

15th May 2016

Dear Owners and Investors,

See – I am getting back into the swing of writing again! Actually I am going to confess, I actually wrote this whilst on the last cruise and have had it saved up ready to send out. Did I ever mention that Ramon and I like to go on cruises?

Before I start I just want to highlight one of the properties I had on the list last time. It is easy to push investing to one side as it does take time, money and energy, but with the interest rates so low, and the prices in Cairns still well below the highs achieved pre GFC – it really is a great time to look at investing.

<http://www.realestate.com.au/property-unit-qld-manunda-121419822>

This is a two bedroom unit located at 55 McCormack Street, Manunda. These units are really big inside at approximately 80 square metres. They were constructed in 1995 and are better block, bomb proof properties that are fairly low maintenance. It is now 20 years old, and you would need to start to look at upgrades – painting, carpets, air conditioners but the bigger items like kitchens and bathrooms are still fine. For now there is a great tenant in place paying \$230 per week that wants to stay long term.

The body corporate has 44 units in the block, and although it is a big block, they have one of the best Chairpersons in all of Cairns – ME!! Ramon and I own 4 of the bedsits in the complex and we now manage approximately 40% of the building. We run a very tight ship there and the presentation externally is good. The property has over \$100,000 sitting in the sinking fund waiting to pay for the painting and anything else that is required. Although it is a big block, sometimes this works in the favour of the levies. It means that the on going costs like pool maintenance, garden maintenance and insurance are spread over a larger base.

The levies are approximately \$2600 per annum, and over the next few years there is room to bring this down slightly. We are starting to see insurance premiums finally drop and these savings will be passed on via lower levies.

Generally speaking, the rental market is tight at the moment at under 3% but it is the quality of potential tenants that is the trouble at the moment. This does change weekly and it won't take much to see better quality tenants come into Cairns and this puts pressure on the rents. Currently for a two bedroom unit that hasn't been renovated, but presents well we are achieving \$230 per week unfurnished, and \$250 per week fully furnished. The better the presentation the higher the potential rent.

Right now, even with the banks adding extra to the interest rates for investment units, you should be able to get lending around 4.5%.

| | |
|---------------------|-----------|
| Purchase Price | \$150,000 |
| Interest @ 4.5% | \$6750 |
| Body Corporate | \$2600 |
| Council Rates | \$2200 |
| Water Usage | \$200 |
| Landlords Insurance | \$300 |
| Maintenance | \$500 |
| Management Fees | \$1580 |
| Total Outgoings | \$14130 |

| | |
|-----------------------|---------|
| Rent @ \$230 per week | \$11960 |
| Rent @ \$250 per week | \$13000 |
| Rent @ \$270 per week | \$14040 |

At the peak of the GFC these were selling at \$220,000 – 240,000 so there is good potential capital gain to be made. As with all investments, no one knows what is ahead and property needs to be a long term investment. If you would like more information on this unit, or any others you see listed just let me know. Happy to give you my two cents worth of opinion.

Today I am going to talk in a around about way about property investments and looking after them whilst you own them.

In an ideal world, you buy a property, it is rented out all the time with great tenants. They look after the property beautifully, they are never behind in their rent and they never party. You manage to keep the rents going up to cover any increases in costs that come along.

The cost of the mortgage, the rates, insurance and all the other outgoings are all covered by the rent that is coming in. There is minimal maintenance to be done - everything works perfectly.

Major maintenance like blown hot water system, air conditioning - no these things don't go wrong.

In ten years time you have doubled you money. As a bonus, along the way you have managed to get a deduction from the ATO for the building depreciation and get a tax refund!

I wish we lived in a perfect world, but this just isn't the way it is.

Tenants can be great, but they can be just awful.

Things are going to go wrong in the property - just when you least want them to. I didn't see the GFC coming, nor how long it would last - did you?

Instead of talking about your property, I am going to take a different tact. You all know the Lemon - my Volkswagen EOS. This was the very first brand new car that I bought for me, just because I liked it and it was exactly what I wanted. The only other new cars we bought to this date were the Kia Rio - which was more of a necessity than a luxury. It was replacing the Lada Niva - oh I can hear you laughing and making Lada jokes but she got us and our caravan around Australia without missing a beat. The other was the Kia Pregio - and even today I still miss the van. The amount of stuff I could get squashed into the back of that van was pretty amazing!

No the Lemon was the very first nice, luxury car that I have owned. We walked into the show room and picked out the parts I wanted and in a factory some where in Germany it was built and then shipped out to Australia. This was late 2007.

It is a great, fun car and when you are driving home with the roof down, the heated seats on and the stereo up loudly singing along with Kylie - well it is pretty special. None the less it is a Lemon of a car and the troubles I have had have been endless.

Along the way I have had to pay the registration and the insurance each year. There goes \$1500 a year. I have had to get it serviced - the last one cost close to \$1500. I have had two sets of tyres, a battery and even had to replace the stereo as the screen literally peeled off - that was another \$400 just for the parts alone.

The air conditioner now probably needs to be replaced as it isn't working properly. The exhaust warning sensor came on, and it looks like that needs to be replaced and the shock absorbers also need to be replaced.

Sure, as it is used in the business I have received some tax benefits along the way.

The harsh reality is that the original price we paid for it was \$68,000 and we have just traded it in and received \$12,000! If I work out just what we have lost in the value of the car alone it is \$56,000. We have owned the car now for 8.5 years and just on the value of the car **we have LOST \$6588 per annum**. Now if I factor in the annum registration and insurance, plus servicing, tyres etc I **would put this figure at closer \$8,500 per annum**.

Meanwhile back in time, way back to around the same time as we bought the Lemon we also bought a unit at Keith Street. It is a basic but nice one bedroom unit that is actually a loft townhouse. We bought this for \$105,000. Since the day we bought it, basically it has been rented out. We may have had the odd week every so often where it was vacant between tenants.

Yes, the Council Rates are obscene with what they charge us each year.

Yes, the body corporate has increased substantially due to the insurance rises - but this has been off set by lower interest rates, and higher rents.

When we first bought the unit it was bringing in \$150 per week.

We have gone in and repainted it, put in new porcelain kitchen tops but reused the existing kitchen, upgraded the vanity, upgraded the white goods through out, tiled through out and put in new furniture. We have also just put in a new split system . Over the years we have put in about \$10,000 into the property in upgrades.

We now rent the unit for \$230 per week. There was a unit very similar on Cannon Street that just sold for \$145,000. Sure the increase in property value isn't alot - but it is more than what we paid - unlike the Lemon which is essentially worthless.

Being a property investor isn't easy, especially in these extraordinary times that we are living in right now. We all need to find a way to build up our nest egg for our old age. For us property has worked - yes, it has been a hard road and it has taken far longer than we ever anticipated. When ever I doubt what we are doing I just remember "**Being old is sucky, but being old and poor is even suckier**".

It just wouldn't be right to finish a newsletter without a tenant story. There are so many tenants that it is difficult to remember their names, so just like an episode from Seinfeld we have names for them all. Some time ago we had Cashew Nut move into a small one bedroom unit. Why Cashew Nut you ask, well when one of our staff met her initially the description was she is a bit nutty – so of course I had to ask what sort of nut – and Cashew Nut has stuck since. Well fast forward some years and Cashew Nut now has a boyfriend who is a diver before you know it his name is now Bubble Head and not just because he is a diver, there is alot of air in that head of his and not alot of brains.

Bubble Head and Cashew Nut are now having a baby so they needed to start to nest. We had a two bedroom, ground floor unit that needed a bit of renovating so we had a cheaper rental price on it – so they move in. It must have been only a few weeks after they moved in and Bubble Head was outside on the balcony using the BBQ – as you do when you are cooking a BBQ. He had left the glass door open to the unit and the smoke was coming inside. Cashew Nut yelled to close the door but either Bubble Head didn't hear or just didn't shut the door. A flip was switched and before you know it Cashew Nut is out on the balcony having an argument and ready – you are going to love this – hits Bubble Head in the back of the head with the shovel!

Police are called, charges are laid and pregnant Cashew Nut is out living in her car for the next few weeks. Don't worry it all has a happy ending, Cashew Nut and Bubble Head have now made up and are playing happy families again and any week now will have their baby. We now for obvious reasons can't call him Bubble Head any more, so he is now Shovel Head. Got to love my job – I honestly couldn't dream up stories like this if I tried.

Hope you are all happy and well in your world.

Linda