



Welcome to the Plum Property Newsletter #9

Finding High Yield Property - A Road Trip

As some of you know it can be very difficult to find true positive cash flow property. Yields in most urban centres are improving but are generally between 3% – 5%, which is not enough to get you close to neutral let alone positive. For those who have a positive cash flow strategy, or are simply seeking to balance up a negatively geared portfolio, this can be a dilemma. “High yield” property can definitely be found (we prefer this term as whether or not a property is CF+ relates to personal circumstances), but it is much harder to get the whole package that we can confidently recommend to our clients – high yield, good growth forecasts, new enough to attract depreciation benefits, and strong rental demand.

But don't despair, last week I visited the Bowen Basin of Queensland to see what all the fuss was about. Our research indicated that there were towns there with the right combination of good capital growth forecasts together with 8% to 9% rental returns. But somewhat mysteriously there seemed to be a lot of houses in the area which are either for sale or for rent, which made us wonder if the mining boom is coming to an end and everyone is moving out of town, or if there was some other reason for a downturn.

Now that I've been there I think the answer is NO – quite the opposite. I saw one town in particular which is an affluent vibrant regional centre showing all the signs of a very bright future indeed. New town centre, new Council Chambers, upmarket cafes, recreational facilities and sporting clubs. Massive new infrastructure projects including a gas pipeline, factories, rail expansion, roads, water pipelines and so on. And I learned that there are approximately 40 operational mines in the Bowen Basin, with new ones still being developed.

I now believe that the key issue for investors to understand is that the residents don't want to live in thirty year old fibro houses with wall mounted air con any more, and they're making plenty of money so they are upgrading in droves! Until recently there was little new residential building going on, the cost of brick was prohibitive and land was tied up by the mines. Now new pockets of modern, brick construction homes – from luxury to simple – are popping up and are being swooped upon by newly affluent locals, government departments and of course the mining companies.

But new properties (off the plan or recently completed) rarely appear on the internet or in real estate windows, because they are sold quickly through word of mouth or to locals. New properties are in hot demand by tenants, are actually surprisingly close in price to the older stock, are maintenance free, and attract good depreciation benefits. We have now established relationships with reputable local builders who are completing great projects for owner occupiers and investors. They don't advertise or list with agents because they don't need to. Here are some examples of what's on offer:

- A nearly completed duplex, 3 bedroom, 2 bathroom, ducted air con, double lock up garage each selling for \$420K – less for both bought together. Each duplex projected to rent for \$650 per week. (8%)
- Brand new 4 bedroom free standing house, ducted air con, double lock up garage for \$450K – expected to rent for \$700 per week. (8.1%)
- Brand new 3 bedroom, 2 bathroom duplex, single lock up garage, ducted air con for \$350,000 projected rental at \$600 per week. (8.9%)

But be careful, not all “new” deals represent good value for money. Locals are scratching their heads at a new development being heavily marketed to out of town investors for one bedroom apartments selling for \$299,000 each.

If you are considering this type of purchase please give us a call, and if you haven't read our last newsletter on Cash Flow Positive Property that's probably worth a look too.

Regards Karen

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And please contact us if you are considering investing in property and would like an obligation-free consultation.