

Special Edition

1st July 2012

Dear Owners and Investors,

Before I start, there are many of you that are now on my email list that sends this to you automatically. If at any time you would like to be removed from this list, please just let me know by email. Of course those of you that do enjoy these emails; I would love to hear it. I sometimes wonder if it simply goes into cyber space and no one gets to read them. I really do try to make them as informative as possible but if there is a particular subject you want me to write about just let me know.

This time last week I started to write this email, and it was a bit sombre so I put it to one side. We had a spell there of a couple of weeks where the rentals went very quiet, and I started to get a bit worried. We had the most rentals on our website that we had for a very long time, and there appeared to be no real interest. Well, that was Sunday and by Monday afternoon it was a totally different story.

The rental market is still a very fickle thing here in Cairns, but it is so much better than it was 12 months ago. The demand isn't as high with the phone as it has been - but they are still renting.

This week we have rented:

3 bedroom on Digger Street - \$320 which is \$10 per week more than the last tenant

Bedsit at 93 Birch Street - \$155 per week. We did have a week's vacancy between tenants as it just didn't come off completely. It is the highest amount we have EVER rented a bedsit for. It was fairly easy to achieve and this will set the standard now.

1 bedroom on Lake Street - \$210 which is \$20 per week more than the last tenant and again the highest rent we have ever achieved for this unit.

2 bedroom at 55 McCormack Street - \$220 which is now pretty much the mark for the two bedroom furnished units.

I have to tell you how good we are - the tenant gave notice on Tuesday, we had a call for another property but it didn't suit this potential tenant. I told them about this unit and organised with the current tenant to meet them on Wednesday night after work. On Thursday the first tenant moved out, the potential tenant went back to have a look and fill out the form and on Friday they moved in. The owner loses no days in rent and the rent has gone up by \$20 per week.

3 bedroom at Rose Street - \$280 per week. I was very sceptical that we would be able to achieve this - but we did.

2 bedroom at Holden Street - \$230 per week. This is still of the peak of \$250 per week, but the outside does need to have the gardens done and the driveway redone. It is still \$30 per week more than the last tenant was paying so I am not complaining.

2 bedroom Spence Street - \$210 per week - again this isn't anywhere near the highs we used to rent them for at \$250, but we had one tenant move out on Monday and the new tenant move in on Tuesday at the same rent so I am not going to complain at all.

2 bedroom duplex Jensen Street - \$210 per week. This one is pretty run down inside and out, and not in the best street. The tenant was moving her stuff into the Taxi to leave whilst the new potential tenant was having a look through. She was in that afternoon - no loss of rent and a \$10 per week increase.

2 bedroom duplex White Rock - \$230 per week. I did the showings for this one on Thursday night and couldn't believe we had nearly 10 groups of people through that afternoon.

We had four really good applications and the property is gone. We could have possibly gone for more, but the owner is happy as they have a great tenant that will look after the property.

2 bedroom unit Earlville - \$220 per week. This tenant gave me notice on Saturday, and I called one of the applicants that missed out on the White Rock property and they are going to take it. The owner has no vacancy and there is \$20 per week extra.

2 bedroom duplex Edmonton \$235 per week - this is a new one we have just taken on, and I had to be particular about the tenants to go in as it is a really nice quiet place. It is \$5 per week more than it was rented for last time. This one took a bit longer as Edmonton is still perceived as being a bit too far out. The new town centre will help to change this.

7 bedroom house Bungalow \$470 per week. This isn't in a great street but it is a fantastic property. There is a five bedroom house with a 2 bedroom unit attached. I really thought we would struggle to get any interest, but it went within a week.

2 bedroom house Bungalow \$330 per week. Again I really thought that I would struggle, and although I didn't get a lot of interest, we do have a good application and it is gone.

1 bedroom unit in Manunda \$175 per week - this was vacant for two days and the rent went up \$10 per week. See Ms L in the tenant story below.

What is interesting is the different response you get from www.realestate.com.au versus the newspaper. I have not advertised in the paper much lately, as it costs a fair amount of money and we don't always get results from it.

We have had a duplex on the internet in Mount Sheridan and the response has been pretty slow. I had it in the paper on the weekend and I must have received 20 phone calls about it over the past 2 days. I know there will be a lot of people that will be ringing on Monday for it as well.

I had the 3 bedroom unit on Digger Street in the paper and I think over three weeks I would have received a total of 5 calls for that one but heaps of interest from the internet. This one was a bit strange as we showed so many people through but only received one application - which was a really good application. It still surprises me at just how many people that don't actually live here in Cairns call each week to arrange a property for when they get here.

The latest Cairns Watch from Herron Todd White is out

<http://cairnswatch.com.au/uploads/uploads/201206fullreport.pdf>

This confirms that the rentals are only just above stress levels - and our economy hasn't really started to kick off properly yet.

One of the questions that many of you are asking me is about the prices of the units and where they will go. I don't have a crystal ball, but this is the way that I am thinking...

The insurance issue is still the main reason that the prices have fallen, or continue to remain low. The Federal Government has said to the State Government they should drop the stamp duty on insurance premiums.

The State Government has said sure, but we are broke so if you are going to compensate us we will do it.

Even if the State/Federal Government does drop the stamp duty, this isn't going to really make any difference to the cost to the body corporates.

There is no competition, and they can essentially charge what they like.

If this was just affecting Cairns - we would be left out to dry so to speak. This isn't just a Cairns issue it is affecting every property North of Rockhampton.

It started out as just affecting strata titled properties but this isn't the case anymore. I spoke to someone yesterday and their home insurance went up by \$1000 from last time.

Until this is resolved, there will be no developer that will build units - no matter how desperate the rental crisis becomes.

The core issue for this will be the cost of the levies. I called to find out the levies on a unit on Lake Street - it was \$5700 per annum. Once you add this to the Council Rates, management fees and other maintenance and out goings you would be lucky if the costs were under \$10,000 per annum. No investor will buy this, and to be honest no owner occupier will either.

The other way to look at it is if your levies are \$5700 per annum and instead of buying a unit you bought a house - that \$5700 in P&I repayments would allow you to borrow an extra \$70,000. So when you are looking at a two bedroom unit for \$175K with these sorts of levies you can then look at a house worth \$245K and the money you pay out would be close to the same. We have been very lucky to keep our levies as low as we have, but even at these levels it is still unattractive to an investor - at the current rental returns.

For the Local, State and Federal Governments to get income they need for building to happen - there will be no development in the strata units whilst this issue continues - this means no council fees for building applications, no GST on the building, no Stamp Duty on the sale of the units, no tax because there will be no jobs - and more pressure put on the system as people can't afford the rental increases.

I will look at two units that are for sale, as many of you have similar units. The bedsit units did go as high as \$115K at the peak of the market, they have now dropped down to somewhere between \$85 - 89K. The rents did drop down to \$145 but this is now up to \$155 per week. On average the levies for this type of unit are \$1300 per annum. Right now it isn't that it's too high a price, or the levies are too high, or that the rent is too low - it is simply that investors are not looking at any type of strata unit at all.

The other is the two bedroom market. There are a few for sale now at Palm Trees, Scotsdale and City Park with the prices ranging from \$135 up to \$185K. Because we are so heavily involved with these three unit complexes, we have managed to keep the levies as low as possible and they are now at approximately \$2600 per annum. The rents have crept up to \$220 per week. They aren't selling and to be honest there is not even a lot of interest from potential buyers.

The pressure is now mounting as more and more people are continuing to get their renewals and desperation is starting to set in. Imagine being a pensioner in a retirement village and having to pay extra on the levies - not possible.

I will admit to you all I did have a serious melt down on Thursday and Friday when I got the renewal for two of our complexes that aren't strata titled. I will be writing to the Premier, Members of Parliament and the newspapers about the options I was given - which are essentially none. There have been two articles in the paper in the past two days, and I believe it may even come to having to picket outside the offices of the insurance companies - I will be there with my placard if that is the only way to get the message across.

There will have to be something that gives, I don't know what but I really think something will have to be done either by the State or Federal Government - or both. If and when this happens, we will see some stability return to the unit market. We are already seeing signs of small recoveries in the house market and the duplex market. There are a lot of people that are hanging on, and when the market turns we will see the prices rise fairly quickly to where they were in 2008. We saw this happen in 2003/4. So many people had hung on during the downturn of the late 1990's and early 2000 and when the market shifted they sold for what they needed to recover their costs.

If we can get the rents up to a good level, this will make them attractive for investors. The way the rental market is tracking now, I can see the bedsits at \$170, the one bedroom's at \$190 and the two bedrooms' at \$250 in a very short space of time. I can't say it will be during 2012 but I really think it will be in 2013.

The economy is starting to pick up and in this weekend's paper it outlined the projects to either start or in the pipe line for 2013.

One of the biggest ones is the Edmonton Town Centre

http://www.cairns.com.au/article/2012/06/30/226315_local-news.html

<http://www.cairns.qld.gov.au/building-planning-and-infrastructure/master-plans/edmonton-town-centre>

<http://www.edmonton-towncentre.com.au/>

There will be 38 residential lots, 100 bed hotel and 578 apartments and town houses in amongst the commercial shopping and offices. If the insurance issue is not resolved there is no way that this development will go ahead - no developer will build it knowing that the levies will be high due to insurance costs.

The Cairns City Council knows that the population base is growing, and without real housing being built soon there will be a crisis we have not experienced before. For us as investors it will mean rents will go up steeply and quickly - if you are shaking your head at this just ask someone in Mount Isa, Gladstone or any other place where there is a shortage of rental accommodation what happened to their rents.

The economy is starting to bounce back with the economy rising by \$236 million this year

http://www.cairns.com.au/article/2012/06/30/226285_local-news.html

The major projects that are happening now include

Cairns Base Hospital \$446 million

Lotus Glen Correctional Centre upgrade \$445 million

Cardwell Range Realignment - \$115 million

Cairns Home Maker Centre with Masters \$75 million

Mount Sheridan Shopping Centre expansion \$50 million

Cairns Institute at James Cook University \$25 million

Cairns City Port redevelopment \$23 million

Tropical Centre for Oral Health \$16.3 million

Redlynch Shopping Centre expansion \$15 million

For 2013

Rio Tinto South of Embley project Weipa \$1.5 billion

Mount Emerald Wind Farm \$550 million

Bruce Highway upgrade \$150 million

Cairns Airport International Terminal upgrade \$15 million

All of these projects will mean JOBS and this will boost the economy and the number of people living here and the pressure on the rents.

I really don't have the answer, and I don't know when the values of the properties will return to the levels they were in 2008, but I truly believe something will have to happen in the next 12 - 18 months to address this issue.

I will admit even more, I had a patch a few weeks ago where I thought why on earth are Ramon and I doing this and putting ourselves under this sort of pressure.

It is hard to think straight when the mind is over whelmed with the negative things - tenants being tenants, things breaking, money to be spent on upgrades, insurance and every other possible thing that costs money.

I know this path isn't easy, and there are very few that the path that Ramon and I have taken, and to the level we have. For me it all makes sense when I see my old people and the way they have to live their final years out. I don't want to have to think about can I afford to buy that extra thing, or do something - so the fog lifts ever so slowly and it all makes sense again.

It is lovely to have a nice life style right now, but when you can't work and the income stops coming in through wages I want to know that we will still be financially alright. There are so many that I see that live the high life right now - but there is no substance to their perceived wealth.

Now onto lighter stuff - tenant stories. I have a pretty good relationship with all our tenants, and when they leave I always say that if they ever are looking for another place to let us know as we would happily take them back. In the past four weeks we have had a return of many of them.

Ms L the butcher that can swear like a trouper and party hard, but pays her rent like clockwork and keeps her place spotless called up and needed a nice but cheap property. We had one coming up at Viewmont that was going to be exactly what she needed. She used to live in this complex before so she knew that any partying had to be done in the city or all my spies would dob on her. She knew the layout and style so she said yes over the phone. The rent went up by \$10 per week - so everyone was very happy.

We also had Mrs L who is a single mature lady - not quite in the I see old people collection just yet - but very close. She has been with us on many occasions and she went into our Holden Street unit. I know she will be great there and the place will be spotless.

We have Miss Shi who you could call a free spirit or hippie. When we first met Shi she had long dread locks that were fire engine red. She is one of the best tenants we have ever had, but when she has had a drink and you visit it is very hard to get out the front door. We didn't have a unit for her, but one of our associates has and she will be a great tenant there. She told me that I was the best land lord ever and told me that I am the Barbie Doll of Property Mangers - not sure if I should be offended or complimented.

Ron at Sheridan Street always make me laugh. He has now decided that his go go mobile is too slow and he wants to upgrade to a faster one. Of course we will have to take him shopping, see if they will trade in his current one and very probably have to lend him the money he will be short on the changeover. He is loving his Meals on Wheels and I may even be able to get him up to five meals a week very soon. He has the Red Cross tele service call him every morning and when they can't get him they call me to check up on him. I though the other morning for sure something had happened to him - but fortunately he was fine. I will have to tackle him this week about doing up a will for him - not that he has any money but what he does have we will have to use for the funeral. When I broach this subject with him, he tells me that the Government can take care of it and they can stick him in a cardboard box for all he cares.

My poor dear that has Dementia is still in hospital and I have been working with the social workers there. They took her to a Retirement Village last week, and it looks like she is going to move there. It is still independent living, but with a lot more people around to keep an eye on her. She will have to come and get the three meals a day so they will be able to monitor her better. I couldn't believe the cost.

They take 85% of the pension, plus the rental assistance the government gives you. You get the unit and the meals but, no wait you will love this - you still have to pay for the electricity. There is no family, so when the question was asked if I could be involved I caved and said yes. I now have to go to Court to be appointed as a Guardian. I had better get lots of brownie points with the Big Guy in the Sky over this one.

We have a lady that is living at Sheridan Street and when I saw her I would have sworn to you that she was 70 - but when I read the date of birth I couldn't believe she was only 55. She has been there for some time, and there were no real issues. I had a sneaking feeling she was a drinker, but up until a month ago it wasn't an issue as she is clean and very quiet. She has been on a couple of real benders in the past few weeks and they have been so bad that she has been taken away by Ambulance to the Hospital. She was the one that we thought was dead a couple of weeks ago, just really, really drunk.

The other day the tenants told me that she had been taken away in the morning, then when Ramon was there at 2pm he saw her being taken away again and then at 7pm they were back again. Time to step in.

The unit was clean, but she had made a mess - literally - on the couch. I talked to the Ambulance girls and then to the tenant - not sure how much she actually understood. We followed the Ambulance up to the hospital and I waited until she was admitted.

By this time she had sobered up a little. In front of the nurse and doctor and the tenant I explained that if she continued with this behaviour I would have no choice but to ask her to leave as she was damaging the unit.

I hate doing this, but maybe this is the bottom she needs to get her life sorted out - I doubt it as the disease really has got a hold of her - but I have tried.

Now for the best one. We are just about finished Grafton Street renovations, and it is now time for the clean up to begin. The unit is looking fantastic and I will be sending you before and after pictures soon.

There are four units in the complex. In Unit 3 we have the male Indian taxi drivers and let me tell you the place is just awful inside. I don't want to know how many of them there are inside, and we both know that when they leave we will have to strip it out completely as we have had to do with Unit 2. They came to us as told me that one of the guys has Asthma and the carpets are not good for his health so they want to move. They want to move into this lovely, beautifully renovated unit we have just finished.

I had to bite my lip or I would start laughing and shouting - Hell shall freeze over before you move into here. I didn't want to say, well if you cleaned up, vacuum cleaned occasionally, and maybe even steam cleaned the carpets as you have been there for nearly 4 years now - that could help him. Instead I nodded in an understanding kind of way and said we would love to but we want to get a really high rent via short term rentals. They said they would be happy to pay more but there is no way they are moving in.

We have the lovely Koreans in Unit 4 and they came in for a good look around on Friday. I told her that we wanted \$280 per week and if she wanted to move in that we would swap her over. Her rent has just gone from \$200 to \$230 per week so it may be possible. If she does move, we know that we could rent her unit out without having to do anything to it. We may not get higher than \$230, but it would need no real work to get it rented again.

We then have a couple in Unit 1. They are both on benefits, chain smoke but incredibly clean and tidy people that pay the rent. I looked at the stove in horror - this is one of the things that I hate doing. I don't even clean our own stove so why on earth would I want to clean one that a tenant has made filthy? I talked to them and said that if I sprayed it with oven cleaner, would they clean it for me the next day. They heard cleaning - money - more smokes and booze. I heard \$40 in exchange for a spotlessly clean stove - music to my ears and theirs. I didn't know it was possible to get it that clean again. They even took all the knobs off and cleaned them with a tooth brush.

I have to share what my Brother said to me the other day, and I can't actually argue with his logic. I am now officially closer to 50 than I am 45. I am so lucky to have the life I have, now we just have to wait for the property market to bounce back so we can put the final parts of our plan in place. When I grow up, I want to be that little old lady on the cruise ship that has done thousands of days at sea, and seen every port there is to see - at least twice. You never know I might even get Ramon to marry me again so I can become wife number 2, 3 and 4!

Hope that you are all happy and well in your world.

Linda