

Special Edition

3rd August 2014

Dear Owners and Investors,

Today is part two of the rental update. In the past two weeks, something has happened - I have no idea what but the music is starting to crank up and the Dance of No Vacancies will begin very soon. For us, it is a combination of two things - the properties we do have that are vacant we have rented, but just as important - there are very few that have given their notice to vacate. The list is shrinking very quickly - and a smile is on my face at the prospect of my phone ringing less!

I have attached an Available Rentals break up. I have used www.realestate.com.au to get the information as this really is the only way people look for rentals in Cairns. The latest Cairns Watch has been released

http://www.cairnswatch.com.au/uploads/uploads/201407fullreport_1.pdf

According to this report we currently have 1.8% vacancy for houses, 2.6% for units and 2.2% overall vacancy rate. I think this has dropped since the report was written up. What is interesting is that this is the lowest available unit rentals since I have been tracking them with just 312 units available in total. Houses on the other hand are up at 330 which is the same as what was available in February 2014 when things were not great. If you look harder at the available house rentals, although there are higher numbers available, they have crept up price brackets - which confirms the rents are starting to climb up.

For units I put the "affordable bracket" at \$250 and under per week - currently there are 102 available.

For the houses, I put the "affordable bracket" at \$350 and under per week - currently there are 97 available. Of these at least 30 are actually duplex halves and not actually houses.

When you look at the big picture, we have a base population of 150,000 so to have just 642 available rentals for everything from Babinda in the south, all the way up to Palm Cove in the North and within in this figure it covers everything from a share room up to a luxury house - it isn't a lot to that is available to rent. Not good news for tenants, but finally some good news for owners.

Prior to the GFC when a unit became vacant, when it went onto the internet the phone rang with really good quality tenants. If they pass the five question test on the phone, they get to see the property. It used to be that I would show some one through and it would be a 90% chance they would take the property - and I would want them as tenants. We are now starting to get back to this again - I can't tell you how nice it is not to be scraping the bottom of the barrel looking for tenants. The other thing that was very common was if I did show through a few good potential tenants for a property and they all applied, I would try to house them at the others I knew that were coming up. This means that some of the properties never have to get advertised as we have already found a great tenant to take it.

There is one other factor that will start to come into play very soon. It is old tenants looking for another property, or someone that has been specifically referred to us. At the moment we are working with a company that houses migrant families. We have three units coming up and they have three great families that want to take them - at a great rent.

I am a happy little property manager as I don't have to advertise, which means my phone rings less. I get good tenants that will pay the rent and be fantastic tenants - and best of all there is no vacancy between tenants.

In the past 10 days I have had a few people that have called about properties that have been rented out and they have told me how many properties they have already applied for and missed out on. This is very frustrating for them, and soon for some it will be desperate as they can't find accommodation. Things are going to get tight and it is going to be a very difficult time for tenants if the vacancies continue to get tighter.

Now although I am painting a Rosie picture - you need to remember this is only just happening in the past few weeks. Up until this point, we have been renting properties but not easily and not without vacancies. I would love to be able to increase all the rents for all of us, but we need to work out a plan that is right for each owner, their budget and what the property requires. This is not easy to explain so I will give you a few examples that are actually our personal rentals.

Viewmont - we have a one bedroom unit that we bought back in 2001. Since that time it has been rented with tenants staying there a few years at a time. We have done very little internally apart from new curtains and a bit of new furniture. This complex was built in 1989 and everything is now 25 years old. The current tenant move into the property in March 2012 and is paying \$170 per week. This is too low and really needs to be increased, but this is where it becomes complicated.

If I increase the rent to a level where the tenant decides to look around and move out, I then need to be prepared to spend some money on it internally. We have a few units in the block that are in similar condition and we have diverted the eye with some visual upgrades. This includes new curtains, new furniture, new fans but very little else. For a unit with these simple upgrades, I am currently getting \$190 but I don't attract the best tenants as the place is tired looking internally.

We recently upgraded a unit that is identical in the block. This included repainting, new floor covering, new fans and new furniture. The bathroom and kitchen were left in place but the vanity was removed and replaced with a new one. A shaving cabinet mirror was installed along with new towel rails, taps and toilet roll holder. This unit was rented out for \$200 per week, and this would be what I would expect it to rent for in this market. I may be lucky and as there is so little around I may get \$10 - 20 extra.

If we assume that I achieve \$210 per week with the unit upgraded, this is a good weekly increase of \$40 per week. This is a great result, but I need to be prepared to spend \$5000 to upgrade the unit internally to get this. Don't get me wrong, this needs to be done for me to be able to achieve good quality tenants and higher rents long term. I just need to balance this out against all our portfolio so that we get the rent increases but don't have to renovate them all at once.

In this instance we will probably look to increase the rent to \$180 per week, possibly \$185 depending on what other units we will be increasing the rents against. At this level, the tenant will complain about the increase but it won't be enough for him to move on.

Whitfield Gardens - these are one bedroom loft townhouses and they are in a great area. This particular one was one of the original ones we bought and just as with the unit at Viewmont, in the 14 years we have owned it, we have done very little to it internally. The complex was built in 1989 so it too is now 25 years old.

The current tenant has been there since July 2011 and her rent is really low at \$175 per week. We are now getting this for a bedsit unit so this definitely has to go up. The tenant is a lovely, quiet Japanese lady who is a great tenant.

We have recently rented a unit that would be in the same condition internally for \$200 by just doing the visual pretty things like curtains and furniture.

We have another one in the block that we repainted, put down floor tiles and upgraded the vanity and furniture. The kitchen and the bathroom we left as they are still fine at the moment. We rented this out for \$220 per week, so if we did have to do the upgrades it would potentially achieve us \$45 per week extra. To achieve this though, we really need to repaint, new floor tiles, new vanity, new curtains - so we will have to spend about \$5000.

Again we are in a position of wanting to increase the rent, but not too much to encourage her to leave. In this instance the rent is far too low, and I think that a rent increase of \$15 per week is more than fair. It isn't enough for her to leave, but it increases our cash flow by \$780 per annum without having to spend any money.

Robert Road - We bought two town house units in Bentley Park next to each other. These have been ear marked as "debt reducers" for us and when the market gets to a certain level then we sell these two off. These weren't built fantastically and worse still the quality of tenant we get in there is pretty low. They are incredibly hard on the property and although it is wear and tear - boy do these units wear and tear at a much faster rate than those in the City.

We have done not allot to these units internally since we bought them 10 years ago. Our plan was to do them up just before we put them to market, but as with all good plans they change. The tenant in Unit 3 decided to leave and we faced a choice - do we get a feral in, or do we do it up and hope we get a better class of tenant in it. We have also factored in that we can get it painted and tiled for a reasonable cost, and more importantly the contractors are available so our down time isn't going to be as long.

For this unit we have decided to tile, repaint and new curtains. We haven't replaced the kitchen or bathroom as these are fine for a tenant. All of these improvements should still be alright for when we go to sell, and it will be one less thing we have to do then. It is just about finished and we will be putting it up for rent. I will try for a higher rent and it will be interesting to see what we achieve, and more importantly the quality of tenant we attract.

I have written about this in the past and I will bring this up again. My concern if Aquis does go ahead is that when it is in full building mode, we simply won't have enough contractors to get the work done. If I can manage to get them, the prices we will have to pay to get the work done will be allot more than what it will be to get the work done now. At the peak of the last building cycle, a tiler could basically name his price. They were charging \$66 per square metre just to lay the tiles. They would supply the glue and grout - but this price didn't include the cost of the tiles. Right now we can get the same job done for \$33 per square metre.

What we all need to remember is that for many of the properties we have in the portfolio, not much has been done to them since they were constructed. The great majority are now 25 years old and if they have been rentals for that entire time - boy are they tired and in need of upgrading. As the rents go up, the tenants will be willing to pay for the higher rents but in exchange for this they want a nice place. I know that it has been really tough since 2007 with the values of many of the properties still substantially lower than what they were at this point in time - and now I am asking you to spend more money on them??

For each property that we have put the money into and upgraded them - it has been financially worthwhile. I would not have asked for you to do it in the middle of the GFC as at this point in time, we couldn't get good tenants that would look after the properties internally. This is changing and we are finding better tenants now - and even better the potential rent is going up.

Now onto the fun stuff - tenant stories. I have confessed to you all before, that one of my personal weaknesses is confrontation - I am just terrible at it. Well, actually I am still terrible at it when it comes to personal stuff - but boy have things changed when it comes to tenants.

Many years ago, I would dance around the issue and when it got really bad I would send Ramon in there to sort it out - basically I am a chicken and know it. I don't know whether it is that I have heard every possible excuse under the sun, or that I have been bitten by so many different tenants - either way if something needs to be dealt with, then it is.

I have a speech that I give to any new potential tenant that we show through a property. I have three basic and very simple rules

Pay the rent - I don't chase rent and if I have to then you will be moved on as soon as I legally can

Look after the place - it is nice and I want it kept that way

Don't wind up the neighbours - no problem with you having a few friends over for a quiet drink, but if it bothers the neighbours I will find out and I won't be happy.

After they have applied for the property and we have reviewed their application, before we give them the property we tell them the three rules again. If they agree to these, then they get to move in.

In the big complexes, when I do get a tenant play up, it does affect allot of people as it is such a high density living environment. Last weekend I got a call from one of our tenants to say the guy in Unit 19 had a party. It was his girlfriends birthday and although there was no music, they all sat on the balcony drinking and carrying on until the very early hours of the morning. There were cigarette butts that were thrown over the balcony and these land into the courtyard of those on the ground floor.

It turns out to be one of our tenants. He has been there for some time and this is the first complaint. It is now Sunday after lunch and the conversation goes something like this:

Mr R, can you think of any reason that I would be calling you on Sunday afternoon?

Well yes

Mr R, can you remember what my three rules are that I told you when you moved in?

Pay the rent, keep the place clean and don't wind up the neighbours.

Great, so is there any reason that I would be upset with you today?

Lots of reasons and excuses start to flow out about this point in time. He is told that I simply don't have the time and if it does happen again he will be moved on. Of course we follow up with a breach notice so he knows we are serious - but after the 2 minute phone call, I think he knows not to do it again.

We have a list of tenants that I have persisted with since the GFC. They are paying a fair rent, but if I move them on then the owners have to spend some money upgraded. Up to this point in time, it hasn't been worth moving them on as even with the money spent on the unit I either won't get a better rent, or won't find a tenant that will look after it. Mr J is one of these tenants.

He is what I call a yoyo renter - he goes along fine, then he stops his rent and falls behind, then he catches up and cruises for a while and then it happens all over again.

In Mr J's wisdom he thought it would be a good idea to stop his rent so he could fund a trip to Melbourne - with no intention of really catching up the rent quickly. I had a stern chat to him and he agreed to pay \$250 each week. This is the rent plus some money towards the arrears. If he stuck to this, there would be no issue even though it would take a while to catch up.

In Mr J's mind he thought that it would be OK to skip another weeks rent - no reason, no excuse and no intention of talking to me - BIG MISTAKE. I told him that \$500 needed to be in the account on the Thursday or he should head down to the supermarket to get boxes to start packing up his things. I sent him a message the night before to remind him that he needs to pay the rent or a Notice to Leave will be issued. Thankfully for him he paid the money.

Mr J is on my naughty list - Santa has one, so I can't see why I can't also.

The tenants that go onto this are the ones that I have scraped from the bottom of the barrel and persisted with. They take up my time, energy and patience, which Ramon will tell you I have very little of these days. As soon as they catch up, the owners are ready financially to upgrade and the rental market really takes off these will be the first to be moved on.

For those on the naughty list, they won't be getting rent increases as they can barely keep up with the rents at the level they are at currently. They are all on periodic agreements, so we will be giving them two months notice to leave. At this point I will cross my fingers and go into "Lie Mode" and explain how the owners are looking to sell the property but they need to upgrade the property. They would love to do this whilst they are still in place, but this just isn't possible. If they need a reference all they have to do it put my name down on the application and I will give them a great reference.

Before I finish, I am going into "smug mode" - for those of you new, it is from a scene in Red Dwarf

<https://www.youtube.com/watch?v=JD9d0ZrBnLE>

Last time I wrote about a unit that we really needed to renovate, but I showed through the Indian and his bride. With some shiny new taps, curtains and a few bits of new furniture we got the unit over the line without needing to spend the money on repainting and retiling. They have been pestering me for days to move in, and on Friday they came and signed up for \$250 per week. The owner didn't have to spend the extra money on the big items, just a few small upgrades and the rent has gone up from \$215 to \$250.

Happy Indians, happy owner, Bart the Wonder Handy man and his trusty assistant Katie are happy as it is one less that they have to do, and a very happy property manager that can cross another one off the list.

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

Linda