

Special Edition

22nd June 2014

Dear Owners and Investors,

Before I start, if you are on this list and no longer wish to receive my emails, please just send me an email asking to be removed. The other thing is I write this from my point of view only - and I have been known to see things differently to others!

Even if you don't read all of my email, please scroll to the bottom as I have forwarded an update from Aquis and you will want to read this.

I know that many of you miss my ramblings, and to be honest I actually miss writing them. It has not been that I haven't wanted to, I just physically haven't had the time to do it. Those of you that have been with us on the journey know that I am not your typical real estate agent, nor property manager - actually to be very honest some days I wish I was as I would not worry so much about things.

Cairns has been in a very funny space since just before Christmas and I am scratching my head to try and work it out - but I have no answers for you. Late last year was just incredible, the rental market was tightening up, we had a choice of great tenants and the rents we were achieving were higher than pre GFC. It is traditional for a big tenant movement in December, but when just after New Year we had 21 vacancies and no one really to take them - I knew it wasn't going to be a regular start to the year.

To try and explain the rental market to you I am going to tell you a joke - there are two Irishmen, no that is not politically correct these days is it? There are two men sitting in a car, Paddy turns and says to Mick, stick your head out the window and tell me if the indicators are working.

Mick says

Yes, No, Yes, No, Yes, No

That is pretty much what it has been like all year. I have decided to call this year "the year of excuses" and I will try to explain why.

Just when you think that it has turned the corner and we are off for the year, something happens to grind it to a halt. First there was the initial two week rush after New Year where people transfer in and we have a spike in demand for rentals.

With this over, the next thing I waited for was school holidays to be over so that life returns to January. About this time a big black cloud came over the horizon, no literally, I was sitting at my desk and watched it come in. That was in late January, it started to rain and up until today it really hasn't stopped. We then made the excuse that it was a really wet season, then it was Cyclone Ita bearing down as my excuse. Thankfully there was no damage.

The next thing was Easter, then Anzac Day - I was then thinking great now life will return to normal in the rental world. It did for about two weeks and then it went absolutely flat. The "wet" season is now technically over and we are now into winter. The rain still hasn't stopped - although today is the second blue sky day I have seen this week. I have used the rain again as an excuse but with that leaving, I am now using it's the end of the Financial Year as a reason - believe me I am getting tired of making excuses.

Things that I am positive won't rent as they are overpriced have, and something that is clean and affordable sits around with not a single person calling about it.

It is easy for me to say that the rental market is weird, but now I am going to give you some information to explain it better

<http://www.cairnswatch.com.au/uploads/uploads/201405fullreport.pdf>

This is the link to the May Herron Todd White report on Cairns. This shows that the vacancy rate for units is 3% - which given it was closer to 7% at the peak of the GFC is good. For us investors it isn't about the vacancy rate as such, it is the length of time it is physically vacant that is of concern. It is OK to have turnover of tenants, but to have them sitting empty bringing in no income for a long period of time is what hurts. We really do everything possible to rent properties out, but sometimes no matter what we do they just don't rent.

If you go to www.realestate.com.au and do a search on available rentals in the Greater Cairns Region you will find as of today there are 775 available rentals. This is up on the low point of last year at just under 600. Given our regional population is now at 150,000 this isn't a lot of rentals. If you break this up further and ask just for units this will give you a figure of 421 but this will include all units and all prices.

I went in and narrowed the search down to all units under \$250 per week and this gives me a grand total of 149 units - so how on earth can I be struggling to rent out well presented, well priced units in this market?

We have a three bedroom house in Gordonvale, it is a better block solid home with a big back yard, fenced and we will accept pets. For those that don't know Cairns well, it is the last suburb on the southern corridor that would be considered Cairns. Unlike the outer suburbs of Sydney you could easily drive in the CBD in 30 minutes.

When I go in and put Gordonvale and the suburbs that surround it, house and under \$300 per week I come up with 13 options. Within these options there are actually 7 that are duplexes rather than houses so this is now down to 6 including ours. This is very affordable rent given the houses have increased substantially over the past 12 months. How it has been available for nearly a month with just two applicants - both of which in normal times I wouldn't even consider - is beyond my understanding.

Even in saying this, I am still achieving really good rents for most properties. Some I have been surprised at what I have been able to achieve and how quickly they have rented - and others I am shaking my head trying to work out what is going on. We are certainly in a far better space than we were a few years ago, but it is still a very difficult rental market.

As an investor myself, I need to keep pushing the rents up to help offset the increases we have in insurance and to pay for the upgrades. As your property manager, I want to increase the rents where possible but to be honest it just hasn't been the right time. Each time I think the rental market has tightened up and I can put the rents up, I find that I have a similar unit I can't rent out - so why would I want to jeopardise losing a good tenant for you? The time isn't too far away, and I am hoping it will be within the next month. I am keeping an eye and as soon as I think we can increase the rent without losing the current tenants I will write to you and let you know.

There is still a lot in the media about Aquis, and according to the paper they are now going to do it in two stages, but the project is over \$8 BILLION dollars. To think what this could do for Cairns, really is mind numbing but until it starts we can't bank on this. I will write more about this in the next Special Edition.

They have changed the design and if it is ever built, it will become an Icon in its own right - the fact it is in Cairns is a bonus. I liked the last design, but the new one is even better I think.
<http://www.cairnspost.com.au/news/cairns/drawcard-815-billion-aquis-great-barrier-reef-resort-a-design-to-impress/story-fnjpusyw-1226912228939>

There are other projects that are starting here, all of a smaller nature - Bunnings new Warehouse, Redlynch Shopping Centre but really we are at a stand still at this point in time - or it feels that way.

One of the biggest issues is Insurance - and this is in my mind one of the reasons our region is not growing as it should. We have had no building for 7 years now, and none of significance on the horizon.

<http://www.cairnspost.com.au/news/cairns/premier-campbell-newman-calls-on-warren-entsch-to-take-action-on-insurance-in-far-north-queensland/comments-fnjpusyw-1226926469362>
Campbell Newman is now on board and hopefully will be pushing this issue with the Federal Government - I don't know the answers but I do know that without some action we really won't recover the way we should. If Aquis does go ahead, it will be good for us as investors as the rents and values will go up - but for the average person that lives here it will not do a lot for them. They will still be trying a way to work out how to pay the insurance.

Speaking of this - I know that some of you will be receiving renewals for Landlords insurance which has gone up. There are other options and I suggest you try
https://www.terriscbeer.com.au/?cmpid=TER:GI:PI:NPS:SEM:20111024:501&2473PSEM&ef_id=UwfU5gAABRrtYlov:20140524234426:s
<http://www.ebminsurace.com.au/>

One client saved over \$700 recently by changing companies. It is important to have this, and you should be able to get it for \$300 roughly.

Now to the fun stuff - tenants. Oh how they make my life ever so interesting. We have our Indian Taxi drivers, and during the GFC we put a group of them into a two bedroom unit at City Park. The unit really needed to be repainted and upgraded, so really what could they do to it?

I had the rent slightly higher than the rest of the market, but they were happy to pay it. The main guy called me to say his wife was coming out from India and he wanted to find a really nice two bedroom unit. Over the next few months I gave him all the places I had available, and I know he was looking for something himself - but he couldn't find what he wanted. He called to say that he really liked the unit they were in currently, but that it wasn't good enough for his wife. He then asked if we would be interested in upgrading it and he would pay more rent. After interrogating him that it would definitely only be him and his wife, and absolutely no taxi driver boys, and that it wouldn't be messy like it is now then I said I would take it to the owners.

The rental market is going to change in the right direction and this unit really did need to be upgraded so it was now time for my negotiating skills to kick in.

They were currently paying \$230 per week and given the condition the property was in that was probably \$20 per week more than it should be. I told him that it would be at least \$250 but it would depend on what he wanted in the unit. In principal the deal was done and all the Indian taxi drivers were kicked out so the renovations could begin.

We painted it, removed the carpets in the bedrooms and put down floor tiles, new curtains and door handles - I can't tell you what a difference it made. Around this same time, the Indian Taxi Driver say one of "my friends" and his wife also want a unit and if I have another one. As it happened I had one coming up in the same complex.

This unit is pretty much original internally. The carpets are now 25 years old, the walls were repainted but that was over ten years ago - the furniture is the stuff we put in back in early 2000. It is still nice, but very tired looking. I had just finished a conversation with the owners to say that we really should look to upgrade the unit whilst I have the trades people available. We had agreed to repaint it, remove the carpets and put down floor tiles as well as new curtains.

I met Taxi Driver number one at the complex and I had a cunning plan. I first showed him the unit that he was going into on the ground floor that we had just repainted and tiled. We were still haggling over the price and the furniture we would put in. At this stage he had agreed to \$250 per week and no more. He was pretty impressed with the way it had turned out and I guess wanted to impress his wife.

We then went up the stairs to the other unit for his friend, that we had done nothing to. His friend would be very happy with this, and it was quickly agreed that they would take it at \$250 per week. I had agreed to putting in new fans and new curtains, but nothing else. This owner got \$40 per week more - with very little having to be done - very happy owners!

I then took my Indian Taxi Driver back down to his apartment, so he could really reflect on just how much better his unit was. He then wanted a new sofa, new table and chairs and the fridge to be upgraded - all of which we were probably going to have to do any way. I explained that all of this would cost extra money, on top of the money the owner has already spent on the upgrades so there is no way I can do this for \$250 per week.

If he wanted this rent, then the small old fridge that works will stay, I will get the current table and chairs varnished, but no sofa's. No, no, no Linda that is not acceptable for my wife - see emotion is getting the better of him now! It is agreed that the rent will be \$260 per week.

I have to tell you, the unit really does look great now and if they do leave, it is all done and we will be able to rent it out quickly and for this amount at least.

Well there you have it - after a very long gap between ramblings. I do hope you are all happy and well in your world.

Linda Tuck