

Special Edition

16th February 2014

Dear Owners and Investors,

Today I am going to tackle a few things, but the big one will be Body Corporate. I know most investors baulk when they see the body corporate levies, but I think that there are many that just don't understand what a body corporate levy is, what it pays for and why they are actually a great thing for investors that don't live where their investment is.

The key to a good body corporate is to have a great Chairperson who makes sure all the jobs are done - fortunately many of you have a great Chairperson, who happens to be their property manager as well! I know I am in Gloat Mode.

For an investor, it is difficult to understand what the body corporate is responsible for and what they aren't. As a general rule, the body corporate is responsible for all the common area, the building and the insuring of the actual structure. The internals of the unit are the responsibility of the owner but even so this is a bit blurry. If you have a leaking tap, then the owner is responsible to get the washer changed. If there is a burst pipe and that pipe is in the slab then it is the body corporate. If the kitchen needs replacing due to age, then it is the owners responsibility. If the kitchen is damaged due to an insurable event, then it is covered under the body corporate insurance cover.

Let's say the hot water system is located in the kitchen cupboard and it bursts flooding the unit. The damage to the kitchen is covered by body corporate insurance. The owner will have to pay to get a new hot water system installed. If the carpets are damaged, these are classed as contents and the owner needs to claim this through their Landlords Insurance. If the walls are damaged, this is a body corporate claim and their policy will fix this - yes I know very confusing.

I will use Palm Tree Apartments for the example. This is a complex of 44 units, with 24 of them being bedsit units and 20 being 2 bedroom units. The complex was built in 1995 and is a better block, three storey, bomb proof place. It isn't the prettiest but it is perfect as an investment. The units themselves are basic internally but very functional. The beauty of these is they are big internally - much bigger than a two bedroom in a newer property.

When you have a big complex, you really need to be proactive - if something is wrong it needs to be fixed. If you leave something broken or dumped next to the bin area it sends out a message that this is acceptable. This is a learning curve that I had to have - just because we pick up that piece of rubbish near the letter box and put it in the bins, doesn't mean everyone else will!

There are two parts to a Levy - you have the Administration Fund, which budgets for the things that will happen each and every year, and then you have the Sinking Fund. This is for future works to be completed such as new roof, gutters, fences and repainting.

The Queensland Government realised that if they didn't make people put money aside for future works, then they wouldn't. In the mid 1990's they brought in Sinking Fund and each building had to do a report and estimate what works would be require, what time frame they were needed to be done in and the cost. They then work backwards and come up with a figure so that there will be enough money in the bank when the work is required.

Palm Tree Apartments Administration Fund is \$70,670 for the year.
It is made up of the following:

Bank Charges \$30

Cleaning \$3000 - This is a big complex and tenants are for ever leaving juke near the bin and around the complex. For me to be able to charge it on to the tenant that dumped it, I have to have a witness to say it was them - and even then how I am going to prove it? I have within this cleaning budget an allowance to take things away. We also have someone go to the complex once a week and check the lights, pick up the rubbish and generally make sure it is clean and tidy. They also report any damages - basically they are my eyes. It also allows for basic pressure cleaning of the paths after the wet season.

Community Power \$4600 - At this complex we have a swimming pool and this pump accounts for about 30% of the bill. We have lights throughout the car park and stair wells that come on at dusk and turn off at dawn. The place is lit up like a Christmas tree - and I can't have it any other way. I want our tenants to feel safe when they come home - there are no dark corners for people to hide in.

Fire Protection \$500 - this complex is the only one that we have that has fire hoses on the common landings and we have to have them tested each year. We also have to have a Fire Evacuation Drill completed each year, as well as all the signs checked.

Gardening \$7700 - this sounds like a big part of our budget, but I can't tell you the difference having a well presented building has on potential tenants. The gardens are a big part of this and we continually improve and maintain them. It has been a long process that has taken us about ten years to produce the results we have today. I deliberately took the slow and steady approach rather than spend tens of thousands at one time - this would have given us good results but the owners would have had to dip deep into their pockets which I didn't want to see happen. I have included some photos so you can see the results we have achieved. These are the ones I have on file and they are two years old. The complex has flourished since then but these will give you an idea of what can be achieved.

Insurance \$35000 - this is 50% of our budget and there simply isn't a thing I can do to decrease it. When you look back and remember that it used to be \$6000 per annum, you can directly see why the levies have increased. I am hoping there is light at the end of the tunnel, there certainly appears to be alot of talk from the Government acknowledging the issue. At least the premiums seem to have stabilised for now.

Pest Control \$1000 - I have the common areas inspected every six months to be sure we don't have any active termites. The complex is a concrete bunker so there isn't a lot of timber in it, but I still want to be sure we have none around. This is about half of the budget. With the other I have it sitting in reserve. With all the rain, we get rodents and these need to be treated. When I know they are about we get the baits refilled and knock a hole in the population.

Secretarial Fee \$6200 - this is the fee that Body Corporate Services charge for their secretarial service. Even if we were in a smaller complex, I would have them do this side as they know what they are doing. It works out to be \$140 per owner and I think this is money well worth spending.

Taxation Fee \$650 - because we earn interest on the money we have sitting in our account, we have to lodge a tax return. There is a quarterly return that we have to submit with our income - this is just the interest and not the levies themselves.

Communication and Outlays \$4000 - this is what Body Corporate Services charge us for Postage and Stationary. We have a fixed fee, which makes budgeting easier for me. The cost per owner is \$90 - this covers the issuing of levies, the AGM papers and lots more.

R&M Electrical \$1000 - this sits there for when and if I need to send an electrician out. Let me tell you the tenants can be sitting in darkness in the car park and stair wells, but as soon as the booster to the aerial loses power and they can't watch TV - the phone runs hot. There are some years that we spend more than this, and others where they aren't called out. Some the cost is out of our control - vandals break the lights and I have to send them out.

R&M Plumbing \$1000 - This particular complex was built slightly later than some of the others we are involved with. So far we have been lucky and the number of burst pipes we have hasn't been a lot. City Park on the other hand has battle scars all over the car park where they have had to cut the concrete to get to the burst.

R&M General \$2000 - things are going to go wrong, or need to be done so I have this sitting there for just these times. It can range from getting the carport gutters cleaned out, the replacement front doors - which body corporate are responsible for. The owner is responsible for the security screen door, but not the wooden door. The other interesting one is that body corporate is responsible for the shower screens, but not the vanities. Fortunately we have this down pat and in a great price range thanks to Bart our Wonder Handyman.

R&M Pool \$4000 - this is the one thing that if I could get rid of easily I would. No one uses it except for the neighbourhood kids that come and cause drama. It is costly to service and have the power running the pump - but tenants just love to know there is a pool in the complex. I make allowances for things that can and will go wrong - chlorinators, pumps, cyclones dumping lots of debris in the pool, the wet season with all the rain and a whole load of other things. The total is \$70,670 or in the case \$1104 for the bedsit units, and \$2208 for the two bedroom units.

The Sinking Fund is the second part of the levies. This is for the future works or something that doesn't happen all the time. This can include tree lopping, pressure cleaning, big garden upgrades etc. Palm Trees has a healthy sinking fund of \$48,311, but we also have \$13,178 in the administration fund spare. This gives us a combined bank balance of \$61,489. This sounds like a lot but when you have a building that is 19 years old, it isn't a lot really. For this complex, we collect \$20,000 each year but know that some of this will get spent. This adds \$312.50 for the bedsit units and \$625 for the two bedroom units.

In total the bedsit levies for the year are \$1416.50.

In total the two bedroom unit levies for the year are \$2833

Using Palm Tree Apartments as my example, although there is a cost to each owner annually there are results that can be seen. The building was repainted 7 years ago, the gutters are cleaned each year, the gardens are well looked after an asset to the building, the insurance is paid - and best of all we have \$61,489 in the bank to do any future works.

I know that some of you will be going - wow that is a lot. So now I will talk about a duplex pair as these are similar ages, similar sizes and requiring similar work to be done:

Insurance for the pair is \$2500 - you may get it cheaper if you are lucky but I will use this figure for now.

Pest Inspection twice a year \$600 as this should be done regardless of being in a body corporate or not.

Repairs and Maintenance \$1000 - this is a minimal figure and will only be for the outside.

Total \$4100 or \$2050 per side. Sure this is a saving of \$783 per side over the two bedroom unit, but let's look at the difference.

You haven't upgraded or done anything to the gardens. You are relying on the tenants to do this for you - well let me tell you that green thumbs are not normally present when it comes to tenants.

I have only allowed \$1000 maintenance and this isn't going to get a lot done.

If something goes wrong with the plumbing this hasn't been allowed for.

If something goes wrong externally - this hasn't been allowed for.

The outside of the house and the paths haven't been cleaned, and after a wet season like the one we are having let me tell you the mould is growing as you watch.

The gutters and down pipes haven't been cleaned out.

There is no money sitting in reserve for the jobs that are going to need to be done - fences, gutter replacement etc

I have been driving around and looking at all our properties, and let me tell you that the outsides are starting to look tired and need some work done to them. If they are in a body corporate it is easy, get the quotes, pass it via the committee and get the work done. The money is there sitting and waiting for the work to be done.

On the other hand, if it is a property not in a body corporate - the owners have to find the money to get this work done. If you happen to live in Cairns and can do this work, then this is a good thing and you can save the money. If you don't live here then we have to get someone to do the work. At the moment, I can get this done and the prices are pretty good but my big concern is when the economy does take off this is going to change - and quickly.

For today I am just going to write about investment units in body corporates - seeing as you have all just had a lesson in what it is all about. I have just highlighted the cheap ones for today. I am seeing the prices go up and more importantly properties actually selling.

Remember if you are wanting more information just let me know. If you go directly to the agent, they don't have to work with me and I don't get paid!

<http://www.realestate.com.au/property-unit-qld-cairns-115240151>

This one has been for sale for a very long time. It is at Fermoy Court which is at 2 Mayers Street, Manunda. It is actually a two bedroom unit, and I have inspected it inside and it is a nice little unit. It is listed at \$99,500. It will probably be one of the last two bedroom units you will be able to buy under \$100K. There are some catches - I have never seen so many muumuu dresses on the washing line. The quality of tenants is much lower than some of the ones we are involved with. The complex next door is actually worse on the tenant front. The positives is that as the rents go up, the lower class tenant will be pushed further out of town and it will clean up. The price is great - it would be in my debt reducer pile rather than a keeper.

<http://www.realestate.com.au/property-unit-qld-manunda-115764843>

This one is at 71 Alfred Street, Manunda and is a one bedroom unit for \$99,000. The tenant has been there for a very long time and wants to stay. The unit itself isn't actually much bigger internally than a bedsit, but it is configured differently. This allows for a robe to be a dividing wall and creates a bedroom area. This complex hasn't been a favourite of mine for a while, but it has cleaned itself up and it actually not too bad now. As a solid long term investment, this one could be worth looking at.

<http://www.realestate.com.au/property-unit-qld-edge+hill-116129307>

This is at 394 Mayers Street, Edge Hill and is a bedsit style unit. It is popular with renters as it is near the Edge Hill Village and Botanical Gardens. The building is pre 1987 so there will be very little building depreciation. For me personally, I would take a bedsit in Manunda as it does still have depreciation. The other factor to look at with anything that is older is the amount of money they have in the sinking funds.

Some of the ones in Edge Hill have stacks of money, but others very little. We have a complex we are involved with in Edge Hill and it needed thousands and thousands spent on it just to bring it up to a good level. As soon as we save it, another project needs to be completed. We nearly have enough money now to reseal the driveway. The list price is \$94,000.

I know there is a bedsit about to come up for sale at City Park for around this same price. It is a nice ground floor unit, and given the City Park is one of our complexes you know that it is a well run complex. The body corporate here is about \$1400 per annum. The rents have been a bit slow on these units in the past six weeks but prior to Christmas we were easily achieving \$175 per week.

<http://www.realestate.com.au/property-unit-qld-manunda-113625255>

This one has actually sold, but I believe there is another one in the complex close to being listed. This is Viewmont and is one that we are heavily involved with. The Body Corporate has all the work done and we have a good sinking fund in place. The levies for this unit are \$1730 per annum. It is a one bedroom unit and it is being rented at \$190 per week at the moment. It should be listed at under \$100K. This would be a keeper as it is a good long term unit in a good complex, and it is right across from a major shopping centre.

<http://www.realestate.com.au/property-unit-qld-manunda-116065343>

There are two units for sale in this building which is 59 McCormack Street, Manunda. They are both 2 bedroom units, and this one is listed for \$139K. This is in a good complex, although we aren't involved - the bones are there to be improved. The units are a bit smaller internally than Palm Tree Apartment, but they are still very nice units. The last sale was for \$10K less, so it shows that the market is moving. There are cheaper two bedroom units but this is one of the better ones and worth the extra. Given they went up to over \$200K, there is still a fair amount of capital gain to be made potentially.

21 Douglas Street - Manunda

This one hasn't listed yet, but I think it will be coming on soon. It is a massive one bedroom unit in a small complex of five. The body corporate levies are higher just under \$3000 per annum, but the rents are also higher. It does need a freshen up inside, and if this happens I believe the rent will be around the \$230 per week mark. I don't have the final figure, but I believe it will be just over \$100K.

<http://www.realestate.com.au/property-unit-qld-westcourt-116092891>

This is a one bedroom unit at Cairns One - 12 Gregory Street. It is a beautiful one bedroom unit, but nothing like our better block bomb proof places in Manunda. It is in a resort with pools, gardens and even a gym. The list price is \$178,000 - the last one sold for less than this so it will depend upon the market and the owner and what they paid for it. They originally sold for over \$300K. In normal circumstance I wouldn't look at these but they actually aren't too bad. They rent easily and the last one rented for \$300 per week. I believe this will go up quickly as the economy picks up.

They are very desirable to live at - just ask all the under 30's that live there. The key to this is the price has come back so much, and the depreciation that is available. This investment will only work if you are in a high tax bracket. I have been told that the building allowance is about \$7000 per annum - that is a lot of tax benefit if you are paying a lot of tax. The fact they are so low in purchase price compared to what they sold for, means there is the potential for good capital gain when the market picks up.

<http://www.realestate.com.au/property-apartment-qld-westcourt-112334199>

There are a couple of two bedroom, one bathroom units for sale in this same complex. They are asking mid to high \$200K's. This one is listed at \$285K but this is actually a two bedroom and TWO BATHROOM property for the same money. These rent for just under \$400 per week. I have been told the depreciation is much higher than the one bedroom unit with the figure around \$18K. The body corporate fees are high, but this really is a complex that needs to be walked around to understand how good it is. If I were single and under 30 and didn't care how much rent cost, I would live there. I would walk past the gym on my way to the pool!

Now onto the fun stuff - tenant stories. As you know we have a lovely assortment of "I collect Old People". We have Mr P who lives on the ground floor at Unit 10. He keeps his place just lovely, and he has a courtyard area at the back. He called to ask if he could at his expense put some lattice work around the outside to enclose the area and make it a bit more secure for him. I didn't have an issue so long as it was done nicely and was safely installed. I walk past his unit to go upstairs and if the front door is open I often just call to say hello.

The other day he came rushing out and grabbed me to show me his back yard. Remember, I haven't made a time to come and see him - the place is spotless inside and the outside courtyard area is just beautiful with pot plants and an umbrella. He is so thrilled with it - it is his home and he just loves living there. How can I not be happy, when he looks after the place beautifully and is absolutely no bother? When he does call, he now has taken to saying "Hello this is Mr P from Number 10 Downing Street". I think it is so funny!

Mr G is another one on the ground floor at a different complex. He would have to be close to 70 now and just like Mr P his place is always spotless. He is a smoker, but only smokes outside and constantly has smelly things in his place just in case a whiff comes in.

I got a call from him the other day to say he has been not well and is going in for tests. I forget that for a lot of these people, I am not just their "Property Manager" I am part of their lives.

I am the person that they call when they have a problem and need maintenance, I am the person they call when they have an issue with their neighbours and like it or not I am part of their lives and a big important part. I treat them all just like I would like to be treated if I were in their position. When he called to say he was going in for tests and it could be serious it was sad to think I was that important that he had to make that call. It is an honour, but it makes me very sad at the same time.

Last year I wrote about my "fishing" with the rentals. I tell you I just can't pick it at the moment. There are some properties that I think are just lovely and should be flying out the door, but nothing - except the bottom of the barrel. I have been cringing at some of the trash that I have actually shown through the unit and then worse still considered taking their applications.

I have had a two bedroom unit that is on Birch Street. It comes with its own lock up garage - which normally is what sells the property to a potential tenant. For whatever reason I have struggled renting this one out. I begrudgingly showed this unit to a potential tenant that I scraped from the bottom of the barrel and hung my head when the application came in later that night.

The following morning a miracle occurred and one of our existing tenants spotted it and wanted to take it! They are moving to this one, and it looks like I have a couple of people interested in taking their property! Love it when it just falls into place.

On the other hand we had a house that came up this month. I put it onto the internet and went fishing. The current tenant was paying \$380 per week, so I figured as he hadn't left yet I would try my luck at \$425 per week. This is \$45 per week extra or a 12% increase - you could have picked my jaw up off the floor when the first day it was listed I got calls. I have this professional couple that is going to take it and can't wait to move in - go figure!

The other day I got a call, and it took me a bit to click on to what the lady was saying. It was from Capricornia Correctional Centre - I immediately said "So which one has been playing up and ended up with you?" Sometimes my brain engages way after my mouth takes off. It turns out they have to call me first to ensure I will accept a call in a few days time from an inmate.

Mr T was one of my Big Man in the Sky Karma cases from Mission Australia if my memory serves me well. He is a huge islander man that is in the Army Reserves and they helped get him set up. Mr T was a model tenant, he had his rent paid automatically and was clean, quiet and not a bother. Then a trigger happened which I never found out what it was, and he ended up in Jail. To his credit, the arrears he owed were all paid for.

This morning the call came in, and they play a recorded message first so you know it is being recorded. See in my past life as a Secretary on St Georges Terrace I never received one of these calls - so my life has many new experiences since entering the world of Property Management. It seems that Mr T is coming out in October and the Army is going to have him working with them. He must be worth saving, as there are a lot of people that are putting faith in him at that end. They need to have a letter from me to say that under the right circumstance I would rent to him again. He did the right thing so I don't see a reason why I wouldn't give him another chance.

Lastly I want to share one of my "Wish List Items for 2014". I have many, most of them involved being on a cruise ship and not having the mobile phone constantly ringing.

For years now, I have been donating Plasma. At the end of 2013 my tally of donations came to 58. It doesn't take long at all, but things get so hectic that I don't always get to my appointment. I have set myself a target, which should be achievable. I can donate every two weeks, so there are potentially 26 slots I can utilise this year. My aim is to make it to 70 donations by the end of this year. I have made the first one for the year, so the next one will make is 60!! Only 10 more to go.

People think that I go there so I can do my good deed for others, but I have to let you in on a secret. I actually go there so that for a whole 90 minutes during the day - I can't answer my phone! I also get to have a cup of tea, orange juice and something to eat as well! Can't beat their sausage rolls!

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

Linda Tuck