

Special Edition

15<sup>th</sup> July 2012

Dear Owners and Investors,

Yes, the time this is going out is correct. I have said it in the past, I am my own worst enemy. A thought popped into my head about an hour ago, and after staring at the ceiling for an hour I decided to get up write this email, then go back to sleep. This is actually something that I have been thinking for a while, and it may seem a little out of left field.

I know this goes out to a lot of different people and you may write back and tell me it is a stupid thought - but we have to do something. I have also included members of the media, the Premier of Queensland, Members of Parliament both State and Federal so I won't be as fluffy as I normally am. If you would like to forward this to any one you think may be interested, please feel free to do so as this is such an important issue.

Many of you are "Mum and Dad" investors. For the great majority of you, the property you have in Cairns is the only investment property you have. The reason you have bought is not for greed, or with the thought of becoming millionaires - but it is so that you can hopefully make some difference to your lives when retirement comes.

We all know and understand that doing nothing is not an option, and the thought of living on the Aged Pension solely is not very desirable. Many of you have been on the journey with us from the beginning 12 years ago and we now all find ourselves in a very difficult situation.

I will agree that we are in extraordinary times and the GFC was the initial cause of the decline of Cairns. When it hit, we saw the start of a domino effect and the four builders we had collapsed one after the other. We have seen a mass exodus of our trades people, with some numbers as high as 20,000. I believe we are now over the worst of this, with many projects now starting to put some confidence back into the economy. I wouldn't be popping the Champagne corks just yet as we still do have double the unemployment that Brisbane does.

The issue is the failure of the Insurance Market and its effect on our investments both immediate and long term.

For those of you that know Ramon and I, you will know our thoughts of litigation and the dislike of it. I know that this is going to sound mad, but I think we should start to look at a Class Action against both the State and Federal Governments. I don't know if this is even possible or if someone will take up the challenge.

My logic for this is

It is the State Government via the Body Corporate Act that has made it legislation that we MUST insure the body corporate assets including the common areas

[http://www.justice.qld.gov.au/\\_data/assets/pdf\\_file/0008/12878/Insurance.pdf](http://www.justice.qld.gov.au/_data/assets/pdf_file/0008/12878/Insurance.pdf)

It is the State Government via the Body Corporate Act that has made it legislation that we MUST pay for a building valuation for insurance purposes and we must insure for that value. This must be done every five years.

It is the State Government that is not providing us with a fair and reasonable option to insure the properties when they insist we MUST insure them.

It is the State Government via the Body Corporate Act that has made it legislation that we MUST have a Sinking Fund to provide for future works to be completed. This adds to the already high financial burden being placed on owners.

[http://www.justice.qld.gov.au/\\_data/assets/pdf\\_file/0003/12864/Financial\\_management.pdf](http://www.justice.qld.gov.au/_data/assets/pdf_file/0003/12864/Financial_management.pdf)

It is the Federal Government that held an Parliamentary Inquiry into Strata Titled Insurance in the Far North, and it appears it they will be taking no action.

As a direct result of the actions, or inactions of both the State and Federal Government our properties in Cairns are essentially of no real value. Further to this, unless something does happen the values will not increase and may even decrease further - all of this as a direct result of their actions/inactions and not market driven. I will give some specific examples...

We have a bedsit for sale in City Park - 85 Birch Street, Manunda. The body corporate for this unit in 2007/08 was \$700 per annum with the cost of insurance being \$88.01. In 2012/13 the levies are now \$1263.87 with the cost of insurance being \$368.99. In this particular case we had no idea what would happen with the body corporate insurance so we budgeted for \$35,000 or \$555 per lot and after we had the building valuation redone, we were lucky enough to keep the premium down to \$23,246. When you consider in 2007/08 the total premium was \$5,545 it is pretty mind boggling.

In 2007/08 similar units in this complex sold for \$115,000. This unit has been listed for sale with us since Christmas at \$89,000. In six months we have not been asked for one single inspection by a buyer. The total number of calls on the unit have been two - of which neither have been more than phone calls. There is another unit for sale in Scotsdale and this agent has had the same feedback on that sale.

The rents for this unit are now at \$155 per week, which for an investment of \$89,000 is pretty good until you take into consideration the body corporate.

There is a unit for sale in Scotsdale Apartments - 93 Birch Street, Manunda. The body corporate for this unit in 2007/08 was \$1531 per annum with the cost of insurance being \$173.23. In 2011/12 the levies are now \$2899.50 with the cost of insurance being \$1302.69. This unit would have sold for approximately \$220,000 in 2007/08. It has been listed for the past six months and is now down to \$135,000 with no real interest in the property. We have rented units in this complex for \$220 per week on average.

What I have to stress here is that these two examples are complexes where Ramon and I are involved. This means that no stone has been left unturned in trying to keep the costs down to a minimum, whilst still having the complex presented well and the necessary work being done. The great majority of complexes are in a far worse financial position that these two. There are many units that by the time to get the rent, pay the management fees, pay the body corporate and pay the council rates - there is NOTHING left so who on earth would buy this?

There are many issues we are facing as owners, with these being the main ones:

There is no real end in sight for the increases, and the uncertainty is driving investors away

The costs have reach a stage where the investment is not worth looking at

The values have plummeted and there is no real reason to believe they will be increasing soon.

This issue made the Australian Property Investor magazine, it constantly makes it to the newspapers, radio and television. Therefore it is in the public arena and driving investors away.

Investors are simply not looking at ANY properties in a body corporate environment, not just here in Cairns but any where that has been affected by Insurance.

The banks are taking into consideration the levies when lending, and this is seeing many not being able to obtain finance.

The valuations of the properties are coming in low, and this is then making a contract fall over.

The body corporates were notified prior to TC Yasi that Zurich would be pulling out of the market and we were to expect increases in the order of 400%.

They said the reasoning was that they had too much market share in Far North Queensland, and from memory the figure was they had 40%.

We now have essentially ONE insurance company that will provide insurance - SUU via CGU. What happens if they decide to pull out - then who will insure us? What if they don't pull out and just continue to put the prices up as they feel - we are obligated to pay this under the State Government rules.

As a Chairperson of many body corporates, I am now in a very difficult position. The Body Corporate Act also says that when a debt by a lot owner reaches two years, we are to start legal proceedings to recover the debt. This can involve the sale of that lot. I will look at this a bit more closely.

Let's say a lot owner bought their property in 2008 for \$200,000 with their levies at \$1500. There has been a significant period where the rents have been low and there have been vacancies. The interest rates went up, the council rates have nearly doubled and this is on top of the body corporate levies now being double at \$3000. This person has fallen behind in their levies and is now two years in arrears. In the big picture their debt is \$6000 which is significant, but let's be honest not huge.

The body corporate legally now has to start proceedings against this lot owner to recover the debt. This property is now only worth \$135,000 if you can manage to get someone to buy it. To get a quick sale you may even have to drop it down to \$120,000. This lot owner will potentially face a short fall of \$65,000 to \$80,000 and may lose their family home or declare bankruptcy.

I have tried to work with all owners that are in arrears, and have put in a payment plan that is achievable by the lot owner - but not everyone is as hands on in the body corporate as we are. Ramon and I were here in 2000 when the market was low but this is different for the following reasons...

We now have the internet - in 2000 the way you bought an investment property or searched for it was totally different.

The rental market never dipped the way it did in 2008 - 2011. During the lows or the early 2000 we never had a vacancy, where as we had up to 3 months vacancies on properties this time.

With the prices low, the properties were essentially neutrally or positively geared. Even with the low prices, the units are still not even close to being neutrally geared.

Until this insurance issue is resolved - I do not believe we will see an influx of investors even when the rents increase.

Many investors have bought an investment based on the information that was available to them. This included the body corporate levies and what they were at the time of purchase. It would be fair and reasonable to expect increases over the past few years and this should have been factored into their investment strategy. Any increases should have been offset by the increased rent - and if the insurance has of remained as it was, then this would be the case.

There may be a glitch where the rents have not increased due to other market factors, but on a five year basis this would correct itself. We are starting to see this happen now but this is not covering the increases.

Many investors now find themselves with an investment that is worth less than what they bought it for, they can't sell it even if they wanted to, and hugely increased expenses that are putting financial pressure on them. It is also going to affect their retirement plans.

I may be just a simple property manager, but I truly believe that we as investors now find ourselves in a situation that is as a direct result of the actions and inactions of both the State and Federal Governments and this is the reason I believe a Class Action would not be out of the question.

I will continue to push this issue where possible. Your continued support on this matter is appreciated, and if you can think of anything else we can do just let me know. If it means me arranging a rent a crowd with signs chanting outside the insurance office or a Member of Parliament - you tell me what to do and I will be there!

OK, I feel much better now that that is off my chest. I will finish off with a tenant story. Friday I found myself at the supermarket - not a strange thing you say, but it wasn't shopping for groceries for myself. No I was there pushing the trolley around with Miss P.

When she was in hospital, the nurses went through her purse and found \$1000 in cash in there. They took this and put it into the Patient Trust and when she was released from hospital they gave her the cheque. When I brought her home the other day, it was all a bit much so I went back there on Friday to take her to the bank.

You have to remember, that she can't remember much - so before we headed off to the bank I tried to work out where she banks, and what accounts she has. She has in her black clutch bag a business card holder with all the important things like her licence, bank cards and the like. We managed to establish that she has two National Australia cards, one is a Visa and the other is an Everyday Account. She tells me she gets money from the hole in the wall - but for love nor money could she remember the PIN number.

There shall be no head shaking as you read the next line - as I have done all the head shaking for you already. There in the front cover of this card holder she has written - Everyday Account 0279 - yes the pin number for the card!

So now we have established that she has a National Bank account so we decide to head off. I watch in amazement as she starts to get her stuff ready to go to the shops. She has a green shopping bag from Woolies and into this goes not just the black clutch bag but her make-up bag, a bag full of coins, a roll of paper towels, a pencil case full of pens, and another two small bags with I don't know what in them. This green shopping bag is nearly full of stuff to take with her. No point in arguing with her.

We get to the bank, and we line up waiting for the teller. I explained that she had just gotten out of hospital, and I was helping her bank the cheque. I also needed to check if the PIN number was correct as Miss P still couldn't remember it. Sure enough it was right - yes I roll my eyes at this point. I tell the teller that we need to establish what money Miss P has and then I explain that Miss P needs to pay me back \$300 as I had to pay for the bond for her to go into the Retirement Village. She had \$6100 in her account. I have to tell you I felt awful - and I am sure the teller was looking at me and thinking I was going to take advantage of Miss P. She already had \$185 in cash in her purse and wanted to take more out. I convinced her that we could pay for the groceries with her card and she didn't need more cash.

Miss P and I then went to Woolworths and I tried to get her to buy only what she needed. I think I am going to have an issue with her on the food front. She is a hermit and I think it is the fact that she doesn't like to come out of her unit to go to the dining hall to eat. She hadn't been to lunch two days in a row. The issue is that in her tiny little one bedroom unit she only has a microwave, a kettle and a toaster. There is nowhere for her to cook her own meals.

The main issue is also that 85% of her pension is gone to pay for the food, so she really can't afford to cook her own meals. We bought just a few items, and I managed to steer her away from the bin liner aisle - seriously I am going to take a photo and attach it next email. There were two boxes of bin liners and oddly enough about six packets of plastic drop sheets and six packets of blue tarps. Maybe she was a contract killer in a previous life and had them on hand just in case.

We now head up to the check out and I show her that she can pay for the groceries with her card so she doesn't need to carry around so much cash. You remember how I told you last email that after the 85% of her pension is gone to the Retirement Village that she has just over \$100 per fortnight - well that was all spent in one hit and very little to show in the bags.

I drove her home and like a donkey I get to carry all the shopping from the car to her unit - this time it was me whinging about the distance from the car to her unit. It took us ten minutes for her to find the keys, and finally we made it back into the unit. I got her to pass me her black clutch and I got the piece of paper with the PIN on it and explained she can't have it in there. I knew if I threw it into the bin there she would fish it out and put it back, so I put it into my bag to throw away later. We worked out a way for her to remember it, but I bet when I see her next she would have written it up and put it in there again.

Now nearly four hours later, I manage to get away and start my day! I really hope that big man in the sky is watching and taking notes! There must be many Miss P's in the world as there would be Ron's from Sheridan Street. They are the lucky ones that have managed to stumble into our way, I would hate to think what happens to all the others. Let's be honest if they had money they could fix the problems themselves, but it is because they have to live the rest of their lives on a pittance that they find themselves where they are now. This spurs me on to keep you all motivated to do something to change your future.

It is now 6am, and I have a clear head. I will head off back to bed as I have a big day planned. I am going to lunch with one of my favourite dinosaurs. It shall be a lunch of grazing and much too much alcohol. Ramon gets the job of collecting us when we are done - I am sure there will be a lot of eye rolling on his behalf when he collects us!

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

Linda