

Special Edition

20th July 2015

Dear Owners and Investors,

There are many of you on my list now, and I know that my ramblings aren't for every one. If at any time you would like to be removed from the list, please just send me an email and I will remove your details.

Before I start I want to highlight a property that is currently for sale.

<http://www.realestate.com.au/property-unit-qld-manunda-119731827>

This is a two bedroom, one bathroom unit at City Park 85 Birch Street, Manunda. It is a complex that I am the Chairperson of, we personally own two in and out of the 39 units we manage close to half of them. This means that you get a fantastic investment that is looked after externally and you don't have to worry. This unit has been upgraded and presents incredibly well internally. The kitchen was upgraded about five years ago, the unit was repainted internally and new carpets to the two bedrooms. At the moment it is rented for \$260 per week.

The body corporate has \$100,000 sitting in the bank waiting to be spent on upgrades. The outside gardens are pretty amazing even if I say so myself! I have attached a photo for you.

The body corporate levies are \$2400 per annum, but at this stage there may be room to drop them down by \$100 per annum. Council rates I can't control and these are approximately \$2300 per annum.

Given the incredibly low interest rates, this property is about as close to neutrally geared as you will find. More importantly this is a good property – not just a cheap property. At the peak of the market similar units sold for \$230,000 so there is potential capital gain to be made when the market does move.

If you would like more details on this, please let me know.

The newsletter today is actually not for any of you, it is for me and you just get to hear me writing to myself!! In these newsletters I try to be honest and personal – many of you know a lot about us, but this is in an attempt to show you that we are just like you and not that special.

Right now personally it has to be pretty close to being as tough as it was in the middle of the GFC and it is very difficult to remain upbeat and optimistic. Let's back track for this to make sense to those of you that have not been on the journey since the beginning.

There are many times that I write about my crystal ball – I know I have written this many times before but here it is once again. If I actually had a working crystal ball I would have seen the GFC coming and we would have sold up in 2007 at the peak of the market and you would now be reading my updates about the latest cruise ship we are on – did I mention that we love to cruise? There are so many smarter people in the world and if they didn't see this coming, I had no chance.

I had no idea that Cairns in particular would endure such a long and difficult time.

I had no idea it would last for 7 years and still be going.

Did anyone see that all four of the building companies Cairns had would go belly up?

I had no idea that unemployment would go up to as high as 13% and make headlines around Australia as having the highest unemployment.

I didn't see close to 20,000 leave Cairns as there was no work.

I never could have predicted Tropical Cyclone Larry, nor Yasi crossing the coast and causing the level of damage they did.

No one saw the ridiculous insurance increases that were headed our way and have caused more devastation than any cyclone could ever have.

The world economy has been affected and in turn our tourism industry has been affected – and we do rely on the tourists.

There were those horrible “bottom of the barrel” moments where I had to take any tenant that I could – I think those days are behind us, but who knows.

The rental amounts tumbled, but fortunately these have recovered.

The vacancy periods were in the realms that I had not seen before – things are better but not as good as I would like them to be

Talk of Aquis and what it could do rallied everyone's spirits, but nothing has actually happened to date.

Large projects have been approved – but none have actually started yet.

Unit sale prices in particular are still close to 40% lower than they were in 2007 and for many people they can't sell even if they wanted to as the debt is actually higher.

If I just look at these things, I don't know about you but boy it is depressing. This is where I need to give myself the lecture that I would give to any of you if you called in the same state.

1 – Why are you investing?

The short answer is really simple. BEING OLD IS SUCKY, BUT BEING OLD AND POOR IS EVEN SUCKIER.

Ramon and I have worked for ourselves for the past twenty plus years – we have no Superannuation. For us, we have no chance of saving up the money that I will need to be able to retire – I am not cheap to run and maintain. I am not your Kia Rio, I am a Porsche Boxster and services and upgrades are expensive!!

Even if we had high paying jobs, I don't believe we would be able to save and put aside the level of money that is required. This could be possible, but along the way I don't want to live like a pauper so I can retire in comfort.

2 – What are the options to get the money required to retire?

The way I see it there are five ways to get there.

Save the money and put it into the bank directly – this just isn't going to happen, not for us. For many people having a big savings in the bank is just too much temptation and before you know it there is a reason that you dip into the savings. Even if you are more disciplined than us, what interest will you be attracting on your money – not a lot at the moment.

Share Market – there are lots of different ways to do this – directly or indirectly. I don't know enough about the share market and never will be able to make the decisions necessary to build up a portfolio to retire on. It is too volatile for my liking so this isn't an option.

Win Lotto – well Ramon has been buying a lotto ticket every Saturday and Wednesday since I met him 22 years ago and so far this option hasn't paid dividends.

Inheritance – I have been contacted by long lost relatives I didn't know I had that have left me a large sum of money – all I have to do is send them my bank details and they will put it into my account – pretty amazing isn't it. With my real family, I would prefer that my parents spend it all on themselves rather than leave it to us – of course if they want to pay for us to go on a cruise with them, then I will gladly accept (I know they read this so I can't help myself).

Even if they do decide not to spend it all, in the big scheme of things it really isn't enough for the life style I want to have when Ramon and I do retire. I have a shoe collection to maintain as well as a lot of cruises that I want to go on.

Property – this is the option that we have taken. The bank will leverage the properties which allows us to buy more – we now have the debt of a small nation and at times it can keep me awake at night with all the zeros that are in there. The tenants all go to work (or collect benefits in the great number of cases) and then pay the rent, which we in turn pay to the bank, council etc. As well as this, we get deductions from our properties that help our tax – don't think we don't pay tax in many forms as we certainly do. Land tax grumble, grumble, grumble. Fortunately we have managed to buy wisely and this is pretty balanced – especially now that the interest rates have come down.

3 – Is it worth it?

I am going to be the first one to admit it – being a property investor is not an easy road to take. It is emotional, financially draining at times and at times like these you do wonder why on earth you are doing it for. This is amplified when times are difficult and you just can't seem to see an end in sight.

This is the time that I go back to Point Two – what other choice is there for me to make it happen.

Then I go back to Point One to remind myself why we are investing.

Now it is time for the positive part of the conversation.

There are noises from the Government that they are looking at options for reducing the insurance premiums, including possibly a system similar to the terrorism reinsurance pool. There is currently a \$2 million taskforce that is investigating various models to get our insurance premiums down to reasonable levels.

<http://www.cairnspost.com.au/news/cairns/warren-entschs-2m-northern-australian-insurance-premium-taskforce/story-fnjpusyw-1227284095463>

On the task force is my counterpart from further down the coast – Margaret Shaw. She is representing all of us normal people against the bureaucrats and insurance people – and I couldn't have picked a better person. Margaret knows this subject inside out and is passionate about this – and like me certainly can get her point across.

I must have caused some waves as I had the remaining 4 people on the task force come to our office – they called to see me rather than the other way around. By the time they left I believe I let them know exactly what the issues are.

The Federal Government recently released the White Paper for Northern Australia. Given that this accounts for 40% of the land mass of Australia, it really is underutilised and has such great potential.

<http://northernaustralia.infrastructure.gov.au/white-paper/index.aspx#videos>

http://northernaustralia.infrastructure.gov.au/white-paper/files/nawp_brochure.pdf

I believe there are two reasons the Government need to make this work – the population needs to start to move from the major capital cities and more importantly we need to get a larger and more diverse economy happening so these can pay taxes and bring money into the Government coffers. For this to be able to really work, they need to resolve the insurance issue and hopefully this will give them enough incentive to really tackle the issue properly.

There is still talk surrounding Aquis – it is still in the news here at least once a week.

This is the information on the State Government website

<http://www.statedevelopment.qld.gov.au/assessments-and-approvals/aquis-resort-at-the-great-barrier-reef-project.html>

These are articles that have been in the Cairns Post recently.

<http://www.cairnspost.com.au/business/aquis-concentrates-on-finalising-casino-agreement-for-cairns-project/story-fnjpusdv-1227446342490>

<https://www.google.com/url?q=http://www.goldcoastbulletin.com.au/business/former-jupiters-boss-aaron-gomes-recruited-by-aquis-group-in-their-quest-for-coasts-second-casino/story-fnjc2dm2-1227434154473&sa=U&ved=0CBQQFjAFahUKEwiVzuzrpOfGAhXIG5QKHQhiAm0&client=internal-uds-cse&usq=AFQjCNF2AgL6EiLvQx4DTG6FZZkmpuq1eg>

<http://www.goldcoastbulletin.com.au/sport/nrl/gold-coast-titans-secure-major-sponsor-for-front-of-ijerseys/story-fnj9yd9w-1227405419998>

There are other stories in the news of large projects ready to go

The project called Nova8 by the Aspiat Group is set to start any day now. They have cleared the site and fenced it off. There is even a new building that has been purposed built on the Spence Street entrance that will double as the show room for potential buyers.

<http://www.cairnsnow.com.au/Aspiat-sales-success.90.0.html>

I have been told that there is a change to the parking and this has held up work until the plans are approved by Council. The representative for Council said work should start in the third quarter of the year.

<http://www.cairnspost.com.au/lifestyle/m-housing-precinct-to-change-the-face-of-living-in-cairns/story-fnjufllgv-1227444800091>

This is a \$20 million development that is about to start in Cairns that has 52 “lateral” units being developed.

<http://www.cairnspost.com.au/business/cairns-adventure-waters-backed-by-millionaire-chris-morris/story-fnjpusdv-1227443334178>

This water park has been talked about for a long time and it may finally become a reality.

<http://www.cairnspost.com.au/lifestyle/demand-for-flights-from-cairns-to-singapore-soars/story-fnjzecs6-1227445632773>

We now have direct flights to Singapore and it seems these are close to capacity – hopefully this will see more direct flights into Cairns.

<http://www.cairnspost.com.au/business/jetstar-announces-cairns-to-bali-flights-from-99/story-fnjpusdv-1227158945351>

We do now have direct flights to Bali and it is surprising at how many people are taking up this opportunity.

<http://www.cairnspost.com.au/news/cairns/tourism-boss-says-direct-flights-from-china-to-cairns-now-critical/story-fnjpusyw-1227216542970>

The number of Chinese visitors continues to grow and hopefully this will see more direct flights soon.

On the ground here in Cairns it is still incredibly difficult economically. Just when I think we have passed the worst of it, another wave happens and I am left scratching my head and wondering why? On a whole it is much better than it was, but we are still a long way from where I would like to see things. Generally speaking the rents have increased – for the units I am assuming they are fully furnished and presented nicely inside.

Bedsit units – used to be \$150 but now we are consistently renting them for \$180. The next one I am going to try for \$185 per week to see what happens.

One bedroom units – used to be \$170 but now we are consistently renting them for \$190 and higher.

One bedroom loft town houses – used to be \$190 but those that are presented well are now achieving \$230.

Two bedroom units – used to be \$200 – 220 but now are consistently renting for \$250

Duplex halves – used to be \$220 – 230 but now are going between \$250 – 270 per week.

Houses are a mixed bag and will depend on lots of different factors but again generally are higher than they were pre GFC.

This is not the case always, particularly in the past 6 – 8 weeks. It has been a very difficult time and properties that should have rented haven't – I haven't even been getting the enquiries that I should. I am not the only one, I have spoken to lots of other agents and they all report the same. In 2013 there was a definite tightening in the rental market and at one point there were less than 600 available rental properties in the Cairns Greater Region. This represents all rental properties from a share house right the way up to an executive home. It covers the area from Gordonvale in the south, up to Palm Cove in the north. If you do this same search tonight you will see that there are 823 available rental properties.

Although the reports by Herron Todd White say that the vacancy rate is at 2.3% – it certainly doesn't feel like it from where I am sitting. I am managing to get them rented, but boy do I have to work hard to make it happen.

Now it is time to summarise my ramblings. Sometimes it is easy to simply focus on the problem at hand and all the negatives that surround it. Those of you that have been on the journey with us know that I treat each and every property that we manage for you just like it is our own. When there is an issue, or it is vacant I take on this problem and do everything possible to find a solution. As the portfolio has grown, the burden has increased and there are times that even I struggle – not that I like to admit it often. Instead what I am going to do now is tell myself all the positives that have happened over the past 15 years since we starting really investing in property. This if from a personal point of view.

I can clearly remember going to the supermarket and getting to the check out and hoping that I had enough in the account to pay for the groceries – that was just on 15 years ago but I can still remember it clear as day.

We used to have the crappiest cars and were thankful that we had enough money to be able to put fuel in, pay the registration and even the insurance. Our first van had the door rusted off the hinges and Ramon had screwed it in place and then did a "ridge cap" over the top join so it wouldn't leak.

I used to drive a Lada Niva – yes a Russian car and I have heard all the jokes.

Our second work van was a beauty but mechanically it had its day. Ramon and I had to spend the night in the Coles carpark at Westcourt Shopping Centre when it wouldn't start one night.

Our third work van was my favourite – the Pregio. Boy could I fit some stuff into that van. It was a sad day that we traded her in.

Every one knows about the Lemon that is my Volkswagen EOS – I love that car, but oh do I hate it at times. We are just about to trade the lemon in and I am looking at a nicer sports car – stay tuned for what I get.

Ramon and I used to work the tools and my daily attire consisted of paint stained, grubby clothes and joggers. This has been replaced with nice girly girl dresses and Barbie high heels – and I love it.

I can now go to the store and put whatever I want in the trolley and know that I have enough money in the account to pay for it. Something as simple as putting the lovely soft, 3 ply toilet paper into the trolley without looking at the cost is now part of life – no more scratchy stuff in the Tuck household.

When an event is happening, instead of sitting in the nose bleed seats right up the very back, I can afford to buy the mosh pit tickets. This coming weekend Ramon and I are going to Sydney to see Hammond, Clarkson and May – and go shopping for a new convertible at the same time – oh and stopping in to Zu Shoes as well – just in case they have some shoes I like.

With the drop in interest rates and the increase in rents our portfolio is now balanced and it even gives us a little to be able to do the upgrades that are now required. This then increases the rents and allows us more income to do further renovations.

Even with the drop in values, because we bought a while ago the great majority of our portfolio has still make a good profit if we chose to sell up. I know not everyone is in this position, especially those that bought in 2007.

I know that all of the above would not have been possible if we simply had a job, even a good paying job and we saved every penny. Property for us has been the way we have created our portfolio and in the long run our passive income.

Now I know that many of you will be thinking – oh that is great, but I can't do this. Ramon and I are no different to any of you, we don't have degrees, we weren't rich when we started but we have invested wisely and held on. The property market in Cairns will turn – when I just don't know but it will turn and when it does the wait and all the dark days will all be worthwhile.

If I honestly didn't think the prices would go back up, then we would be selling up – but we aren't. We haven't done all the hard yards to sell up and then the market turn. Every report points to the fact we are off the bottom and things will get better.

Many of you will be thinking that it isn't possible in Cairns to buy and make a profit still – that just isn't so and I will give you a perfect example. For years I have been writing about duplex pairs and at the bottom of the market you had your pick and almost all of them were \$350,000 and under. These were not rubbish properties either, they were well presented and in good locations. They took ages to sell and the rents that were being achieved meant they were close to being neutrally geared.

<http://www.realestate.com.au/buy/with-4-bedrooms-in-cairns+-+greater+region,+qld/list-1?activeSort=price-asc&keywords=duplex>

This is the link to the duplex pairs that are available currently. There are just 15 available and none that are under \$350,000. The majority are now over \$400,000. This is my pick of the ones that are available

<http://www.realestate.com.au/property-duplex+semi+detached-qld-manunda-120113441>

For those of you that bought a duplex pair before the market increased, potentially you have made \$50,000 plus in a very short period of time.

Now to finish off the newsletter is a tenant story. Ramon and I have a group of four units on Grafton Street. We have a Korean lady called Ms A that lives in the front unit. She called me the other day and was a bit frantic on the phone. I managed to get out of her that a lady was inside her unit and had gone to her fridge. She had left the security screen shut but unlocked and this totally random and very drunk stranger stumbled to her door and thought she had won lotto when the door was unlocked.

She made a bee line for the fridge and got out some beers, stumbled to the sofa and cracked open a beer then lit up a cigarette. I could just imagine Ms A staring in horror as this was all going on. She had asked her to leave, but with free beer why on earth would she leave? Ms A called the Police but as they hadn't turned up the next option was to call me – not sure what she expected me to do. I was at home and by the time I would have got there the fridge would have been well and truly empty – so what else could I do but call in Bart the Wonder Handyman and his trusty assistant Katie.

As they got there so did the Police and they arrested and took away the very feral looking lady from Ms A's unit. When I heard it was all over I called to see if Ms A was alright – now it was over I could laugh and boy did I laugh. I asked Ms A if she had learnt a lesson today – make sure that the security door is locked!! It was then that Ms A tells me that she thinks the lady peed on the sofa – that was it I was in hysterics. Even now I am laughing as I am typing.

I hope that you have got something out of this newsletter. I know that I have, I should do as I wrote it for me!!! I hope you are all happy and well in your world.

Linda Tuck