

Special Edition

16th February 2015

Dear Owners and Investors,

For those of you that read my last email that I sent prior to Christmas - this will make total sense. TOOT TOOT - the Tuck Express is pulling back into the train station and is refuelled and ready to go again for 2015. Okay so I will be honest the fuel tank isn't right to the top but it is a lot better than the situation at the end of last year. For those of you that have no clue - think the little train saying I think I can, I think I can.

Ramon and I have been back almost six weeks and my feet haven't touched the ground since we got back. Traditionally we get a big exit of tenants in December as they end their contracts, schooling or just move on because it is getting really hot. If we don't rent the property out by mid December the chances of moving it prior to New Year is pretty slim. We did manage to get quite a few away before this time. In the past years the pattern has been pretty much the same - slows down up to Christmas, dead quiet up until New Year and then the first business day back into New Year it goes really mad with enquiries.

These past two years have been different to all the other years we have been here. There is still that big influx of people straight after New Year but not like it used to be. There is a lull for a few weeks and then it picks up again towards the latter part of January. There are now a lot of transfers that seem to start for the first week of February. We have cleared just about all the rentals now - not quite time for the Dance of No Vacancies but the music is starting to warm up.

Right now according to the latest Herron Todd White report the vacancy rate for houses is 2.3%, units at 2.7% and the overall vacancy rate at 2.5%. When we first came back there were just over 950 available properties. Today there are 757 in total. When you consider this is everything from a share house to a luxury home and it covers everything from Gordonvale in the south up to Palm Cove in the north - this isn't a lot. If I then narrow this down to properties \$250 and under there are just 160 and many of them I wouldn't want to live in. This means that for the units we are starting to see things tighten up and hopefully move in the upward directly. I will be doing a break up in the next newsletter and compare it to last year.

Please remember, this newsletter is written from my personal point of view only. I may see things totally differently to many others that are here in Cairns. I don't have a crystal ball - I know I have said this many times before and I will say it again. If I did have a working crystal ball, we would have sold up everything back at the peak of the market and would have been on a deck chair on various cruise ships for the past seven years. We would then come back into the market around now and be able to pick up the same properties for anything up to 40% less than what we sold them for!

I am going to be writing a series of Special Editions over the next few weeks as there is so much to share with you all. Today I am going to do a quick recap on why I think we are at a crucial point in the property market and the history of how we got here.

Back in 2003 we were at the bottom of the last cycle. One minute you had all the time in the world to look around and do your numbers and then shop around and have a bit more of a look and then suddenly the market started to tighten. Things were listing and selling at first within a few weeks, and as the market heated up within days.

There was not one project that you could point to that you could say "that is the reason we are picking up". Things were starting to be built, cranes were going into the skies and by 2006 the rents and sales prices were all heading into territory that we hadn't seen before.

The point of this is that like many other property booms, there isn't one single project that makes it happen. It is a series of developments and events combined together that create the environment. I believe this is the same situation now - but as yet we haven't had a single real project to kick it off.

We all know about the GFC, but for Cairns this was compounded by the insurance crisis we now face. I am going to blow my own trumpet now - many of you know that I really don't like doing media, but I bang the insurance drum as loud as I can to get the Governments to notice. I have lost count the number of times I have been in the paper and I am a regular speaker on the John McKenzie radio show. I even have been on the news - although this is the one I hate doing the most.

Today I got on my soap box and told the Leader of the Opposition Bill Shorten just how it is here in Cairns thanks to the insurance - on the radio. I really hope we are gaining some traction - time will tell. I don't get time to listen to the radio, but it is incredible the amount of people that do. We had a guy come to do a quote at the house, he had no idea who we were but knew my name from the radio for insurance.

Initially the insurance increases affected just the body corporate, but before long this went through the entire insurance industry if you lived north of Rockhampton. These increases combined with the collapse of not one but all FOUR of our building companies saw Cairns unemployment go through the roof to over 13%. We had the unenviable title of "Highest Unemployment in Australia". Not only had our building industry all but ceased to exist, but the tourism was not doing well thanks to the world economy. I truly believe we saw 20,000 people leave Cairns during this time and that hole still hasn't been filled.

We did turn the corner in 2013 - and with the possibility of Aquis being approved the confidence started to come back into Cairns. The rentals were starting to go up, the quality of tenants had increased, the vacancy rates were dropping and most importantly the sales prices were starting to go up. We had confirmation in the Herron Todd White report that we had finally got off the bottom of the cycle. Things for 2014 were looking very optimistic.

Well the reality of 2014 turned out to be different. The Aquis project start date was delayed, they still haven't received the final approval. So much for fast tracking a project - sorry all I hear from Politicians is BLA BLA BLA. This delay was like watching a balloon slowly deflate. The confidence in Cairns wilted. For us 2014 was one of the most difficult years we have had. The rentals were still happening but boy did I have to kiss a lot of frogs to find the Prince. I had to go back into the bottom of the barrel to find tenants for many of the properties, and I honestly thought we had gone past that stage in Cairns.

The sales prices for houses under \$350,000 picked up and where as 18 months ago you could easily find a house for \$250,000 today you will have trouble finding a good one for under \$300,000. The sales prices for units have increased but not very much at all. The biggest difference is that if you price it right, it will sell fairly quickly. Before no matter the price it would be a long and hard sell.

So here we are nearly 8 years after the GFC and the property market has definitely turned the corner. In this time we have had as good as no construction occur except for Public Housing. The vacancy rate is now low, and there are glimmers of the economy picking up.

What this means for us as landlords is that **finally** the ball will be in our court. No building in 8 years basically means that when things take off it will be a case of supply and demand. There is no supply of rental accommodation - so the rental prices can go up. Already we are consistently achieving rental prices at GFC levels and higher. I am going to be writing to each owner to give them options for their properties - and a chance to put the rent up.

Right now you can still purchase a bedsit for \$85,000, a one bedroom unit for \$110,000 and a two bedroom unit for \$150,000 - so why on earth would a developer come along and start to build. There is no possible way they can purchase the land, get the building approved and build it and still make a profit. For this reason the supply part of the equation will take a while to start happening. Even if a developer did decide to go ahead I would say it would be at least two years before it is finished. Great news finally for landlords but not so good for tenants.

One of the factors that has stopped investors buying units in particular is the cost of the body corporate levies and the insanely high Council Rates we have here. For this exercise I will look at a 2 bedroom unit in Manunda.

Body Corporate pre GFC was \$1300 - now doubled at \$2600

Council Rates pre GFC was around \$1600 - now at \$2300.

This is an increase of around \$2000 per annum. We are lucky with the complexes I am involved with that we have managed to keep these increases to a minimum. Many have not fared as well.

Pre GFC the average rent for a two bedroom that was fully furnished was \$230 per week. We are now consistently achieving \$250 per week. Just to recover the increases we need \$38 per week. At this stage I have clawed back half of this, and combined with lower interest rates this is starting to close the gap.

I believe if the Nova 8 project starts and this is the one project that starts the ball rolling in Cairns, it will have the flow on affect that rents will go up. I will not be surprised to see rents for this same two bedroom unit start to hover around \$270 and hopefully higher by the end of this year.

There are some good news items.

<http://www.accomnews.com.au/developments/4752-nova-in-cairns-gets-going>

<http://www.hutchinsonbuilders.com.au/2015/02/nova-8-development-gets-underway-in-cairns/>

The first tower of the Nova 8 is due to begin soon. Hutchinson Builders have been appointed and the project is now all fenced off and ready to go. This will have 7 towers in total with residential, commercial and retail. These are the same developers that are building Q1 in Melbourne. This is a \$400 million project and I believe if this does start it will be the one thing that will start our recovery - the rest should flow on from there.

<http://www.cairnspost.com.au/business/cairns-private-hospital-set-for-16m-expansion/story-fnjpusdv-1227138946669>

The Cairns Private Hospital is to get an extension worth \$16 million. Not only will this be a bonus for the building industry but also the extra staff that will be required long term.

<http://www.cairnspost.com.au/business/nothing-sheepish-about-chinese-new-year-celebrations-down-under/story-fnjpusdv-1227221026029>

I have been writing about Chinese New Year in Cairns for many years now. It is growing each year, and this year is going to be one of the biggest.

This is fantastic as this is traditionally our quiet time. The hotels are full, the tour operators and working and money is coming into our economy.

https://www.youtube.com/watch?v=0YgUSDouQSc&feature=youtu.be_gdata_player

Of course I have to talk about Aquis and where we are up to with it. This is an animation of what it could be like if it was built.

<http://statements.qld.gov.au/Statement/2014/12/18/aquis-resort-approved-by-coordinator-general>

The project has passed the Environmental Impact Study - which is another major hurdle. Ramon and I spent some time in Singapore whilst on our cruise - did I ever mention that we just love to cruise? The Sapphire Princess was docked right in the middle of Singapore and right there was the Marina Bay Sands hotel - you know the three towers with the ship on the top. It is not just the hotel, it is the shopping centre and the gardens that surround it.

This is a destination in itself and the amount of people that are drawn to this is incredible. If Cairns does manage to secure Aquis, we will be on the world stage in a way we have not experienced in Australia before.

<http://www.cairnspost.com.au/business/silkair-return-airfares-from-cairns-start-from-89375/story-fnjpusdv-1227219221073>

We do have flights from Singapore starting in May three times a week with Silk Air. This will make getting to Cairns and Singapore much easier, and hopefully this will equate to more tourists.

<http://www.cairnspost.com.au/business/bunnings-builder-plans-to-hire-cairnsbased-subcontractors/story-fnjpusdv-1226903041619>

The new Bunnings store is due to open in mid April - it is going to be huge and is right across the road from Masters. The site is in full building mode and soon they will need more staff - another good employment story.

<http://www.cairnspost.com.au/business/extra-145-lots-to-be-created-in-new-bentley-park-subdivision/story-fnjpusdv-1227216556484>

There have been a few subdivision releases and although we haven't seen building on mass, this is hopefully the next step in our economic recovery.

Now it is onto the fun stuff but instead of just tenant stories I will give you another explanation of 2014 on a personal level. I didn't get to write anywhere near as much last year as I have in the past and many of you have asked why not - it is nice to know someone actually reads my ramblings. Last year was a bit like being in a circus and I am the juggler.

Life is pretty good and I have two balls up in the air - this is easy. Someone throws another ball and things start to get a bit more busy. Suddenly there is a bottle that is thrown into the mix, but I can cope with this. Then out of now where a bowling ball as well. Before you know it just to make life interesting some idiot throws in a chainsaw! I am coping but boy do I have to concentrate or it is going to get really messy.

In an odd way that is what last year was like - just when you have it all under control something else comes along to make it just that bit more difficult. Today not only am I able to juggle three balls, a bottle, a bowling ball and a chainsaw - I can do it blind folded! Be prepared to read lots more ramblings this year.

At the moment I have some really strange tenant issues to deal with - I have a tenant that is complaining about the unit above. It is not directly above, but above and to the side. These people use a mortar and pestle in their cooking and they seem to cook all the time. She can hear the thumping and it is driving her mad. I have tried everything to resolve the situation - but it just isn't working. Now is it the fact that these people are being exceptionally noisy or maybe even doing it to annoy her, or is it that this lady shouldn't be living in a high density environment? Both are good tenants and to be honest I don't have the answer to this one yet.

I also have a tenant that called to tell me that because of the really hot spell one of her windows has cracked - no really. They must think that I am an idiot. If this one window cracked, then why haven't the rest of the windows in the house cracked? Why not just say they did it - or better still get it fixed and I would be none the wiser.

I am sure some of you don't believe the tenant stories, but really I don't have the time or energy to make these up. Today I kid you not I got a call from a tenant - I missed the call and it went to message bank. It seems he came home during the day and someone has parked in his bay. It is a contractor of some sort - so instead of going "oh well he will be gone soon enough" and then park in the visitors bay - he thought it would be appropriate to call me and ask me who has parked in his bay.

I have a couple that speak almost no English and they are in a bedsit. It has been incredibly hot and humid here for the past few weeks. These units are built like concrete bunkers and are only 40 square metres in size. I got a message to say there was water coming in their unit but it was all over the floor. They couldn't work out where it was coming from. I have actually seen this before. When you are in a humid environment, the outside of your fridge door sweats and the condensation runs down the door. It is the same principal here.

They are on the middle level and the unit directly below them has their air conditioner on making the unit below very cold. This cold is transferred to the concrete ceiling, which is the unit above floor. The difference between the two temperatures causes the air to condense and sweat to form on the tiled floor. Fixing this is pretty simple - open the doors, air the place out and turn on the fan. The fastest way to sort this out is to turn your air conditioner on. I am surprised they didn't do this any way as it has been ridiculously hot.

My favourite tenant story at the moment is Mr J who we picked up some time ago. He was one of my "I collect old people" and has been in a bedsit at Scotsdale for a few years now. He has decided to move into an independent living village and gave us notice. He is just lovely and not a bother at all. He has now moved and the bond has all been refunded. He called me the other day just to tell me how much he appreciated living at our unit.

You forget just how much some people depend on rental accommodation - and for me that all landlords and agents are not equal. Even nicer, I got an email from the neighbour of Mr J as he had been away and was worried about Mr J as he hadn't seen him for a few days. It isn't often that our neighbours look out for each other - particularly in a high density environment.

That wraps up another Special Edition. I hope you are all happy and well in your world.

Linda Tuck