

Special Edition

4th November 2012

Dear Owners and Investors,

Before I start, for those of you that haven't already signed the petition, please do it now. I didn't realise this, but every time someone signs on and puts a comment in, the petition then sends this one single addition on as an email to a whole bunch of people - Senators, the Insurance Council - and it is starting to create some annoyance with them. They are starting to realise just how badly this is affecting people, not just those in the Far North but everywhere. Many of you don't live here but are affected.

<http://www.change.org/en-AU/petitions/help-north-queenslanders-get-fair-and-affordable-insurance-premiums>

Please forward this link to any one that may be interested. The more people we get to sign the more emails get sent out to the powers that be.

There are many of you on my list. My ramblings may not be for every one, so if you wish for your name to be removed, please just send me an email and I will remove your name from the list.

Back in April 2012 I wrote this

With the rents, I don't have a crystal ball but I would like to think that by the end of 2013 we will see the bedsit units renting for \$170 and the two bedroom units \$250 per week. This is assuming they are well presented internally and fully furnished. It will come down to supply and demand. If we are tight on rentals now and the economy hasn't started to boom, I think these are achievable.

Oh my how things have changed in the past 18 months - and not a minute too soon. We are starting to achieve the highest rents we have ever achieved, even higher than pre GFC rents. This isn't across all the properties as yet, but it is slowly making its way through the market.

We have some properties close to the city that we rent out on short term leases - that is three months as a minimum, not on a weekly basis. These were exceptionally popular with travellers and people here to learn English from Korea and Japan. This sector hasn't recovered as yet and we aren't achieving the rental returns we used to prior to the GFC as yet. The English Language students are not here in the numbers they used to be, nor are they staying anywhere near as long.

With the regular tourist market, there are many reports to show this has been one of the best tourist seasons for many years, it seems that the spend per person is much lower. Instead of someone going on all the tours, and then having dinner out every meal they are choosing to go to a select few tours, hire a car and drive to the other attractions. They are also staying at the self catering place and instead of dinner out every night, they cook in their rooms. As the economy worldwide gets better, people will start to spend more on their holidays. It doesn't help that our dollar is so high and this in turn makes everything so expensive for travellers.

The working backpacker market is still fairly strong, but what we are seeing is the length of stay remain short. This comes down to one simple factor - no work. The back packers love coming up to Far North Queensland, and many would stay on working if they could, but right now there just aren't enough casual jobs to go around. When this does happen, it will put extra pressure on our city rentals, and we will be back to pre GFC levels.

In saying this, we did achieve \$290 per week for our renovated unit on Grafton Street. This came down to the location and the presentation and the fact that we would do a short lease for three months. We still struggle to achieve the higher rents for Spence Street as it is just that bit further out.

This is going to be broad, and not all units will fit into these categories

Bedsit Units - renting for \$160 - \$165 per week. These did go down as low as \$140 per week

One Bedroom Units - renting for \$175 to \$185 per week. These did go down as low as \$160 per week

One Bedroom Loft Town Houses - renting for \$190 - \$210 per week. These did go down as low as \$165 per week

Two Bedroom Units - renting for \$210 - 230 per week. These went down to \$190 per week.

Two Bedroom Townhouses - renting for \$220 - 230 per week. These went down to \$200 per week. People seem to pay slightly higher for the privilege of the parking at the front door and a courtyard to the rear.

Duplex Units - \$240 - \$260 per week. These went down to \$190 per week.

I am not much on the crystal ball but here are my predictions for rents before the end of 2013 - I have a year to hit these targets.

Bedsit Units - \$180 per week

One bedroom Units - \$200 per week

One bedroom townhouses - \$230 per week

Two bedroom Units - \$250 per week

Two bedroom Townhouses - \$260 per week

Duplexes - \$270 per week

Much of this will depend on what is happening in the house rental market. The more pressure that is being put on this market, the higher and faster the rental returns will increase for the units. At the moment, it is difficult to narrow down what a house will rent for. We recently rented a four bedroom, two bathroom home with a pool and nice patio area for \$395 per week. When I initially looked at it, I will be honest and tell you I thought we would be lucky to achieve \$350 per week as it is on the southern side of Cairns.

The vacancy rate continues to go down. I will do the break up for the available rentals in Cairns again for you to show the numbers available.

All available rentals August 2012 - 652, October 2012 - 610, November 2012 - 584

Available Houses - August 2012 - 284 total available, October 2012 - 263, November 2012 - 236

Houses up to \$300 per week - August 2012 - 66, October 2012 - 58, November 2012 - 63

Houses between \$300 - \$400 per week - August 2012 - 144, October 2012 - 127, November 2012 - 113

Houses between \$400 - \$500 per week - August 2012 - 60, October 2012 - 58, November 2012 - 45

Houses between \$500 - \$600 per week - August 2012 - 26, October 2012 - 32, November 2012 - 20

Houses \$600 per week and over - August 2012 - 17, October 2012 - 23, November 2012 - 23

Within these figures for October, there have been 28 duplications.

Available Units - August 2012 - 368 total available, October 2012 - 347, November 2012 - 348

Units under \$150 per week - August 2012 - 8, October 2012 - 6, November 2012 - 7

Units between \$150 - \$200 per week - August 2012 - 72, October 2012 - 62, November 2012 - 68

Units between \$200 - \$250 per week - August 2012 - 121, October 2012 - 108, November 2012 - 100
Units between \$250 - \$300 per week - August 2012 - 98, October 2012 - 111, November 2012 - 95
Units between \$300 - \$350 per week - August 2012 - 69, October 2012 - 71, November 2012 - 58
Units between \$350 - \$400 per week - August 2012 - 30, October 2012 - 34, November 2012 - 38
Units \$400 per week and over - August 2012 - 40, October 2012 - 33, November 2012 - 45
Within these figures for October there have been 63 duplications.

In the Cairns Post this weekend is this article which highlights the rental increases, and the probability they will continue into 2013.

http://www.cairns.com.au/article/2012/11/03/235999_local-news.html

The upcoming Solar Eclipse is going to give our economy an injection of \$75 million. It is going to be fantastic world wide exposure for us.

http://www.cairns.com.au/article/2012/11/02/235954_local-news.html

The best one of all is that we now have direct flights to China. These have begun and our tourism people are doing everything possible to make it a brilliant stay for our all tourists.

http://www.cairns.com.au/article/2012/10/29/235756_local-news.html

We as investors need to make a plan for the next 18 months. This will be broken down in to several sections

- **Increasing the Current Rents**
- **Improvements to the inside of the property**
- **Improvements to the exterior property**

Increasing the Current Rents

Earlier this year I went through the entire rent roll and increased the rents where possible. Most of you would have received a small increase in your rents. To increase the rents, assuming the tenant is on a periodic agreement, I need to give them two months notice in writing on the increase of rent. I can only do this at six month intervals. Although technically I could do this again now, I have hesitated for a few reasons.

- We are starting to head into the wet season. This is traditionally when things start to slow down on many fronts.
- We traditionally have a large vacate rate in the month of December. Many people leave Cairns as their work has completed at the end of the year, or they just don't want to be here for the wet season. Either way, when the month of December comes along I cringe every time the tenant ring goes off on my phone.
- Most other agencies have the same turn over come December, so the rental market will increase with available properties, and this could cause a small levelling out in the achievable rents.
- If I did give an increase letter now, the tenant would start paying in January the new rent. If they then start to shop around and find a similar property cheaper, this could be the trigger they need to move before Christmas. If they are on a periodic agreement they only need to give us two weeks' notice.
- If a property does become vacant in December, we have a very small window of opportunity to relet them.
- Once it gets to the 10th December things are getting difficult to relet.
- Once it gets to the 20th December it is almost impossible to relet until the first week in January.

I do not want to encourage any tenants to leave in December and a rent increase will do this.

I have purposely left any rent increases until the middle of January. By this time we will get a true indication of whether the rental market will continue to remain tight, or whether it is going to slow down until the beginning of the dry season - April.

If the market remains tight, and the achievable rents are continuing to increase then we can look to increase the rents slightly higher than I would if I were to do it in November. The other reason is that if I do the initial increase in January, I can then do another one July or August which will be peak season. This way we can get two rental increases in 2013.

I will contact each of you before I set the increase in rent and give you my thoughts. With some of our tenants we want to increase the rents but still have them stay in place. With others I will push up the rents and if they stay and pay, lovely. If they go then there is a reason I don't mind them moving on.

Now, I need you to appreciate that I can only do what I can do when the property isn't presented well internally. I can possibly get you a few dollars more, and I may even have a quick change over, but for me to really get the higher rents, it is now time to spend some money internally.

Improvements to the Interior

I am going to write generally now. Many of you are in the same position as we are. We bought somewhere between 2001 - 2006. The properties haven't been renovated internally; in fact, many of them are fairly much in original condition. These properties are now 20 years old. Between 2001 and into 2008 our thoughts were to continue to rent them out for as much as possible but if a vacancy came up then look at taking advantage of the week and get something done internally. We had no vacancies during this period, but still achieved good rents. Much of the internal tiredness was hidden by the fact we put in new furniture. Now we have a tired unit with tired furniture as well!

Along came the GFC and we suddenly had the vacancies, but this was not the time to be doing any renovations. Up until this year, we have been saying not to do anything unless it was absolutely necessary. The quality of tenants, and the achievable rents were poor so it didn't make any financial sense to do any upgrades at this point in time. The tenants we were finding were not going to look after any of the improvements, and this would see me asking you to repaint in a far quicker time frame than was necessary.

Early this year is when the rental market started to turn, and thankfully it has continued to get better and better. Although the rental market is good, people are still being picky about what they rent. They still have choices, particularly in the unit market. If the unit presents poorly internally, there is a very real chance for a few dollars more they can get a similar unit but presented much better.

We are finding that potential tenants are happy to pay more for a nicely presented property. With the bedsits, it can be as simple as upgrading the curtains and the furniture. As the unit gets bigger, it may require more but we are now seeing it worth spending the money on the upgrades. Recently we upgraded our one bedroom loft townhouse and achieved \$210 per week. Our highest ever rent pre GFC was \$185 per week. With Grafton Street, we are now achieving \$290 per week, where as we are only achieving \$230 per week for the ones we haven't upgraded.

This is the time to start to plan to do things to the property, so we can capitalise on the increasing rents.

Improvements to the Exterior

For those of us that are in a body corporate, and have been paying into the sinking fund for some time we are now at a stage where we have a fair amount saved in the kitty. We have had a plan in place for many years to improve the exterior. This includes getting the gardens up to a high visual standard, pressure cleaning the common areas, simple improvements such as fences where possible. The next big expense is going to be the repainting. This is going to make a huge visual impact on many of our buildings. It will brighten and modernise the entire feel of the property. We recently repainted Tropic Gardens in Manunda. I have attached pictures of the lovely orange salmon colour before and the transformation the painting has done for the complex.

I believe that as the sales market picks up and starts to get closer to the prices that we want to sell them for, then we should get the buildings repainted. We as owners have put into the fund for many years now and we should get the benefit of having our buildings presented very well externally. This will help to attract good tenants that are prepared to pay a higher rent - which is important to investors. If we can get this insurance issues resolved and back to some normal level, it will then bring owner occupiers back into the unit market as they are more affordable to purchase.

I have been holding off on doing the repainting until the time comes where the prices have increased. At the moment it looks good to have a big sinking fund sitting in the bank account for potential investors.

Conclusion

What we need to do as a collective group of investors to help ourselves, is to push the market rents up as high as possible and as quickly as possible. The great majority of the properties are going to be sold to investors. They are very much aware of the issues of insurance and the flow on effect in rising levies. If we can combat these increases of the levies with higher rents, the properties will then become far more attractive to investors. It is all about numbers. I know that most of you haven't been to Cairns, let alone seen the property you have - and this will continue to be the pattern with future investors. We need for the numbers to stack up for them.

All the right ingredients are here for us - no building of accommodation in at least six years, low vacancy rates and now an economy that is starting to turn for the better. We need to help ourselves by giving tenants well presented properties in exchange for higher rents. This in turn will help us with the sales prices. Right now there are just the sharks circling for a cheap buy, but soon it will turn and more and more investors will come in to compete and this will see prices go up. No idea how long this will take, but it will happen.

Enough of the serious stuff, it is time for tenant stories. We recently had a unit in Sheridan Street come up for rent. The lovely French backpackers have left and we faced a choice. The unit has been retiled in the living and bedrooms, but we haven't renovated the bathroom as yet. It has a huge cast iron bath tub in it, and concrete floors. This needs to be totally stripped out and made into a full wet area. It presents alright, but it won't achieve us the higher rents in its current condition.

Ramon does really want to tackle this just yet so we put it on at \$220 per week - which is still pretty good given the presentation. We had a bit of interest, but a lot of it was the bottom of the barrel types. I had one in particular that happen to be there when Ramon was there so he got to see inside the place. He kept calling me for days, and I really didn't want for him to come and give me the application. He seriously sounded just awful on the phone and Ramon's description didn't make me feel any better about it.

He persisted and came to the office, Cheryl let him in and he was filling out the form. When I got there I said to Cheryl "hell shall freeze over before he goes in". I really don't know the true story, and I bet I never will really know it but he spun me about his life, what has happened and why he is here in Cairns. Just like Rex Hunt, he reeled me in. I was pretty tough on him and asked him straight out if he was a drinker, if he did drugs and if he would cause me any issues - because if he did he would be out as fast as I legally could get him out. Still he kept spinning me the tale on how he wouldn't let me down.

Less than 15 minutes after my "freezing over" statement, we are arranging for him to move in the next day. Yes, I now give you all full permission in a few weeks to say I told you so! My thoughts were, he has the money, he isn't on the tenant data base list, we have no one else, and most importantly Ramon doesn't have to tackle the bathroom just yet.

I have to tell you that gone are the days of me being meek and mild. I am actually quite scary at times, and I don't like it but sometimes people push my buttons. I got a call from a tenant to say we needed to send out an electrician for the light in the bathroom. I asked why and he said it stopped working. He then told me it was a long fluro batten style and he had bought a new fluro and changed it but it still wasn't working. I then asked if he had changed the starter - he promptly told me no. I told him he had two options.

Option One he could go down to the supermarket and buy a starter which would cost him a few dollars. He could then put this in and if the light still wasn't working, then I would send around the electrician.

Option Two was that I would get Bart to go around with his own starter, and if he put it in then I would be sending him personally and not the owner an invoice for \$50 to change the starter. Option One was chosen and he now has a light in the bathroom.

With the units, we have such a great network of contractors, tenants and other agents that I know everything that happens. The other day I got a call from Troy our gardener who was having an issue with one of the tenants at Scotsdale. It was less than 10 minutes later I get a call from Body Corporate about the issue and I told them I knew and it was all sorted out!! Love the dobbers, they make my job so much easier.

To finish off, I will tell you about the new Japanese girl I put in to a unit. This property is pretty tired and desperately needs to be repainted internally. We have managed to mask this well with a new oven, a new fridge and new furniture. This has been slowly upgraded over the past few years so it didn't cost the owner a huge amount in one go. This is a nice two bedroom unit, in a good location but really it needs to be freshened up.

The lovely Japanese girl turned up to our office asking about it, so I drove her straight out there as it was vacant. The tenant has actually left, but was still paying the rent as it was in his notice period. I glossed past the tired paint and showed her the nice shiny new fridge and oven - that impressed her. The rent was \$220 per week which I thought was pretty good given the presentation. She spotted that there was only one air conditioner in the main bedroom and not one in the second bedroom. I told her we could get one, but it would cost her \$5 per week more - she happily agreed.

We got this installed into the window, which means that the window is slid shut against the box air conditioner and can't be opened up to let the breeze in. When we do go to repaint this unit, we will look to take the box air conditioner out of the window and get the block work cut so it will sit nicely into the wall. In this instance I didn't do this, partially because of the cost but more because of the incredible amount of dust this will create throughout the entire unit.

I met her at the unit to sign all the paperwork and again pointed out all the new shiny things we had put in for her, including new curtains, a new table and chairs and even the new air conditioner. She was very happy with it all. Or so I thought. About 30 minutes later she text me to say she was unhappy that she couldn't open the window. I called to explain if she did that then the air conditioner would fall out of the window. I gave her a choice of removing the air conditioner and dropping the rent back to \$220 per week, or leaving it in place. She decided with the summer coming up it would be better to have the air conditioner and is all happy again. Owner also happy with no vacancy and a higher rent!!!

Well that wraps up another Special Edition. I hope you are all happy and well in your world.

Linda