

Note to Self

26<sup>th</sup> January 2013

Dear Owners and Investors,

I am going to spend much of next week writing to each of you individually - it is rent review time. Prior to the GFC I really don't think I sat down very often to do a full rent review of every property, this was because we had a turnover of the tenants and each time one would leave we would creep the rent up \$5 or \$10. Up until 2008 I was happy when a tenant would give us notice and leave as I knew that we could relet the property quickly and the rent would increase. The dark days between 2008 and 2011 saw me cringe every time a tenant gave notice - I really had no idea on how long it would take, or what I would drag up from the bottom of the barrel.

The turning point for the rentals really was the beginning of 2012 and this carried through all the year. I need to be clear here, just because you have a property vacant, doesn't mean that I will be able to rent it out quickly or for a higher rent. The property has to be well presented both internally and externally. Many of the properties we have bought as a collective group are now over twenty years old. Fortunately many are in body corporate environments and I have been able to upgrade and improve the outside slowly but surely over the years through the levies. The inside is a different story with many of them we have done not alot - and they are visually very tired.

In 2013 we need as a collective group to take the rents to a higher return level. The timing is right - we now have vacancy rates at stress levels, there is no building of new properties on the horizon and the economy of Cairns is starting to turn. For us to make our properties attractive to investors, we have to get the rents up higher to offset the increases we have received over the past few years for insurance and rates.

When I assess if a rental increase is possible, as an investor I think you should be asking the following questions

**What is the current market rent for the property?** Now there is a difference between what is being advertised and what is being achieved. I know of a property on Balaclava Road that I noticed come up for rent prior to going away and it is still vacant. This has got to be over six weeks. It is advertised for \$240 per week, which I think is pretty close to the mark but obviously there is a reason it hasn't rented. It could be the presentation internally or it could simply be the agent - as I am not involved I can't comment.

**If the tenant leaves what do I need to do to the property to bring it up to standard?** The list can be long given they are over 20 years old, but not all of it will need to be done at once. I will go through with each of you what I think needs to be done and the options.

**If you do put the rent up, does the tenant have the capacity to pay the increase?** We know the tenants pretty well, and I know there are some that are only just making ends meet after the last increase. There are some that if we put the rent up, they will have no choice financially but to downsize. I am hearing this over and over with the phone calls I take for the rentals. This needs to be taken into consideration if you want them to stay.

**Do I want the tenant to stay?** There are some tenants that I will be putting up the rent slightly higher than others. This is more for tenants that I really don't want to stay, but if they do decide to pay the higher increase then it is a bonus. There are others that are just fantastic and I try to keep these increases to a minimum.

**What is the plan with the property both short term and long term?** If you are looking to keep it in your portfolio for the next ten years, then you will have a different strategy to those that are going to be selling in the next high.

To help you understand what I mean I will use a few of our personal units and what our plan for each of them is.

**Sheridan Street - Unit 7.** At the moment we have a tenant paying \$220 per week which is nowhere near as high as what we have achieved in the past. We were achieving \$250 per week but this was based upon the Cairns economy having a lot of English students from Korea and Japan, working back packers and a booming economy where there is very little choice of rental accommodation to choose from. Right now if our current tenant leaves we will probably only be able to get the same rent in this market. This may change as we get to the middle of 2013 but based on the market as it is right now this is probably the best rent we can get.

This unit has been retiled throughout the living, kitchen, hallway and both bedrooms. This is an older building and we really need to do a lot of work on the outside to improve it visually. Internally for this unit we can get away with the current kitchen as it is functional but in the short to medium term we should look to upgrade it to a new one. The bathroom is pretty much original and even has the cast iron bath tub in it. Ramon cringes ever time he has to even thing about getting that out. We would need to completely gut the bathroom, then put a water proof membrane in for the wet area, tile all the walls right up to the ceiling - not worth leaving any of these walls until. The toilet is original so in this case we would probably have to put in a new pan not just a new cistern. In many of the newer properties we have we can get away with just a new cistern. Then just to make it even more interesting we would need to put in a new vanity.

The furniture in the unit has been upgraded over the years and there are three air conditioners - so that is something that doesn't have to be put down on the list - at least we have a win on that front. The walls and ceilings do need to be repainted.

Our choice for this unit is pretty simple for us. We could look to put his rent up \$10 per week to \$230 per week which would give us \$520 per annum extra - but for the risk of the current tenant leaving we aren't going to go down this path. The rent for this unit is not that far off the mark so for us it is better to leave this one alone for now. There is one ulterior motive for not increasing his rent - Mr S now takes the bins out for me each week and then brings them back in. Dragging 6 wheelie bins down the driveway in my high heels is not fun, especially when it is pouring with rain.

**Bedsit City Park** - I know there are many of you that are in the same position as us with this style of unit. These were built in 1989, Scotsdale in 1992 and Palm Trees in 1995. All of them to my knowledge have the original kitchens, robes and bathrooms. In general terms these have weathered fairly well and none to my knowledge are in desperate need of upgrading other than furniture, curtains, fans etc. We have a lady in one who is paying \$150 per week currently. Her unit is a top floor unit at the end, so it is light and breezy internally. We have done absolutely nothing to this unit internally since we bought it in 2001 apart from put some new furniture in.

Right now bedsit units are renting for \$165 per week so she is a fair way behind the market rent currently. For us to bring this unit up to a good rental standard will involve putting in a new stove which will cost us \$850 approximately. This is to buy a new stove and have the electricians install it. The walls and ceilings will need to be repainted but we may get away with it for another tenancy if we upgrade some of the furniture. From memory the washing machine and dryer are good, but I have a feeling the fridge is pretty ordinary - that is another \$500 if we need to upgrade it.

With this particular tenant she has been a temporary solution when I was in the bottom of the barrel stage of the rental market. In a normal rental environment she wouldn't have been given an application form let alone approved for the property. Although she does pay the rent regularly and the place is clean she does occasionally fall off the wagon and I get complaints.

For this particular tenant I have three choices. The first is that I increase the rent up to \$160 per week - which if she stays will give us an extra \$520 income per annum without the need to spend any money. This means she will still cause me a few issues, but they haven't been bad enough for me to warrant evicting her. At an increase of \$10 per week, I will guess that she will look around and see that it is still the cheapest rent she will get and will stay.

The second choice is to increase it to \$165 per week, which is an increase to her of \$15 per week. This is a fair hike and it will probably be enough to push her out. There may be a chance she will stay, but I would say there would be a 75% chance she will leave. If this tenant does leave Ramon and I will have to go into our pockets to do the necessary upgrades and then look to find a new tenant. If it presents really well and the market continues on the path it is taking right now then there is a real chance we could \$170 per week.

The third chance is to give this current tenant a Notice to Leave. She is currently on a periodic agreement so we can give her this with no grounds. The reason we would do this is that we want her to go, and acknowledge that we will have to do the upgrades and hope that we can get it rented for a higher amount. I would only do this if I was 100% confident we could achieve \$170 per week. At this stage we have never achieved this so this would not be my personal first option right now.

**Viewmont** - 1 Chester Court. There are a few of you that also have investments in this complex. This was constructed in 1990 and all of the kitchens are original. These are in fair order given they are twenty years old and at this stage I wouldn't look to upgrade any of them. When we bought our unit we said we would repaint it when it was empty next - that was back in 2001 and up until 2008 it was never empty. After this there was no point in spending the money to repaint it as there were no good tenants that would look after it for us. Today it is in pretty much the same condition as when we bought it. The same can be said for most of your units as well.

Our tenants are in the "fine tenants but not really my first choice" category. They aren't bottom of the barrel, but they are floating not too far from that level. Again like the lady at City Park they pay the rent, keep the place nice enough and don't really cause me a bother but..... they are currently paying \$170 per week. This was pretty much the market when they moved in but in the later part of 2012 the rents for Viewmont started to go up. We have just relet one in here for \$190 per week - which I have to tell you is a record for Viewmont.

Before I even start to look at what rent increase to give them I need to be realistic and work out if they do go - what is required to be able to achieve \$190 per week? I also need to work out if this unit is going to be a keeper or a debt reducer and upgrade accordingly.

For us at this point in our plan it will very probably be a debt reducer. I need to work out what can be done and will last with tenants in place and still be presentable to a buyer.

Repainting the unit is something that should be able to last with a good tenant for at least five years minimum and still be presentable. The floor coverings I know are original with lino in the kitchen and living area and awful carpets in the bedroom. To change this alone will make a huge visual impact.

For this unit I am putting it into the too hard basket and will increase his rent by either \$5 or \$10 and hope that he stays. If he goes then I will do the minimum to get it relet even if it is just new fans and curtains.

I will be writing more about the rental market, doing a duplex comparison update and writing more about upgrading the inside of your unit. I have lots of things to write about in the next few weeks - as I am now all refreshed after the cruise - did I mention we went on a cruise?

Now onto the part you all look forward to - the tenant stories. The other day I had a missed call from a tenant at Buchan Street. This tenant has been there for a few years now, and worse still he is actually an investor with a few properties himself. The message said something like "Two of the elements on my stove aren't working and my parents are staying here with me and they are fed up with it and want them fixed straight away."

In December I would have had the hairs raised on the back of my neck, a snarl on my lip and then I would have let him have it, but in my post cruise bliss I called him and said "Mr R, you know I am a good property manager but my mind reading skills are currently not working very well." There was silence on the other end for a few minutes so I carried on "if you don't tell me that something isn't working, there really isn't much chance of me getting it fixed now is there." The back peddling began when he realised that he hadn't told me until the phone call that afternoon - new stove is being organised and going in next week - everyone is happy again.

Sadly, I lost one of my "I collect old people" last week. Tommy was a lovely, gentle man who had been with us for the past few years. His daughter lives just across the road, but he wanted his independence so he took one of our bedsit units at City Park. The Big Man in the Sky has decided that I should replace Tommy with a lady in her 60's that was referred to us by another tenant. You laugh, but I haven't advertised his unit as yet because it still has to be cleared out, cleaned and then the furniture upgraded. I got the call from one of our existing tenant begging us to find a place for her friend. She has the same style unit and this will suit her friend to the ground and most importantly it is in her price range. See the Big Man has plans for me and my I collect old people.

I am now going to brag about how much useless information is stored in my head. The other day I got a call from a tenant saying her fridge has stopped working. I know this fridge isn't that old so it should be fine. I asked her what temperature she has the fridge and freezer set at. I then asked if the freezer was working and if it was just the fridge that was not cooling. They had both the fridge and freezer set at the highest possible temperature. The freezer was still frozen, but the fridge wasn't cold at all. You now have to imagine me being a girlie on one of those game shows, where they wave their arms around and point to something at the right moment in time.

A frost free fridge is designed to suck the moisture out of the air and then take it to the back of the freezer - this is why we don't have to defrost the freezer any more. The ice is at the back where you can't see it. The timer on the fridge turns off and then allows this ice to defrost, run down the back of the fridge down to a container near the compressor. When the compressor then comes back on, it heat up the water and it evaporates and hey presto no more water in the back of the fridge.

The freezer is the only part of the fridge that is cold. A fan pushes the air down through a vent and the cold air then comes into the fridge. With the temperature set on medium, the cycles continue and the ice evaporates, the tubes between the fridge and freezer are free and air can freely go between the two. Now here is the but - if you turn the temperature up to high, after a period of time the timer cycle isn't long enough for all the ice to melt and slowly this forms a bigger chunk of ice and stops the air flow. This is about the time the tenant calls to say the fridge isn't working.

I tell them to go and buy some ice, put everything into the laundry tub so it won't melt, turn the fridge off and leave the doors open for a few hours. This should give the ice time to melt and the tubes to clear again. They then turn the temperature down to medium and then put everything back in and the fridge on. There are times where there is something else wrong, but about 90% of the time this is all that is wrong with the fridge. With the almost 100% humidity we have had in Cairns over the past few months, there is a lot of moisture that goes into the fridge and freezer every time you open the door. In this instance it was the problem, the tenant is now happy as she has a working fridge on the right temperature, the owner didn't have to pay for a call out fee so he is very happy and I smile at the useless information I know. Oh it is a far cry from the secretary walking down St Georges Terrace all those years ago.

Because it is Australia Day and I am very proud to be a first generation Australian, I have to tell a story about my Grand Dad. Dida (Grand Dad in Croatian) took a shine to Ramon, particularly when he realised that Ramon is pretty handy and can fix just about anything. When he would see Ramon he would call him over and ask him to do a job, very easy, five minute job - yeah right. One of them was to change the rubber to the wish bones on his HQ Holden - and let me tell you that was a huge job with lots of cussing and cursing happening. Now whenever I have a job for Ramon, it is a five minute job - I see his eyes roll back and shake his head as he knows there is no way it is going to be a five minute job.

Yesterday we got a message from a lady at a really nice house in Kewarra Beach. The washer to the hot water tap for the washing machine split and the tenants woke to find the laundry flooding and spreading fast. They managed to tighten the tap, but it wasn't long before it started to drip again. They don't use the hot water for the washing machine, so there is no hose going to it. Why it decided to leak at this point who knows, but I am very happy it was before the long weekend, not after. They are going away for the long weekend, so we had to get it done that day.

Everyone else was busy, so I asked Ramon to do a five minute job and go out to change the washer - it's just a five minute job. I mean it is just a tap washer, it can't be that difficult. It is for the washing machine, so logic would think that it will be on the wall, easy to get to and he should be able to do it in FIVE MINUTES. Yesterday was the first day that it hasn't rained all day, and the sun came out - and so did the heat and humidity. Logic obviously was not on the mind of the developer, and instead of the washing machine taps being easily accessible on the wall - no they are under the tiny laundry trough in the small cupboard. If that isn't bad enough, not only are they in the tiny cupboard but they are behind the U bend.

Ramon couldn't lie on his back and stick his head into the cupboard as he couldn't get the leverage with the spanners. I have been told he had to try and squat, sticking his head and shoulder into the cupboard and then with two spanners - as the whole tap was starting to turn not just the spindle - try and get it out. It would have been so hot - and I bet a swear word or two would have been muttered as he could hear me saying "it's a five minute job". I bet my Dida would have been up there with the Big Man in the Sky and both of them would be laughing and saying - yep, a five minute job!!! JP you owe us a bottle of Merlot!

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

Linda