

Special Edition

22nd August 2015

Dear Owners and Investors,

What I have learned along this journey is that the way that we have chosen to invest can be totally different to the strategy someone else takes. What works for one of our clients financially – won't work for us. As an investor you need to have a clear idea of what you want to achieve in the short term, and more importantly what you want to achieve in the long run. For Ramon and I it was all about financial freedom and a passive income for when we retire.

Before you even start to plan you need to be honest about what you want as an income – this is a difficult one to do and it will come as a shock to many people what they actually need to live the life they want in retirement. This is a great reference link to give you a guide on what the industry thinks you need to have as an income

<file:///C:/Users/Admin/Downloads/ASFA-RetirementStandard-Budgets-Jun2015.pdf>

The harsh truth for us is that this figure is SO OUT OF TOUCH with our reality! There is no way that we could live on this amount of money! I am expensive to run and maintain!

The tactic that Ramon and I took was to initially buy small, budget strata units – well that was all we could afford at the time, and it has worked for us. We bought as many as we could, and each time the bank would lend us more we would go and buy another one. We have now bought entire complexes – but the thought process is the same. We think it is better to have multiple income streams for the same amount of money invested. Our strategy has been to buy as many as we possibly can, hold on for as long as we can and when the market turns sell down what we need to, keeping the balance as our form of passive income. We then have income and assets – that should still continue to appreciate.

To explain the thought process behind our theory, I am going to do the simple math on this and assume you had \$450,000 to invest.

You could get a good house, in a good area and there would be a fair amount of depreciation as it should be a newer home. They should actually be able to get a nice home for under \$400,000 so you will have some change left over in the budget. The rent will be somewhere around the \$400 – 450 per week mark. The Council rates will be around \$2600, I will allow \$2000 for insurance and then a budget of just \$400 for repairs and maintenance.

I have not allowed any management fees, over budgeted on maintenance, pool servicing, gardening, termite inspections etc – this is just the basic numbers.

Rent @ \$425 per week = \$22,100

Outgoings = \$5,000

Net Income = \$17,100

You could go and buy a duplex pair, and you should be able to get a decent pair for \$450,000.

Each side should rent for \$250 per week, but depending on yard size, location and presentation this could be higher. The outgoings I will guess to be Council Rates \$4500, I will allow \$2000 for insurance and \$500 for repairs.

Rent @ \$500 per week = \$26,000

Outgoings = \$7,000

Net Income = \$19,000

With the duplex if one side is vacant, you still have some income coming in from the other side. You have the added benefit of being able to strata title and sell off one side. What you must take into consideration is that the maintenance budget for both properties is very minimal and will only do the very basics. There is no allowance for upgrading or improving the exterior of the property.

With the same budget, right now I would look to buy the following units

Bedsit Unit – \$85,000 purchase price. The Council rates are \$2400, body corporate is \$1400, landlords insurance \$350.

Rent @ \$180 per week = \$9,360

Outgoings = \$4,150

Net Income = \$5210

There are currently two available on the market. This leaves me with \$280,000 to go shopping with.

There are a few two bedroom units around that are in the \$150,000 range. These figures are general, and will change on the property but area a guide. Outgoings are Council Rates \$2400, body corporate \$2800 and landlords insurance \$350.

Rent @ \$250 per week = \$13,000

Outgoings = \$5550

Net Income = \$7450

This now leaves me with \$130,000 to spend and I would look at possibly a one bedroom unit.

Again this is general and will depend on the property. Outgoings are Council Rates \$2400, body corporate \$2000 and landlords insurance \$350.

Rent @ \$200 = \$10,400

Outgoings = \$4750

Net Income = \$5650

I have now bought 2 bedsits, 1 one bedroom unit and 1 two bedroom unit and the cost for this comes to \$450,000. The combined rent and outgoings are

Rent = \$9,360 + \$9,360 + \$13,000 + \$10,400 = \$42,120 or \$810 per week

Outgoings = \$4,150 + \$4,150 + \$5,550 + \$4,750 = \$18,600

Net Income = \$23,520

This is \$6,420 more than investing in just one house, and \$4,520 more than investing in a duplex pair. It isn't just the extra income that works for us there are other reasons.

The body corporate levies pay for the regular maintenance externally – gardener each fortnight, pool servicing each week, pressure cleaning the exterior annually, termite inspections each six months, gutters cleaned when required, money set aside for repairs like broken water pipes etc. The body corporate levies have a sinking fund component in them. Well run complexes like the ones we are involved with not only have the exterior well maintained but also have \$100,000 sitting in reserve for the work that needs to be done in the future like repainting, gutter replacement, new fences etc.

It is much easier to increase the rent in small increments on the units – if I put the rent up on all four units by \$10 per week – this is an extra \$2080 per annum. It is much harder to get the same rent increase of \$40 on one single property, or even \$20 over the duplexes.

If one unit is vacant, we still have three units bringing in income.

If we want to sell down to repay debt, we can sell just one and keep the other three. Not so easy to chop off the garage of the house and sell this piece!

Taking into account the low interest rates, plus maintenance allowance for each of the unit for the inside of \$500 per annum, plus management fees it will cost you about \$90 per week to hold all four properties. This doesn't take into account any tax benefits that you may get from the properties. This also assumes that you are borrowing the entire \$450,000.

Before I go to the next bit – I just want to go into Smug Mode. This week I have the first bedsit in the entire history of renting bedsits being rented at \$185 per week! That is brilliant returns when you look at the purchase price of \$85,000. In the past two weeks there has been a change in the rental market – although they still aren't the top quality tenants that are applying, at least we are managing to rent the properties and that makes me very happy.

If you are interested in any of the properties below – please let me know. If you contact the agent directly, then they don't have to share the commission – basically I don't get paid!!

The sales market has shifted higher but only slightly in the budget unit market. These properties are still well below the highs that we had in 2007/08 pre GFC. There is a definite movement in the market, and there are many properties that are listing and selling for higher than these figures. How long it will be before we see the entire market lift – that I don't know. There are some cheaper properties – but these are the ones I would look at

<http://www.realestate.com.au/property-apartment-qld-manunda-118725499>

This is a bedsit at Scotsdale and it is incredibly priced at \$79,000. The complex is well run and we have about 50% hold in the complex now. This one is very cheap – and one that I would definitely look at.

<http://www.realestate.com.au/property-unit-qld-manooora-119184279>

This is actually a one bedroom unit and great value at \$90,000. The body corporate fees are very high, but I have looked at them and this is fairly simple to fix but will require someone to get involved with the body corporate. They have heaps in the sinking fund and their sinking fund levy is very high – this could be adjusted and bring the levies down. There also seems to be room to move on the insurance budget. Good location and the owner is wanting to rent back – so it could be a simple set and forget type of property.

<http://www.realestate.com.au/property-apartment-qld-manooora-117015895>

This is a one bedroom unit on Springfield Crescent and it is asking \$135,000. I don't know enough about this body corporate, but the location and style of unit appears to be good. With a bit of upgrading internally it could get \$200 per week.

<http://www.realestate.com.au/property-unit-qld-whitfield-120296309>

<http://www.realestate.com.au/property-unit-qld-whitfield-120448497>

There are two units available for sale in this complex. We know this one really well as Ramon and I, along with clients have a few in this. They are bigger than a normal one bedroom unit, and with some upgrading the rents can be potentially higher as well. We recently tiled, repainted and put in new furniture and rented it for \$240 per week. I would look at the \$130K mark, but I don't know if the owners would look at selling at this level.

<http://www.realestate.com.au/property-unit-qld-bungalow-120469441>

This is a one bedroom unit on Buchan Street, close to the City. The units are nice and spacious and because they are close to town they can get a higher rent. We get \$250 per week for ours as it is presented nicely inside and fully furnished. I don't know enough about the body corporate levies on this one.

<http://www.realestate.com.au/property-unit-qld-manunda-119674351>

This is a one bedroom unit on Chester Court listed at \$135,000. Although a good sized unit, I don't believe you will get quite as much rent as you would at the Whitfield or Buchan Street unit. It is a good location, but the average rentals in this area are lower slightly.

<http://www.realestate.com.au/property-townhouse-qld-woree-120211445>

Now this one would be interesting. It is a two bedroom townhouse on Brown Street, Woree. It is for sale at \$125,000 and I will guess it is because the body corporate fees are \$4500 per annum. This could be fixable you would need to work out why they are high and work with the body corporate manager and other owners at the AGM to get it down to a more reasonable level. It looks neat and clean internally. It is close to the city and shops but the rents are lower in this area for now. It could be a debt reducer – one that you buy cheap, wait until it goes up and then sell it off to pay down the others you buy that you want to keep.

<http://www.realestate.com.au/property-unit-qld-cairns+north-117985935>

This is a one bedroom unit at 211 Lake Street. It is very close to the hospital and City Centre and will attract good rents. It is listed at \$157,000 and although higher than a similar one bedroom out of the City, it is the location you are paying for.

<http://www.realestate.com.au/property-unit-qld-manunda-120177205>

This is actually a three bedroom unit with a list price of \$165,000. I know the complex well as we manage a number of others in this building. I would need to check the body corporate levies to make sure they are in order, as it may attract a higher share of the levies due to the size. There are others that are interesting but this gives you a good range of what properties are available on the market currently that I think are good value.

Time now for the stories. One of the biggest learning curves of doing property management is the amount of people that you get to meet – most of them you would never in a normal world associate with. You need to learn that they have their lives and so long as they follow the three golden rules I am happy.

Pay the rent – Keep the place nice – and don't wind up the neighbours

Many years ago we had a two bedroom unit at Spence Street – this was in the middle of the “bottom of the barrel” rental market where so long as you were breathing and had any form of income – then you were good enough! This strange looking couple came to inspect and we ended up putting them in. He is tall and really lanky and she is shorter and plumper. They told me they wanted a two bedroom place as she was pregnant and expecting. Months and months went by but no baby. Sometime later she told me that she had lost the baby.

We moved them a few times to different locations and they ended up at Viewmont. After they had been there a few months, they told me that they were expecting again and a noticeable baby bump was there. It was around this time that Stacey started with us and she was told that they were six months pregnant at this stage. Months and months and more months went by and the baby bump is there but no baby. By this stage she is now 15 months pregnant by my calculations.

They decide that seeing as the baby is coming any day now they need a two bedroom unit and they apply with another agent. I don't actually get along with this agent but I felt that it was best to tell her everything about them, including the baby story. I guess I have lost my filter system over the years and I just tell it as it is. I simply said “I know that she is pregnant and they say they are expecting, but until that baby pops out and I see it with my own eyes I won't believe it.”

Well this agent was mortified and then called me all sorts of names and hung up. Low and behold months later she is still pregnant. Another month went by and they had to call me for something and told me that they lost the baby.

We have a couple that live in a duplex that we manage. They are lesbians – not that there is anything wrong with that – so we simply call them “The Lesbians”. They have been a bit of a thorn in my side as they are always behind in their rent, but the way we look at it is the place they are in really needs to be renovated and we mean fully renovated. Even after spending all this money we probably will only get the same level of rent they are paying – so I persevere with them until the market really moves.

We had a love hate relationship in the early stages, until they realised that they shouldn’t argue with me as it will only end up with them being homeless. They now like me and do try their best. The other day I get a message from one of them saying “I need to speak to you tomorrow about my change of name and gender details”.

I did tell you at the beginning that I get to meet people that in a normal world I would never get to meet – best of all I am so used to it now, that almost nothing shocks me. When I called her back, it was just like nothing out of the ordinary – just another day in property management. Now we have to call them “The couple formally known as the Lesbians”. I told you that my life is a bit like a Seinfeld episode.

To finish off it is about our unit at Grafton Street from the last Note to Self. The race is on to finish the property by Thursday as the new tenant is actually flying in at 1pm to move in. This photo was taken on Saturday – SIX DAYS before she is to move in. Nothing like a bit of pressure to get things done. Ramon and I went in on Saturday and I did all that I could, tidied up and put things into some sort of order. Ramon worked his magic and got the kitchen together the splash back happening – in amongst a thousand other jobs.

Each day Ramon got more done, but the finish line was zooming up pretty fast. Ramon did manage to get it all done – I did ask if he had taken at least one photo of the finished product but he answer was – not really possible as I was taking the tools out she was bringing in her bags and things to move in. I am not going to complain as it is now rented!

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

Linda Tuck