

Special Edition

2<sup>nd</sup> February 2014

Dear Owners and Investors,

I bet there are many of you that thought Ramon and I had stowed away on the Diamond Princess - let me tell you the thought had crossed my mind many a time. For those of you that have been on the journey with us for the past 14 years, you actually know a lot more about me - more than I know about you. I can tell you one more thing about me personally - when I get stressed or under pressure my safety mechanism is to pull back and go quiet. The fact that you haven't heard from me for nearly six weeks tells you a lot!!!

The things that make me successful are the same things that create a drama for me in life. I could never have imagined that Ramon and I would have the amount of properties that we have, nor the number of clients and properties that we look after. I have written a piece on my good points, yes the same things that are my bad points - that will come soon.

One thing that most investors - including myself - fail to take into consideration is that an investment property is a fantastic opportunity to create wealth. Oh but you don't get a free ride, the offset to an investment property is that for it to pay for itself you need a tenant to pay the rent. Oh how my life is interesting with all these tenants pressing my buttons on a constant basis!

It has been an interesting start to 2014. Traditionally we get quite a few tenants vacating in December. This happened to a fair degree and if we don't have these properties relet by mid to late December, the chance of reletting them drops each day as we get closer to Christmas. Between the 20th December and the first business day back from New Year there is a very remote chance someone will be wanting to rent a property out. Traditionally on the first business day back from New Year there is a huge demand from people looking for rental properties.

We have a large number of people moving to Cairns for the start of the year - teachers, doctors, nurses, police, University students and TAFE students to name a few. Ramon and I were back in the real world for this and I have to tell you when the phone simply didn't ring for the first week back - I started to worry.

If you did a search for all available rentals in the Cairns greater region mid to late 2013 you would have found between 550 - 650 available rentals. This covers an area from Gordonvale up to Palm Cove. It also includes all rentals from a small budget studio, right the way up to an executive home. For the first few weeks of January this figure was just over 900 or a 50% increase. It has now gone down to 890 but it is still much higher than what we had prior to Christmas.

Ramon and I had a unit of ours that became available just before Christmas. It is a bedsit at Palm Tree Apartments. It is small, but it is a really nice unit. We have repainted it internally, had new lights and fans installed, new curtains and the furniture upgraded. It presents really well. It has a kitchen with an upright stove, a fridge and even a washing machine in the bathroom. These are really popular with people that are on a budget and don't want to share.

We were easily renting them out for \$175 per week last year. This particular unit sat for weeks without any one even asking to inspect inside. I dropped the price to \$170 per week and in four weeks we had a total of 2 inspections. Fortunately a lovely Korean couple has taken it, but it was bringing back memories of the barrel which I just don't want to get back into.

The level of enquires was lower but the "trash element" was so much higher. It was not restricted to just this budget property, it went right the way through the available rentals. Fortunately we have managed to clear most of the vacancies, and just have a few left.

I am hoping it is a combination of a few factors

Christmas and New Year left over quiet phase

Wet season down time - it has been incredibly hot and humid

Brewing cyclone off the coast - this sent things quiet all this week

Later start to the year - school and contracts seem to be starting at the end of January rather than the traditional early part of January.

Although we have dropped the rents slightly, they are still at higher levels than they were 12 - 18 months ago. This is assuming that the property presents well internally. I can't tell you how often the potential tenants tell us that the other properties they have seen are just awful - particularly when they walk into one of ours that presents well. This is going to be a key part of getting and keeping good tenants in 2014. It is also crucial for us to be able to get higher rents for you.

There has been an announcement that Aquis will be delayed for a year. It still hasn't been approved by the State and Local Governments, and it seems that the sticking point is the approval of the stand alone license for the Casino. Getting a project this big approved and started within a year of the announcement was always going to be ambitious. I think we will hear more over the next few months. I personally think it will go ahead, and if nothing else it has been the catalyst for the turn in the Cairns economy and confidence.

For the past few weeks I have been doing some research for a few buyers. I have to tell you that the market has well and truly turned. You can still find a good buy, but they don't hang around long. You also will be paying more for them than you were even three months ago. To find a good two bedroom unit under \$120K is near on impossible, yet before Christmas we had three that were purchased by investors for under \$100K.

It is not often that I get the crystal ball out, but today I will make an exception. Before I make my predictions I will go into some back ground information as not everyone has been following Cairns as much as we have.

Cairns is a relatively new city and most of the building happened in three distinct phases. The first was in the areas close to the city and Edge Hill. This would have happened in the very late 1970's and early 1980's. The unit blocks that were built were either single level or two storey. They tended to be in smaller blocks and I will guess that at this time there were a lot of Duplex pairs that were built.

The next building phase was between 1988 – 1995, and this was your bomb proof but certainly not pretty developments. This includes the houses you will find in White Rock, Woree and Brinsmead to name a few. These were constructed with besser blocks and most of them finished to a budget finish - the besser blocks weren't rendered internally or externally, the kitchens and bathrooms were basic in design and fit out and the fixtures and fittings were cheap.

The unit developments of this era were mainly in the 5km CBD circle. This is up to Edge Hill, around to Whitfield and south to Woree. There were some developments at the northern beaches and some further south down to Edmonton but the bulk were in the Manunda, Manoora and Whitfield area. These were up to a maximum of three stories high. The size ranged from a simple 4 pack up to 45 units. There were also some duplex pair developments that were done but if they could squeeze more onto the block - they did.

The last building phase happened between 2003 - 2008. This was cut short by the GFC - it literally ground to a halt over night and the rest is history. These developments were nice and on a much bigger and grander scale. We had the development along the northern beaches, the Esplanade in the City and other inner city suburbs. We also had the mega developments like The Lakes and Cairns One. Housing was also on a much grander scale and to a much higher specification. There were very few small developments and even fewer duplex pairs. I guess the economies of scale just weren't there.

During the rise of the last property cycle, the units that were built in the first and second building phase were pretty much bundled together and sold for about the same price. Obviously there were slight differences for location and fit out but generally this would be the price near the peak of the market in 2008:

Studio Apartments - \$80 - 100,000 - this is the really small ones at Chester Court, Jensen Street and even the motel style units at Anderson Road

Bedsit Units \$110 - 115,000 - this is the type that can be found at 85 Birch, 93 Birch and 55 McCormack Street.

One bedroom units - \$150 - 170,000 - the better the presentation the better the price.

Two bedroom units - \$220 - 240,000 - I know it is difficult to believe but you really couldn't buy a crappy one for \$200,000

Duplex Pairs - \$500,000 plus. Yes these are the same duplex pairs I wrote about recently that if you shopped around you could buy for \$400,000 and under.

Houses - \$300,000 plus. This would be for a basic three bedroom, one bathroom home in the not so good areas.

Now to put this into context for today market as it stands right now:

Studio Apartments - \$40,000 if you hunt around you may even get one lower.

Bedsit Units \$85,000 - potentially there is \$30,000 if the market goes back to just 2007 prices

One bedroom units - \$90 - 120,000 - these have dropped but not as badly as the two bedroom units.

Two bedroom units - \$95 - 140,000 - if they just go back to 2007 prices there is potentially \$100,000 capital gains to be made.

Duplex Pairs - \$350 - 400,000 - these have gained \$50,000 in price since we started tracking them 18 months ago. The fact there are so few pairs around will see the prices go up quickly.

Houses - \$250 - 300,000 - this is for your basic home in Woree, White Rock, Manunda, Manoora etc.

These too have gained ground in the past six months. You had your choice of houses about 6 months ago for \$250,000 and under. To find a good house with two bathrooms for under \$300K is nearly impossible now. You can find a three bedroom, one bathroom for under \$300K and these are still worth looking at if this is your strategy.

The fact that we haven't had any building in 7 years, the economy is getting better, the vacancy rate is low and the rents are increasing are all positive factors. The fact that interest rates are at historical lows is another bonus. The deal breaker is Aquis and the other projects that will follow on. This will put further pressure on rents and when the investors start to come out and see the prices compared to the achievable rents they will take notice and start buying. I am already seeing this now. I am dealing with more buyers now than I have dealt with all 2013 put together.

I know that some will say that the body corporate levies will put the investors off. For this example I will use Palm Tree Apartments. There are 44 units in the complex. Before the huge insurance increases came in the premium was \$6000. The premium we just paid in May was \$32,500.

For the bedsits they used to pay \$93 per year and now they pay \$508 or an increase of \$415 per annum, or \$8 per week

For the two bedrooms they used to pay \$186 and now they pay \$1016 or an increase of \$830 per annum, or \$16 per week.

I know that the other outgoings have also increase, Landlords Insurance, council rates and water charges - but these haven't been as high. For this case I will use a bedsit unit. At the peak of the rental market the highest we achieved was \$155 per week. We are now consistently renting them out for \$175 per week and this is set to increase as the rental market continues to tighten.

This is one side of the crystal ball, but there is another side. We have a lot of investors in Cairns, particularly in the unit market. Many have been wanting to get out for the past seven years, but just haven't been able to achieve the price they want so they have held on. The ones that have sold have either lost a lot of money, gone bankrupt and the bank has sold it out from under them or they bought a while ago and although they didn't make a profit they didn't lose money.

To explain where I am trying to go I will use the two bedroom market. Right now you can buy a reasonable two bedroom unit for under \$140,000. As these are being sold the cheapies are not being replaced. The people that have been hanging on waiting for the market to get to \$140,000 consistently are now listing. This is a long way from where they were going from and it may take a while for these to sell.

When the ones at \$140,000 sell the people that have been hanging on until the market gets to \$160,000 will start to think it is time to sell and get out. These will list and again, although they may not sell immediately, as the cheaper stock gets sold they will start to look like the cheapest available and they too will sell.

I wrote this before we went on the cruise and to prove a point I will tell you about a townhouse at Tropic Gardens. It had been listed for a long time at \$150K from memory. It would have been at least 12 months and no real activity. In December this was sold for just under \$150K. A few weeks later an identical unit in the complex was listed for \$199K and the agent tells me that the owners knocked back an offer of \$175K.

I am hoping that this leap frogging of prices will bring the market back to 2007 prices relatively quickly. Lots are out of our control - investor confidence, world economy, Aquis approval, tourism and the Cairns economy in general.

Here goes my predictions - these are based on if the Aquis project is given the green light and is to start in 2015 and not in 2014.:

By this time next year we will see sale prices nearing the peak of 2007 prices. I actually think they will be higher but I am being conservative.

By this time next year will we see rents go up by 10 - 20%.

Bedsit units are currently \$175 per week - I believe they will go to \$200 per week

One Bedroom units are currently \$170 - 200 per week - I believe they will go to \$200 - 230 per week

Two Bedroom units are currently \$200 - \$240 per week - I believe they will go to \$230 - 270 per week

Two Bedroom duplexes are currently \$220 - 250 per week - I believe they will go to \$260 - 290 per week.

Houses will increase by at least the same rate, and may be even more as there are so few houses to rent currently. It is incredible some of the prices we are achieving for house rentals, and as the market tightens up it is allowing us to choose better quality tenants and achieve higher rents.

Now for the good stuff - tenant stories. We look after a fair few units at City Park, which is a big three storey property in Manunda. We look after a few of the ground floor units and there was an issue with the television to one of them. I asked around and it was the same for the surrounding units.

Out went the TV technician and I know how happy he was to have to get up in to the hot roof to fix the problem. Low and behold the neighbour had an issue so out went our TV guy again.

This time it was the wiring in the wall, but all fixed. A week later the second tenant called to say her TV stopped working. As they are in a series if one is working, then all are working.

As the neighbours were fine it had to be her unit. I asked her to check her TV and retune it again. She called back adamant that it was not her TV nor her cables it was the aerial. I explained that I will happily call out the Technician but if he comes and finds out that it is actually her TV or cables then she would have to pay for the call out fee. I also explained that this will be over \$100 for the call out. I organised the Technician, but less than 15 minutes later I get a text to say her friend had come over and they had sorted out the issue - amazing how they can fix things if they realise it will cost them!

You all know that we do lots of things, and hope that the Big Man in the Sky is watching and taking notes. I cannot take credit - Mr M this is your story.

We were asked by Mr M if we knew of some one that would want and deserved a big plasma TV. His neighbour upgraded and it needed a new home. It sat in our office for a bit - Ramon said it would look good in the garage at home so he could watch cricket, but that wasn't going to happen. Then Bart the Wonder Handyman went and did his knee and unless I was going to deliver it myself in my Barbie High Heels it had to wait.

There were a few candidates, but one jumped out. It's not like you can just ring them up and say "Hey what size TV do you have at the moment" so I had to be sly. When we were there doing an inspection, I had the girls check out the TV. I have written about this tenant before. It is Mr E who we moved from the top floor at Scotsdale to a lovely two bedroom in Woree with Cranky Beryl and Hazel who makes pickled onions. He was diagnosed with Mesothelioma and had a huge operation to remove part of his lung. Apart from this, he is a really nice gentleman - yes I know one of my "I collect Old People". He had one of the big clunkers as his TV.

Two weeks before Christmas with Bart the Wonder Handyman back on deck, the big plasma TV was delivered. I got this text from him "Hi Linda, Thank you so much for the unbelievable Christmas present. God Bless. Merry Christmas. Mr E". There are some days that doing what we do it just wonderful and this was one of those days. Mr M - the Big Man in the Sky was watching and chalked up some points for you and your neighbour.

I do hope you are all happy and well in your world. I promise to write again soon - there is so much to keep you informed of! Now I just have to find a spare five minutes to write it.

Linda

PS The cruise was unbelievable, and it won't be long before the next countdown will begin.