

Special Edition

5th August 2012

Dear Owners and Investors,

Before I start, just a reminder that any time you wish to be removed from this email list, please just send me an email and I will remove you.

Now, cue the music and let the DANCE OF NO VACANCIES BEGIN!!! I can't tell you what a relief it is to know that when a tenant gives notice we will be able to rent it out quickly. Even better we know that the probability is we will rent it for more than we currently have it at.

This week, we had a tenant leave a bedsit and they were paying \$150 per week. The same day a new couple moved in and they are paying \$160 per week. Even better we actually had a choice of people to put in and this hasn't happened for a very long time.

I have been saying the rental market has changed for some time, but today I am going to do a bit of a dissection on what is actually available for rent as at today. I am doing the research on www.realestate.com.au as even though I don't like the service they provide, you can't do business without using them. The majority of agents use this, some will use other sites as well but I really don't know any that would not use this as the main site. Of course there will always be private land lords, but there aren't a lot of these around at the moment.

I am using Cairns Greater Region as the search area, and this includes up to the Northern Beaches but not Port Douglas. It goes down to Gordonvale, and funnily enough includes some of Cardwell's rentals but not in between. When you search for all available rentals there are a total of 652 properties available. I will now break this down...

Available Houses - 284 total available
Houses up to \$300 per week - 66
Houses between \$300 - \$400 per week - 144
Houses between \$400 - \$500 per week - 60
Houses between \$500 - \$600 per week - 26
Houses \$600 per week and over – 17

Now this adds up to 313 properties, so within these figures there have been 29 duplications. When you consider that there is a population of close to 150,000 there aren't a lot of houses available. Even worse within these figures there are some properties in Cardwell and that is over a 2 hour drive away.

Available Units - 368 total available
Units under \$150 per week - 8
Units between \$150 - \$200 per week - 72
Units between \$200 - \$250 per week - 121
Units between \$250 - \$300 per week - 98
Units between \$300 - \$350 per week - 69
Units between \$350 - \$400 per week - 30
Units \$400 per week and over – 40

Now this adds up to 398, so again within these figures there are 30 properties that have been duplicated. I have done one more search for all units under \$250 per week and it comes back with a grand total of 179 available for rent - so 22 of the duplications are in this section.

It is scary at how few are actually available, the link is below

<http://www.realestate.com.au/rent/property-acreage-villa-townhouse-unit-apartment-unit+apartment-between-0-250-in-cairns---greater+region%2c+qld/list-1?activeSort=price-asc>

Even worse if the actual quality of the ones that are available, I know I couldn't live in the first ten places on the list.

What does this mean for us? I am not a smarty when it comes to the way the economy ticks, but I thought in normal times it would be something like this

After a period of no construction, the vacancy rate tightens - tick happening in Cairns now.

As the vacancy rate starts to drop the rents start to go up - tick happening in Cairns now.

As the rents go up, and the investors start to see good returns - not happening

As the rents go up further, developers start to look at options - not happening

Prices for properties go up - not happening and I don't think they will happen because of the insurance and high council costs.

Development starts to happen - not happening, and not going to happen.

We are in a very unusual situation and I don't believe there is going to be a change in the actual prices we can sell our properties for some time yet. Investors have been scared off, and until the rents increase a lot more, I don't believe they will return. Although we have managed to keep many of our body corporate down to a manageable level, most of the others haven't. It is a case of investors just not looking at anybody corporate properties at all right now.

On the upside, we will see rents continue to go up, and we will be right there pushing them up as fast as we possibly can. It is not something I like doing, but the reality is to hold onto the properties this is something we have to do. The costs have gone up and we now have the opportunity to pass these on.

The other thing I want to talk about is the actual tenants and the way they live in properties.

For this part we will talk about units only as these tenants are different to people renting a house or duplex. When we started way back when, a tenant would usually stay between 6 - 12 months. They would want the unit fully furnished, and in the early days we would even self contain the properties with pots and pans. These tenants were generally under 35 and were not born in Cairns. They were here for the life style and had only just arrived into the city.

This pretty much stayed the same up until the GFC, there was a lot of movement in the properties but when one left, another was easy to find. Competing with these tenants were Japanese and English students here studying for a year at least and wanting to get their own place. We also had a big population of working travellers that had come here for the winter, normally under 30 and love the lifestyle that Cairns can offer. There was a big Irish and English backpacking population. We also had the builders, contractors and labourers that came into our city to work on the buildings that were sprouting up all over the place in our heyday.

The GFC brought an end to many of these groups of tenants, and I truly believe we lost at least 20,000 during the dark days. The tourism industry essentially ground to a halt, and there are many mid range hotels that adapted to the environment and converted their rooms from holiday to permanent let. The Cairns Colonial Club, The Palm Royale, Sunshine Towers, Gateway Resort are the ones that I know about, but I bet there will be many more that did the same. Now that the tourism numbers are growing again, the pressure will be on to free up these rooms as it is far more lucrative to have them as resort rooms than permanent rentals.

This will force a fair number of people out of their current accommodation and out into the open rental market - and as you can see from above there isn't a lot to choose from as it is.

I bumped into the manager for one of the Pubs that also does hostel accommodation in the centre of Cairns. He said they were full at the hostel as were all the others in the city. The numbers of backpackers has increased significantly. The difference for now is that there is no work to keep them here so they come with the money they have saved, do the reef, and laze at the Lagoon, and party until their money runs out. When the economy gains more momentum, there will be work such as waitressing and bar work, or even on the touristy things and hopefully by next year we will see the back packers stay again.

When this happens they seek out permanent rental accommodation - and this will put even more pressure on the low stocks we have.

There was an announcement that Cairns will be hosting part of the G20 Summit in 2014. This will be big for the Cairns economy and the International exposure we get will be significant.

http://www.cairns.com.au/article/2012/08/05/231754_local-news.html

There was another report in the Cairns Post saying that International language student numbers are back up to levels of 2005. It is similar to the backpacking story, yes the numbers may be back up but they aren't staying for as long as they used to. When they can get work, they will but right now they are able to financially stay long enough to add further pressure on our rentals.

I spent the day at the office a few weeks ago looking at our tenants and the break up. As you all know I know collect old people, and many of these have now been with us for a few years. I was actually surprised at just how many of our tenants have been with us for longer than four years - and it doesn't look like they are going to move any time soon.

There has definitely been a change in the attitude with people that are based in Cairns. Before if you asked where do you live the answer would be somewhere else, I am just here for a while. This is now where people live, where they have put down roots and where they want to keep living. There are some that have left to go to the big smoke, but realised just how great life is in Cairns and have returned.

The latest Herron Todd White Cairns Watch is now available. The link for this is

<http://www.realestate.com.au/rent/property-acreage-villa-townhouse-unit-apartment-unit+apartment-between-0-250-in-cairns---greater+region%2c+qld/list-1?activeSort=price-asc>

The unemployment rate is still very high at over 9%, which is close to double the rate in Brisbane. I know we aren't out of the woods just yet, but there is a better feel in the air than there was even 12 months ago. I think it will continue and get better, only slowly and not in great big leaps. In the next few months we have two major centres opening. The Masters centre - Ramon and I can't wait to get in there and spend a day looking at all the things they have - sad isn't it to think I want to spend a day wandering around a hardware store! I haven't found out who else will occupy the other stores, but I am sure they wouldn't have built it with no tenants coming forward for the other half.

<http://www.lancinigroup.com.au/brochure/41/LanciniCairnsHMCentrebroch%20V2%20-%20Luke.pdf>

This Home Maker Centre will create jobs - it isn't just the people that have built it, it will be the people that work there every day, the people that bring the deliveries to fill the stores, it will be the people that deliver the goods to the customers - the amount of indirect work it will create is going to have an impact on our economy.

The other big project that is about to be completed is the new Mount Sheridan Shopping Centre with K-Mart being its main tenant. The centre is going from 7000 square metres to 21000 square metres in size.

<http://www.insideretailing.com.au/IR/IRNews/Centre-revolution-4867.aspx>

I think the story is the same as with the Home Maker Centre, the jobs that this will create will give Cairns region a boost. Not only this, but it will be another reason that people will want to live on the Southern Corridor. The rents are cheaper than the Northern Beaches at the moment, but we are starting to see this increase as the vacancy rates decrease. I really think the Southern Corridor will be the growth areas when the market moves again.

We are now hearing the sounds of concrete piling drilling machines - and it is incredible how far the noise travels. The road works have started for the upgrade of the highway from Forest Garden up to Ray Jones Drive. Not that I would know about it, but the morning traffic is very congested on the southern access roads into the City during peak hour. Stage One is under construction, and this will free up the road system - and another reason why people will like living on the Southern Corridor of Cairns.

<http://www.tmr.qld.gov.au/Projects/Name/C/Cairns-Bruce-Highway-Upgrade-Sheehy-Road-Forest-Gardens-to-Ray-Jones-Drive.aspx>

Do I know what will happen in the next year or even two – not a chance – my crystal ball is out of action at the moment. Do I know that things feel better than they did a year ago – absolutely. Did I ever expect things to be the way they have been for the past five years - not a chance, or we would have sold up in the peak and I would be writing this from my deck chair on the cruise ship.

Some days, I will admit to you that I have to stop, take a few deep breathes and focus on the big picture. It is very difficult to see clearly into the future, so in this case I look back.

Think of the people that were desperate when the interest rates went up to 18%. There were those that lost millions in the various stock market crashes, and if you go back even further let's look at the Great Depression. I bet all those people at various points in history felt the very same desperation that I feel some days - it isn't easy but in the long run there will be light at the end of the tunnel.

We just have to focus on what we are in right now and make the best we possibly can. I can assure you that every day I think not just about our properties but each one of yours and ways of making them better but still keeping all the outgoing costs to a minimum.

Enough of the heavy stuff, time for some light stuff. I am very blessed (not that I am religious in any way) to have a fantastic team around me. I have realised some time ago that I am no longer Wonder Woman and can do everything myself. The cape started to get holes in it, and I would hit the wall occasionally.

Because many of the properties we look after are in groups - Scotsdale, City Park, Viewmont, Palm Tree Apartments, Tropic Gardens, etc and we essentially look after the body corporates we have the team going from property to property on a regular basis.

There is the MDE and OSE that do our electrical work when required. Troy, our brilliant Gardener that has transformed the gardens at all our complexes. I have attached some pictures of City Park - 85 Birch Street for you to see the difference that long term planning can do. We have Bart from Ezyfix who is my saviour on so many occasions. I am still flawed when I had what some of the other handy men want to charge for simple work. Now we have Clinton who has fitted into the gap perfectly.

For some one that hasn't worked in property before, he has done incredibly well to pick up and work out what we do, why and how important it is to look after each and every one of our owners and tenants alike.

At the office the other day, Clinton, Troy and I were going through all the quotes for tree lopping we have had done recently. The contractors don't know their names, but because they are there all the time they actually know just as much about the comings and goings of the place as I do - sometimes even more.

It was funny listening to the conversation between us and when one would describe a tenant in a complex and the rough area they lived - the other two knew exactly who they were talking about.

It is tough keeping order in such big complexes, but somehow we seem to have them all under control and this is part of the reason that so many of our tenants are staying for so long. They have some where affordable, close to everything and they feel safe.

I will finish off, not with a single tenant story, but just tenants in general. We live in a pole home that would be at least 25 years old now. We have been here for nearly 9 years and in that time we have done very little in the way of improvements. The way it was when we moved in is pretty much the way it is today. Now during this time has the following happened

The toilet seals leaked

The tap washers needed to be changed

The shower head broken

The hot water system leaked or the element needed to be changed

The toggle switches to the lights and power points broken

The light fittings broken

No, we haven't had to do a single thing. Now I think of all the things that go wrong each and every day in our rental properties - the list is long and never ending. A long time ago I realised that tenants are much harder on properties than owner occupiers, and these things will happen regularly. I can't tell you why, but they do! It's just the way it is!

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

Linda