

Special Edition

6th July 2014

Dear Owners and Investors,

There are a lot of you that read these emails, and I hope that we can inspire you to do something to make your lives better for retirement. I know that many of you think we can't do what Ramon and I have done - but the reality is that we really are no different to you. Neither Ramon nor myself have a degree - we may know a lot about useless stuff like which seal is leaking in a toilet, but we don't have a degree to hang on the wall of the office.

Many of you will only see the side of us that is visible now - the Barbie high heels, the nice clothes, nice cars and cruises - but it hasn't always been this way. Ramon and I started out with a bit behind us, but no more than you probably have in equity in your house currently. For the first five years we travelled around and were just one step above being poor, and it was a pretty small step. If you don't believe me, I have attached a picture of our car and caravan - yes, it is a Lada Niva!

The way we would do it now would be different to the way we did it when we started out. What we can physically do now is different to what we did in the beginning. It is a mixture of both ability and desire. I certainly don't want to be doing the hours up a ladder and lifting of heavy tiles - that job has been passed onto Bart the Wonder Handyman. Each investor needs to be honest with themselves about the property they want to buy and the work they want to and can do.

I am not an expert in property markets, world finances or the stock market - but I can tell you that this is the start of potentially the last property cycle many of you will have before retirement comes knocking - and the knock will come if you are ready or not. One of the big things that drive us is the fear of being old, sick and poor - being old is not great, being old and sick is even worse, but being old poor and sick would be a living nightmare. We see it each day with our Collection of Old People and I don't ever want to be in that situation.

Generally speaking, most you on this list will be in the mid 40's plus range - just some of you will be more plus than others. If you assume that the next cycle will take 7 - 10 years to go through then you are going to be closer to retirement than you are today - and the big scheme of things 7 - 10 years will go past in the blink of an eye. Do you really want to then have to wait for the next property cycle to come so you have enough to retire on?

Working out what you will need in retirement is easy - creating the passive income on an ongoing basis is the difficult part of the plan. We are seeing prices increase here in some sectors - but as with any market there will always be a bargain come up. The difference now is that you aren't the only one looking so when you see something you have to take action or you will miss out. In the past few years when a bargain listed you had weeks, even months to look at it, do your figures, scratch around and then make a decision. Right now it can be days after it has listed that it can be sold.

If Aquis does go ahead, I personally believe the prices will go up and very quickly - the rents will also go up and for those of us that have bought cheaply something that is currently costing \$50 to hold may actually convert to a positively geared property.

Each investor has a different strategy in the way they will invest. For Ramon and I we have chosen to go down the budget end units - mainly because that was all we could buy at the time. When they were selling for under \$40,000 for a one bedroom unit - how could we say no? The same logic would apply in today's market for various reasons.

The housing market, and the duplex market seems to have picked up slightly in the prices. Before you could easily get a good house for around \$250K, but at the moment you will be lucky to get a decent one for \$280K. The duplex market is the same - you could easily get a choice of good pairs under \$350K, but now the medium price seems to around \$400K. Historically at the peak of the market, you couldn't get a house for under \$300K and a duplex pair for under \$500K so there is still some way to recover just to get back to 2008 prices.

The unit market for many reasons still hasn't really recovered. Much of the bargain stock has been picked up and the new listings are higher - but these generally aren't selling. The main reason is insurance which has flowed onto the body corporate levy costs. Most investors have put a blanket across all strata units - rather than digging slightly deeper to see if these levies can be reduced - or if the rents can be increased to offset these increases.

Part of the reason Ramon and I do like units is that if we want to reduce debt, we can sell one off. You can't do this with a house - chopping off the garage and selling this really isn't an option. Similarly with the rents - when a house is empty you have no income at all, if you have three units and one is empty you still have two incomes coming in.

Another reason we do like the units is the cost to hold them is much lower - and when you are lending money from the bank they want to see that the investment is going to be paying for itself without draining your income. Right now there are a few units that I think are good value.

<http://www.realestate.com.au/property-unit-qld-manunda-117259551>

This is located at 2 Mayers Street, Manunda. It is a two bedroom, one bathroom unit and it would be in my debt reducer pile. It is going to auction, but I believe it will be around \$105,000 to buy it. The body corporate is high at close to \$4000 but I actually attended the AGM this year and next year we should be able to reduce the sinking fund contributions and reduce this figure slightly. The units internally are much smaller than those at Scotsdale or Palm Trees. These are around 65 square metres, where as the others are about 75 square metres. This is located right across the road from Raintrees Shopping Centre which would be the fourth biggest shopping centre in Cairns. The main issue is the occupants of the complex. Over the years they haven't had a strict Chairperson like me keeping them in check and bottom of the barrel has moved in. This has started to clean up, but it is still a fair way from being a great complex. Fortunately many of the migrant families that have been sponsored to live in Australia have made this their home and it is cleaning up.

<http://www.realestate.com.au/property-house-qld-manunda-117198267>

This is in the same complex as the one above and I believe it will also go for \$105,000. I haven't inspected either of them internally. The one to choose would depend on the final purchase price and the presentation internally. Given that most two bedroom units are now at \$135K plus this has the ability to make a good capital gain quickly when the market picks up. The thing to remember is that this will always be a cheaper selling unit than others in the area. You also need to adjust the achievable rent. It will always be slightly lower than units at Palm Tree Apartments.

<http://www.realestate.com.au/property-apartment-qld-manunda-116490103>

<http://www.realestate.com.au/property-apartment-qld-manunda-116490099>

These are two bedsit units. One is at Palm Tree Apartments and the other is at City Park. I hear they have a grumpy, strict Chairperson at both of these complexes - but boy does she keep the riff raff out and the body corporate low! Seriously, both of these are great, simple investments.

The price was listed originally at \$95,000 but these have just dropped down to \$89,000. I believe you will be able to get them for around \$85,000. Internally these are 40 square metres in size, and many banks will make it difficult to lend money - but not impossible. The body corporate for both of these is under \$1500. The price for these at the peak of the market was \$115,000, so there is some good capital gain to be made on these.

The reason I like these is they are simple, set and forget properties. The body corporate takes care of the outside, and internally they are solid. The cost to hold them is really low, and if you can't afford a better unit for more money, then this is a great way to get into the investment market

Purchase price \$85,000

Rent @ \$175 per week = \$9100

Less

Interest only @ 5% = \$4250

Council Rates \$2400

Body Corporate \$1500

Landlords Insurance \$300

Maintenance \$500

Management Fee @ 13.2% for \$175 per week = \$1200

Total \$1050 cost to hold investment - not assuming any tax deductions

This is \$20.20 per week to hold the investment. These units were built after 1987 so they will have building depreciation allowance available.

<http://www.realestate.com.au/property-apartment-qld-westcourt-117062775> - two bedroom two bathroom

<http://www.realestate.com.au/property-apartment-qld-westcourt-117340739> one bedroom - but I think this is overpriced.

The next two are probably not what you would expect me to suggest, but for the right investor they could be a great buy. These are located at Cairns One and a few years ago I would have said - don't think about it unless you can get it for an absolute steal. At the moment you can pick up a one bedroom for under \$180,000. There are two bedroom units, but personally I would spend a bit more and get the two bedroom, two bathroom one over the cheaper two bedroom with just a single bathroom. When they first were sold off the plan they were selling for \$300K for a one bedroom unit.

This is a super sized complex, with hundreds of units over a few different buildings. It really is a posh resort with pools, gardens and security. These I believe are better designed internally than The Lakes, and they rent very well. A one bedroom will rent for \$300 per week and a two bedroom for close to \$400 per week.

Purchase price \$180,000

Rent @ \$300 per week = \$15600

Less

Interest only @ 5% = \$9000

Council Rates \$2400

Body Corporate \$4000

Landlords Insurance \$300

Maintenance \$500

Management Fee @ 13.2% for \$300 per week = \$2060

Total \$2660 cost to hold investment - not assuming any tax deductions

This is \$51.15 per week to hold the investment. These units were built after 1987 so they will have building depreciation allowance available. As these are high end build that was constructed in mid 2000, the depreciation can be high and will help to lower this figure if you are currently paying tax.

Before I go to the good stuff, I will go back go back to the rental market. Last newsletter I called it "The Year of Excuses" and I have to tell you, it is still having me scratch my head and roll my eyes. We have some really nice properties available, and some we have absolutely no interest in at all. How can I get almost no calls for a lovely one bedroom loft town house for \$220 and the phone ringing off the hook for a one bedroom at the Lakes for \$300? Fortunately the rains have gone for now and blue skies are here. The weather is good, so hopefully this will be the start of good things.

There you have the serious part of the newsletter - time for the fun stuff. If someone told me that when I grew up and got a real job I would be a Property Manager I would have thought they were crazy - it is certainly a field that I never thought I would be in. You just never know what the day is going to bring you - which can be interesting and challenging at times.

We work with many charities in Cairns to try and give a home to those that have had a tough trot but are willing to work at getting back into society. I never take just any one off the street, they have to come from one of the case workers and they have to have the mentoring and support program in place after they move in. A while back we gave a blind guy a chance, actually he has vision but is visually impaired. Initially it was good and things went along fine for a while. In the last six months of his tenancy he went strange and I had to have the Police called on a few occasions as his behaviour was affecting the neighbours.

The decision was made to give him two months Notice to Leave with no grounds. This is the easiest as I don't have to give a reason - which if I tell him the truth that it is his behaviour that has caused him to get the notice then he will get offended and make it difficult to move on. I go into White Lie mode and say the owner has decided to renovate the unit and may look to put it on the market and this just isn't possible whilst they are living there. I offer to give a great reference to any property manager that he applies with - of course I tell them the truth but he doesn't need to know that.

Mr S actually found a property fairly quickly, but I didn't get a call to ask for a reference. When he left our property it was dirty and there were damages. He really was very difficult to deal with after he vacated. After the rent and cleaning there was a small amount left which I claimed for the damages to the unit. I should have claimed more, but this was all the bond I had. As I didn't have his signature and he wouldn't agree to it, we ended up going to QCAT to see what how the Magistrate would split the bond.

This is really stressful, time consuming and worst of all a pain in my side. Actually I am in White Lie mode, the worst part is I have to be at the Court House at 9am - it is the middle of the night for this night owl. We did get some of the money back and although disappointed with the result - I knew that Karma works in mysterious ways and would pay him back.

I had a look on the property site and the place he had moved to is with an agent that I lock horns with really badly - so in a way Karma had paid her back as she had an awful tenant now. I thought nothing more of this and a few months had passed.

I then got a call from one of the charities asking if I would give Mr S a reference. You can just imagine the words that tumbled out of my mouth - best not to put them down in this email. Oh how I love Karma!

These days with the internet, we do get a lot of enquiries from people that don't live in Cairns. Generally unless they have physically seen the unit and we have met them, we don't let them have the property. Of course there are exceptions but there aren't that many. We have a bedsit at the moment that is available and I received a call from a Mum. When I find out that they are calling on behalf of their child the hairs on the back of my neck raise up and the first thing that comes into my mind is - If you don't want them to live with you, why on earth would I want them in one of our units?

Mum went on to explain that she actually lives in Brisbane and her daughter is coming here - she is just 17. More hairs raising up on the neckline - I can now see a party happening at Scotsdale. I did let her go on and she explained that her daughter is actually in a flash Chef course, based in Adelaide currently. She has a placement for 6 months at the Reef Casino and is not your typical 17 year old. She has always been a bit OCD and clean freak - music to my ears. Mum is going to basically guarantee the rent but is wanting her to have a safe place.

The 17 year old is driving up from Brisbane with her older sister and they arrived into Cairns on Saturday afternoon. Now instead of sitting on the couch like most other property managers - enjoying something called the WEEKEND, we head in to meet them at the unit to show them through. She loves it and moved straight in. I know we didn't have to go out of our way, we could have simply rented the unit to one of the people that had applied - oh but did I forget to mention that these were all the ones I found at the bottom of the barrel?

We now have a great tenant that is a clean freak, the unit will be looked after and we have rented it out for \$175 per week. I also have a very happy Mum that knows that her daughter is in a safe place that is affordable.

That wraps up another Special Edition. I hope you are all happy and well in your world.

Linda Tuck