them. Both of these suburbs, as well as the M suburbs will do well in this next cycle in my opinion. They are the lowest priced ones, and when people start to look around they will see they are great value. We also have many things happening to improve them - the Mount Sheridan Shopping Centre extensions are completed and up and running. The Edmonton Town Centre will get going soon, there is still talk about a second hospital in Edmonton and the big one is the high way improvements from Ray Jones Drive to Edmonton.

Much of this work close to the city is well under way and this will help to free up traffic into and out of the city at rush times. Oh it is nothing like capital city traffic, but for us North Queenslanders who aren't used to it, it adds to our travelling time.

<http://www.realestate.com.au/property-house-qld-woree-113300419>

This pair is at 43 Sondrio Street, Woree at offers over \$300,000. It is a slightly better street than Sandown Close - but the area still has a larger percentage of "lower socio economic" tenants. You can't brush the whole suburb with this and it is getting better all the time. When I look at this duplex I can see it has nice street appeal, big back yard that is fence but the negative is the carports are on each end. This will make it much more difficult to enclose the carport and make it a third bedroom. You could make it another lounge, but this won't add as much to the value as a third bedroom. The other issue is that there is a common wall between the neighbours and alot of tenants don't like this.

The price is very good, and although it is an older property it looks like it is in good order internally. The thing about the older properties is they generally don't have built in robes in place. Sometimes the second bedroom can be small, so you need find on that works but doesn't over power the room.

Although this property is in the same price bracket as the one above, I would personally take the Arizona Street one as it has the carports in the middle and it has better long term value adding options.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-white+rock-111809023>

This property jumps into the next price bracket at \$350,000. It is located at Coolabah Street, White Rock. It is pretty much what you would expect of a property built in the 1970's that hasn't had much done to it internally or externally. From the photos it looks like it has the carports in the middle, so enclosing this could be an option.

From an investors point of view solely, I find it difficult to justify buying this one that needs to have work done at a price of \$350,000 when you can buy Arizona Street for \$310,000 and then have \$40,000 to spend upgrading it internally and the end result would be a much better unit. Once the cheap properties go, then this could be one to look at, but as a straight investment in this market as it is now it isn't the best option in my books.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-edmonton-113316647>

They don't give the address to this property, but it is in Edmonton with an asking price of \$360,000. If you could get this or the one above for the same price, we would probably go with this duplex from the pictures I have seen. Edmonton at the moment is considered the outer edge of Cairns Southern suburbs, but this will change in the next ten years as the city expands and the Edmonton Town Centre begins. If we then get the Hospital then there will be no reason for people to go to the City.

This property looks like a new build than the one at Coolabah Street, and although it does need to be upgraded internally it still presents fairly well. The rental return on this currently is \$460 per week. As the market picks up, it is possible to get this up to \$250 per side.

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

This one has been for sale for at least 18 months, and with an asking price of \$360,000 I would take the Edmonton one over this property. It is much closer to the city in Woree, however the carports are on the end making it much more difficult to enclose at a later stage. You need to remember that even if you don't actually end up doing this, you have the ability to sell this as a feature to the next buyer - and this will add something to your property over the competition.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-westcourt-106771271>

I have included this in the mix not to show it as a great property, but to show just how far the duplex pair market has come in 18 months. This is on Hannam Street, Westcourt at a list price of \$365,000. There are only two pictures but if the inside is anything like the external presentation - there will be a lot of work to be done. It is in a great location close to the city, but this would not be my first option.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-manunda-113436255>

This is located at 74 Birch Street, Manunda at a list price of \$369,000. The block is the key to this one rather than the duplex itself. The block is 1244 square metres in size. It makes me wonder why they have squashed the building up against the drive way. As there is just one really bad photo on the listing, it is difficult to tell much about the property. We do know Birch Street well, and this is a really popular area for tenants and is going to get even more popular as the rental market continues to tighten.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-woree-112919551>

This one doesn't have the street address but it is in Woree at a list price of \$389,000. The advert says it has been reduced by \$20,000. This looks to be brick externally with fibro sheeting on the inside. It looks very solid and they have already done many of the things that I would do. A big front fence to keep it private and secure, roller doors and another carport to the side. The tenants have been there for some time - 8 & 10 years respectively. What it doesn't say is the rental return! A good complex with potential, but at this point in the market we would look at the cheaper options first.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-trinity+beach-113189531>

This now jumps into the next price bracket again with offers in the \$400,000. It is a duplex pair in Trinity Beach. It looks to be a fairly new build, probably in the 1990's but it doesn't look like much maintenance has been done externally. I can't figure out why the fascias have been painted different colours - maybe they were going to start painting and were testing the colours then stopped altogether. This is a rental property and it looks like a rental property. The building is in an L shape and I would guess the two garages are in the middle side by side. Not sure why, but not warming to this one at all. In this price range there are much better options.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-whitfield-113009851>

This duplex pair is located at Brooks Street, Whitfield. It is listed at offers in the low \$400,000. This is a good sized, well laid out duplex pair. It is solid and has many great features already - lock up garage, split system air conditioning but internally some of the things still need to be upgraded internally - bathroom and kitchen. The living area appears to be fairly narrow, but fine for a duplex. It appears that value adding by enclosing the garages to make a third room is possible. It is at the Jensen Street end of Brooks Street.

Currently there is a lot of Department of Housing on Jensen Street, but there are no real issues there. Long term I imagine these will be sold off but at this stage there is no problem that I know of. Being close to the city, these will be in demand as rentals. They are currently getting \$250 per side, and as the market increases you may be able to creep this up slightly.

<http://www.realestate.com.au/property-duplex+semi+detached-qld-westcourt-112415595>

This property is a three bedroom duplex pair on Tills Street, Westcourt. The asking price is \$445,000 which I think is a bit high - but then again it does have three bedrooms. This does equate to a higher rental return and these are rented for \$280 per side. It looks like one of the kitchens has been renovated but I can't see the other side. At the moment the fences are just low wire fences, and to get good tenants and pets you would need to put in a 1.8 metre high fence. This will not only give privacy but extra security to the property. The carports are on each side, rather than in the middle so enclosing this will be more difficult. The location is great as it is pretty much within the 5 kilometre range of the city.

<http://www.realestate.com.au/property-other-qld-edge+hill-113505839>

We are now starting to creep up to the next price bracket with this one listed at offers in the \$400's. This one is located on Greenslopes Street, Edge Hill and I personally am not a fan of this area. The buildings have no depreciation, they were built in the 1970's and things are starting to need to be done to them both internally and externally. This one seems to have been renovated with a new kitchen and bathrooms. It does also have two parking bays for each side.

I don't like that it has the carports to the side and a common wall - not sure how much more difficult it would be to strata title this style.

Although it is a popular suburb for rentals, located close to the Botanical Gardens and the Edge Hill Village, as an investor I struggle to see value in this property or any in this price bracket when you compare them to the ones available for under \$350,000. If you were to buy this at \$450,000 and the Arizona one at \$309,000 - there is a big difference in the cost but really not alot of difference in the rental return. As a straight numbers scenario, I would put the extra money into a deposit and buy another pair rather than a higher priced duplex pair.

<http://www.realestate.com.au/property-unitblock-qld-mooroobool-113260167>

I have written about this before, it is a triplex block located in Ingham Court, Manunda. The asking price is \$530,000 which makes it \$176K per duplex. This is still higher than what you can buy a comparable two bedroom unit in this market, but long term this could be a good property.

I think if you could get it for around the mid to high \$400 mark, this would be a great buy. Next time I will write about houses as you can still pick up a reasonable house for under \$250,000. If you have seen any property you would like my opinion on, just send me the link and I will look at it for you and do some home work.

Now for the tenant story part of the email. As you know we have a great spy network but some days it even surprises me just how good it is. The other morning I get a call from Troy the gardener to say that it looks like one of the tenants has done a runner. With a bit more digging around it turns out that another one of the tenants has driven him to the air port and he is on a plane to Sydney and not coming back. He has given away some stuff but left a WHOLE LOT MORE behind. We don't manage this one but I do know the owner so a call is made and I ask him to check if his direct payment has been cancelled - sure enough it has. So in a nutshell before he has even flown to Sydney we knew he had left - why they just don't tell you is beyond me.

As you all know we are in the middle of upgrading the units. These small improvements make it easier to get and keep tenants. A few weeks ago one of our owners upgraded a sofa in the unit. It is on the third level of a newer building. It was a three seater lounge so you can imagine it isn't a small thing to be dragging up the stairs to the top. When they got there, some really smart architect had designed it so the ceiling in the entry was flush with the top of the door - probably to conceal the ducted air conditioning.

Great in theory until you have to bring in big items. The boys tried everything - up, down, sideways, turn with a twist but there was absolutely no way this sofa was going to go through the door and into the unit. Fortunately I have the best handy man in the whole world and with sum clever thinking they took it up the side of the building and onto the balcony. Bet the Amart delivery boys wouldn't have done that! Happy tenant - happy owner!

To finish up I am going to have a gloat and a whinge all at the same time. The rental market is super tight, costs are going up all the time and yet some property managers are continuing to not increase the rents or push the boundaries. We had a five bedroom house come up for rent in Edge Hill, so we looked around and decided to start at \$695 per week and then work our way down. Just a few days after we listed this for rent another agent put a 5 bedroom home in the same area, and in a great street for \$500 per week.

Obviously they were swamped with applications and it is now taken. We had a few lemons call to arrange inspections, I particularly liked the Single Mother with triplet two year olds who would be sharing with another Single Father and his two children. Can you imagine what chaos would be caused with four x two years olds?

We found and accepted three Pilots and they have moved in at \$650 per week. It was all done and sealed in 8 days which I thought was pretty impressive.

I know that some people look at our fees and just look at the difference on the surface of what we charge - but they don't look at all the extras that we save, or the lack of vacancies, or the increased rents we achieve.

Today was a classic example, I got a call that the tenant didn't have TV reception. I went through it all on the phone and it was resolved. Most property managers would have received the call and sent out a technician to look at it - guess who would be paying for that?

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

Linda