

Special Edition

17th July 2014

Dear Owners and Investors,

Before I start on this, if there is any one that would like to be removed from the mailing list, please just send me an email and I will remove your details from the list.

Today was going to be all about rent increases - yes a subject that I have been wanting to write about for the past ten months to be honest. I started to write it and it got very long. There is just so much background information on this that I have decided to do it in two parts. Remember when you are reading this, I write this from my point of view only - I don't have a degree, I just tell it as I see it. There may be others in Cairns that see it differently!

We did our last round of rent increases over 12 months ago in early 2013. At this point in time, and for much of the rest of 2013 the rental market continued on really well. I found that I no longer had to get into the bottom of the barrel to find tenants - there was a choice of good quality potential tenants. Although they were around, they were picky and the properties needed to be presented well for me to be able to get the best possible rent. This carried on pretty much until Christmas.

Many of the rentals even today are well above the highs prior to the GFC - so this is a good thing that we need to remember. For example the highest I would get for a bedsit was \$160, now I am consistently achieving \$175 if it is well presented internally. The dawn of a New Year came in 2014 - and we now know it as "The Year of Excuses". I know that I have been doing this for a very long time now, and even now I cannot pick what it happening in the rental market.

<http://www.cairnswatch.com.au/uploads/uploads/201406fullreport.pdf>

This is the link to the latest Herron Todd White Cairns Watch report. It shows that the rental vacancy for Houses is 1.7%, Units is 2.7% with the average being 2.2% overall.

The base population of Cairns is now 150,000, and we are the 14th largest city in Australia, and according to Wikipedia we are actually bigger in population than Darwin.

Our building industry is being talked up, but the reality is that there really isn't a lot of construction happening. In 2011-12 there were 467 approvals, in 2012 - 13 there were 414 dwellings approved. These are mostly houses, I know of the odd unit complex going up but these are on a very small scale and few and far between. For a population base of 150,000 this really isn't a lot of houses that are being constructed.

As at today there are a total of 726 properties available to rent. I have used www.realestate.com.au for this as this really is the only way people look for rentals in Cairns.

This 726 is for all properties from a share house right the way up to a luxury property. Of this figure, 336 are houses and there are 390 units available. I will break this down further, but remember this covers everything from Babinda all the way up to Palm Cove;-

One Bedroom units 79 available, with just 36 available for \$200 per week or under

Two Bedroom units 333 available, with just 118 available for \$250 per week or under - yes I know that 333 plus 79 doesn't equal the start figure of 390, but I don't set the filter on the site!

In a nut shell, we have essentially just 154 rental properties that are under \$250 per week - so why on earth am I struggling to rent them? I know many of you think I am painting a dark picture on the rental market, but you need to remember it is me that is writing this. I have high expectations for our personal properties and this carries through to those that we manage for you.

If it is vacant, I want it rented as soon as possible, I want a better tenant paying a higher rent - I am not going to settle for just any one. I want to push the rents high to be able to cover the increased costs, I don't want it vacant for weeks and have to get you less than we started with.

We are still renting the properties, and compared to some others we are doing really well, I just want to explain to you what the market is like.

The rain appears to have gone, and we have the most incredible days here in Far North Queensland. The tourists seem to be here, it certainly was a hive of activity at Palm Cove on Sunday. On the surface it appears to be busy, but the economy really is still struggling on many different levels. Youth unemployment is high - and I guess this is a direct flow on affect from the fact we have no building industry, tourism is good but not what it was and generally people are spending less.

There is a factor that I haven't written about in this newsletter before, although I have talked about it on the radio a lot. It is the flow on affect from the increased insurance premiums. In the early stages these were limited to simply strata policies - and boy did we get a caning. Soon, this started to spread out to other policies and now it is insane pricing for any sort of insurance here in Far North Queensland.

Our personal house policy used to be \$1200 per annum which compared to other cities was already at least 30% higher - ah the good old days when insurance was affordable. We now pay \$4000 for the same policy. There are cases where premiums are in the tens of thousands of dollars with no option but to take it or have no insurance.

I would say that the average house policy would be a minimum of \$2500 - and this is pretty basic with a minimum coverage. Most people are at the stage where they are thinking that they should have insurance, and are making the sacrifice to pay the premium - but if the prices go up much more they simply won't be able to pay it. The house hold income in Cairns is significantly lower than a major capital city, but our cost of living is much higher. A couple on a low income with doubling insurance premiums - there is very little left over. The pressure is then added on with the increasing cost of electricity.

We are pretty conservative users and I know ours is now 50% more than it used to be. We don't use air conditioning - whereas most people do so I would not want to think what their bills would be. The "discretionary" spend has all but evaporated in Cairns. This is the money left to go to dinner, to go and do something extra with the family, to get work done around the house and generally put money back into circulation in the Cairns economy.

I know that within the body corporate environment, we are in the same mind set. Our buildings are mainly besser block construction, and the paint work provides much of the water barrier. It is recommended that this be done every 7 - 8 years. By this time the buildings have had 7 wet season, years of tenants dragging their bikes up the stair wells and putting marks on the paintwork and who know how many tenants moving in and out putting scratches and scraps on the paint work. The changes in Workplace Health and Safety has added to the cost of getting the work done and now as a rough guide I use \$1500 - 2000 per lot to have the building painted.

For this example I will use City Park - 85 Birch Street. This is a three story building with 39 lots in it. Although more units, this actually has less area to paint than say Tropic Gardens which are town houses. I will guess that this will be closer to the \$1500 mark per lot or \$60,000 to repaint the building. Over the years the Chairperson has built up quiet a nest egg (yes, I am in Smug Mode right now), and we now have over \$100,000 in the sinking fund. Better than this much of the work has been done externally - pressure cleaning, garden upgrades, fence replacements etc. Getting the building repainted would be the icing on the cake, and to be honest visually it can do with it.

I won't do the painting at this complex or any of the others - not because we don't have the money or it isn't needed, I won't do it because of the insurance. If we have a claim for cyclone damage - which to be very honest would be the only time we really need the policy, the excess applicable is \$1000 per lot. In the case of City Park this represents \$39,000. If I paint the building and spend the \$60,000 we have just enough to cover the excess. This leaves nothing in the kitty for things that can and do go wrong. These complexes are all heading towards 25 years old. We are going to need to start looking at gutters, replacing roofs, plumbing and everything else that can and does go wrong with older buildings.

Things are tough enough for owners, I don't want to spend the sinking fund, get a cyclone and then have to get extra money out of the owners via a Special Levy. Now City Park is just one of the complexes that we manage and if you assume that on average each building will have \$30,000 in painting that is a lot of work that is not being done in the community. This means the painting contractor isn't busy, he isn't hiring painters, they aren't buying the paint from the supplier, they aren't hiring extra staff, the transport company doesn't need to bring as much stock up so the delivery guys aren't getting the hours - none of these people have the extra money to spend in the community by going grocery shopping, out to dinner or out to the reef. It is a big circle that passes the money around - and I am one of the ones stopping the money cycle.

Now back to the rental market and just how weird it is. I have had a duplex half that we have had for over a month on the rental market. It is located in White Rock and it is a really nice little duplex half. It has two good sized bedrooms, a big split in the main area and a box in the main bedroom. We have just had the inside repainted completely, new curtains put in, the outside pressure cleaned so it is like we have just repainted outside. There is a nice paved area to the front of the property and we have just fenced it off so that you can have a pet there. It is in a good area and we have had it at \$250 per week unfurnished. There are very few properties that will allow pets, and even fewer in this price range - yet for four weeks we have had only the bottom of the barrel dwellers call to inspect.

Last week I dropped the rent down to \$240 per week and although I did get alot of calls, this didn't translate into inspections or applications. So there I am shaking my head really not knowing what to do and then this morning the phone starts to ring. On Tuesday we have not One, not TWO but THREE really good people that want to have a look. All of them have JOBS, all of them have the BOND and all of them want to move in ASAP. Go figure and when you have worked it out let me know!

This newsletter does take some time to write and it is now Thursday so I will give you an update on the duplex. The first lady has applied and although not in the bottom of the barrel, she isn't very far from there. The second person - well we aren't even going to consider that application. The third one - you are not going to believe this - cancelled. Why you may ask. Well he is a French man with his wife who is pregnant. They are desperate to find somewhere, they are currently staying in a tent in the local caravan park.

He decided not to take the unit because he has a boat and a car and he didn't feel he had the room to be able to park both in the carport and he didn't want to leave one on the street. Yes, I know he would rather live in a tent with his pregnant wife than take this lovely duplex. I am shaking my head as I type.

I did get a fourth person who wanted to have a look. You can tell a lot about potential tenant by the way they speak on the phone and I had this guy pegged as a young guy working in the mines that wants a place to have his small children when he is here - so at least he will have the money to pay the rent. We arranged to meet him there and as soon as he opened the car door my heart sank. He was a skinny, weedy looking bloke with long slick back greasy hair, covered in tattoos and stunk of cigarettes. On the upside if he does apply, I know that he will be able to pay the rent and he is only home 10 days in the month.

The rental situation does have something to do with the pricing, as the market is very sensitive to budgets right now. We had a loft town house at Tropic Gardens. It does present well but it probably does need to be repainted and have new floor coverings down. It doesn't time right for us to get this done, so we decided to rent it out again and do the renovations next vacate. I listed it at \$220 per week and there were calls but no one I was going to rent to. The tenant vacated and I decided to drop the rent down to \$200 to get it rented. I have been overrun with calls and requests for inspections. I have two really good applications and it is now rented with just a few days vacancy.

That pretty much tells you where we are right now with the rental market. I will be writing more about my thoughts on increasing the rents, and what will need to be done to the properties. That will be coming out to you soon.

Now onto the fun stuff. Today it is going to have absolutely nothing to do with property or tenants. It is part of my ramblings from when we went away recently. We snuck in a cruise - yes, I know you are all surprised and had no idea that we love to cruise! We flew to Tokyo and stayed on the Diamond Princess to do the north part of Japan. We then had 3 days in Tokyo.

This is from the second day in Tokyo.

We had free wifi in our room, so the night before I did a heap of research on what to go and see and do. I had narrowed it down to a few things that I really wanted to see, those I would see if they were easy and those that if we got to would be great, but if not we would see them next visit.

We had maps, but until you actually start walking around, it is really difficult to work out the scale of them - and how far it is between them all.

Whilst on the bus from Narita when we first landed going to Yokohama there was a magazine on board. It had an article about a place in Tokyo called the Robot Restaurant. I really can't explain what it is, even though we have now been to it. You really have to watch this link to have an idea of what it is like.

<http://www.youtube.com/watch?v=2qol6T1ANuw>

All I had to do was tell Ramon that there girls were scantily clad - and that was enough for him to say he was in.

Our day was to first try and work out how to actually get into the City. We now had to find the train station - different to the mono rail. This is on the green line, the name now escapes me. This is totally different to the other rail lines. This will take us into Osaki, where the train will then change tracks and become a JR line. Ramon got all this from the French speaking concierge at the front desk who has been living here for some time.

Ramon asked how they would work out who gets the cut of the money for each portion of the travel. His answer was "This is Japan, it will all be worked out."

Fortunately we didn't have to change trains and it took us into Shibuku station, which is one of the main stops in the city. The maze of exits was mind boggling, and although we didn't actually take the right exit, we did manage to bumble our way to where we sort of needed to go. Our first stop was to work out where the Robot Restaurant was and if we could book tickets. This is in a part of town that wasn't really open just yet, and even though there was nothing open you could just tell this was the seedy part of town. With that found, but told it doesn't open until 5.30pm we then decided to amble around and experience Tokyo.

We decided to go to Takashimya which is a huge department store, they have one in Singapore so we are familiar with it. In the basement it has the supermarket and food. We have been told in the past by many people that the Woolworths store on Abbott Street, Cairns sells the most packets of Tim Tams - and after seeing what they pay for their sweets, I can understand why the Japanese would take home suitcases full of them.

Each biscuit is delicate and ornate, and then individually wrapped and then boxed beautifully. There may only be a few biscuits in each box, but don't expect to get them cheap!

The array of food that is for sale to take home, or to eat is endless - but unlike Singapore we couldn't really see a lot we wanted to eat. We do like noodles, but can't really seem to bring ourselves to eat them cold. We do like fish, but not in the quantity they eat, and although we can eat a bit of seaweed we just aren't ready for this level.

Most Asian cities we have visited have a fascination with western styled bakeries - and Japan is just the same. They have beautiful breads and sweets, and you go around with a tray and pick off one at a time - no pack of six for \$2 like you get at Woolworths.

We decided to get some rolls and sweet cakes and head towards the Metro Government Building to have a look from the top. We actually had no idea which way it was. Luckily we saw a sign that had the name and then an arrow. It took us to the Railway entrance and then to the walkways that go underground. These are not just walkways, these are shopping arcades. As we did get closer to the building, the shops stopped.

We came out on the ground floor area to the buildings, and it was very odd. It has been raining for much of the day, just drizzly rain but still wet enough to be unpleasant outside. There in the tiled basement area, which is a few hundred metres long there in neat lines were the homeless. They each had a section of about three metres, and each had their belongings neatly laid out. Some were sleeping, some were just sitting and others were sitting playing cards. They all seemed to be elderly, but each appeared to be clean and none were skinny. This is an ageing population and on the television they said that very soon 1 in 3 Japanese will be over 65.

This part of town is where the sky scrapers all are. We could have gone to a number of different buildings that had viewing platforms near the top - but this one was free! From the top we could see the gardens that we wanted to go and see. One is just below this building and that looked like a great place to go and have lunch. We were both knackered by this stage as we must really have been walking for about four hours nonstop. It was getting close to time to call it a day, but we had to walk all the way back to the station.

On the way there we decided to go to the Robot Restaurant and try to book the tickets. The seedy part of town was starting to light up and people were starting to mingle.

They had just started to sell tickets, and we decide whilst we were here we may as well do the show - saves us coming back the next day.

Whilst we were waiting in the line for tickets, they have a stage area that the general public can view - we were being entertained by a band in Power Rangers outfits and a scantily dressed lady driving a huge Warrior Woman robot.

Once you have bought your ticket, you are taken up the elevator up to the 2nd floor. At this point I have to tell you that from the moment you step in off the street it is bling on steroids. Every possible area is covered in shiny bits or flashing lights. The lift opens up and although you didn't think it was possible, it gets even blingier. We were one of the first ones to be allowed up, and it had been at least an hour between toilet breaks, so we headed to the toilets. I have taken a photo of it so you can see the ladies.

This is the pre show lounge - which is the area that they get you to buy drinks and food. It wasn't that expensive compared to outside, which was good. About thirty minutes later a scantily clad woman wearing a white and silver warrior outfit with wings comes in and with her male side kick starts to play the flute whilst he plays the piano. It is classical music, which is very bizarre given the setting. About this time a group of 12 girls walk in, and they are all oh so young and dressed like street girls. They aren't part of the act, but we guessed from a neighbouring sleazy joint and have come in to watch the show. I am sure one of them is a lady boy.

We are then ushered downstairs to the lower basement. If you were tripping, it would be a scary trip down stairs as it is lighted stairs with bling everywhere, even on the stair treads.

We each have our allotted seats, and settle in for the show to start. For the next 45 minutes I really have no words - it is very bizarre but oh so entertaining. My favourite would be the dancing giant robots to Gangnam Style. Although the show cost \$55 Australian dollars, it really was something that you would just have to do if you ever came to Tokyo.

As we left and headed back to the station, we tried to find something that didn't have fish and looked like we could eat. We found on a side street some one that spoke English and a menu that looked not too bad. We decided to give it a try. Again, it is an only in Tokyo moment. We are lead down a steep set of stairs two levels into the basement. As we turn the corner, the room as go to be smaller than our entire lounge room, but there crammed into the space would be 30 people all eating, laughing and best of all SMOKING!

Seriously, you forget what it is like to walk into a smoke filled room after all these years of smoke free in Australia. There at the back of the room is a table for us. The meal was surprisingly good. They have two ventilation shafts that suck the smoke out of the room, which was just as well as we were sat next to two chain smokers!

To cap off a great day, we managed to not only find the station but buy tickets and get on to the right train to get back to our hotel.

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

Linda Tuck