

Special Edition

14th December 2014

Dear Owners and Investors,

Before I start I will be sending out two emails over the next few days. This one plus another that has nothing really to do with property. Look out for the Teach a Man to fish email.

Many of you have written over the past month to see if I am still writing these emails - the answer is yes, but I simply haven't had the time to get to sit down and type it all up. For those of you that have been reading my emails for many years now, you know that Ramon and I aren't your usual Real Estate Agents, or Property Managers. If we were in this for the money, I really would be far better of mentally, physically and financially to be sitting in a really big dump truck on some mine site! I know that I have written this before, but as it is so true I will say it again.

If I had the crystal ball working way back in 2007, we would have sold up at the peak of the market and be sitting on the cruise ship drinking cocktails - did I ever mention we like to go on cruises? I had absolutely no idea that the GFC was coming and I certainly had no idea that it would be so tough in Cairns for the past 7 years. Worse still, although we have turned the corner - we still are not out of the woods yet.

I have been known over the years to explain what is going on in our lives, the business and Cairns in odd ways - and here are two more that will explain what 2014 has been like.

Scenario One

So there is this train - yes I am that train - and it is struggling to pull the carriages, it is saying "I think I can, I think I can, I think I can" and it is getting traction. The speed has been picked up and the train is cruising along a nice flat bit of dirt - life is going along fine. A hillside comes along and in the distance you can see there is a bridge, it is tough going but the little train gets to the top - only to find some bugger has blown up the bridge. Out gets the train and has to build a new bridge - yes in this fairy tale story the train is also a bridge builder.

So now the train has finished the bridge and cruising along, when it sees a big, long steep hill "I think I can, I think I can, I think I can". The train starts the descent - when the brakes fail and the poor little train is speeding out of control down the hill. Life isn't easy being a train! As the train is starting to see the finish line - "I think I can, I think I can, I think I can" I notice the tank is nearly empty - fortunately I have just enough fumes in the tank to pull into the station.

Moral of the story - go on a cruise and refill the tank.

Scenario Two

If you have ever been to a games arcade, you will know the game Whack a Mole - so there I am at the beginning of the year with my little hammer and eight holes where the moles are popping out of. I am managing to smash them every time they put their heads up - I have this game sussed. As the year has worn on, some bugger thought it would be funny to wind the speed up - I am still coping at this point. Just to test me they double the size of the board and number of worms popping out - then they speed it up again. Yes, for most of 2014 I feel like I have been thrown one thing after the other!

Moral of the story - go on a cruise and drink cocktails

That will give you an understanding of the lack of emails for the latter part of this year - although in a very odd way.

On to the serious stuff - the Cairns Market. Remember this is in my opinion only, and many will see it differently. Firstly I will talk about sales.

We have definitely seen an increase in the number of sales happening, and more importantly the speed at which they are selling. This is mainly in the residential housing market, rather than the unit market. A year ago you could easily have bought a house for somewhere between \$250,000 and \$300,000 - if you hunted around long enough it would be closer to \$250,000. We have seen this bottom sector of the housing market take off, and we have had many of our tenants buy their own homes - this is a sign that I look for to confirm the market is moving.

Another sign is when people are starting to look for rentals and are telling us that the reason is they are moving is their current property has either been sold or listed for sale. This was very common in the last boom, and for the past seven years - this has not happened very often. Even if a property was listing for sale, it could take months to even get a really buyer through, let alone an offer that would be accepted.

The sales market for residential housing is still fickle. Anything in the lower end we certainly have seen move. This category is mainly first home buyers, down sizers and investors - with so many looking in this lower end, it has created competition and in turn the prices have increased. The next bracket up has also seen some activity and well priced properties are selling - miss the mark and they won't.

Things are definitely looking brighter on the sales market for houses but what we need to remember is that prices that are being achieved today in most cases are still below what they were selling for at the peak of the market in 2007/08.

The unit market is showing signs of recovery but investors are what will drive the unit market and they aren't around in big numbers yet. Those that are can be put in the "bargain hunter" category. If a property is well priced, it will get snapped up - but if you aim higher then it probably won't sell. The achievable prices have moved slightly in the upward directly, but they aren't really a lot higher than they were 12 months ago.

In general terms, a bedsit you can still buy for \$85,000 where as at the peak of the market it would have sold for \$115,000. A one bedroom unit you can buy for \$100,000 where as it would have sold for \$160,000, a two bedroom you unit you can buy for \$150,000 where as it would have sold for \$230,000 at the peak. The two bedroom market is the one that has moved the most over the past year. There was an auction yesterday that sold a two bedroom for \$135,000 - which in my mind is a give away. These two bedrooms are still around, but picking out a good one from those listed is getting far more difficult.

For me the best improvement in the market definitely is the duplex pair market. We were involved in the sale of a fair number of duplex pairs over the past four years, and many of these were under \$350,000. When I would do my research there would be at least three pages of listings

<http://www.realestate.com.au/buy/with-4-bedrooms-in-cairns+-+greater+region,+qld/list-1?activeSort=price-asc&keywords=duplex>

This is the link to the available listing now and once you take out the sold or ones that aren't really duplex pairs, there are just 6 pairs. The cheapest is \$375,000 and there are just three that are under \$400,000. The highest is \$475,000. At the peak of the market you couldn't find a

duplex pair for under \$500,000 and if you could it wouldn't be in a good area and it would be run down.

Now onto the rental market. From the beginning of this year, it has been a very difficult market.

I still have managed to get things rented, and generally I have been happy with the tenants we have put in. The rents are still higher than they were pre GFC but boy has it been a lot of hard work. By this I mean the number of enquiries from good potential tenants is lower, but the rubbish has been much higher. I thought my bottom of the barrel days were over, but 2014 has seen me climb back into the bottom of the barrel and scour the corners again.

If I had to explain the reason why - it can only be one reason - the economy on the ground in Cairns. We are better than we were at the height of the GFC, but things are not flowing the way I had hoped they would be. The tourism numbers are up, but people in general are a little more cautious with their spending - this is worldwide. Instead of coming and going on every tour - they are selecting just one or two. Instead of staying in nice hotel and eating out every night, people are going to self contained properties and eating in, going out occasionally. The building industry is starting to pick up, but this is in residential housing and not big developments.

There is a lot of talk still about Aquis and the direction it will take - if any. I am not even going to speculate as it is all beyond my control or understanding. I do know that Cairns is still right on the cusp of a change, and all it will take is one big project and then the confidence will come.

<http://www.dsdiq.qld.gov.au/resources/presentations/rmpf-cairns-aspiac-corporation-presentation-oct14.pdf>

This could be that one project. It is a Singapore based company called Aspiac - those in Melbourne will know them as the developers of Australia 108 - the highest tower in Melbourne being constructed now. The Cairns City Council has approved the project and hopefully it will start in 2015. This one project could be all it will take to kick start our economy.

<http://www.cairnsaquarium.com.au/>

This is the new Aquarium that is being built. This is due to open in July 2016 and I have been told construction is starting very soon.

<http://www.cairnspost.com.au/business/building-on-32-million-bunnings-warehouse-in-cairns-begins/story-fnjpusdv-1226924828930>

The new Bunnings building is well underway. They are going to be opening in March 2015 - and this will be a bigger store, employing more staff.

<http://www.cairnspost.com.au/business/retail-store-anaconda-sets-up-camp-in-cairns-with-grand-opening-exceeding-all-expectations/story-fnjpusdv-1227083525974>

The Home Maker Centre is now nearly completed. This is the second stage for the Lancini Group. The first stage was the Masters Store. Anaconda was their first big client in the new section. Curtain Wonderland is about to go in, and the other stores haven't been disclosed as yet.

<http://www.cairnspost.com.au/lifestyle/m-development-with-megalagoon-and-a-1000-homes-pitched-for-caravonica/story-fnjulqgv-1227067414192>

This is another \$200 million project with another 1000 homes to be built potentially.

<http://www.cairnspost.com.au/lifestyle/first-stage-of-edmontons-mt-peter-residential-megadevelopment-gets-go-ahead-by-state-government/story-fnjulqgv-1227093372255>

This is another large housing development being released in Edmonton. This has the potential to put another \$400 million into the economy over the next decade.

<http://mtemeraldwindfarm.com.au/>

There is a \$500 million project for a wind Farm and Mount Emerald going through the approval process.

<http://www.theaustralian.com.au/business/aviation/cairns-airport-redevelopment-to-take-off/story-e6frq95x-1226607718322?nk=b148e85441eb59be9a02b97bda3a7993>

The Cairns Airport is set to have ONE BILLION DOLLARS spent on it over the next 20 years.

http://www.silkair.com/jsp/cms/en_UK/mi_press_release_news/nf1003-05112014.jsp

Silk Air announced it will have direct flights between Cairns and Singapore three times a week from 30th May 2015.

<http://www.cairnspost.com.au/news/cairns/china-eastern-airline-launches-direct-flights-from-cairns-to-china/story-fnjpusyw-1227147751074>

China Eastern has started flights again directly into Cairns - even I am amazed at how many people fly in for Chinese New Year. Cairns really puts on a big show and it has grown each year.

<http://www.abc.net.au/local/photos/2014/02/04/3937563.htm>

This is a link for a blog for Terry Ryder, after the announcement that Aquis may not go ahead - interesting to read.

<http://www.hotspotting.com.au/news/1/cairns-still-promising-without-aquis-resort.html>

As investors ourselves, I know it has been a very long and difficult seven years - but these are my thoughts on why things are going to be better very soon:

There has been no real development in Cairns for 7 years.

The only new residential development has been for Department of Housing.

Minimal numbers of houses have been constructed, with almost no unit development

On average there are only around 750 available rentals for the entire Cairns Region. This covers everything from a \$125 per week share room, right the way up to a \$1200 luxury house.

It also covers from Gordonvale in the south, all the way up to Palm Cove in the north.

The achievable rents are now either the same as, or higher than what they were at the peak of the GFC.

If the economy starts to move, it will see a lot more jobs being created.

When jobs are created, people move to that town - following the work, particularly in the building industry.

More people coming to town will put pressure on the available rentals.

Many of these people will have come from major cities where the cost of rentals is much higher than Cairns.

It is a simple case of supply and demand. If the demand is higher than the supply then we can push the rental prices up and they will still rent.

Investors look at a property with a calculator - the higher the achievable rent, the higher we can sell the properties for.

That is the short version - I am hoping that in 2015 I will be able to keep you better informed.

Now onto the fun stuff - tenant stories. For those of you that are new, you have to remember that in what seems to be a life time ago, I was that young secretary walking down St Georges Terrace in Perth, with the high heels and didn't know my Phillip head screw driver from my

pointy nose pliers! Fifteen years later, I am full of useless knowledge which does come in handy at times.

I get a call from a frazzled tenant saying he has no power in the unit and I have to send out an electrician straight away. As investors ourselves, we know we have to send out an electrician when we have to, but if we can resolve the problem on our own - it then costs us nothing. You won't believe me, but I actually would get this sort of call at least once every two weeks. I go straight into the scripted dialogue, which starts with:

I need you to settle down, listen very carefully to my questions - you need to remember I am not there and cannot see what you are looking at. You need to be my eyes - do you understand? That normally settles them down and off we go. It is actually a very simple process - turn on the light switch, do you have lights? If the answer is yes, then I know there is power going to the unit and it will be a safety switch that has tripped out.

If I have lights, I get them to turn off the circuits at the fuse board - yes I can remember where just about every circuit board is for each property we manage! I get them to keep the safety switch turned off and then I tell them to go around and turn off and unplug ever single appliance. I go through it with them on the phone, reminding them about the TV, computer, phone charger, washing machine and dryer.

Once that is done, I then get them to turn back on the safety switch and circuits - if these stay up, then the issue has been narrowed down to an appliance.

Again whilst on the phone, we go through and then plug in each appliance one by one. I normally start with the fridge (and hope it isn't that as we will have to replace it). In this particular case it was the washing machine that was tripping the power. The tenant actually suggested plugging it into the next power point - and I couldn't believe it when it was the power point and not the washing machine!! Very happy we didn't have to replace that. Most times it will be the kettle or the fridge.

A few weeks ago, the summer really kicked in. I have a theory that things come in threes - particularly in the property management world. It was a Sunday and another normal property manager would be sitting on the sofa, watching East Enders and relaxing - not this black duck. I was working on the computer when the phone rings. Yes, I do have a special ring tone for tenants, so I knew it would be an issue. The tenant tells me that they have lost all power. I did forget to mention one thing in the story above - the first thing I ask is "what were you doing just before the power went out". This sometimes gives me a clue on the cause.

In this case they had been cooking - even though they deny something boiling over and onto the elements sending moisture to the element, I know this is exactly what has happened. In this case it is normally the main circuit breaker that has tripped, closing off all power to that property.

My Grandfather gave me something wonderful - the memory of an elephant and yes, I do know where every main fuse box is as well. It is a simple process, and fortunately not once, not twice but three times I managed to get the power back on with no cost to each of the owners.

I have saved the best for last. We have a lovely young lady that is in one of our units at Scotsdale. She has moved here for a job from Townsville and I was working with her parents to secure the property for her. It was about 10.45pm and the phone rang - we were sitting watching telly although I am sure it was only going to be a matter of minutes before it was going to be the television was watching me. It wasn't a tenant ring so the first thing that pops out of

my mouth is "this had better be good to call me at this time of night". It is the Dad of Ms A and he is really frazzled.

Ms A had been down visiting them in Townsville and as she went to get into her car, no one noticed but her house keys came off the chain. Four hours later Ms A is in Cairns but her keys are in Townsville. Ramon is rolling his eyes looking at me, and I am shaking my head. Although I really don't want to, I am in the car driving in to unlock her. We don't live in the City so for us it is an hour's round trip. That Big Man in the Sky had better be looking down!

As we pull into the driveway of Scotsdale my heart sinks as I see a Police car parked right at the front. Not a good sign after 11pm at night. I drive down and around the back and spot the Police - a big sigh of relief as I figure out they aren't at one of our units!! Ms A is there and very happy to see me. To her credit she turned up a day later with a bottle of Merlot, flowers and chocolates to say thank you.

I have been saving this bit for the last - FOUR MORE SLEEPS and we will be getting on board the Sapphire Princess in Singapore. Did I ever mention that Ramon and I love to go on cruises. We are going to have Christmas and New Year on board. I hope that each of you and your families have a lovely and safe Christmas and New Year. Let 2015 bring each of us what we have been dreaming of.

Hope you are happy and well in your world.

Linda Tuck