

Special Edition

4th April 2015

Dear Owners and Investors,

There are many of you that are on this list that receive my ramblings. If you would like to come off at any time simply send me an email and I will remove your details. I try to keep you informed on what is happening here on the ground in Cairns, as it is not really possible to get a real feel for the market unless you are here and in the thick of it. Of course this is written from my personal perspective only!!

One of the biggest issues we have had to face in North Queensland is the rising cost of insurance. This week there was an announcement by the Federal Government <http://www.warrenentsch.com.au/Media/MediaReleases/tabid/73/articleType/ArticleView/articleId/687/Entsch-welcomes-insurance-taskforce.aspx>

What this will mean, I really don't know. It is at least a good sign that they are taking this issue seriously and hopefully it will see a Government "reinsurance" pool that will help to get our premiums lower. I believe everyone has now realised that this issue is stopping development not just in Cairns but pretty much the top half of Australia. The Northern Territory did have a Government insurance office but it sold it off last year. This will very probably see their premiums go up as well – so this will put pressure on the entire top half of Australia. Let's hope that some thing more than just talk will come out of it. I am starting to see a levelling off of premiums, but they are still ridiculously high compared to premiums in the Capital Cities.

<http://www.cairnspost.com.au/tony-fung-considers-building-815bn-aquis-project-in-cairns-in-smaller-and-extra-stages/story-fnjpusac-1227288390769>

Aquis is still in the news – as to if it will go ahead WHO KNOWS!

<http://www.cairnspost.com.au/news/cairns/hardware-giant-bunnings-is-preparing-the-opening-of-its-new-complex-in-cairns/story-fnjpusyw-1227286840683>

Bunnings new super store is about to open right opposite Masters.

It is nearly 18 months that you can feel "the winds of change" in the air. You know it is coming, but it is taking such a long time to get here. The latest Herron Todd White Cairns Watch report has just been released for March. The link is

http://www.cairnswatch.com.au/uploads/uploads/201503fullreport_1.pdf

I particularly like the last page which says

"Parts of Cairns (eg. houses on the Northern Beaches) are nudging the Rising Market phase, but other elements (such as units) are much less advanced in the recovery cycle. The Cairns market on balance remains at the Start of Recovery stage."

Once the economy starts to recover and the rents go up, this will make the properties attractive to investors – as the increased rents will well and truly cover the increase in insurance premiums. Already there have been several articles on how attractive it is to invest in Cairns and we have started to see prices go up in the units – nowhere near the highs pre GFC but still a step in the right direction. For investors looking to come into the market, they can buy cheap and the rents are good compared to the purchase price. Let's be honest you can buy a two bedroom unit for \$150,000 and the rent is \$250 per week – and that is pretty good.

Below is just one of the articles saying that the property market in Cairns is on the move.

<http://www.news.com.au/finance/real-estate/cairns-emerges-as-the-states-best-unit-hot-spot-with-rental-yields-of-87nbspper-cent-in-woree-85nbspper-cent-in-manuda-and-84nbspper-cent-in-edge-hill/story-fndbalka-1227209534582>

We recently were at Mission Beach and I was speaking to an agent about the breakup of her tenants which is 50% working families, 10% retirees and 40% of people on social welfare. She went on to say "If you were on benefits, what better place to live in? You have beautiful weather, a gorgeous place to live where you can walk along the beach every day and go fishing and best of all the rent is cheap. Why wouldn't you live in paradise?" The same really can be said for Cairns. Our rentals in comparison to many other Cities is very cheap still.

You can get a two bedroom unit for well under \$250 per week if you look for it. I think this has added to our unemployment rate – which has been very high for some time now. It will be interesting to watch this when the rental market finally does turn. I believe that as the rents go up, this will push many tenants further out of town. The great majority of the tenants leaving town will be those on welfare, and this I believe will have an impact on our unemployment number – will see what happens.

Signs that the rental market is turning are there – but nothing is really changing in a hurry.

<http://www.realestate.com.au/rent/in-cairns+-+greater+region%2c+qld%3b/list-1?activeSort=price-asc>

This is the link for all available rentals in Cairns currently. This covers from Gordonvale in the south, up to Palm Cove in the north and all rentals from a share house, right up to a luxury property. In all of Cairns there are just 792 properties to rent. This doesn't seem like alot, but we got down to 600 back in 2013. It is hard to explain, we are still renting properties, but it is taking a bit longer and you can't push the rents up those few extra dollars. If you get the pricing wrong, even by \$10 it just won't rent.

<http://www.realestate.com.au/rent/between-0-250-in-cairns+-+greater+region%2c+qld/list-1?source=refinements>

This link is for all available rental properties under \$250. There are just 156 and many of these are share rooms or unfurnished properties. We have managed to rent out most of our properties, but it has been hard work to get them rented to good people.

There are some tell tale signs when the market is turning – when I get the calls from potential tenants to say they have been given a Notice to Leave as the owner is going to renovate, or the owner has listed the property for sale and they don't want to stay or that the property has been sold and they have been asked to move out as the new owner wants to move in. From the time of the GFC until probably 6 months ago, you didn't hear this often. If a property did get listed with a tenant in place, they didn't normally worry too much. This is because there weren't that many inspections by potential buyers and these could be months between visits. The probability of it selling to an owner occupier used to be low – this is changing particularly in the housing market.

I would say 1 in every 15 calls I get would be from some one that is moving due to a Notice to Leave. There are also many agents like me that are now starting to clear out the trash – can't tell you how good it feels to hand out that Notice to Leave to those tenants that have caused me grief for the past few years. They are now realising just how good they had it and they should have kept quiet and not annoyed me. Too late!

Today I want to tackle a topic that we will be seeing a bit over the next few years – when the rents do start to rise. What to do with good tenants? Before I delve into that I will tell a story about another “good tenant”. This wasn’t one that we managed, it was self managed by a local family here in Cairns. They had a duplex pair and one side had a couple living in it. They had been there for over a decade when the rents started to creep up in the market place. The parents had taken this couple under their wing and sadly one of them got sick and passed away. Even more reason to “look after” the remaining tenant. The other side of the duplex had vacated and they passed this over to us to manage. It was not a great place, but in a good location and we managed to get \$250 per week for it as it had a big back yard and the new tenants could have their dogs.

In the mean time the original side remained at the same rent of \$175 per week. Each and every week, this is \$75 per week less income for the family. This is \$3900 per annum which would almost pay for the council rates each year – but no they wanted to look after this person as he was a “good tenant”.

This went on for years, now let’s assume it went on for just five years (which I can tell you it went on for a lot longer than this) – this is \$19,500 that they gave away. I know it isn’t just about the money – my point is coming up soon.

The owners decided to put the property up for sale, with the “good tenant” in place at the lower rent of \$175 per week. No matter how you put it, when an investor is looking to buy an investment they are going to do their numbers on what the current rent is, not what it could be if you moved the “good tenant” out. The property did sell, but I believe it would have sold for more if you had both sides renting for \$250 per week. In theory the owners lost potential money on the sale price.

When the “good tenant” found out the property was up for sale he wasn’t happy as he realised his good luck had just run out and he would either get a big rent increase or be asked to move out. I kid you not a few days later he called to say he had found a place and had moved out. He took all his stuff, didn’t bother to clean the property and left the keys in the front door lock where anyone walking past could see them. This “good tenant” had burned so much incense over the years in one spot that there was a section of wall and ceiling that was totally black. The family now realised that they had been used for the past decade for cheap rent. It is not a nice feeling when you realise that you have been taken advantage of.

We have a similar situation where we had a lovely Japanese lady that has been at one of our personal townhouses for some time. We have done pretty much nothing inside the unit apart from upgrading the furniture. The rent is \$175 per week and given we are now getting this for a small bedsit, I knew it was time to increase the rent.

We decided to increase it to \$200 per week. This is still much lower than what we are getting for the renovated ones at \$230, but it is an extra \$25 per week to help towards all the increases in body corporate fees over the years. This tenant decided to move to another property we have that is larger. We are going to go in and tile the floors, repaint and upgrade the vanity and furniture. We should be able to get \$230 per week when it is done and this will give us \$55 per week income.

I guess the moral of the story is that you do have to look after your good tenants, but at the end of the day you need to look after yourself as this is an investment for YOU and not your “good tenants”.

It is you with the mortgage, paying the bills, making the sacrifices so that you can get ahead financially. Although it is good to have a “good tenant” it is important to remember there are lots of “good tenants” out there and they will pay the higher rent.

Now onto the fun part of the newsletter – tenant stories. You all know that “I collect old people” not by choice they just come along and before you know it I have another one in the flock to look after.

We have Mr G who is living in one of our two bedroom units in Whitfield. He would have to be in his mid 70's and has really bad arthritis. His fingers are all bent out of shape and how he manages is beyond me. He called me the other day to say he had been broken into and they had taken his car keys as well as his car. He did report it to the Police, but he didn't tell me straight away – it was only when they came back using his keys to get into the unit and him waking up in the middle of the night to find them inside his unit that he bothered to tell me. I was mortified that he hadn't called immediately as I have had this situation before and sure enough they always come back again. I had Bart the Wonder Handyman and his trusty assistant Katie out there that morning and had the locks changed.

Mr G is one that somehow has got under not only my skin, but Stacey in our office. Mr G has just had a knee operation and although he hasn't told us the whole story, I would say he has been given his ticket to see the Big Man in the Sky very soon. He is adamant he doesn't want to go into a Nursing Home. Stacey went to visit him the other day to check up on him and he isn't coping very well at all. He isn't eating – so what else do you do but go to the shop and buy him some lunch to eat. Although the locks have been changed, he now is spooked by it all and not sleeping.

We are now arranging to move him to another property – in the literal sense. He is on his own and I know this is going to sound morbid but we are going to insist that he be enrolled in the Red Cross Telecross service

<http://www.redcross.org.au/telecross.aspx>

We had this when Ron was with us at Sheridan Street. It is a wonderful free service that gives me peace of mind. Each morning at a nominated time they will call to check up on you. If you don't answer, they will call back in 10 minutes – if you still don't answer they then call the Emergency Contact and if they can't get in touch with you then the Police and Ambulance are called to do a welfare check. We don't have to do any of this, but this is just part of who we are and what we do. The Big Man in the Sky is taking note!

We have a thing called the “tenant shuffle” and although it is a pain in my side to do, it means I get to keep good tenants that were going to leave the property they were at anyway. We have a bedsit at Palm Trees where we put a fruit cake into. I didn't feel right about her, but couldn't put my finger on it – she has broken her lease and left within a few weeks of moving in. At the same time this was happening, one of our tenants at Scotsdale in a two bedroom decided to call time on the relationship and one of them is heading back to Townsville. Ms R is wanting to stay but can't afford to stay in the two bedroom so we show her the bedsit and she is thrilled with it.

We now have a two bedroom we have to rent, when Mr J who is in a bedsit at Scotsdale notices the advert and he wants to upgrade to a two bedroom with his new share mate. They go to see Ms R's place and absolutely love it and want to move in. Great now I have another bedsit to rent.

We recently had Mr J move from a bedsit at Scotsdale to an independent living unit at a retirement village. He called me on Thursday to say he hates living there as it is too depressing with all the old people there. He wants to come back and all he can afford is a bedsit. BINGO full house again. I have told some of the other residents at Scotsdale that Mr J is coming back and they are happy – I know that they will look out for him which is a good feeling.

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

Linda