



Toowoomba Property Investors Report

From Ian O'Donnell – May 2014

Where to invest and what to buy ...

Profiting from a Maturing Toowoomba Property Market

The overall Toowoomba property market is continuing to mature, and as more diverse business and industry locate here and existing infrastructure continues to expand, then the long-term future looks very bright.

Property investors who are committing funds in Toowoomba will see good rental growth (& consequently capital growth) over the next 5 ... 10 ... 20 years. All our research shows that Toowoomba, and even, Greater Toowoomba, is going to outperform most areas in Australia in growth over the next 30 years. So to invest in Toowoomba per se would be a prudent thing to do.

Rather than take a haphazard approach and just invest anywhere within the area, **the purpose of this report is to identify both the 'right' type of accommodation PLUS the best areas within Toowoomba that are going to outperform others.**

To be able to do this I have tried to identify ...

- The most desirable types of accommodation that tenants are looking for
- And
- the most likely areas that will have the maximum growth in land values. By default therefore these are the area/s which should have the greatest increase in both rental income and property value.

Before we start reviewing the above, we have to look at ...

What is influencing the rental market?

Possibly the biggest impact on Queensland property investment in 100 years is about to unleash on the Queensland rental property market ... and if you have been receiving these reports for the last couple of years, hopefully you have made the adjustments to your portfolio that we have discussed and taken evasive action.

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Anticipated State Government Legislation changes.

Many of you who are current Sovereign Property Landlords will be aware of my reports over the last two – three years on how the rental property market is going to be changed following the death of a baby in Rockhampton in 2010.

The enquiry and Coroner's Inquest into the circumstances surrounding this death have bought policy makers, politicians, bureaucrats and the Coroner to basically one conclusion ... that something must be done to ensure that this tragedy never happens again.

Over the whole of Queensland, not just Toowoomba, the proposed changes will have far reaching effects on the residential rental market – and the ramifications are going to take quite a time to digest and will have an immediate effect on rental prices across the state and maybe even to a greater extent in Toowoomba.

These far reaching changes in Queensland Government Legislation is now before the Parliament, and the proposed Amendments to the RTRA Act – known as the **'Residential Tenancies and Rooming Accommodation Amendment Bill 2014'** was introduced to Parliament on 3rd April 2014 and has had it's first reading.

The motivation behind the changes was fuelled by the tragic death of baby Isabella Diefenbach in Rockhampton on 29 May 2010 in a rental home. The resulting Coroner's Inquest made many recommendations and from those references and other discussions with the Tenants Union & other interested parties, the following proposed legislated changes are the result.

In essence, the proposed changes are as follows ...

**** The notes below are taken direct from the Queensland Government website ...

Explanatory Notes

Title of the Bill

*The short title of the Bill is the **Residential Tenancies and Rooming Accommodation Amendment Bill 2014 (the Bill).***

Reasons for the Bill

Access to stable, adequate shelter plays a major role in the health and wellbeing of families, and in particular children, by providing a safe environment, and the security that allows participation in the social, educational, economic, and community aspects of their lives. Housing issues that impact on health can include such things as structural integrity, weatherproofing, lighting, ventilation, cleanliness and hygiene, security, sanitation facilities and cooking facilities.

By imposing minimum housing standards for private rental accommodation, Governments can ensure that, even at the lowest end of the rental market where renters are the most vulnerable, standards are enforceable to provide healthy and safe place for all Queenslanders to live.

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Division 4 Prescribed minimum housing standards

17A Prescribed minimum housing standards

1. “A **prescribed minimum housing standard** means a standard prescribed by regulation.
2. A regulation may prescribe housing standards for residential premises or rental premises in relation to matters including, for example, the following –
 - a. Sanitation, drainage, cleanliness and repair of premises;
 - b. Ventilation and insulation;
 - c. Protect from damp and its effects;
 - d. Construction, condition, structures, safety and situation of premises;
 - e. The dimensions, cubical extent and height of rooms in the premises;
 - f. Privacy and security;
 - g. Provision of water supply, storage and sanitary facilities;
 - h. Laundry and cooking facilities;
 - i. Lighting;
 - j. Freedom from vermin infestation;
 - k. Energy efficiency
- 3.

Part 2A Minimum housing standards—residential premises

191A Operation of pt 2A

This part operates in addition to, and does not limit, the obligations of a lessor under section 185.

191B Premises to comply with prescribed minimum housing standards

- (1) A lessor must ensure that, before residential premises are let under a residential tenancy agreement, the premises comply with the prescribed minimum housing standards.
- (2) A tenant may give a written notice to a lessor stating that the residential premises do not comply with a prescribed minimum housing standard.

191C Authority may investigate without application

- (1) The authority may, without application by a tenant, investigate whether a lessor has failed to ensure that residential premises comply with a prescribed minimum housing standard.
- (2) If the authority is satisfied that the residential premises do not comply with the standard, the authority must—
 - (a) give a written report of the investigation to the tenant and lessor; and
 - (b) inform the tenant that the tenant may make an application to the tribunal under section 191E.

191D Application to authority to investigate whether premises meet standards

- (1) A tenant may apply in writing to the authority to investigate whether the lessor has failed to ensure that the residential premises comply with a prescribed minimum housing standard if—
 - (a) the tenant has given the lessor a written notice under section 191B(2); and
 - (b) the lessor has failed to ensure that the residential premises comply with the relevant prescribed minimum housing standard within 28 days after being given the notice.
- (2) On an application under subsection (1), the authority—
 - (a) must investigate; and
 - (b) may negotiate arrangements for ensuring that the residential premises comply with the prescribed minimum housing standard, if the authority is satisfied that the premises do not comply with the standard; and
 - (c) must give a written report to the tenant within 28 days.

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***NOTE: all of the above has been cut and pasted from the Queensland Government website – a full transcript can be obtained by following the link below

[Residential Tenancies and Rooming Accommodation ...](#)

or entering this detail below in your Google search window

Residential Tenancies and Rooming Accommodation Amendment Bill 2014

**** This is the end of notes taken direct from the Queensland Government website ...

We understand and applaud the logic and sentiment behind the changes – and total agree with the intent to make all homes safe living units.

IT IS the unintended consequences of the legislation that I have been warning of for over two years now, and we are about to see how this all plays out!?

From a big picture perspective the changes will most likely cause a major impact on the already tight & stretched Toowoomba rental market in the following ways ...

- Will cause hundreds and possibly thousands of homes to be withdrawn from the Toowoomba rental market.
- Will cause rents to increase, in the ‘right’ homes as a result of the consequential shortfall.
- Will be a disincentive to investors, certainly those who renovate property for the rental market, due to uncertainty on what constitutes ‘minimum housing standards’.
- Will most likely create an underground ‘black market’ for Owner managers who do not want to comply ... and tenants who would prefer a roof over their head to sleeping under a bridge or in their car.

These proposed Legislative changes will have a marked effect on the sales of older timber homes between \$200,000 – \$300,000.

As previously explained, these homes are no longer eligible for a Government Grant for first home buyers – and now will be shunned by investors due to uncertainty. The flow on is that the house prices in this bracket will most likely drop unless the land is sub-dividable or land that is zoned for higher density ‘Residential Choice’ multi-unit development.

Rents are continuing to increase, and these homes have been attracting the attention of Investors ... but my belief is that many of these homes will not turn out to be good speculations – and could actually be very poor ‘investments’.

The before mentioned proposed changes in Government legislation could make some of these homes a nightmare for Landlords.

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The proposed new Legislation requires that ALL homes put up for rental MUST *"ensure that, before residential premises are let under a residential tenancy agreement, the premises comply with the prescribed minimum housing standards."*

In essence the expectation will be that the home must be presented in 'as new' condition BEFORE the tenant can take up residence.

With the uncertainty surrounding the "... regulation may prescribe housing standards for ... rental premises in relation to matters including, for example, the following – a) to k) (listed above) and if the tenants become the 'Judge' and RTA Officers 'The Jury' in who decides what constitutes "minimum housing standards', this is not an atmosphere where by the person (the Investor/Landlord) taking all the financial risk is likely to linger very long.

My belief, and our experience of what has already actually happened when we have explained the implications of these proposed changes, is that wily investors have made the decision to sell before the proverbial manure hits the rotating device.

What is even more erroneous is that the *"tenant may give a written notice to a lessor stating that the residential premises do not comply with a prescribed minimum housing standard."*

My reading of the proposal is that the RTA will then send an Officer to investigate and prepare reports to be given to the Landlord and the Tenant, the Tenant then apply to *"the tribunal under section 191E"* ...???

While all this is going on, there is provision for the tenant to either NOT pay rent, OR pay rent to a Trust Account at the RTA to be held by the RTA until they decide if and when the rental premises meet minimum housing standards???

Imagine the numbers of 'old renters' that will need work throughout Queensland ... the mind boggles.

If I were a cynical person, I might suggest this is a Government initiative to 'create jobs' ... because they will probably need an extra 5,000 RTA 'Minimum Housing Standards' Officers (whom I imagine will need an Engineering degree and a building Inspectors License to do this job) to police the proposed changes ...

Or this may be just the kick along the Government wants to stimulate the construction industry?

Now try to imagine how many Owners will be financial enough, willing and prepared to spend the money to bring their 'old renter' up to a state that will comply with the proposed new Legislation?

Or how many Owners can cope with the red tape and bureaucracy that will surround this change ...?

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Or how many Owners will be able to cope with the money going out and no rental income for months and months while their 'old renter' is patched up? – and then NOT knowing if it is going to comply with 'minimum housing standard'???

The basic aim – providing safe and secure lodgings for paying tenants is not something that many Owners would argue with ... and something that I fully support and endorse!

The proposed changes in Legislation will have a profound and immediate effect on the number of available rental properties right across Queensland.

My view is that many Owners will elect to bypass the red tape, save their money and look to sell their property.

This is going to have an enormous impact on the number of lower priced properties in the market place ... and as a consequence of an oversupply, the sale prices of this type of property can only decrease.

Again this may help fulfil another aim of the State Government – to provide more 'affordable' housing! The homes will be more affordable for Owner Occupiers; however those homes going out of the rental pool will put increasing pressure on already tight Toowoomba rental market.

So if cheap 'old renters' are NOT going to be good investments ...

What is the most sought after Homes that Tenants want in the Toowoomba market?

Over the next 30+ years the demographics of the Toowoomba market will change dramatically as the baby boomers look to retire and the City continues to have strong population growth.

The dwellings that are most sought after, and we believe will have the greatest rent increases over the foreseeable future are

- Well located, well maintained modern units in small complexes.
- New or near new homes (house or unit) on the western side (Kearney's Spring, Darling Heights, Drayton, Harristown through to Glenvale)
- Well designed & appointed, spacious Units/Villa's on the Eastside (Harlaxton/Mount Lofty thru East Toowoomba, Rangeville and Centenary Heights to Middle Ridge).
- Three (3) bedroom – or bigger two bedroom detached villa's in established areas within 3 klm of the City Centre – North & South Toowoomba, Newtown (specific areas) and parts of Harristown.

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Preferred new or near new houses.

Three (3) bedroom houses OR detached villa's – with ensuite and double garage (if possible) that have the following features will attract quality tenants, maximise rents & the minimum maintenance costs.

- Two good size living areas PLUS a proper meals area (not a hallway with a table)
- Modern kitchen with dishwasher (preferably gas cooktop)
- Security doors and screens
- Reverse cycle air-conditioning
- Gas heater connection point
- DECENT SIZE underroof, outside entertainment area with power point
- Fully fenced, low maintenance gardens (charge higher rents & look after gardens)
- Garden shed and/or extra storage in the garage

NOTE: The 'small' four (4) bedroom houses on small blocks – that seem to be all the rage (& in my opinion overdone) now ... we find they attract the wrong type of tenants.

The preferred option of discerning tenants on higher incomes, are TWO or THREE bedroom houses (as described above) OR roomy units/villa's – both types are a highly sought after and generate a better yield.

New or near new villas/units .

We have strong demand for one, two and three bedroom units, and we believe that the demand for this type of home will be very positively affected by the changes in the proposed 'old renter' home legislation.

Home units in smaller complexes are sought after if they have good security, a private outdoor courtyard area, are well appointed & well maintained internally.

Multi-Unit Dwellings.

Most of our current clients are aware of my very pro stance for multi-unit dwellings ... mainly because the investor is getting more income from the available land – compared to a house.

For Investors, multi-unit dwellings should be the MOST SOUGHT AFTER property investment if they can afford it, because of the exponential nature of increases in this type of property – both in rental income and capital gains.

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A window of opportunity is wide open for elegant, functional, energy efficient, affordable small multi-unit developments (2 – 12 homes) located in well-established areas close to shops, parks, doctors/chemists, golf/bowls clubs & the City Centre.

These types of dwellings are the most attractive for both fit & alert retirees who want to downsize PLUS for the discerning, higher income (DINKs) tenants moving to Toowoomba taking jobs in the burgeoning Coal Seam Gas industry and/or with support services and infrastructure companies.

Finding land for these developments is a major problem ... basically, the only option is to purchase existing houses – and demolish that house – in areas that have good established infrastructure and then develop the ‘right’ unit accommodation.

For passive investors, the best current value is with the well located, established, ‘under-rented’ multi-unit buildings – where for a small outlay in improvements, you can get really good rent increases.

If you are considering either of these types of investments, please talk to me prior to making your purchase and we are happy to give you a considered opinion on whether your purchase will attract good quality tenants.

What are the better areas to invest?

The areas that we believe offer the best VALUE (when purchasing) and will generate the best rental returns in the foreseeable future are ...

- Kearneys Spring – the ‘Golden Triangle’ ... b/w cnr Hume/Alderley on east side, Alderley/Drayton Road on west side & to Nelson/West on southern tip.
- Newtown – area bordered by James, Tor, Bridge & West Streets.
- Some parts of Kearneys Spring & Glenvale (pretty well all of Glenvale).
- Wilsonton – south of North Street, close to shops, schools & hospital.
- South Toowoomba – close to the CBD, the Golf Club & Ruthven Street.
- Harristown – in the area around the State High School and General Hospital.
- North Toowoomba – the area close to CBD, Ruthven St & State High School.
- Westbrook & Wyreema – increasing demand due to access to new Airport & Wellcamp/Charlton Industrial areas will make these areas a hot spot shortly.

If buying land to develop, be careful ... lots of slope means higher engineering, footings and retaining costs.

In a sought after market (like current Toowoomba market), pretty well all rents will rise ... and over time, as a consequence so will land/house prices. Some may go up 50%+ and others may only go up say 20%.

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Our efforts for our clients are aimed at finding the 50%+ areas!

The following list is a breakdown of MY suburb ratings ... based on 19 years' experience in the local market, and outlining best accommodation in each area. If you are looking for higher income growth, the areas with the higher number out of 10 will deliver the better results ... where I believe will offer the best growth prospects over the next 5, 10 ... 20+ years.

Units & Villa's in East Toowoomba, Rangeville or Middle Ridge 8–9 out of 10.

Units & Villa's + Land/house in certain parts of Newtown, South Toowoomba, Centenary Heights and Toowoomba City – 8–9 out of 10.

Units & Villa's + Land/house in certain parts of Kearney's Spring, Harristown, North Toowoomba, Rangeville, East Toowoomba and Mount Lofty ... 7 – 8 /10.

Units & Villa's + Land/house in Darling Heights & Drayton ... 6 – 7 out of ten.

Units & Villa's + Land/house in Glenvale and Westbrook ... 6 – 7 out of ten.

Units & Villa's in south Wilsonton (below North Street) ... 6–7 out of ten.

Land/house in Wyreema & Vale View ... 6 – 7 out of 10

Units & Villa's in North Mt Lofty (above North St) & southeast Harlaxton – 5–6 out10

Land/house in Fairview Heights & north Wilsonton (above North Street)/Wilsonton Heights– 4 – 5 out of ten.

Land/house in Withcott, Cotswold Hills and Highfields – 4–5 out of ten.

Land/house in Cambooya, Kingsthorpe, Gowrie Junction, Rockville, north/west Harlaxton ... 3–4 out of 10.

Land/house in Southbrook, Murphy's Creek, Meringandan, Goombungee – 2–3 out of 10.

For longer term investment – close to Schools, Parks, Employment, Shopping and Transport – we recommend you wait for opportunities in areas above a six (6) rating.

Ongoing vacant Land Shortage.

LAND in areas that are well serviced with schools, parks, shops, transport and employment, will continue to increase in cost – the common explanation trotted out is scarcity ... basically because “they ain't makin any more!”

Property investors know it today as locational value.

With a Toowoomba population growing at way above the average of other cities in Australia, the shortage of land means infill sites must be created from the bigger blocks, in older suburbs surrounding the City Centre OR close to infrastructure growth areas.

Either way it will create chaos and rising land values ... and for those willing to invest, out of chaos looms a marvellous opportunity for a select few astute investors to profit.

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Summary

In Toowoomba we have ...

- Proposed changes in Queensland Government legislation I believe will cause a shortage in lower priced rental accommodation in Toowoomba.
- The increasing volume of people moving to the City for work is causing a shortage in the 'right' type of residential property.
- The increasing cost of land along with the imminent land shortage means that developers and investors are struggling to find the 'right' land to build the required accommodation.
- The proposed change in State Government legislation and ever increasing cost of compliance, red tape and maintenance regarding older homes will exacerbate the shortage of available rental properties.
- Combined Federal, State and Local Government costs are a major disincentive for Investors/Developers/Entrepreneurs wanting to take the risk and develop land and/or multi unit dwelling complex's.

So if there is an increasing population, a decrease in available land, a falloff in building activity and a possible decrease in the available number of homes in the rental pool, then only one thing can happen ...

The result has to be a significant shortage of accommodation for those wanting to rent in Toowoomba.

And the ensuing shortage will mean that the market must succumb to the oldest economic law – **'when demand outstrips supply, prices (rents) & land values can only go one way – up, up, UP!!!**

For regular updates on sales and statistical information on the Toowoomba Property Market email the writer:

Ian O'Donnell at ian@spp.net.au ... and ask to be included on the regular 'eLetter' emailing list.

Disclaimer: Warning:

Ian O'Donnell is a property analyst, a Licensed Real Estate Agent and property investor in Toowoomba. The views expressed are most definitely his own and the opinions, figures and statistics are checked for accuracy at the time of writing and could change on a daily basis. Verification of any substance in this report should be checked by the reader, and independent professional advice should be sought, before any investment decisions are made.

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