

Special Edition

9th March 2014

Dear Owners and Investors,

Before I start, there are a lot of you on my list now and my ramblings may not be for everyone. If at any time you wish to be taken off the list, simply just send me an email and your details will be removed. I do try to be different to the normal investment newsletters that are sent out - but remember this is just from my perspective and my opinion. There are others that see things differently.

Cairns is right on the change of times and fortunes - it is still really unclear exactly what will happen over the next few years. I personally believe it will change, but the answer I don't have is just how quickly or to what extent. The big thing of course is Aquis and if this goes ahead this will be a game changer for Cairns. It will not just be restricted to the area immediately surrounding Aquis - Cairns just isn't like that.

We are still a regional city and Cairns to us locals extends down to Gordonvale, up to Palm Cove. It isn't like the area of Smithfield is booming with business, but Bungalow near the City isn't. It is too small for that - the whole town either is working or isn't. Sure if Aquis is built, then the immediate surrounding area will boom, but it won't be like a house there is \$800K and a similar house in the rest of the city will be \$400K.

Without being too dramatic, if Aquis does get the go ahead and work starts this year, we will see a huge movement in the market and very quickly. This could really be the very last chance to get into the property market in Cairns before it takes off. To highlight this, I looked at duplex pairs for sale. Just over two years ago I was lucky to find anything that was listed for over \$400K. Now there is just one duplex pair that is under \$400K. The rest have sold - this shows you that the market is on the move. Cairns may not be for every one - you need to work out if Cairns is the right place for you to invest in.

There have been a lot of good news stories lately. If you want to keep an eye on things here, one of the simplest ways is to follow the Cairns Post online. They have the highlights of the paper up each day. Some of the good news stories include:

<http://www.cairnspost.com.au/news/cairns/sponsorship-deal-between-42-billion-aquis-project-and-fnq-heat-soccer/story-fnjpusyw-1226848568506>

Aquis is sponsoring the FNQ Heat Soccer team, and they aim to get into the A-League and even the Asian competition. This doesn't seem to be a big news item, but to us here as locals it is another way they are making a commitment to our town. Even better if Aquis is built there is a 25,000 seat stadium there to play the games at.

<http://www.cairnspost.com.au/entertainment/pack-grafton-street-in-cairns-cbd-to-welcome-chinese-new-year-of-the-horse-in-2014/story-fnjput3w-1226816389121>

The Chinese New Year has turned into quite a big thing here in Cairns. Each year the number of visitors is increasing and fortunately we are embracing this and making it quite an event. It is reported that 20,000 turned out for the celebrations on Grafton Street this year. This is a big win for Far North Queensland as this is our traditionally quiet time.

<http://www.cairnspost.com.au/news/cairns/beachside-buzz-as-douglas-new-year-lingers/story-fnjpusyw-1226833101607>

The same story is told in Port Douglas where they have been busy with all the Chinese New Year revellers staying on and enjoying the town.

<http://www.cairnspost.com.au/business/hotel-rooms-likely-to-run-out-in-cairns-during-g20/story-fnjpusdv-1226848568948>

We are going to be holding the G20 Finance Summit in September, and this will show case our town to the world. Apart from the media exposure, there will be all the money that will come into the town via the hotels, dinners etc.

<http://www.cairnspost.com.au/lifestyle/property-market-hitting-home-runs-in-carns-and-far-north-queensland/story-fnjufqgv-1226847691308>

The building numbers for new houses has increased, but lets not get too excited. The numbers are fairly small. The number of high density developments is minimal, which on one hand is not good for the building industry, it will be a good thing for those of us with investment properties.

With no building of any significance for almost 7 years now, the vacancy rate is low. As things pick up we will be able to push rents up - it is a simple case of supply and demand.

<http://www.cairnspost.com.au/business/full-steam-ahead-for-bunnings-warehouse-in-portsmith-cairns/story-fnjpusdv-1226840282363>

A year ago we had our Masters Store open. Bunnings bought the block of land on the very next corner and have been approved to build a HUGE new Bunnings. There is talk that they are going to convert the existing site around the corner to their Trade Store. I drove past yesterday and have never been so happy to see an existing property being demolished. It is being built on a 3 hectare site, with the cost to build at \$32 million. It is due to open in mid 2015.

<http://www.cairnspost.com.au/business/pair-joining-anaconda-lancini-groups-25-million-cairns-homemaker-centre-at-portsmith/story-fnjpusdv-1226834220601>

The Lancini Group owns the site where Masters is built. They had plans to build a Home Maker Centre, but as the economic climate wasn't right they did a very smart thing. They built Masters, got it up and running and had the other part of the site fenced off. They are planning the second stage which is \$25 million dollars. It has secured Anaconda the camping store, a national furniture retailer and a pet store - both yet to be named. They are already preparing the site and look to have the project finished and opened in September this year. This will create more jobs both in the building and retail phases.

<http://www.cairnspost.com.au/business/international-groups-eye-off-kewarra-beach-course-at-paradise-palms-in-hs-vision-asset-sell-off/story-fnjpusdv-1226831541591>

HS Vision that runs Paradise Palms at Kewarra Beach, as well as the management rights for Cairns One and the Lakes was placed in receivership recently. There is alot of interest in Paradise Palms - and hopefully the money they will spend to upgrade it.

<http://www.cairnspost.com.au/news/cairns/port-douglas-sheraton-mirage-resort-future-vision-still-being-planned/story-fnkxmkf4-1226809309730>

The Sheraton Mirage at Port Douglas is going to be refurbished with work to start in May. This upgrade is reported to be \$250 million.

<http://www.cairnspost.com.au/lifestyle/singapores-hotel-grand-central-group-buys-novotel-palm-cove-resort/story-fnjufqgv-1226734914487>

Singapore hotel Group Grand Central has bought the Novotel at Palm Cove for a between \$10 - 12 million. This is another sign that the tourism industry is picking up. Although I haven't read a report on upgrades, I imagine this will happen to get the standard of the hotel up higher.

<http://www.cairnspost.com.au/lifestyle/singapore-corporation-buys-vacant-land-in-cairns-cbd-for-more-than-18-million-after-hs-vision-receivership/story-fnjufqgv-1226818278319>

Another Singapore group has bought a vacant block of land at 81 Spence Street in the city for \$18 million. It was part of the HS Vision group and has approval for a shopping centre. This is right in the middle of the city and opposite Cairns Central. This would also have a high rise accommodation component within it. It will be interesting to see what they do with the land.

<https://www.google.com/url?q=http://www.cairnspost.com.au/business/reef-hotel-casino-trust-share-trading-halted-amid-expected-announcement-of-fung-takeover/story-fnjpusdv-1226835976272&sa=U&ei=0uIaU-ujlYXnoATGoIB4&ved=0CAwQFjAD&client=internal-uds-cse&usq=AFQjCNEWTS7C52tI3zNPiD5n0u4qw5TCGA>

The backers of Aquis have put forward a takeover deal for Reef Casino in Cairns worth \$276 million. I imagine if this goes ahead they will look to spend money upgrading and refurbishing the Reef Casino - more money going into our economy.

<http://www.cairnspost.com.au/business/newman-lets-get-aquis-on-the-move-for-cairns/story-fnjpusdv-1226837855467>

The State Government seems to be behind the Aquis project, now all we have to do it is get it approved and work to start on it.

<http://www.cairnspost.com.au/business/foreign-investment-review-board-gives-fungs-green-light-to-yorkeys-knob-land-buy-for-aquis-mega-resort-and-casino/story-fnjpusdv-1226844517155>

This is a big step in the right direction. The Foreign Review Investment Board gives the green light for Aquis to purchase the land at Yorkeys Knob.

<https://www.facebook.com/AquisCasino>

This is the link to the Face Book page for Aquis. Go on and make your own comments if you wish - the powers to be need to know just how much Cairns needs a development like this. It will not only be good for Cairns, it will become an Icon that will bring tourists from around the world, who then will go to see the rest of Australia. I have heard from many that the Chinese want to see Sydney Opera House, Ayres Rock and the Great Barrier Reef. I have also heard from many different sources that on the plane coming to Cairns from any destination the great majority are Chinese tourists.

Today I am going to go through a few of the "cheap investments" that are around at the moment. I will say that finding good quality, budget properties is getting harder. The price brackets have started to creep up - ever so slowly but they are definitely going upwards. When Ramon and I were looking at buying properties, we had a few criteria
Will it pay for itself - or close to it.

Is there any way to value add to increase either the value or the rents - even better if it is both
Is it a keeper or a debt reducer - we need to balance the portfolio.

This is a bit of a weird one, but we ask ourselves "if we were on the bones of our butts and had to live here - could we?" if the answer is no, then how can we expect good tenants to live there.

I will only be highlighting properties that we would seriously look at buying. It is an odd time in the market in the fact that we know it is a rising market, we know where the prices went to at the peak of the market, what they bottomed out at and now have to justify paying the increased price. The way I look at it is - is this the best investment I can buy in the market as it is right now? I know that I could have got it cheaper a year ago, but the reality is that I can't get that price again so this is the new level. I need to accept the new price, and so long as it stacks up and the bank will give us the money, then we look at the big picture and not focus on the fact we could have bought it six months ago for \$10,000 less.

Before I go into this, I will recap how the Buyers Service works. If you see a property that you like, if you could give me a call or email and I can give you more details. I then contact the listing agent on your behalf. If you do purchase the property and the sale goes through, the seller pays the selling agent. They in turn split this commission with us as we introduced you the buyer to them. That is the very simple version - if you contact them directly then they aren't obligated to split the commission and we don't get paid.

<http://www.realestate.com.au/property-unit-qld-cairns-115240151>

I have included this one in the past few write ups. I believe this is one of the last two bedroom units in Cairns that you will secure for under \$100K. This is located at 2 Mayers Street, Manunda. It is ideally located right across the road from Raintrees Shopping Centre but the complex is well, it has the lower end of the tenant spectrum. It would be a debt reducer in my books. At the peak of the market you really couldn't find a two bedroom in any area, in any condition for under \$200K so if we are going to back to the levels of 2007/08 you would expect this to double to \$200K at a minimum.

<http://www.realestate.com.au/property-unit-qld-manunda-115764843>

This is a one bedroom located at 71 Alfred Street, Manunda. It is in a complex that we have a few owners in now and it isn't bad. It is close to the shops and schools, and we have had no issue renting them out. They aren't anywhere near as nice as Viewmont, but at \$99,000 it is still worth looking at. I believe there is some room to move on this price and if you could secure this at \$90,000 it could be a good investment over the next five years. These did sell for \$150K at the peak of the market. I believe the body corporate is a little high, but this could be fixed if interested owners got involved. There is a long term tenant in place so it will be an easy investment.

<http://www.realestate.com.au/property-unit-qld-manunda-115992779>

This is located at 171 Hoare Street, Manunda. It is a nice complex of just 8 units. We have two owners in this complex and it has a healthy sinking fund, the grounds are well maintained and we have good, long term tenants in place. The list price is \$109,000 but this is probably one the high side when you compare it to other one bedroom units at the moment. If you could pick this up for under \$100K then it has potential long term.

<http://www.realestate.com.au/property-unit-qld-manunda-116276939>

This is a one bedroom unit at Viewmont - 1 Chester Court, Manunda. The list price is \$110K although I believe it will go for under \$100K. These did sell as high as \$160K in the peak of the market.

I am not going to do the math on all of the ones I highlight, just a few:

Purchase Price \$100,000

Interest @ 5% = \$5000

Rates and water = \$2400

Body Corporate = \$1730

Landlords Insurance = \$300
Management Fee @ 13.2% = \$1235 based on \$180 per week
Total Outgoings = \$10665 or \$205 per week.

At the moment we have these rented out for on average \$180 - 185 per week. We are about to renovate one in the complex and are hoping to achieve \$200 per week. If the economy does take off, the vacancy rate is already low, this may allow us to increase the rents quickly. Renting a well presented, fully furnished unit for \$220 per week may not be out of the question soon.

<http://www.realestate.com.au/property-unit-qld-manunda-116276967>

This is another property that we know really well. It is located at 21 Douglas Street, Manunda. Although technically this is a one bedroom unit, it is one of the biggest one bedroom units that we manage. It really is big inside and is a cut above the others. It does need some upgrading internally, but this is mainly repainting, the furniture and curtains. The kitchen and bathroom are still fine. The list price for this one is \$115K but I think there may be room to move on this price.

Purchase Price \$105,000
Interest @ 5% = \$5250
Rates and water = \$2400
Body Corporate = \$2880
Landlords Insurance = \$300
Management Fee @ 13.2% = \$1372 based on \$200 per week
Total Outgoings = \$11902 or \$228 per week.

This is currently rented for \$200 per week to really good tenants. There could be room to increase this rent slightly, or alternatively improve the property and increase the rents. I believe \$230 per week is possible if it is presented well.

This is a much better unit than your average one bedroom unit. The down side is that the body corporate fees are higher. The insurance is the main culprit here, and there is nothing I can do to lower this. There is a healthy sinking fund in place, and the location is great. It isn't far from the City and very close to the Colonial Club which is a good resort. This will mean when the tourism market picks up, it will be attractive to tenants that want to live close by. In my opinion if a standard one bedroom at the peak of the market did sell for \$160K then this one would have sold for \$170K just because of the size. The only down fall of the unit is that it doesn't have an outside area for the unit.

<http://www.realestate.com.au/property-apartment-qld-manunda-115618223>

This is a two bedroom unit on Behan Street, Manunda. I don't know this complex and when you see the body corporate levies are \$4000 per year you really know I am not involved. This could be fixable, but until I see the disclosure statement I can't work out if it is or isn't. It is a two bedroom unit listed at \$139,000 which is a good price for a two bedroom unit.

<http://www.realestate.com.au/property-unit-qld-manunda-116065343>

This one I highlighted last newsletter. It is a two bedroom unit at 59 McCormack Street for \$139,000 - out of this one and the one above, I probably would choose this one. We now have two units in this complex and it won't be long before we start to make the transformation at the complex both externally and within the finances. The price is good, and although the last sale was less this seems to be the new level for two bedroom units. I honestly believe once the existing stock is gone at under \$140,000 the next threshold will be \$150,000.

Internally they aren't as big and as nice as next door at 55 McCormack Street, but the short answer is there are none for sale at this price next door. This one would certainly be on my short list. These sold for around \$220K at the peak of the market so there is room for capital gain.

Purchase Price \$139,000

Interest @ 5% = \$6950

Rates and water = \$2400

Body Corporate = \$3000

Landlords Insurance = \$300

Management Fee @ 13.2% = \$1372 based on \$200 per week

Total Outgoings = \$14022 or \$269 per week.

I have assumed that the body corporate is \$3000 for this exercise. At the moment the rents are low and I have used \$200 per week. We have just rented one similar for \$220 per week that is unfurnished. For a really nice one at 85 Birch Street that was fully furnished we achieved \$250 per week.

<http://www.realestate.com.au/property-unit-qld-manoora-116303299>

This one is located on Grantala Street, Whitfield and is a two bedroom unit on the top floor. The list price is \$144,000. The body corporate fees are on the high side at \$3600, but it is rented for \$230 per week currently. These are in a good location and the units in this area rent quickly and to good tenants.

<http://www.realestate.com.au/property-unit-qld-earlville-116284695>

This one is located at 23 Balaclava Road, Earlville and is listed at \$149,000. We have quite a few owners in this complex now and it is a great complex close to one of the bigger shopping centres. It is still only 5 kilometres to the City Centre. This is a great unit, but right now in the market it is over priced in my opinion. The last sale in the complex was less than six months ago and it was a lot less than this. For this reason, a valuation may undo any contract at this price. One to keep an eye on.

This one hasn't listed as yet, but I have heard that it may be listing soon. It is a bedsit unit at Palm Tree Apartments 55 McCormack Street, Manunda. It is a small unit at 40 square metres, but these are great long term investments. Ramon and I have six of them and we haven't had issues renting them out. The last one we rented for \$175 per week - they did wobble a bit after Christmas but it appears we are past that now. These did sell for \$115K at the peak, so there is some capital gain to be made - not as much as the one bedrooms but they are cheaper and less to hold.

Purchase Price \$85,000

Interest @ 5% = \$4250

Rates and water = \$2400

Body Corporate = \$1400

Landlords Insurance = \$300

Management Fee @ 13.2% = \$1166 based on \$170 per week

Total Outgoings = \$9516 or \$183 per week.

When you look at these, they are pretty close to paying for themselves just on the money coming in and going out. I haven't made any allowances for tax benefits. These were built after 1987 and have building depreciation allowance that you can utilise.

In summary, I think that we are on the cusp of the prices changing. We have already seen it where you could easily get a two bedroom unit for under \$120,000 and it be a good quality unit in a nice complex. I have spent the last few hours looking at all the listings, and there are very few two bedroom units that I would personally purchase under \$140,000. The next bracket up to \$150,000 there are a few that are good.

There is a huge amount of listings over the \$150,000 and lots of them in the very high \$100,000 bracket. This says to me that the sellers are starting to say - well we have waited this long, I want my price and that is what it is. They are now starting to wait for the market to come up. I think this is the very last opportunity to buy a good quality two bedroom unit for under \$140,000.

With the one bedroom units, there is also a definite increase in price. There are a few more to choose from in this bracket and it would be a hard pick for me the best one. The one at Chester Court, Hoare Street, Douglas Street and McCormack Street are all good, long term investments that will rent well and will increase in value.

To put this into a weird example, to buy and hold one of the above units will cost you less than \$30 per week. This doesn't allow for any tax benefits and if the rental market picks up the way I hope it will later this year, the actual cost to you will be under \$10 per week. The probability is that our sale prices will increase over the next few years - again this will depend on what happens with Aquis and the other developments. One of the big issues holding us back is the insurance and hope is on the horizon for this.

If I pick Viewmont as my case study, you can purchase this for under \$100K and even right now it is only going to cost you \$25 per week if we rent it for \$180 per week. If I pull a rabbit out of the hat and rent it for \$200 per week then it is just \$5 per week. One sold in the complex at the peak for \$160K so potentially there is a \$60K capital gain if it just goes up to the peak of the market.

Each week, Ramon goes down to the newsagent with his little Lotto wallet. He gets his two registered games and then has a Quick Pick for Saturdays draw. This costs him \$30 per week and guess what after being married for 20 years - we haven't won anything with more than three numbers in it. Do you see where I am heading to?

To finish off I will tell you some tenant stories. My thoughts with our tenants that are moving on is to make the whole vacate experience as painless as possible. I have to tell you there are some horror stories out there from both sides when the tenancy ends.

It is important to have the property come back with no damage and clean, but it is just as important that the relationship between us and the vacating tenant is good. We recently had a tenant leave a two bedroom unit. I walked in and the place was spotless - except for two things. The glass sliding door was streaky and the mirror has a few marks on it. Everything else was perfect. They had gone to a huge effort to make sure that the place was lovely.

I had two options to take. The first was that I ignore everything else being beautiful and pick on the streaky glass and cause a drama between us. The second option was that I don't say a thing, give their bond back and let them go away. Our relationship is great and they will come back to rent from us again. I then get a cloth and wipe down the two areas. I take option two all the time.

Some people wonder why I do this. I know that they will come back at some point and if they have been good tenants, paid the rent, looked after the place and caused me no bother - I will happily give them any property that we have. If the relationship has ended badly for a simple streaky window, then they will only remember this.

I have a young lass that has been with us for some time in a bed sit. It has been a constant battle with the rent being paid late. This has gone on for years, but as the market hasn't been good I have persisted with her so the owner has income coming in. The time had come and she was given her move on Notice. The time to list this property for sale wasn't right, so we decided with the owner to do some small upgrades internally and then rent it out for a higher rent.

The walls haven't been repainted in over ten years, and although they are clean they haven't been super scrubbed for ages. I had our new cleaner go in and go over them - wow they came up so clean. This was far cheaper than having to repaint the unit. We also put in new handles on the kitchen cupboards and new curtains and rods.

All the small things added to make the unit present well. The last tenant was only paying \$155 per week. I couldn't believe my luck when Japanese Susan gave me a call and asked if she could have the unit at \$175 per week. Even better she is minimalist with the furniture and asked that we not replace the table and chairs, sofa or the bed but remove it instead - saving the owner a fair amount of money.

She is going into the unit, the rent is going up \$20 per week, the owner didn't have to spend any where near the money he had to - and I have a brilliant tenant in my fold. Can't get better than that.

I hope you have enjoyed the latest Special Edition. If you have any questions on these properties, or spied one that you like send me the link.

I hope you are happy and well in your world.

Linda Tuck

PS The count down is about to begin. Just about to book a cruise to Japan in June. Did I mention that we like to cruise?